AMERICAN RIVER BANKSHARES
Form 10-Q
November 07, 2007

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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2007

or

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

For the transition period from __________ to __________

Commission File No. 0-31525

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

California
(State or other jurisdiction of incorporation or organization)

68-0352144
(IRS Employer ID Number)

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

95670
(Zip code)

(916) 854-0123
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer [ ]   Accelerated filer [X]   Non-accelerated filer [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

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

No par value Common Stock - 5,367,594 shares outstanding at November 6, 2007.

AMERICAN RIVER BANKSHARES

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FOR THE QUARTER ENDED SEPTEMBER 30, 2007

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PART I-FINANCIAL INFORMATION

Item 1. Financial Statements.

AMERICAN RIVER BANKSHARES

UNAUDITED CONSOLIDATED BALANCE SHEETS
(In thousands)

	September 30, 2007	Dece
ASSETS		
Cash and due from banks	$ 18,605	$
Federal funds sold	--	
Total cash and cash equivalents	18,605	
Interest-bearing deposits in banks	4,851	
Investment securities:		
Available-for-sale (amortized cost: 2007--$80,653; 2006--$105,166)	80,309	
Held-to-maturity (fair value: 2007--$36,959; 2006--$43,720)	37,062	
Loans and leases, less allowance for loan and lease losses of $5,889 at September 30, 2007 and $5,874 at December 31, 2006	385,176	
Premises and equipment, net	1,871	
Federal Home Loan Bank stock	2,764	
Accounts receivable servicing receivables, net	1,876	
Goodwill and other intangible assets	17,590	
Accrued interest receivable and other assets	17,131	
	$ 567,235	$
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest bearing	$ 138,966	$
Interest bearing	333,108	
Total deposits	472,074	
Short-term borrowings	27,921	
Long-term borrowings	--	
Accrued interest payable and other liabilities	5,756	
Total liabilities	505,751	
Commitments and contingencies (Note 3) Shareholders' equity:		
Common stock - no par value; 20,000,000 shares authorized; issued and outstanding - 5,471,194 shares at September 30, 2007 and 5,657,346 shares at December 31, 2006	43,142	
Retained earnings	18,545	
Accumulated other comprehensive loss, net of taxes (Note 5)	(203)	
Total shareholders' equity	61,484	
	$ 567,235	$

See Notes to Unaudited Consolidated Financial Statements

AMERICAN RIVER BANKSHARES
UNAUDITED CONSOLIDATED STATEMENT OF INCOME

(In thousands, except per share data)

For the periods ended September 30,	Three months 2007	Three months 2006	20
Interest income:			
Interest and fees on loans	$ 8,010	$ 8,083	$
Interest on Federal funds sold	15	4	
Interest on deposits in banks	68	66	
Interest and dividends on investment securities:			
Taxable	1,089	1,326	
Exempt from Federal income taxes	268	250	
Dividends	4	8	
Total interest income	9,454	9,737	
Interest expense:			
Interest on deposits	2,481	2,325	
Interest on short-term borrowings	293	514	
Interest on long-term borrowings	--	100	
Total interest expense	2,774	2,939	
Net interest income	6,680	6,798	
Provision for loan and lease losses	50	30	
Net interest income after provision for loan and lease losses	6,630	6,768	
Noninterest income	669	605	
Noninterest expense:			
Salaries and employee benefits	2,168	1,927	
Occupancy	356	345	
Furniture and equipment	176	185	
Other expense	1,096	1,145	
Total noninterest expense	3,796	3,602	
Income before provision or income taxes	3,503	3,771	
Provision for income taxes	1,351	1,496	
Net income	$ 2,152	$ 2,275	$
Basic earnings per share (Note 4)	$ 0.39	$ 0.39	$
Diluted earnings per share (Note 4)	$ 0.39	$ 0.39	$

Cash dividends per share	$ 0.15	$ 0.14	$

See notes to Unaudited Consolidated Financial Statements

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AMERICAN RIVER BANKSHARES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands, except number of shares) (Unaudited)

	Common Stock			Accumul Othe Comprehe
	Shares	Amount	Retained Earnings	Loss
Balance, January 1, 2006	5,604,479	$ 47,474	$ 16,029	$ (
Cumulative effect of adopting Staff Accounting Bulletin No. 108, net of tax:			(214)	
Comprehensive income (Note 5):				
Net income			9,062	
Other comprehensive income, net of tax:				
Net change in unrealized losses on available-for-sale investment securities				
Total comprehensive income				
Cash dividends ($0.58 per share)			(3,332)	
Fractional shares redeemed			(21)	
5% stock dividend	268,346	6,834	(6,834)	
Stock options exercised and related tax benefit	43,162	441		
Stock option compensation expense		221		
Retirement of common stock	(258,641)	(6,724)		
Balance, December 31, 2006	5,657,346	48,246	14,690	(
Comprehensive income (Note 5):				
Net income			6,336	
Other comprehensive income, net of tax:				
Net change in unrealized losses on available-for-sale investment securities				
Total comprehensive income				
Cash dividends ($0.45 per share)			(2,481)	
Stock options exercised and related tax benefit	53,164	625		
Stock option compensation expense		221		

Retirement of common stock	(239,316)	(5,950)		
Balance, September 30, 2007	5,471,194	$ 43,142	$ 18,545	$ (

See Notes to Unaudited Consolidated Financial Statements

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AMERICAN RIVER BANKSHARES
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

(In thousands)
For the nine months ended September 30,

	2007	
Cash flows from operating activities:		
Net income	$ 6,336	$
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	315	
Decrease in deferred loan origination fees, net	(121)	
Depreciation and amortization	621	
Gain on sale of securities	(11)	
Amortization of investment security premiums and discounts, net	210	
(Decrease) increase in provision for accounts receivable servicing receivable allowance for losses	(3)	
Increase in cash surrender value of life insurance polices	(297)	
Stock option compensation expense	221	
Decrease in accrued interest receivable and other assets	1,122	
Decrease in accrued interest payable and other liabilities	(764)	
Net cash provided by operating activities	$ 7,629	$
Cash flows from investing activities:		
Proceeds from the sale of investment securities	6,506	
Proceeds from matured and called available-for-sale investment securities	17,370	
Purchases of available-for-sale investment securities	--	
Purchases of held-to-maturity investment securities	(967)	
Proceeds from principal repayments for available-for-sale investment securities	2,205	
Proceeds from principal repayments for held-to-maturity investment securities	6,169	
Net decrease (increase) in interest-bearing deposits in bank	100	
Net increase in loans	(2,374)	
Net decrease (increase) in accounts receivable servicing receivables	708	
Purchases of equipment	(417)	

Net decrease (increase) in FHLB stock	307	
Net cash provided by investing activities	$ 29,607	$

Cash flows from financing activities:		
Net decrease in demand, interest-bearing and savings deposits	$ (8,443)	$
Net (decrease) increase in time deposits	(13,358)	
Net (decrease) increase in short-term borrowings	(9,349)	
Net decrease in long-term borrowings	(5,000)	
Payment of cash dividends	(2,508)	
Cash paid to repurchase common stock	(5,950)	
Exercise of stock options, including tax benefit	625	
Net cash used in financing activities	$ (43,983)	$
Decrease in cash and cash equivalents	(6,747)	
Cash and cash equivalents at beginning of year	25,352	
Cash and cash equivalents at end of period	$ 18,605	$

See Notes to Unaudited Consolidated Financial Statements

AMERICAN RIVER BANKSHARES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2007

1. CONSOLIDATED FINANCIAL STATEMENTS

In the opinion of management, the unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the consolidated financial position of American River Bankshares (the "Company") at September 30, 2007 and December 31, 2006, and the results of its operations for the three-month and nine-month periods ended September 30, 2007 and 2006 and its cash flows for the nine-month periods ended September 30, 2007 and 2006 in conformity with accounting principles generally accepted in the United States of America.

Certain disclosures normally presented in the notes to the annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. The Company believes that the disclosures are adequate to make the information not misleading. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2006 annual report on Form 10-K. The results of operations for the three-month and nine-month periods ended September 30, 2007 may not necessarily be indicative of the operating results for the full year.

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

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

2. STOCK-BASED COMPENSATION

Stock Option Plans

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

Stock Option Compensation

There were no stock options granted for the three-month periods ended September 30, 2007 and 2006. The weighted average grant date fair value of options granted for the nine-month periods ended September 30, 2007 and 2006 was $6.37 and $8.34, respectively. For the three-month periods ended September 30, 2007 and 2006, the compensation cost recognized for stock option compensation was $80,000 and $62,000, respectively. For the nine-month periods ended September 30, 2007 and 2006, the compensation cost recognized for stock option compensation was $221,000 and $160,000, respectively. The recognized tax benefit for stock option

compensation expense was $13,000 and $10,000, for the three-month periods ended September 30, 2007 and 2006, respectively. The recognized tax benefit for stock option compensation expense was $37,000 and $27,000, for the nine-month periods ended September 30, 2007 and 2006, respectively.

