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AMERICAN RIVER BANKSHARES

Form 10-K

March 09, 2006

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

FORM 10-K

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2005

Transition report pursuant to Section 13 or 15 (d) of Securities Exchange Act of 1934

Commission File No. 0-31525

AMERICAN RIVER BANKSHARES

(Exact name of registrant as specified in its charter)

California

68-0352144

(State or other jurisdiction of
incorporation or organization)

(IRS Employer ID Number)

3100 Zinfandel Drive, Rancho Cordova, California

95670

(Address of principal executive offices)

(Zip code)

(916) 851-0123

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Title of Class: Common Stock, no par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a 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 Act). Yes [] No [X]

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: \$105,826,000.

Number of shares outstanding of each of the registrant's classes of common stock, as of March 7, 2006:

No par value Common Stock - 5,614,576 shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference into this Form 10-K: Part III, Items 10 through 14 from Registrant's definitive proxy statement for the 2006 annual meeting of shareholders.

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PART I

Item 1. Business.

Cautionary Statements Regarding Forward-Looking Statements

Certain matters discussed or incorporated by reference in this Annual Report on Form 10-K including, but not limited to, matters described in "Item 7 - 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, and Section 27A of the Securities Act of 1933, as amended. Such forward-looking statements may contain words related to future projections including, but not limited to, words such as "believe," "expect," "anticipate," "intend," "may," "will," "should," "could," "would," and variations of those words and similar words that are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those projected. Factors that could cause or contribute to such differences include, but are not limited to, the following: (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. The factors set forth under "Item 1A - Risk Factors" in this report 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,

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when evaluating the business prospects of the Company and its subsidiaries.

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

Introduction

American River Bankshares (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) 851-0123.

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 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 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."

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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

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commercial banking needs of small to mid-sized businesses within those counties listed above. American River Bank accepts checking and savings deposits, offers money market deposit accounts and certificates of deposit, makes secured and unsecured commercial, secured real estate, and other installment and term loans and offers other customary banking services. American River Bank also conducts lease financing for 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 2005, 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 National Market under the symbol "AMRB."

At December 31, 2005, the Company had consolidated assets of \$613 million, deposits of \$501 million and shareholders' equity of \$63 million.

General

The Company is a community-oriented bank holding company headquartered in Sacramento, California. The principal communities served are located in Sacramento, Placer, Yolo, El Dorado, Sonoma, and Amador counties. The Company generates most of its revenue by providing a wide range of products and services to small and middle-market businesses and individuals. The Company's principal source of revenue comes from interest income. Interest income is derived from: (i) interest and fees on loans and leases; (ii) interest on investments (principally government securities); and (iii) interest on Federal funds sold (funds loaned on a short-term basis to other banks). For the year ended December 31, 2005, these sources comprised 79.9%, 19.8%, and 0.3%, respectively, of the Company's interest income.

American River Bank's deposits are not received from a single depositor or group of affiliated depositors, the loss of any one of which would have a materially adverse effect on the business of the Company. A material portion of American River Bank's deposits are not concentrated within a single industry or group of related industries.

As of December 31, 2005 and December 31, 2004, American River Bank held \$11,500,000 in certificates of deposit for the State of California. In connection with these deposits, American River Bank is generally required to pledge securities to secure such deposits, except for the first \$100,000, which are insured by the FDIC.

American River Bank competes with approximately 35 other banking or savings institutions in Sacramento County and 27 in Placer County. American River Bank's market share of FDIC insured deposits in the service areas of Sacramento County and Placer County was approximately 1.4% and 1.4%, respectively (based upon the most recent information made available by the FDIC through June 30, 2005). North Coast Bank, a division of American River Bank,

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competes with approximately 22 other banking or savings institutions in its service areas and its market share of FDIC insured deposits in the service area of Sonoma County was approximately .7% (based upon the most recent information made available by the FDIC through June 30, 2005). Bank of Amador, a division of American River Bank competes with approximately 7 other banking or savings institutions in its service areas and its market share of FDIC insured deposits in the service area of Amador County was approximately 17.7% (based upon the most recent information made available by the FDIC through June 30, 2005).

Employees

At December 31, 2005, the Company and its subsidiaries employed 122 persons on a full-time equivalent basis. The Company believes its employee relations are good.