At September 30, 2007, the total compensation cost related to nonvested awards not yet recorded is expected to be $973,000. This amount will be recognized over the next 4.5 years and the weighted average period of recognizing these costs is expected to be 2.2 years.

Stock Option Activity

A summary of option activity under the stock option plans as of September 30, 2007 and changes during the period then ended is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at January 1, 2007	326,282	$ 16.32	6.2 years
Granted	62,576	$ 25.80	9.5 years
Exercised	(53,164)	$ 7.84	--
Cancelled	(6,539)	$ 22.75	--
Outstanding at September 30, 2007	329,155	$ 19.36	6.8 years
Exercisable (vested) at September 30, 2007	147,473	$ 14.50	5.0 years

The intrinsic value was derived from the market price of the Company's common stock of $22.00 as of September 30, 2007.

3. COMMITMENTS AND CONTINGENCIES

In the normal course of business there are outstanding various commitments to extend credit which are not reflected in the financial statements, including loan commitments of approximately $111,844,000 and standby letters of credit of approximately $7,548,000 at September 30, 2007. Such loans relate primarily to real estate construction loans and revolving lines of credit and other commercial loans. However, all such commitments will not necessarily culminate in actual extensions of credit by the Company as some of these are expected to expire without being fully drawn upon.

Standby letters of credit are conditional commitments issued to guarantee the performance or financial obligation of a client to a third party. These guarantees are issued primarily relating to purchases of inventory or as security for real estate rents by commercial clients and are typically short-term in nature. Credit risk is similar to that involved in extending loan commitments to clients and accordingly, evaluation and collateral requirements similar to those for loan commitments are used. The majority of all such commitments are collateralized. The fair value of the liability related to these standby letters of credit, which represents the fees received for issuing the guarantees was not significant at September 30, 2007 or September 30, 2006.

4. EARNINGS PER SHARE COMPUTATION

Basic earnings per share is computed by dividing net income by the weighted average common shares outstanding for the period (5,497,989 and 5,528,514 shares for the three-month and nine-month periods ended September 30, 2007, and 5,782,562 and 5,847,564 shares for the three-month and nine-month periods ended September 30, 2006). Diluted earnings per share reflect the potential dilution that could occur if outstanding stock options were exercised. Diluted earnings per share is computed by dividing net income by the weighted average common shares outstanding for the period plus the dilutive effect of options

(48,183 and 63,973 shares for the three-month and nine-month periods ended September 30, 2007 and 107,769 and 112,655 shares for the three-month and nine-month periods ended September 30, 2006). Earnings per share is retroactively adjusted for stock dividends and stock splits for all periods presented.

5. COMPREHENSIVE INCOME

Comprehensive income is reported in addition to net income for all periods presented. Comprehensive income is comprised of net income plus other comprehensive income (loss). Other comprehensive income, net of taxes, was comprised of the unrealized gains on available-for-sale investment securities of $495,000 and $362,000, respectively, for the three-month and nine-month periods ended September 30, 2007 and $888,000 and $218,000, respectively, for the three-month and nine-month periods ended September 30, 2006. Comprehensive income was $2,647,000 and $6,698,000, respectively, for the three-month and nine-month periods ended September 30, 2007 and $3,163,000 and $6,873,000, respectively, for the three-month and nine-month periods ended September 30, 2006. Reclassification adjustments resulting from realized gains or losses on sale of investment securities were not significant for all periods presented.

6. BORROWING ARRANGEMENTS

The Company has a total of $38,000,000 in unsecured short-term borrowing arrangements with three of its correspondent banks. There were no advances under the borrowing arrangements as of September 30, 2007 or December 31, 2006.

In addition, the Company has a line of credit available with the Federal Home Loan Bank (the "FHLB") which is secured by pledged mortgage loans and investment securities. Borrowings may include overnight advances as well as loans with terms of up to thirty years. Advances (both short and long-term) totaling $27,921,000 were outstanding from the FHLB at September 30, 2007, bearing interest rates ranging from 4.52% to 6.13% and maturing between October 1, 2007 and April 9, 2008. Advances totaling $42,270,000 were outstanding from the FHLB at December 31, 2006, bearing interest rates ranging from 2.66% to 6.13% and maturing between January 3, 2007 and April 7, 2008. Remaining amounts available under the borrowing arrangement with the FHLB at September 30, 2007 and December 31, 2006 totaled $105,644,000 and $87,091,000, respectively.

7. INCOME TAXES

In June 2006, the FASB issued Financial Accounting Standards Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes--an Interpretation of FASB statement No. 109." FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 also prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. The Company has adopted FIN 48 as of January 1, 2007.

The Company previously recognized income tax positions based on management's estimate of whether it is reasonably possible that a liability has been incurred for unrecognized income tax benefits by applying FASB Statement No. 5, "Accounting for Contingencies."

The provisions of FIN 48 have been applied to all tax positions of the Company as of January 1, 2007. There was no cumulative effect of applying the provisions of FIN 48 and there was no significant effect on the Company's provision for income taxes for the nine months ended September 30, 2007. The Company recognizes interest accrued related to unrecognized tax benefits and accruals for penalties in income tax expense. There have been no significant changes to unrecognized tax benefits or accrued interest and penalties for the quarter or nine months ended September 30, 2007.

8. ACCOUNTING PRONOUNCEMENTS

Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities -- Including an Amendment of FASB Statement No. 115 ("FAS 159")." This standard permits entities to choose to measure many financial assets and liabilities and certain other items at fair value. An enterprise will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option may be applied on an instrument-by-instrument basis, with several exceptions, such as those investments accounted for by the equity method, and once elected, the option is irrevocable unless a new election date occurs. The fair value option can be applied only to entire instruments and not to portions thereof. FAS 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007, with early adoption permissible, subject to certain criteria. Management did not elect to early adopt SFAS 159. Management does not anticipate that this statement will have a significant impact on the Company's financial position, results of operations or cash flows.

Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements

In March 2007, the Emerging Issues Task Force (EITF) reached a final consensus on Issue No. 06-10 (EITF 06-10), "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements." EITF 06-10 requires employers to recognize a liability for the post-retirement benefit related to collateral assignment split-dollar life insurance arrangements in accordance with SFAS No. 106 or APB Opinion No. 12. EITF 06-10 also requires employers to recognize and measure an asset based on the nature and substance of the collateral assignment split-dollar life insurance arrangement. The provisions of EITF 06-10 are effective for the Company on January 1, 2008, with earlier application permitted, and are to be applied as a change in accounting principle either through a cumulative-effect adjustment to retained earnings or other components of equity or net assets in the statement of financial position as of the beginning of the year of adoption; or as a change in accounting principle through retrospective application to all prior periods. The Company does not expect adoption of EITF 06-10 to have a significant impact on its consolidated financial statements, results of operations or liquidity.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following is management's discussion and analysis of the significant changes in American River Bankshares' (the "Company") balance sheet accounts between December 31, 2006 and September 30, 2007 and its income and expense accounts for the three-month and nine-month periods ended September 30, 2007 and 2006. The discussion is designed to provide a better understanding of significant trends related to the Company's financial condition, results of operations, liquidity, capital resources and interest rate sensitivity. This discussion and supporting tables and the consolidated financial statements and related notes appearing elsewhere in this report are unaudited.

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

Forward-looking statements are not guarantees of performance. By their nature, they involve risks, uncertainties and assumptions. The future results and shareholder values may differ significantly from those expressed in these forward-looking statements. You are cautioned not to put undue reliance on any forward-looking statement. Any such statement speaks only as of the date of this report, and in the case of any documents that may be incorporated by reference, as of the date of those documents. We do not undertake any obligation to update or release any revisions to any forward-looking statements, to report any new information, future event or other circumstances after the date of this report or to reflect the occurrence of unanticipated events, except as required by law. To gain a more complete understanding of the uncertainties and risks involved in the Company's business, this report should be read in conjunction with the Company's annual report on Form 10-K for the year ended December 31, 2006 and its 2007 reports filed on Form 10-Q and 8-K.

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

Critical Accounting Policies

General

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

Allowance for Loan and Lease Losses

The allowance for loan and lease losses is an estimate of the credit loss risk in our loan and lease portfolio. The allowance is based on two basic principles of accounting: (1) Statement of Financial Accounting Standards ("SFAS") No. 5 "Accounting for Contingencies," which requires that losses be accrued when it is probable that a loss has occurred at the balance sheet date and such loss can be reasonably estimated; and (2) SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," which requires that losses be accrued on impaired loans based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance.

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

Stock-Based Compensation

The Company accounts for its stock-based compensation under the recognition and measurement principles of Financial Accounting Standards Board Statement Number 123 (revised 2004) ("FAS 123 (R)"), "Share-Based Payments." FAS 123 (R) requires all entities to recognize compensation expense in an amount equal to the fair value of share-based payments such as stock options granted to employees. The Company adopted FAS 123 (R) on a modified prospective method, beginning on January 1, 2006. Under this method, the Company is required to record compensation expense (as previous awards continue to vest) for the unvested portion of previously granted awards that remain outstanding at the date of adoption. The fair value of each option is estimated on the date of grant and amortized over the service period using an option pricing model. Critical assumptions that affect the estimated fair value of each option include expected stock price volatility, dividend yields, option life and the risk-free interest rate.

Goodwill

Business combinations involving the Company's acquisition of the equity interests or net assets of another enterprise or the assumption of net liabilities in an acquisition of branches constituting a business may give rise to goodwill. Goodwill represents the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed in transactions accounted for under the purchase method of accounting. The value of goodwill is ultimately derived from the Company's ability to generate net earnings after the acquisition. A decline in net earnings could be indicative of a decline in the fair value of goodwill and result in impairment. For that reason, goodwill is assessed for impairment at a reporting unit level at least annually following the year of acquisition. The Company performed an evaluation of the goodwill, recorded as a result of the Bank of Amador acquisition, during the fourth quarter of 2006 and determined that there was no impairment. While the Company believes all assumptions utilized in its assessment of goodwill for impairment are reasonable and appropriate, changes in earnings, the effective tax rate, historical earnings multiples and the cost of capital could all cause different results for the calculation of the present value of future cash flows.

General Development of Business

The Company is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. The Company was incorporated under the laws of the State of California in 1995. As a bank holding company, the Company is authorized to engage in the activities permitted under the Bank Holding Company Act of 1956, as amended, and regulations thereunder. Its principal office is located at 3100 Zinfandel Drive, Suite 450, Rancho Cordova, California 95670 and its telephone number is (916) 854-0123. The Company employed an equivalent of 130 full-time employees as of September 30, 2007.

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

American River Bank was incorporated and commenced business in Fair Oaks, California, in 1983 and thereafter moved its headquarters to Sacramento, California in 1985. American River Bank operates: (1) five full service offices and one convenience office in Sacramento and Placer Counties including the head office located at 1545 River Park Drive, Suite 107, Sacramento, and branch offices located at 520 Capitol Mall, Suite 100, Sacramento, 9750 Business Park Drive, Sacramento, 10123 Fair Oaks Boulevard, Fair Oaks and 2240 Douglas Boulevard, Roseville, and the convenience office (limited service office) located at 3100 Zinfandel Drive, Suite 450, Rancho Cordova, and (2) three full service offices in Sonoma County located at 412 Center Street, Healdsburg, 8733 Lakewood Drive, Windsor, and 50 Santa Rosa Avenue, Suite 100, Santa Rosa, operated under the name "North Coast Bank, a division of American River Bank." North Coast Bank was incorporated and commenced business in 1990 as Windsor Oaks National Bank in Windsor, California. In 1997, the name was changed to North Coast Bank. In 2000, North Coast Bank was acquired by the Company as a separate bank subsidiary. Effective December 31, 2003, North Coast Bank was merged with and into American River Bank.

On December 3, 2004, the Company acquired Bank of Amador located in Jackson, California. Bank of Amador was merged with and into American River Bank and now operates three full service banking offices as "Bank of Amador, a division of American River Bank" within its primary service area of Amador County, in the cities of Jackson, Pioneer and Ione.

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

American River Mortgage has been inactive since its formation in 1994.

During 2007, the Company conducted no significant activities other than holding the shares of its subsidiaries. However, it is authorized, with the prior approval of the Board of Governors of the Federal Reserve System (the "Board of Governors"), the Company's principal regulator, to engage in a variety of activities which are deemed closely related to the business of banking. The common stock of the Company is registered under the Securities Exchange Act of 1934, as amended, and is listed and traded on the Nasdaq Global Select Market under the symbol "AMRB."

Overview

The Company recorded net income of $2,152,000 for the quarter ended September 30, 2007, which was $123,000 (5.4%) below the $2,275,000 reported for the same period of 2006. Diluted earnings per share for the third quarter of 2007 were $0.39 consistent with the $0.39 recorded in the third quarter of 2006. The return on average equity (ROAE) and the return on average assets (ROAA) for the third quarter of 2007 were 13.99% and 1.50%, respectively, as compared to 14.39% and 1.50%, respectively, for the same period in 2006.

Net income for the nine months ended September 30, 2007 and 2006 was $6,336,000 and $6,655,000, respectively, with diluted earnings per share of $1.13 and $1.12, respectively. For the first nine months of 2007, ROAE was 13.97% and ROAA was 1.47% compared to 14.11% and 1.47%, respectively for the same period in 2006.

Total assets of the Company decreased by $36,768,000 (6.1%) from $604,003,000 at December 31, 2006 to $567,235,000 at September 30, 2007. Net loans totaled $385,176,000 at September 30, 2007, up $2,183,000 (0.6%) from the $382,993,000 at December 31, 2006. Deposit balances at September 30, 2007 totaled $472,074,000, down $21,801,000 (4.4%) from $493,875,000 at December 31, 2006.

The Company ended the third quarter of 2007 with a Tier 1 capital ratio of 10.1% and a total risk-based capital ratio of 11.4% versus 10.3% and 11.6%, respectively, at December 31, 2006.

Table One below provides a summary of the components of net income for the periods indicated (See the "Results of Operations" section that follows for an explanation of the fluctuations in the individual components):

Table One: Components of Net Income

	For the three months ended September 30,	For the nine months ended September 30,

(In thousands, except percentages)	2007	2006	2007	2
Net interest income*	$ 6,765	$ 6,878	$ 20,099	$
Provision for loan and lease losses	(50)	(30)	(315)	
Noninterest income	669	605	2,034	
Noninterest expense	(3,796)	(3,602)	(11,267)	
Provision for income taxes	(1,351)	(1,496)	(3,952)	
Tax equivalent adjustment	(85)	(80)	(263)	
Net income	$ 2,152	$ 2,275	$ 6,336	$
Average total assets	$ 569,099	$ 600,053	$ 578,157	$
Net income (annualized) as a percentage of average total assets	1.50%	1.50%	1.47%	

* Fully taxable equivalent basis (FTE)

Results of Operations

Net Interest Income and Net Interest Margin

Net interest income represents the excess of interest and fees earned on interest earning assets (loans and leases, securities, Federal funds sold and investments in time deposits) over the interest paid on interest-bearing deposits and borrowed funds. Net interest margin is net interest income expressed as a percentage of average earning assets. The Company's net interest margin was 5.17% for the three months ended September 30, 2007, 5.01% for the three months ended September 30, 2006, 5.10% for the nine months ended September 30, 2007 and 5.03% for the nine months ended September 30, 2006.

The fully taxable equivalent interest income component for the third quarter of 2007 decreased $278,000 (2.8%) to $9,539,000 compared to $9,817,000 for the three months ended September 30, 2006. Total fully taxable equivalent interest income for the nine months ended September 30, 2007 increased $118,000 (0.4%) to $28,679,000 compared to $28,561,000 for the nine months ended September 30, 2006. The decrease in the fully taxable equivalent interest income for the third quarter of 2007 compared to the same period in 2006 is broken down by rate (down $38,000) and volume (down $240,000). The rate decrease can be attributed to the reversal of previously recorded interest on loans that were placed on nonaccrual status during the quarter. Three loans totaling $2,761,000 were placed on nonaccrual status near the end of the quarter which resulted in a reversal of $99,000 from interest income. The volume decrease was the result of a 4.6% decrease in average earning assets. The Company has made a decision to use the proceeds from maturing investment securities and principal payments on investment securities to reduce the level of outstanding borrowings and provide funding for loan growth. This strategy has reduced the average balances on investment securities by 19.1% from $151,533,000 during the third quarter of 2006 to $122,617,000 during the third quarter of 2007. Average balances of other borrowings were down $26,232,000 (54.1%) and average loan balances were up $2,702,000 (0.7%) during the same time period. The increase in average loans is the result of concentrated focus on business lending.