Website Access

The Company 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 SEC. These reports are free of charge and can be accessed through the address www.amrb.com by selecting 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 Reports filed by the Company by selecting the appropriate link.

Regulation and Supervision

General

The common stock of the Company is subject to the registration requirements of the Securities Act of 1933, as amended, and the qualification requirements of the California Corporate Securities Law of 1968, as amended. The Company is also subject to the periodic reporting requirements of Section 13 of the Securities Exchange Act of 1934, as amended, which include, but are not limited to, annual, quarterly and other current reports with the Securities and Exchange Commission (the "SEC").

American River Bank is licensed by the California Commissioner of Financial Institutions, its deposits are insured by the FDIC up to the applicable legal limits, and it has chosen not to become a member of the Federal Reserve System. Consequently, American River Bank is subject to the supervision of, and is regularly examined by, the California Commissioner of Financial Institutions and the FDIC. The supervision and regulation includes comprehensive reviews of all major aspects of American River Bank's business and condition, including its capital ratios, allowance for possible loan and lease losses and other factors. However, no inference should be drawn that such authorities have approved any such factors. American River Bankshares and American River Bank are required to file reports with the Board of Governors, the California Commissioner of Financial Institutions, and the FDIC and provide the additional information that the Board of Governors, California Commissioner of Financial Institutions, and FDIC may require.

American River Bankshares is a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended (the "Bank Holding Company Act"), and is registered as such with, and subject to the supervision of, the Board of Governors. The Company is required to obtain the approval of the Board of Governors before it may acquire all or substantially all of the assets of any bank, or ownership or control of the voting shares of any bank if, after giving

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effect to such acquisition of shares, the Company would own or control more than 5% of the voting shares of such bank. The Bank Holding Company Act prohibits the Company from acquiring any voting shares of, or interest in, all or substantially all of the assets of, a bank located outside the State of California unless such an acquisition is specifically authorized by the laws of the state in which such bank is located. Any such interstate acquisition is also subject to the provisions of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994.

The Company, and any subsidiaries which it may acquire or organize, are deemed to be "affiliates" within the meaning of that term as defined in the Federal Reserve Act. This means, for example, that there are limitations (a) on loans by American River Bank to affiliates, and (b) on investments by American River Bank in affiliates' stock as collateral for loans to any borrower. The Company and its subsidiaries are also subject to certain restrictions with respect to engaging in the underwriting, public sale and distribution of securities.

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In addition, regulations of the Board of Governors under the Federal Reserve Act require that reserves be maintained by American River Bank in conjunction with any liability of the Company under any obligation (promissory note, acknowledgement of advance, banker's acceptance or similar obligation) with a weighted average maturity of less than seven (7) years to the extent that the proceeds of such obligations are used for the purpose of supplying funds to American River Bank for use in its banking business, or to maintain the availability of such funds.

Capital Standards

The Board of Governors and the FDIC have adopted risk-based capital guidelines for evaluating the capital adequacy of bank holding companies and banks. The guidelines are designed to make capital requirements sensitive to differences in risk profiles among banking organizations, to take into account off-balance sheet exposures and to aid in making the definition of bank capital uniform internationally. Under the guidelines, American River Bankshares and American River Bank are required to maintain capital equal to at least 8.0% of its assets and commitments to extend credit, weighted by risk, of which at least 4.0% must consist primarily of common equity (including retained earnings) and the remainder may consist of subordinated debt, cumulative preferred stock, or a limited amount of loan and lease loss reserves.

Assets, commitments to extend credit, and off-balance sheet items are categorized according to risk and certain assets considered to present less risk than others permit maintenance of capital at less than the 8% ratio. For example, most home mortgage loans are placed in a 50% risk category and therefore require maintenance of capital equal to 4% of those loans, while commercial loans are placed in a 100% risk category and therefore require maintenance of capital equal to 8% of those loans.