The breakdown of the increase of $118,000 in fully taxable equivalent interest income for the nine months ended September 30, 2007 over the same period in 2006 resulted from increases in rate (up $495,000) and a decrease in volume (down $377,000). Average earning assets decreased $19,575,000 (3.6%) during the first nine months of 2007 as compared to the same period in 2006. Average loan balances increased $8,326,000 (2.2%) during that same period and average investment securities balances decreased $28,344,000 (17.7%).

Interest expense was $165,000 (5.6%) lower in the third quarter of 2007 versus the prior year period. The average balances on interest bearing liabilities were $17,348,000 (4.6%) lower in the third quarter of 2007 versus the same quarter in 2006. The lower balances accounted for a $350,000 decrease in interest expense. Average borrowings were down $26,232,000 (54.1%) as the Company focused on reducing the higher cost borrowings; the decrease in other borrowings accounting for $332,000 in reduced interest costs from volume compared to the third quarter of 2006. The Company also focused on bringing in additional checking, money market, and savings accounts, and as a result, the average balances on interest checking, money market and savings accounts were up $18,590,000 (9.4%) adding $86,000 to interest expense attributable to the increased volume. Increased rates accounted for an additional $185,000 in interest expense for the three-month period ended September 30, 2007. The increase in rates is a direct result of the higher overall rate environment. Despite the higher rate environment, rates paid on interest bearing liabilities decreased 3 basis points from the third quarter of 2006 to the third quarter of 2007 from 3.09% to 3.06%. This decrease occurred as the Company has changed the mix of interest bearing liabilities by reducing the higher cost borrowings and time deposit balances and increasing the average balances in the lower cost interest checking, money market, and savings account balances.

Interest expense was $552,000 (6.9%) higher in the nine-month period ended September 30, 2007 versus the prior year period. The average balances on interest bearing liabilities were $16,607,000 (4.3%) lower in the nine-month period ended September 30, 2007 versus the same period in 2006. The lower balances, especially in the level of average borrowings, accounted for a $791,000 decrease in interest expense. Increased rates accounted for an additional $1,343,000 in interest expense for the nine-month period. Rates paid on interest bearing liabilities increased 33 basis points on a year-over-year basis from 2.81% to 3.14% primarily as a result of the higher rate environment offset by the change in the mix of interest bearing liabilities.

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

Table Two: Analysis of Net Interest Margin on Earning Assets

Three Months Ended September 30,	2007

(Taxable Equivalent Basis) (In thousands, except percentages)	Avg Balance	Interest	Avg Yield (4)	Avg Balanc
Assets				
Earning assets:				
Loans and leases (1)	$ 390,694	$ 8,010	8.13%	$ 387,
Taxable investment securities	95,454	1,089	4.53%	123,
Tax-exempt investment securities (2)	26,881	351	5.18%	27,
Corporate stock (2)	282	6	8.44%	
Federal funds sold	1,203	15	4.95%	
Investments in time deposits	4,934	68	5.47%	4,
Total earning assets	519,448	9,539	7.29%	544,
Cash & due from banks	16,094			26,
Other assets	39,489			35,
Allowance for loan & lease losses	(5,992)			(5,
	$ 569,099			$ 600,
Liabilities & Shareholders Equity				
Interest bearing liabilities:				
Interest checking and money market	$ 178,616	1,031	2.29%	$ 163,
Savings	37,062	136	1.46%	33,
Time deposits	122,193	1,314	4.27%	131,
Other borrowings	22,268	293	5.22%	48,
Total interest bearing liabilities	360,139	2,774	3.06%	377,
Noninterest bearing demand deposits	142,226			154,
Other liabilities	5,719			5,
Total liabilities	508,084			537,
Shareholders' equity	61,015			62,
	$ 569,099			$ 600,
Net interest income & margin (3)		$ 6,765	5.17%	

(1) Loan interest includes loan fees of $159,000 and $227,000 during the three months ending September 30, 2007 and September 30, 2006, respectively.
(2) Includes taxable-equivalent adjustments that primarily relate to income on certain securities that is exempt from federal income taxes. The effective federal statutory tax rate was 35% for 2007 and 2006.
(3) Net interest margin is computed by dividing net interest income by total average earning assets.
(4) Average yield is calculated based on actual days in quarter (92) and annualized to actual days in year (365).

Nine Months Ended September 30,	2007			
(Taxable Equivalent Basis) (In thousands, except percentages)	Avg Balance	Interest	Avg Yield (4)	Avg Balanc
Assets				
Earning assets:				
Loans and leases (1)	$ 389,479	$ 23,840	8.18%	$ 381,
Taxable investment securities	102,957	3,500	4.55%	131,
Tax-exempt investment securities (2)	28,111	1,085	5.16%	27,
Corporate stock (2)	515	29	7.53%	1,
Federal funds sold	561	21	5.00%	
Investments in time deposits	4,949	204	5.51%	4,
Total earning assets	526,572	28,679	7.28%	546,
Cash & due from banks	17,752			29,
Other assets	39,782			35,
Allowance for loan & lease losses	(5,949)			(5,
	$ 578,157			$ 605,
Liabilities & Shareholders Equity				
Interest bearing liabilities:				
Interest checking and money market	$ 170,769	2,908	2.28%	$ 166,
Savings	38,128	434	1.52%	34,
Time deposits	125,860	4,056	4.31%	127,
Other borrowings	30,474	1,182	5.19%	53,
Total interest bearing liabilities	365,231	8,580	3.14%	381,
Noninterest bearing demand deposits	146,632			155,
Other liabilities	5,677			5,
Total liabilities	517,540			542,
Shareholders' equity	60,617			63,
	$ 578,157			$ 605,
Net interest income & margin (3)		$ 20,099	5.10%	

(1) Loan interest includes loan fees of $428,000 and $722,000 during the nine months ending September 30, 2007 and September 30, 2006, respectively.
(2) Includes taxable-equivalent adjustments that primarily relate to income on certain securities that is exempt from federal income taxes. The effective federal statutory tax rate was 35% for 2007 and 2006.
(3) Net interest margin is computed by dividing net interest income by total average earning assets.
(4) Average yield is calculated based on actual days in period (273) and annualized to actual days in year (365).

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

Three Months Ended September 30, 2007 over 2006 (In thousands)
Increase (decrease) due to change in:

	Volume	Rate (4)	Net Change
Interest-earning assets:			
Net loans (1)(2)	$ 56	$ (129)	$ (73)
Taxable investment securities	(304)	67	(237)
Tax exempt investment securities (3)	(2)	25	23
Corporate stock	(5)	1	(4)
Federal funds sold	15	(4)	11
Investment in time deposits	--	2	2
Total	(240)	(38)	(278)
Interest-bearing liabilities:			
NOW & MMDA deposits	80	93	173
Savings deposits	6	72	78
Time deposits	(104)	9	(95)
Other borrowings	(332)	11	(321)
Total	(350)	185	(165)
Interest differential	$ 110	$ (223)	$ (113)

Nine Months Ended September 30, 2007 over 2006 (In thousands)
Increase (decrease) due to change in:

	Volume	Rate (4)	Net Change
Interest-earning assets:			
Net loans (1)(2)	$ 506	$ 164	$ 670
Taxable investment securities	(913)	224	(689)
Tax exempt investment securities (3)	30	65	95
Corporate stock	(16)	13	(3)
Federal funds sold	15	--	15
Investment in time deposits	1	29	30
Total	(377)	495	118
Interest-bearing liabilities:			
NOW & MMDA deposits	60	595	655
Savings deposits	14	293	307
Time deposits	(54)	344	290
Other borrowings	(811)	111	(700)
Total	(791)	1,343	552
Interest differential	$ 414	$ (848)	$ (434)

(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 fees of $159,000 and $227,000 during the three months ending September 30, 2007 and September 30, 2006, respectively, and $428,000 and $722,000 during the nine months ending September 30, 2007 and September 30, 2006, respectively, have been included in the interest income computation.
(3) Includes taxable-equivalent adjustments that primarily relate to income on certain securities that is exempt from federal income taxes. The effective federal statutory tax rate was 35% for 2007 and 2006.
(4) The rate/volume variance has been included in the rate variance.

Provision for Loan and Lease Losses

The Company provided $50,000 for loan and lease losses for the third quarter of 2007 as compared to $30,000 for the third quarter of 2006. Net loan and lease losses for the three months ended September 30, 2007 were $133,000 or ..14% (on an annualized basis) of average loans and leases as compared to $83,000 or .08% (on an annualized basis) of average loans and leases for the three months ended September 30, 2006. For the first nine months of 2007, the Company

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made provisions for loan and lease losses of $315,000 and net loan and lease losses were $300,000 or .10% (on an annualized basis) of average loans and leases outstanding. This compares to provisions for loan and lease losses of $270,000 and net loan and lease losses of $78,000 for the first nine months of 2006 or .03% (on an annualized basis) of average loans and leases outstanding. For additional information see the "Allowance for Loan and Lease Losses Activity."