Under the risk-based capital guidelines, assets reported on an institution's balance sheet and certain off-balance sheet items are assigned to risk categories, each of which has an assigned risk weight. Capital ratios are calculated by dividing the institution's qualifying capital by its period-end risk-weighted assets. The guidelines establish two categories of qualifying capital: Tier 1 capital (defined to include common shareholders' equity and noncumulative perpetual preferred stock) and Tier 2 capital which includes, among other items, limited life (and in the case of banks, cumulative) preferred stock, mandatory convertible securities, subordinated debt and a limited amount of reserve for credit losses. Tier 2 capital may also include up to 45% of the

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pretax net unrealized gains on certain available-for-sale equity securities having readily determinable fair values (i.e. the excess, if any, of fair market value over the book value or historical cost of the investment security). The federal regulatory agencies reserve the right to exclude all or a portion of the unrealized gains upon a determination that the equity securities are not prudently valued. Unrealized gains and losses on other types of assets, such as bank premises and available-for-sale debt securities, are not included in Tier 2 capital, but may be taken into account in the evaluation of overall capital adequacy and net unrealized losses on available-for-sale equity securities will continue to be deducted from Tier 1 capital as a cushion against risk. Each institution is required to maintain a minimum risk-based capital ratio (including Tier 1 and Tier 2 capital) of 8%, of which at least half must be Tier 1 capital.

A leverage capital standard was adopted as a supplement to the risk-weighted capital guidelines. Under the leverage capital standard, an institution is required to maintain a minimum ratio of Tier 1 capital to the sum of its quarterly average total assets and quarterly average reserve for loan losses, less intangible assets not included in Tier 1 capital. Period-end assets may be used in place of quarterly average total assets on a case-by-case basis. The Board of Governors and the FDIC have also adopted a minimum leverage ratio for bank holding companies as a supplement to the risk-weighted capital guidelines. The leverage ratio establishes a minimum Tier 1 ratio of 3% (Tier 1 capital to total assets) for the highest rated bank holding companies or those that have implemented the risk-based capital market risk measure. All other bank holding companies must maintain a minimum Tier 1 leverage ratio of 4% with higher leverage capital ratios required for bank holding companies that have significant financial and/or operational weakness, a high risk profile, or are undergoing or anticipating rapid growth.

At December 31, 2005, American River Bankshares and American River Bank were in compliance with the risk-weighted capital and leverage ratio guidelines.

Prompt Corrective Action

The Board of Governors and the FDIC have adopted regulations implementing a system of prompt corrective action pursuant to Section 38 of the Federal Deposit Insurance Act and Section 131 of the FDIC Improvement Act of 1991 ("FDICIA"). The regulations establish five capital categories with the

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following characteristics: (1) "Well capitalized" - consisting of institutions with a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 6% or greater and a leverage ratio of 5% or greater, and the institution is not subject to an order, written agreement, capital directive or prompt corrective action directive; (2) "Adequately capitalized" - consisting of institutions with a total risk-based capital ratio of 8% or greater, a Tier 1 risk-based capital ratio of 4% or greater and a leverage ratio of 4% or greater, and the institution does not meet the definition of a "well capitalized" institution; (3) "Undercapitalized" - consisting of institutions with a total risk-based capital ratio less than 8%, a Tier 1 risk-based capital ratio of less than 4%, or a leverage ratio of less than 4%; (4) "Significantly undercapitalized" - consisting of institutions with a total risk-based capital ratio of less than 6%, a Tier 1 risk-based capital ratio of less than 3%, or a leverage ratio of less than 3%; (5) "Critically undercapitalized" - consisting of an institution with a ratio of tangible equity to total assets that is equal to or less than 2%.

The regulations established procedures for classification of financial institutions within the capital categories, filing and reviewing capital