Noninterest Income

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

Table Four: Components of Noninterest Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	20
Service charges on deposit accounts	$ 177	$ 185	$ 574	$
Accounts receivable servicing fees	57	92	192	
Gain on sale of securities	11	--	11	
Merchant fee income	149	149	413	
Income from residential lending	115	60	350	
Bank owned life insurance	103	47	298	
Other	57	72	196	
Total noninterest income	$ 669	$ 605	$ 2,034	$

Noninterest income was up $64,000 (10.6%) to $669,000 for the three months ended September 30, 2007 as compared to $605,000 for the three months ended September 30, 2006. For the nine months ended September 30, 2007, noninterest income was up $198,000 (10.8%) to $2,034,000. The increase from the third quarter of 2006 to the third quarter of 2007 was primarily related to higher income from fees on residential lending (up $55,000 or 91.7%) and from bank owned life insurance (up $56,000 or 119.1%). The increase in fees from residential lending relates to the Company's decision to expand is Residential Lending Division by adding four (4) mortgage specialists and the increase in the bank owned life insurance was the result of the Company purchasing additional policies near the end of the fourth quarter of 2006. These increases were offset by a reduction of fees from accounts receivable servicing (down $35,000 or 38.0%) which resulted from lower overall volume.

Noninterest Expense

Noninterest expenses increased $194,000 (5.4%) to a total of $3,796,000 in the third quarter of 2007 versus $3,602,000 in the third quarter of 2006. Salary and employee benefits increased $241,000 (12.5%) from $1,927,000 during the third quarter of 2006 to $2,168,000 during the third quarter of 2007. The salary portion, which includes commissions, increased $150,000 or 9.4% of which amount $75,000 or 50.0% relates to salaries and commissions in the Residential Lending Division. The increase in the salaries and commissions in the Residential Lending Division relates to the four (4) new mortgage specialists, mentioned above. The remaining portion of the increase in salary and benefits is primarily a result of market-condition salary adjustments, higher employer taxes, and an increase in benefit costs, mainly due to higher health related insurance premiums and additional costs associated with stock option expense. At September 30, 2007, the Company employed 130 persons on a full-time equivalent basis as compared to 125 at September 30, 2006. On a quarter-over-quarter basis, occupancy expense increased slightly by $11,000 (3.2%) and furniture and equipment expense decreased $9,000 (4.9%). Other expense decreased $49,000 (4.3%) to a total of $1,096,000 in the third quarter of 2007 versus the third quarter of 2006. The efficiency ratios (fully taxable equivalent), excluding the amortization of intangible assets, for the 2007 and 2006 third quarters were 50.0% and 47.0%, respectively.

Noninterest expense for the nine-month period ended September 30, 2007 was $11,267,000 versus $10,862,000 for the same period in 2006 for an increase

of $405,000 (3.7%). Salaries and benefits increased $655,000 (11.3%) from $5,780,000 for the nine months ended September 30, 2006 to $6,435,000 for the same period in 2007. The increase results from higher salaries and commissions in the Residential Lending Division related to the addition of four (4) new mortgage specialists, mentioned above, increases in salary as a result of market-condition salary adjustments, higher employer taxes, and an increase in benefit costs, mainly due to higher health related insurance premiums and costs associated with additional stock option expense. Occupancy expense decreased $3,000 (0.3%) and furniture and equipment expense decreased $122,000 (19.4%). The decrease in occupancy and furniture and equipment expense relates to lower depreciation and utility costs. Although the premises and equipment are still being used, certain premises and equipment are fully depreciated. Other expense decreased $125,000 (3.7%) from $3,411,000 for the nine months ended September 30, 2006 to $3,286,000 for the same period in 2007. The overhead efficiency ratio (fully taxable equivalent), excluding the amortization of intangible assets, for the first nine months of 2007 was 49.9% as compared to 47.5% in the same period of 2006.

Provision for Income Taxes

The effective Federal and State tax rate for the third quarter and first nine months of 2007 was 38.6% and 38.4%, respectively, versus 39.7% and 39.5%, respectively, for the same two periods of 2006. The decrease is related to the Company's additional investment in bank owned life insurance during the fourth quarter of 2006. The income from bank owned life insurance is tax-free, thereby causing a reduction in the Company's tax rate.

Balance Sheet Analysis

The Company's total assets were $567,235,000 at September 30, 2007 as compared to $604,003,000 at December 31, 2006, representing a decrease of $36,768,000 (4.5%). The average assets for the nine months ended September 30, 2007 were $578,157,000, which represents a decrease of $27,463,000 or 4.5% over the balance of $605,620,000 during the nine-month period ended September 30, 2006. The average assets for the third quarter of 2007 were $569,099,000 compared to $600,053,000 during the third quarter of 2006 for a decrease of 5.2%. The decrease primarily resulted from a reduction in average cash and investment balances partially offset by increases in the average loans outstanding. The Company has utilized the proceeds from matured investment securities to pay down borrowings or as a funding source for loans contributing to an overall decrease in assets.

Investment Securities

The Company classifies its investment securities as 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 available-for-sale may be sold to implement asset/liability management strategies and in response to changes in interest rates, prepayment rates and similar factors. Table Five below summarizes the values of the Company's investment securities held on September 30, 2007 and December 31, 2006.

Table Five: Investment Securities Composition

(In thousands) Available-for-sale (at fair value)	September 30, 2007	December 31, 2006
Debt securities:		
U.S. Government agencies	$ 17,425	$ 28,123
Mortgage-backed securities	31,324	33,236
Obligations of states and political subdivisions	31,232	41,224
Corporate debt securities	--	1,003
Corporate stock	328	623
Total available-for-sale investment securities	$ 80,309	$ 104,209
Held-to-maturity (at amortized cost)		
Debt securities:		
Mortgage-backed securities	$ 37,062	$ 44,031
Total held-to-maturity investment securities	$ 37,062	$ 44,031

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

Loans and Leases

The Company concentrates its lending activities in the following principal areas: (1) commercial; (2) commercial real estate; (3) multi-family real estate; (4) real estate construction (both commercial and residential); (5) residential real estate; (6) lease financing receivable; (7) agriculture; and (8) consumer loans. At September 30, 2007, these categories accounted for approximately 26%, 48%, 1%, 17%, 2%, 1%, 2% and 3%, respectively, of the Company's loan portfolio. This mix compared to 22%, 45%, 1%, 23%, 2%, 2%, 2% and 3% at December 31, 2006. Continuing economic activity 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 nearly $125,000,000 in new loans during the first nine months of 2007; however, loan and lease paydowns and payoffs resulted in a net increase of $2,077,000 or 0.5% in loans from December 31, 2006. Table Six below summarizes the composition of the loan portfolio as of September 30, 2007 and December 31, 2006.

Table Six: Loan and Lease Portfolio Composition

(In thousands)	September 30, 2007	December 31, 2006	Change in dollars	Percenta change
Commercial	$ 99,959	$ 85,859	$ 14,100	16
Real estate				
Commercial	185,844	175,643	10,201	5
Multi-family	5,561	3,618	1,943	53
Construction	66,402	90,314	(23,912)	(26
Residential	9,497	8,689	808	9
Lease financing receivable	4,950	6,375	(1,425)	(22
Agriculture	8,095	7,362	733	10
Consumer	11,341	11,712	(371)	(3
Total loans and leases	391,649	389,572	2,077	0
Deferred loan and lease fees, net	(584)	(705)	121	
Allowance for loan and lease losses	(5,889)	(5,874)	(15)	
Total net loans and leases	$ 385,176	$ 382,993	$ 2,183	0

A significant portion of the Company's loans and leases are direct loans and leases made to individuals and local businesses. The Company relies substantially on local promotional activity and personal contacts by American

River Bank officers, directors and employees to compete with other financial institutions. The Company makes loans and leases to borrowers whose applications include a sound purpose and a viable primary repayment source, generally supported by a secondary source of repayment.