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restoration plans required under the regulations and procedures for issuance of directives by the appropriate regulatory agency, among other matters. The regulations impose restrictions upon all institutions to refrain from certain actions which would cause an institution to be classified within any one of the three "undercapitalized" categories, such as declaration of dividends or other capital distributions or payment of management fees, if following the distribution or payment the institution would be classified within one of the "undercapitalized" categories. In addition, institutions which are classified in one of the three "undercapitalized" categories are subject to certain mandatory and discretionary supervisory actions. Mandatory supervisory actions include (1) increased monitoring and review by the appropriate federal banking agency; (2) implementation of a capital restoration plan; (3) total asset growth restrictions; and (4) limitations upon acquisitions, branch expansion, and new business activities without prior approval of the appropriate federal banking agency. Discretionary supervisory actions may include (1) requirements to augment capital; (2) restrictions upon affiliate transactions; (3) restrictions upon deposit gathering activities and interest rates paid; (4) replacement of senior executive officers and directors; (5) restrictions upon activities of the institution and its affiliates; (6) requiring divestiture or sale of the institution; and (7) any other supervisory action that the appropriate federal banking agency determines is necessary to further the purposes of the regulations. Further, the federal banking agencies may not accept a capital restoration plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution's capital. In addition, for a capital restoration plan to be acceptable, the depository institution's parent holding company must guarantee that the institution will comply with such capital restoration plan. The aggregate liability of the parent holding company under the guaranty is limited to the lesser of (i) an amount equal to 5 percent of the depository institution's total assets at the time it became undercapitalized, and (ii) the amount that is necessary (or would have been necessary) to bring the institution into compliance with all capital standards applicable with respect to such institution as of the time it fails to comply with the plan. If a depository institution fails to submit an acceptable plan, it is treated as if it were "significantly undercapitalized." FDICIA also restricts the solicitation and acceptance of and interest rates payable on brokered deposits by insured depository institutions that are not "well capitalized." An "undercapitalized" institution is not allowed to solicit deposits by offering rates of interest that are significantly higher than the prevailing rates of interest on insured deposits in the particular institution's normal market areas or in the market areas in which such deposits would otherwise be accepted.

Any financial institution which is classified as "critically undercapitalized" must be placed in conservatorship or receivership within 90 days of such determination unless it is also determined that some other course of action would better serve the purposes of the regulations. Critically undercapitalized institutions are also prohibited from making (but not accruing) any payment of principal or interest on subordinated debt without prior regulatory approval and regulators must prohibit a critically undercapitalized institution from taking certain other actions without prior approval, including (1) entering into any material transaction other than in the usual course of business, including investment expansion, acquisition, sale of assets or other similar actions; (2) extending credit for any highly leveraged transaction; (3) amending articles or bylaws unless required to do so to comply with any law, regulation or order; (4) making any material change in accounting methods; (5) engaging in certain affiliate transactions; (6) paying excessive compensation or bonuses; and (7) paying interest on new or renewed liabilities at rates which would increase the weighted average costs of funds beyond prevailing rates in the institution's normal market areas.

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Additional Regulations

Under the FDICIA, the federal financial institution agencies have adopted regulations which require institutions to establish and maintain comprehensive written real estate policies which address certain lending considerations, including loan-to-value limits, loan administrative policies, portfolio diversification standards, and documentation, approval and reporting requirements. The FDICIA further generally prohibits an insured state bank from engaging as a principal in any activity that is impermissible for a national bank, absent FDIC determination that the activity would not pose a significant risk to the Bank Insurance Fund, and that the bank is, and will continue to be, within applicable capital standards.

The Federal Financial Institution Examination Counsel ("FFIEC") utilizes the Uniform Financial Institutions Rating System ("UFIRS") commonly referred to as "CAMELS" to classify and evaluate the soundness of financial institutions. Bank examiners use the CAMELS measurements to evaluate capital adequacy, asset quality, management, earnings, liquidity and sensitivity to market risk. Effective January 1, 2005, bank holding companies such as the Company, were subject to evaluation and examination under a revised bank holding company rating system. The so-called BOPEC rating system implemented in 1979 was primarily focused on financial condition, consolidated capital and consolidated earnings. The new rating system reflects the change toward analysis of risk management (as reflected in bank examination under the CAMELS measurements), in addition to financial factors and the potential impact of nondepository subsidiaries upon depository institution subsidiaries.

The federal financial institution agencies have established bases for analysis and standards for assessing a financial institution's capital adequacy in conjunction with the risk-based capital guidelines including analysis of interest rate risk, concentrations of credit risk, risk posed by non-traditional activities, and factors affecting overall safety and soundness. The safety and soundness standards for insured financial institutions include analysis of (1) internal controls, information systems and internal audit systems; (2) loan documentation; (3) credit underwriting; (4) interest rate exposure; (5) asset growth; (6) compensation, fees and benefits; and (7) excessive compensation for executive officers, directors or principal shareholders which could lead to material financial loss. If an agency determines that an institution fails to meet any standard, the agency may require the financial institution to submit to the agency an acceptable plan to achieve compliance with the standard. If the agency requires submission of a compliance plan and the institution fails to timely submit an acceptable plan or to implement an accepted plan, the agency must require the institution to correct the deficiency. The agencies may elect to initiate enforcement action in certain cases rather than rely on an existing plan particularly where failure to meet one or more of the standards could threaten the safe and sound operation of the institution.

Community Reinvestment Act ("CRA") regulations evaluate banks' lending to low and moderate income individuals and businesses across a four-point scale from "outstanding" to "substantial noncompliance," and are a factor in regulatory review of applications to merge, establish new branches or form bank holding companies. In addition, any bank rated in "substantial noncompliance" with the CRA regulations may be subject to enforcement proceedings. American River Bank has a rating of "satisfactory" for CRA compliance.

Limitations on Dividends

The Company's ability to pay cash dividends is subject to restrictions set forth in the California General Corporation Law. Funds for payment of any cash dividends by the Company would be obtained from its investments as well as dividends and/or management fees from its subsidiaries. The payment of cash

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dividends and/or management fees by American River Bank is subject to restrictions set forth in the California Financial Code, as well as restrictions established by the FDIC. See Item 5. "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" for more information regarding cash dividends.

Competition

Competitive Data

American River Bank. At June 30, 2005, based on the most recent "Data Book Summary of Deposits in FDIC Insured Commercial and Savings Banks" report at that date, the competing commercial and savings banks had 164 offices in the cities of Fair Oaks, Rancho Cordova, Roseville and Sacramento, California, where American River Bank has its 6 Sacramento area offices, 56 offices in the cities of Healdsburg, Santa Rosa and Windsor, California, where American River Bank has its 3 Sonoma County offices, and 4 offices in the cities of Jackson, Pioneer and

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Ione, California, where American River Bank has its 3 Amador County offices. Additionally, American River Bank competes with thrifts and, to a lesser extent, credit unions, finance companies and other financial service providers for deposit and loan customers.

Larger banks may have a competitive advantage because of higher lending limits and major advertising and marketing campaigns. They also perform services, such as trust services, international banking, discount brokerage and insurance services, which American River Bank is not authorized nor prepared to offer currently. American River Bank has made arrangements with its correspondent banks and with others to provide some of these services for its customers. For borrowers requiring loans in excess of American River Bank's legal lending limits, American River Bank has offered, and intends to offer in the future, such loans on a participating basis with its correspondent banks and with other community banks, retaining the portion of such loans which is within its lending limits. As of December 31, 2005, American River Bank's aggregate legal lending limits to a single borrower and such borrower's related parties were \$10,298,000 on an unsecured basis and \$17,164,000 on a fully secured basis based on capital and allowable reserves of \$68,656,000.

American River Bank's business is concentrated in its service area, which primarily encompasses Sacramento County, South Western Placer County, Sonoma County, and Amador County. The economy of American River Bank's service area is dependent upon government, manufacturing, tourism, retail sales, agriculture, population growth and smaller service oriented businesses.

Based upon the most recent "Data Book Summary of Deposits in FDIC Insured Commercial and Savings Banks" report dated June 30, 2005, there were 206 operating commercial and savings bank offices in Sacramento County with total deposits of \$18,586,086,000. This was an increase of \$1,896,610,000 over the June 30, 2004 balances. American River Bank held a total of \$267,353,000 in deposits, representing approximately 1.4% of total commercial and savings banks deposits in Sacramento County as of June 30, 2005.

Based upon the most recent "Data Book Summary of Deposits in FDIC Insured Commercial and Savings Banks" report dated June 30, 2005, there were 98 operating commercial and savings bank offices in Placer County with total deposits of \$5,113,151,000. This was an increase of \$726,999,000 over the June 30, 2004 balances. American River Bank held a total of \$71,353,000 in deposits, representing approximately 1.4% of total commercial and savings banks deposits in Placer County as of June 30, 2005.

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Based upon the most recent "Data Book Summary of Deposits in FDIC Insured Commercial and Savings Banks" report dated June 30, 2005, there were 123 operating commercial and savings bank offices in Sonoma County with total deposits of \$8,789,733,000. This was an increase of \$397,392,000 over the June 30, 2004 balances. American River Bank held a total of \$61,589,000 in deposits, representing approximately 0.7% of total commercial and savings banks deposits in Sonoma County as of June 30, 2005.