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

Risk Elements

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

Ultimately, underlying trends in economic and business cycles may influence credit quality. American River Bank's business is concentrated: (1) in the Sacramento Metropolitan Statistical Area, (2) in Sonoma County, through North Coast Bank, a division of American River Bank, whose business is focused on businesses within the three communities in which it has offices (Santa Rosa, Windsor, and Healdsburg), and (3) in Amador County, through Bank of Amador, a division of American River Bank, whose business is focused on businesses and consumers within the three communities in which it has offices (Jackson, Pioneer, and Ione). American River Bank also has a diversified residential construction loan business in numerous Northern California counties. The Sacramento Metropolitan Statistical Area is a diversified economy, but with a large State of California government presence and employment base. The economy of Sonoma County is diversified with professional services, manufacturing, agriculture and real estate investment and construction, while the economy of Amador County is reliant upon government, services, retail trade, manufacturing industries and Indian gaming.

The Company has significant extensions of credit and commitments to extend credit that are secured by real estate. The ultimate repayment of these loans is generally dependent on personal or business cash flows or the sale or refinancing of the real estate. The Company monitors the effects of current and expected market conditions and other factors on the collectability of real estate loans. The more significant factors management considers involve the following: lease rate and terms, capitalization rates, absorption and sale rates, real estate values and rates of return, operating expenses, inflation, 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 68.3% of the Company's loan and lease portfolio at September 30, 2007, down from 71.4% at December 31, 2006. Although management recognizes increased risk in individual real estate credits and the overall residential market as a whole, substantial or further declines in the economy or future declines in residential values, could have an adverse impact on the collectability of these loans and require an increase in the provision for loan and lease losses that could adversely affect the Company's future prospects, results of operations, profitability and stock price. Management believes that its lending policies and underwriting standards will tend to minimize losses in an economic downturn; however, there is no assurance that losses will not occur under such circumstances. The Company's loan policies and underwriting standards include, but are not limited to, the following: (1) maintaining a thorough understanding of the Company's service area and originating a significant majority of its loans within that area, (2) maintaining a thorough understanding of borrowers' knowledge, capacity, and market position in their field of expertise, (3) basing real estate loan approvals not only on market demand for the project but also on the borrowers' capacity to support the project financially in the event it does not perform to expectations (whether sale or income performance), and (4) maintaining conforming and prudent loan to value and loan to cost ratios based on independent outside appraisals and ongoing inspection and analysis by the Company's lending officers.

Nonaccrual, Past Due and Restructured Loans and Leases

Management generally places loans and leases on nonaccrual status when they become 90 days past due, unless the loan or lease is well secured and in the process of collection. Loans and leases are charged off when, in the opinion of management, collection appears remote.

At September 30, 2007, non-performing loans and leases (those loans and leases on non-accrual status and those loans and leases still accruing and past due 90 days or more) were $3,100,000 or 0.79% of total loans and leases. Non-performing loans and leases were $78,000 or 0.02% of total loans and leases at December 31, 2006. The increase was primarily related to the addition of three real estate secured loans that totaled $2,761,000 (89.1% of the total). The first of these loans had a balance of $1,328,000 on a lot development loan for twenty-nine (29) residential lots, forty-seven (47) townhouses and three (3) commercial lots located in Amador County. The loan is a participation loan with two other banks. The total current loan amount is $4.6 million with the Company's share approximately twenty-nine percent (29%). The original commitment was $6.9 million and the original loan-to-cost was seventy-five percent (75%). The loan has matured and a notice of default has been filed. The second loan had a balance of $1,111,000 and is a real estate loan on a multi-tenant office building in Sacramento County. The loan has been on the Company's books for a number of years and the original loan-to-value was sixty-five (65%). A notice of default has been filed. The third loan was in the amount of $322,000 and is secured by a seven-acre parcel in a rural part of Sacramento County. Management believes that all three of these loans are adequately secured and adequately reserved. The remaining balance of the nonperforming loans and leases totaled $339,000 and represented eleven (11) accounts, mainly small dollar leases.

There were no loan concentrations in excess of 10% of total loans not otherwise disclosed as a category of loans as of September 30, 2007 or December 31, 2006. Management is not aware of any significant problem loans, which were accruing and current at September 30, 2007, where serious doubt exists as to the ability of the borrower to comply with the present repayment terms and that would result in a significant loss to the Company. Table Seven below sets forth nonaccrual loans and loans past due 90 days or more as of September 30, 2007 and December 31, 2006.

Table Seven: Non-Performing Loans

(In thousands)	September 30, 2007	December 31, 2006
Past Due 90 days or more and still accruing		
Commercial	$ 89	$ --
Real estate	--	13
Lease financing receivable	--	--
Consumer and other	--	--
Nonaccrual		
Commercial	97	--
Real estate	2,819	12
Lease financing receivable	95	53
Consumer and other	--	--
Total non-performing loans	$ 3,100	$ 78

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 estimates 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 and reversals of previous provisions charged to earnings. 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.

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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: (1) historical loss rates, (2) local and regional economic conditions, (3) credit policy and underwriting, (4) management and staff effectiveness, (5) trends in delinquencies and charge-offs, (5) credit concentrations, (6) impaired loans, (7) risk factors assigned to criticized or classified (problem) credits not considered impaired, and (8) assessments by banking regulators and other third parties. The Board of Directors reviews management's analysis of the adequacy of the ALLL quarterly.

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

Table Eight: Allowance for Loan and Lease Losses

(In thousands, except percentages)	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006
Average loans and leases outstanding	$ 390,694	$ 387,992
Allowance for loan and lease losses at beginning of period	$ 5,972	$ 5,924
Loans and leases charged off:		
Commercial	(180)	(21)
Real estate	--	--
Lease financing receivable	(7)	(63)
Consumer	(2)	(1)
Total	(189)	(85)
Recoveries of loans and leases previously charged off:		
Commercial	1	--
Real estate	--	--
Lease financing receivable	55	2
Consumer	--	--
Total	56	2
Net loans charged off	(133)	(83)
Additions to allowance charged to operating expenses	50	30
Allowance for loan and lease losses at end of period	$ 5,889	$ 5,871
Ratio of net charge-offs to average loans and leases outstanding (annualized)	.11%	.08%
Provision of allowance for loan and lease losses to average loans and leases outstanding (annualized)	.15%	.03%
Allowance for loan and lease losses to loans and leases net of deferred fees at end of period	1.53%	1.54%

The Company establishes general reserves in accordance with Statement of Accounting Standards ("SFAS") No. 5, "Accounting for Contingencies," and specific reserves in accordance with SFAS No. 114, "Accounting by Creditors for

Impairment of a Loan." The ALLL is internally allocated based on loan category, loan grades, estimated risk factors, and loan impairment as discussed in the prior paragraph; 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 adequacy of the ALLL is determined based on three components. First, the dollar weighted risk factor of the loan portfolio (excepting criticized and classified credits

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and impaired loans) is determined. Second, risk factors are assigned to criticized and classified loans and leases not considered impaired. Third, the Company determines whether a loan is impaired and if so measures the degree of impairment within the context of SFAS No. 114 "Accounting by Creditors for Impairment of a Loan." These are estimated potential losses associated with specific borrowers based upon estimated future cash flows or collateral value and events affecting the risk rating. These three calculations are designed to encompass the entire balance of the loan and lease portfolio. When these three dollar numbers are aggregated, it is then compared to the actual ALLL balance at the measurement date. Management is responsible to maintain the actual ALLL within a reasonable range of the total estimated loss risk inherent in the loan and lease portfolio. However, no prediction of the ultimate level of loans and leases charged off in future periods can be made with any certainty. The allowance for loan and lease losses totaled $5,889,000 or 1.51% of total loans and leases at September 30, 2007 and $5,767,000 or 1.52% of total loans and leases at December 31, 2006.

Other Real Estate

At September 30, 2007 and December 31, 2006, the Company did not have any other real estate ("ORE") properties. Subsequent to September 30, 2007 one property was acquired in a foreclosure sale. The carrying value of this ORE represents $57,000.

Deposits

At September 30, 2007, total deposits were $472,074,000 representing a decrease of $21,801,000 (4.4%) from the December 31, 2006 balance of $493,875,000. Noninterest-bearing deposits decreased $21,608,000 (13.5%) from December 31, 2006 to September 30, 2007, while interest-bearing deposits decreased $193,000 (0.1%) over that same period. The competitive demand for deposit balances has resulted in a decrease in the Company's deposits. While the Company has retained its deposit account relationships, the deposit account balances are currently lower than in previous periods.