Based upon the most recent "Data Book Summary of Deposits in FDIC Insured Commercial and Savings Banks" report dated June 30, 2005, there were 13 operating commercial and savings bank offices in Amador County with total deposits of \$627,759,000. This was an increase of \$33,612,000 over the June 30, 2004 balances. American River Bank held a total of \$110,937,000 in deposits, representing approximately 17.7% of total commercial and savings banks deposits in Amador County as of June 30, 2005.

In 1996, pursuant to Congressional mandate, the FDIC reduced bank deposit insurance assessment rates to a range from \$0 to \$0.27 per \$100 of deposits, dependent upon a bank's risk. In 2005, Congress adopted the Federal Deposit Insurance Reform Act of 2005. The FDIC has not yet released final regulations, but it is anticipated that the final regulations, when released, will include, among other matters, increased premium assessments. Based upon the current risk-based assessment rate schedule, American River Bank's current capital ratios and levels of deposits, American River Bank does not anticipate a significant increase in operating expenses due to changes in the assessment rate applicable to it during 2006 from that in 2005. The Company currently believes that changes, if any, will occur in the fourth quarter and, that such changes are not anticipated to have a material impact on the results of operations for the Company in 2006.

General Competitive Factors

In order to compete with the major financial institutions in their primary service areas, American River Bank uses to the fullest extent possible the flexibility which is accorded by their community banks status. This includes an emphasis on specialized services, local promotional activity, and personal contacts by their respective officers, directors and employees. They also seek to provide special services and programs for individuals in their primary service area who are employed in the agricultural, professional and business fields, such as loans for equipment, furniture, tools of the trade or expansion

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of practices or businesses. In the event there are customers whose loan demands exceed their respective lending limits, they seek to arrange for such loans on a participation basis with other financial institutions. They also assist those customers requiring services not offered by either bank to obtain such services from correspondent banks.

Commercial banks compete with savings and loan associations, credit unions, other financial institutions and other entities for funds. For instance, yields on corporate and government debt securities and other commercial paper affect the ability of commercial banks to attract and hold deposits. Commercial banks also compete for loans with savings and loan associations, credit unions, consumer finance companies, mortgage companies and other lending institutions.

Banking is a business that depends on interest rate differentials. In general, the difference between the interest rate paid by a bank to obtain their deposits and other borrowings and the interest rate received by a bank on loans extended to customers and on securities held in a bank's portfolio comprise the

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major portion of a bank's revenues.

The interest rate differentials of a bank, and therefore their revenues, are affected not only by general economic conditions, both domestic and foreign, but also by the monetary and fiscal policies of the United States as set by statutes and as implemented by federal agencies, particularly the Federal Reserve Board. The Federal Reserve Board can and does implement national monetary policy, such as seeking to curb inflation and combat recession, by its open market operations in United States government securities, adjustments in the amount of interest free reserves that banks and other financial institutions are required to maintain, and adjustments to the discount rates applicable to borrowing by banks from the Federal Reserve Board. These activities influence the growth of bank loans, investments and deposits and also affect interest rates charged on loans and paid on deposits. The nature and timing of any future changes in monetary policies and their impact on American River Bank is not predictable.

Impact of Legislative and Regulatory Proposals

Since 1996, California law implementing certain provisions of prior federal law has (1) permitted interstate merger transactions; (2) prohibited interstate branching through the acquisition of a branch business unit located in California without acquisition of the whole business unit of the California bank; and (3) prohibited interstate branching through de novo establishment of California branch offices. Initial entry into California by an out-of-state institution must be accomplished by acquisition of or merger with an existing whole bank which has been in existence for at least five years.

The federal financial institution agencies, especially the Board of Governors, have taken steps to increase the types of activities in which bank holding companies can engage, and to make it easier to engage in such activities.

In 1999, the Gramm-Leach-Bliley Act (the "GLB Act") was signed into law. The GLB Act eliminates most of the remaining depression-era "firewalls" between banks, securities firms and insurance companies which was established by The Banking Act of 1933, also known as the Glass-Steagall Act ("Glass-Steagall"). Glass-Steagall sought to insulate banks as depository institutions from the perceived risks of securities dealing and underwriting, and related activities. The GLB Act repealed Section 20 of Glass-Steagall which prohibited banks from affiliating with securities firms. Bank holding companies that can qualify as "financial holding companies" can now acquire securities firms or create them as subsidiaries, and securities firms can now acquire banks or start banking activities through a financial holding company. The GLB Act includes provisions which permit national banks to conduct financial activities through a subsidiary that are permissible for a national bank to engage in directly, as well as certain activities authorized by statute, or that are financial in nature or incidental to financial activities to the same extent as permitted to a "financial holding company" or its affiliates. This liberalization of United States banking and financial services regulation applies both to domestic institutions and foreign institutions conducting business in the United States. Consequently, the common ownership of banks, securities firms and insurance firms is now possible, as is the conduct of commercial banking, merchant banking, investment management, securities underwriting and insurance within a single financial institution using a "financial holding company" structure authorized by the GLB Act.

Prior to the GLB Act, significant restrictions existed on the affiliation of banks with securities firms and on the direct conduct by banks of securities dealing and underwriting and related securities activities. Banks were also (with minor exceptions) prohibited from engaging in insurance activities or affiliating with insurers. The GLB Act removed these restrictions

and substantially eliminated the prohibitions under the Bank Holding Company Act on affiliations between banks and insurance companies. Bank holding companies which qualify as financial holding companies can now insure, guarantee, or indemnify against loss, harm, damage, illness, disability, or death; issue annuities; and act as a principal, agent, or broker regarding such insurance services.

In order for a commercial bank to affiliate with a securities firm or an insurance company pursuant to the GLB Act, its bank holding company must qualify as a financial holding company. A bank holding company will qualify if (i) its banking subsidiaries are "well capitalized" and "well managed" and (ii) it files with the Board of Governors a certification to such effect and a declaration that it elects to become a financial holding company. The amendment of the Bank Holding Company Act now permits financial holding companies to engage in activities, and acquire companies engaged in activities, that are financial in nature or incidental to such financial activities. Financial holding companies are also permitted to engage in activities that are complementary to financial activities if the Board of Governors determines that the activity does not pose a substantial risk to the safety or soundness of depository institutions or the financial system in general. These standards expand upon the list of activities "closely related to banking" which have to date defined the permissible activities of bank holding companies under the Bank Holding Company Act.

One further effect of the GLB Act is to require that federal financial institution and securities regulatory agencies prescribe regulations to implement the policy that financial institutions must respect the privacy of their customers and protect the security and confidentiality of customers' non-public personal information. These regulations require, in general, that financial institutions (1) may not disclose non-public personal information of customers to non-affiliated third parties without notice to their customers, who must have the opportunity to direct that such information not be disclosed; (2) may not disclose customer account numbers except to consumer reporting agencies; and (3) must give prior disclosure of their privacy policies before establishing new customer relationships.

Neither American River Bankshares or American River Bank have determined whether or when they may seek to acquire and exercise powers or activities under the GLB Act, and the extent to which competition will change among financial institutions affected by the GLB Act has not yet become clear.

On October 26, 2001, President Bush signed the USA Patriot Act (the "Patriot Act"), which includes provisions pertaining to domestic security, surveillance procedures, border protection, and terrorism laws to be administered by the Secretary of the Treasury. Title III of the Patriot Act entitled, "International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001" includes amendments to the Bank Secrecy Act which expand the responsibilities of financial institutions in regard to anti-money laundering activities with particular emphasis upon international money laundering and terrorism financing activities through designated correspondent and private banking accounts.

Effective December 25, 2001, Section 313(a) of the Patriot Act prohibits any insured financial institution such as American River Bank, from providing correspondent accounts to foreign banks which do not have a physical presence in any country (designated as "shell banks"), subject to certain exceptions for regulated affiliates of foreign banks. Section 313(a) also requires financial institutions to take reasonable steps to ensure that foreign

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bank correspondent accounts are not being used to indirectly provide banking services to foreign shell banks, and Section 319(b) requires financial institutions to maintain records of the owners and agent for service of process of any such foreign banks with whom correspondent accounts have been established.