Other Borrowed Funds

Other borrowings outstanding as of September 30, 2007 and December 31, 2006, consist of advances (both long-term and short-term) from the FHLB. Table Nine below summarizes these borrowings:

Table Nine: Other Borrowed Funds

(In thousands, except percentages)

	September 30, 2007		December 31, 2006	
	Amount	Rate	Amount	Rate
Short-term borrowings:				
FHLB advances	$ 27,921	4.97%	$ 37,270	5.08%
Long-term borrowings:				
FHLB advances	$ --	--	$ 5,000	4.95%

The maximum amount of short-term borrowings at any month-end during the first three quarters of 2007 and 2006 was $42,384,000 and $64,489,000, 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	$ 27,921	$ --
Maturity	2007 to 2008	--
Average rates	4.97%	--

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The Company has also been issued a total of $3,750,000 in letters of credit by the FHLB which have been pledged to secure Local Agency Deposits. The letters of credit act as a guarantee of payment to certain third parties in accordance with specified terms and conditions. The letters of credit were not drawn upon in 2007 or 2006 and management does not expect to draw upon these lines in the future. See Liquidity section that follows for additional information on FHLB borrowings.

Capital Resources

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

The Company and American River Bank are subject to certain regulations issued by the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation, which require maintenance of certain levels of capital. Failure to meet these minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, American River Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and American River Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. At September 30, 2007, shareholders' equity was $61,484,000, representing a decrease of $887,000 (1.4%)

from $62,371,000 at December 31, 2006. The decrease results from stock repurchases and cash dividends paid to shareholders exceeding the stock based compensation, proceeds from the exercise of stock options, the change in other comprehensive income, and net income for the period. The ratio of total risk-based capital to risk adjusted assets was 11.4% at September 30, 2007 compared to 11.6% at December 31, 2006. Tier 1 risk-based capital to risk-adjusted assets was 10.1% at September 30, 2007 and 10.3% at December 31, 2006.

Table Ten below lists the Company's actual capital ratios at September 30, 2007 and December 31, 2006 as well as the minimum capital ratios for capital adequacy.

Table Ten: Capital Ratios

Capital to Risk-Adjusted Assets	At September 30, 2007	At December 31, 2006	Minimum Regu Capital Requi
Leverage ratio	8.0%	7.8%	4.00%
Tier 1 Risk-Based Capital	10.1%	10.3%	4.00%
Total Risk-Based Capital	11.4%	11.6%	8.00%

Capital ratios are reviewed on a regular basis to ensure that capital exceeds the prescribed regulatory minimums and is adequate to meet future needs. Management believes that both the Company and American River Bank met all of their capital adequacy requirements as of September 30, 2007 and December 31, 2006.

The Company, through a Board of Director authorized plan, may repurchase, as conditions warrant, up to 5% annually of the Company's common stock. Subsequent to September 30, 2007, the Board of Directors of the Company announced an additional stock repurchase program whereby the Company can purchase an additional amount of its common stock, up to $2,000,000; this plan expires on December 14, 2007. Repurchases are generally made in the open market at market prices. (See Part II, Item 2, for additional disclosure).

Inflation

The impact of inflation on a financial institution differs significantly from that exerted on manufacturing, or other commercial concerns, primarily because its assets and liabilities are largely monetary. In general, inflation primarily affects the Company and it subsidiaries through its effect on market rates of interest, which affects the Company's ability to attract loan customers. Inflation affects the growth of total assets by increasing the level of loan demand, and potentially adversely affects capital adequacy because loan growth in inflationary periods can increase at rates higher than the rate that capital grows through retention of earnings which may be generated in the future. In addition to its effects on interest rates, inflation increases overall operating expenses. Inflation has not had a significant effect upon the results of operations of the Company and its subsidiaries during the periods ended September 30, 2007 and 2006.

Liquidity

Liquidity management refers to the Company's ability to provide funds on an ongoing basis to meet fluctuations in deposit levels as well as the credit needs and requirements of its clients. Both assets and liabilities contribute to the Company's liquidity position. Federal funds lines, borrowing arrangements with the FHLB, payments from maturities from short-term investments and securities, and loan repayments contribute to liquidity, along with deposit increases, while loan funding and deposit withdrawals decrease liquidity. The Company assesses the likelihood of projected funding requirements by reviewing historical funding patterns, current and forecasted economic conditions and individual client funding needs. Commitments to fund loans and outstanding letters of credit at September 30, 2007 and December 31, 2006 were approximately $111,844,000 and $7,548,000 and $114,582,000 and $5,701,000, respectively. Such loan commitments relate primarily to revolving lines of credit and other commercial loans and to real estate construction loans. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

The Company's sources of liquidity consist of cash and due from correspondent banks, overnight funds sold to correspondent banks, unpledged marketable investments and loans held for sale and/or pledged for secured borrowings. At September 30, 2007, consolidated liquid assets totaled $45.7 million or 8.1% of total assets compared to $68.7 million or 11.4% of total assets on December 31, 2006. In addition to liquid assets, the Company maintains short-term lines of credit in the amount of $38,000,000 with correspondent banks. At September 30, 2007, the Company had $38,000,000 available under these credit lines. Additionally, American River Bank is a member of the FHLB. At September 30, 2007, American River Bank could have arranged for up to $137,315,000 in secured borrowings from the FHLB. These borrowings are secured by pledged mortgage loans and investment securities. At September 30, 2007, the Company had advances, borrowings and commitments (including letters of credit) outstanding of $31,671,000, leaving $105,644,000 available under these FHLB secured borrowing arrangements. American River Bank also has informal agreements with various other banks to sell participations in loans, if necessary. The Company serves primarily a business and professional customer base and, as such, its deposit base is susceptible to economic fluctuations. Accordingly, management strives to maintain a balanced position of liquid assets and borrowing capacity to 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 has established a master repurchase agreement with a correspondent bank to enable such transactions. American River Bank can also pledge securities to borrow from the FRB and the FHLB. The principal cash requirements of the Company are for expenses incurred in the support of administration and operations. For nonbanking functions, the Company is dependent upon the payment of cash dividends from American River Bank to service its commitments. The Company expects that the cash dividends paid by American River Bank to the Company will be sufficient to meet this payment schedule.

Off-Balance Sheet Items

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business in order to meet the financing needs of its customers and to reduce its exposure to fluctuations in interest rates.

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

The Company's exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit and letters of credit is represented by the contractual amount of those instruments. The Company applies the same credit policies to commitments and letters of credit as it does for loans included on the consolidated balance sheet. As of September 30, 2007 and December 31, 2006, commitments to extend credit and standby letters of credit were the only financial instruments with off-balance sheet risk. The Company has not entered into any contracts for financial derivative instruments such as futures, swaps, options or similar instruments. Loan commitments and standby letters of credit were $119,392,000 and $120,283,000 at September 30, 2007 and December 31, 2006, respectively. As a percentage of net loans and leases these off-balance sheet items represent 31.0% and 31.4%, respectively.

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

Other Matters

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Market Risk Management

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

Asset/Liability Management. Activities involved in asset/liability management include but are not limited to lending, accepting and placing deposits and investing in securities. Interest rate risk is the primary market risk associated with asset/liability management. Sensitivity of earnings to interest rate changes arises when yields on assets change in a different

time period or in a different amount from that of interest costs on liabilities. To mitigate interest rate risk, the structure of the balance sheet is managed with the goal that movements of interest rates on assets and liabilities are correlated and contribute to earnings even in periods of volatile interest rates. The asset/liability management policy sets limits on the acceptable amount of variance in net interest margin and market value of equity under changing interest environments. The Company uses simulation models to forecast earnings, net interest margin and market value of equity.

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

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

Table Eleven: Interest Rate Risk Simulation of Net Interest as of September 30, 2007 and December

(In thousands)	$ Change in NII from Current 12 Month Horizon September 30, 2007	$ Change in from Curr 12 Month Ho December 31
Variation from a constant rate scenario		
+200bp	$ 124	$
- 200bp	$ (334)	$

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

Item 4. Controls and Procedures.

The Company, under the supervision and with the participation of its management, including the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's "disclosure controls and procedures" (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of September 30, 2007. Based on that evaluation, the Chief Executive Officer and the Chief

Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely making known to them material information relating to the Company and the Company's consolidated subsidiaries required to be disclosed in the Company's reports filed or submitted under the Exchange Act.

During the quarter ended September 30, 2007, there have been no changes in the Company's internal control over financial reporting that have significantly affected, or are reasonably likely to materially affect, these controls.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

There have been no significant changes in the risk factors previously disclosed in the Company's Form 10-K for the period ended December 31, 2006, filed with the Securities and Exchange Commission on March 9, 2007.

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

On September 20, 2001, the Board of Directors of the Company authorized a stock repurchase program which calls for the repurchase of up to five percent (5%) annually of the Company's outstanding shares of common stock. Each year the Company may repurchase up to 5% of the shares outstanding (adjusted for stock splits or stock dividends). The number of shares reported in column (d) of the table as shares that may be repurchased under the plan represent shares eligible for the calendar year 2007. The repurchases under this plan can be made from time to time in the open market as conditions allow and will be structured to comply with Commission Rule 10b-18. Management reports monthly to the Board of Directors on the status of the repurchase program. The Board of Directors has reserved the right to suspend, terminate, modify or cancel the repurchase programs at any time for any reason. The following table lists shares repurchased during the quarter and the maximum amount available to repurchase under the repurchase plan as of the dates noted.

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid Per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs
Month #1 July 1 through July 31, 2007	25,000	$23.82	25,000
Month #2 August 1 through	55,000	$23.07	55,000

August 31, 2007			
Month #3 September 1 through September 30, 2007	None	N/A	None
Total	80,000	$23.31	80,000

Subsequent to September 30, 2007, the Board of Directors of the Company announced an additional stock repurchase program whereby the Company can purchase an additional amount of its common stock, up to $2,000,000. This plan expires on December 14, 2007 and is subject to the same terms and conditions noted above. The table above does not list the additional shares that can be repurchased under the new plan as it was not in effect as of September 30, 2007.

Item 3. Defaults Upon Senior Securities.

None.

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

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Document Description
(2.1)	Agreement and Plan of Reorganization and Merger by and among the Registrant, ARH Interim National Bank and North Coast Bank, N.A., dated as of March 1, 2000 (included as Annex A). **
(2.2)	Agreement and Plan of Reorganization and Merger by and among the Registrant, American River Bank and Bank of Amador, dated as of July 8, 2004 (included as Annex A). ***
(3.1)	Articles of Incorporation, as amended, incorporated by reference from Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2004, filed with the Commission on August 11, 2004.
(3.2)	Bylaws, as amended, incorporated by reference from Exhibit 3.2 to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2006, filed with the Commission on May 9, 2006.
(4.1)	Specimen of the Registrant's common stock certificate, incorporated by reference from Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2004, filed with the Commission on August 11, 2004.

(10.1)	Lease agreement between American River Bank and Spieker Properties, L.P., a California limited partnership, dated April 1, 2000, related to 1545 River Park Drive, Suite 107, Sacramento, California. **
(10.2)	Lease agreement between American River Bank and Bradshaw Plaza, Associates, Inc. dated November 27, 2006, related to 9750 Business Park Drive, Sacramento, California incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on November 28, 2006.
(10.3)	Lease agreement between American River Bank and Marjorie G. Taylor dated April 5, 1984, and addendum thereto dated July 16, 1997, related to 10123 Fair Oaks Boulevard, Fair Oaks, California. **
(10.4)	Lease agreement between American River Bank and LUM YIP KEE, Limited (formerly Sandalwood Land Company) dated August 28, 1996, related to 2240 Douglas Boulevard, Suite 100, Roseville, California (**) and Amendment No. 1 thereto dated July 28, 2006, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on July 31, 2006.
*(10.5)	Registrant's 1995 Stock Option Plan. **
*(10.6)	Form of Nonqualified Stock Option Agreement under the 1995 Stock Option Plan. **

*(10.7)	Form of Incentive Stock Option Agreement under the 1995 Stock Option Plan. **
*(10.8)	Registrant's Stock Option Gross-Up Plan and Agreement, as amended, dated May 20, 1998. **
*(10.9)	Registrant's Deferred Compensation Plan, incorporated by reference from Exhibit 99.2 to the Registrant's Report on Form 8-K, filed with the Commission on May 30, 2006.
*(10.10)	Registrant's Deferred Fee Plan, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on May 30, 2006.
(10.11)	American River Bank Employee Severance Policy dated March 18, 1998. **
(10.12)	Lease agreement and addendum between North Coast Bank, N.A. and Rosario LLC, each dated September 1, 1998, related to 50 Santa Rosa Avenue, Santa Rosa, California. **
(10.13)	Lease agreement between American River Bank and 520 Capitol Mall, Inc., dated August 19, 2003, related to 520 Capitol Mall, Suite 100, Sacramento, California, incorporated by reference from Exhibit 10.29 to the Registrant's Quarterly Report on Form 10-Q for the period ended September 30, 2003, filed with the Commission on November 7, 2003 and the First Amendment thereto dated April 21, 2004, incorporated by reference from Exhibit 10.37 to the Registrant's Quarterly

Report on Form 10-Q for the period ended June 30, 2004, filed with the Commission on August 11, 2004.

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

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

*(10.16) Salary Continuation Agreement, as amended on June 2, 2006, between American River Bank and Mitchell A. Derenzo, incorporated by reference from Exhibit 99.9 to the Registrant's Report on Form 8-K, filed with the Commission on May 30, 2006 and the Salary Continuation Agreement Modification dated January 3, 2007, incorporated by reference from Exhibit 99.6 to the Registrant's Report on Form 8-K, filed with the Commission on January 5, 2007.

*(10.17) Salary Continuation Agreement, as amended on June 2, 2006, between the Registrant and David T. Taber, incorporated by reference from Exhibit 99.7 to the Registrant's Report on Form 8-K, filed with the Commission on May 30, 2006 and the Salary Continuation Agreement Modification dated January 3, 2007, incorporated by reference from Exhibit 99.4 to the Registrant's Report on Form 8-K, filed with the Commission on January 5, 2007.

*(10.18) Salary Continuation Agreement, as amended on June 2, 2006, between American River Bank and Douglas E. Tow, incorporated by reference from Exhibit 99.8 to the Registrant's Report on Form 8-K, filed with the Commission on May 30, 2006, and the Salary Continuation Agreement Modification dated January 3,

2007, incorporated by reference from Exhibit 99.5 to the Registrant's Report on Form 8-K, filed with the Commission on January 5, 2007.

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

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

November 12, 2004.

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

(10.22) Ground lease agreement between Bank of Amador and James B. Newman and Helen M. Newman, dated June 1, 1992, related to 26675 Tiger Creek Road, Pioneer, California. ***

*(10.23) Salary Continuation Agreement, as amended on June 2, 2006, between Bank of Amador, a division of American River Bank, and Larry D. Standing and related Endorsement Split Dollar Agreement, incorporated by reference from Exhibit 99.5 to the Registrant's Report on Form 8-K, filed with the Commission on May 30, 2006.

*(10.24) Director Retirement Agreement, as amended on June 2, 2006, between Bank of Amador, a division of American River Bank, and Larry D. Standing, incorporated by reference from Exhibit 99.6 to the Registrant's Report on Form 8-K, filed with the Commission on May 30, 2006.

*(10.25) Employment Agreement dated June 2, 2006 between Bank of Amador, a division of American River Bank, and Larry D. Standing, incorporated by reference from Exhibit 99.4 to the Registrant's Report on Form 8-K, filed with the Commission on May 30, 2006.

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

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

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

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

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

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

*(10.32) Employment Agreement dated September 20, 2006 between American River Bankshares and Douglas E. Tow, incorporated by reference from Exhibit 99.2 to the Registrant's Report on Form 8-K, filed with the Commission on September 20, 2006.

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

*(10.34) Employment Agreement dated September 20, 2006 between American River Bank and Gregory N. Patton, incorporated by reference from Exhibit 99.4 to the Registrant's Report on Form 8-K, filed with the Commission on September 20, 2006.

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

*(10.36) Salary Continuation Agreement, dated January 3, 2007, between American River Bank and Kevin B. Bender, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on January 5, 2007.

*(10.37) Salary Continuation Agreement, dated January 3, 2007, between American River Bank and Gregory N. Patton, incorporated by reference from Exhibit 99.2 to the Registrant's Report on Form 8-K, filed with the Commission on January 5, 2007.

*(10.38) Salary Continuation Agreement, dated January 3, 2007, between American River Bank and Raymond F. Byrne, incorporated by reference from Exhibit 99.3 to the Registrant's Report on Form 8-K, filed with the Commission on January 5, 2007.

(10.39) Lease agreement between American River Bank and Sierra Investment Group, LLC, dated April 1, 2007, related to 3330 Cameron Park Drive, Suite 150, Cameron Park, California incorporated by reference from Exhibit 10.40 to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2007, filed with the Commission on May 7, 2007.

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

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

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

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

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

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

*Denotes management contracts, compensatory plans or arrangements.

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

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

SIGNATURES

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

AMERICAN RIVER BANKSHARES

November 6, 2007

By: /s/ DAVID T. TABER

David T. Taber
President and
Chief Executive Officer

AMERICAN RIVER BANKSHARES

November 6, 2007

By: /s/ MITCHELL A. DERENZO

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

EXHIBIT INDEX

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