Effective July 23, 2002, Section 312 of the Patriot Act created a requirement for special due diligence for correspondent accounts and private banking accounts. Under Section 312, each financial institution that establishes, maintains, administers, or manages a private banking account or a correspondent account in the United States for a non-United States person, including a foreign individual visiting the United States, or a representative of a non-United States person shall establish appropriate, specific, and, where necessary, enhanced, due diligence policies, procedures, and controls that are reasonably designed to detect and record instances of money laundering through those accounts.

The Company and American River Bank are not currently aware of any account relationships between American River Bank and any foreign bank or other person or entity as described above under Sections 313(a) or 312 of the Patriot Act. The terrorist attacks on September 11, 2001 have realigned national security priorities of the United States and it is reasonable to anticipate that the United States Congress may enact additional legislation in the future to combat terrorism including modifications to existing laws such as the Patriot Act to expand powers as deemed necessary. Certain surveillance provisions of the

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Patriot Act were scheduled to expire on December 31, 2005, and actions to restrict the use of the Patriot Act surveillance provisions have been filed by the ACLU and other organizations. Congress recently extended the expiration date to permit the evaluation of changes to the Patriot Act. It is not clear whether the provisions that were scheduled to expire will expire, or be replaced or superseded by alternative provisions. The effects which the Patriot Act and any additional legislation enacted by Congress may have upon financial institutions is uncertain; however, such legislation could increase compliance costs and thereby potentially may have an adverse effect upon the Company's results of operations.

Certain legislative and regulatory proposals that could affect American River Bankshares and American River Bank and the banking business in general are periodically introduced before the United States Congress, the California State Legislature and Federal and state government agencies. It is not known to what extent, if any, legislative proposals will be enacted and what effect such legislation would have on the structure, regulation and competitive relationships of financial institutions. It is likely, however, that such legislation could subject American River Bankshares or American River Bank to increased regulation, disclosure and reporting requirements, competition, and costs of doing business.

On July 30, 2002, President George W. Bush signed into law the Sarbanes-Oxley Act of 2002 (the "Act") which responds to recent issues in corporate governance and accountability. Among other matters, key provisions of the Act and rules promulgated by the SEC pursuant to the Act include the following:

- o Expanded oversight of the accounting profession by creating a new independent public company oversight board to be monitored by the SEC.
- o Revised rules on auditor independence to restrict the nature of non-audit services provided to audit clients and to require such services to be pre-approved by the audit committee.

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- o Improved corporate responsibility through mandatory listing standards relating to audit committees, certifications of periodic reports by the CEO and CFO and making issuer interference with an audit a crime.
- o Enhanced financial disclosures, including periodic reviews for largest issuers and real time disclosure of material company information.
- o Enhanced criminal penalties for a broad array of white collar crimes and increases in the statute of limitations for securities fraud lawsuits.
- o Disclosure of whether a company has adopted a code of ethics that applies to the company's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, and disclosure of any amendments or waivers to such code of ethics. The disclosure obligation became effective for fiscal years ending on or after July 15, 2003. The ethics code must contain written standards that are reasonably designed to deter wrongdoing and to promote:
 - o Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
 - o Full, fair, accurate, timely, and understandable disclosure in reports and documents that a registrant files with, or submits to, the Securities and Exchange Commission and in other public communications made by the registrant;
 - o Compliance with applicable governmental laws, rules and regulations;
 - o The prompt internal reporting to an appropriate person or persons identified in the code of violations of the code; and
 - o Accountability for adherence to the code.
- o Disclosure of whether a company's audit committee of its board of directors has a member of the audit committee who qualifies as an "audit committee financial expert." The disclosure obligation became effective for fiscal years ending on or after July 15, 2003. To qualify as an "audit committee financial expert," a person must have:
 - o An understanding of generally accepted accounting principles and financial statements;
 - o The ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;
- o Experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the registrant's financial statements, or experience actively supervising one or more persons engaged in such activities;
- o An understanding of internal controls and procedures for financial reporting; and
- o An understanding of audit committee functions.

A person must have acquired the above listed attributes to be deemed to qualify as an "audit committee financial expert" through any one or more of the following:

- o Education and experience as a principal financial officer, principal accounting officer, controller, public accountant or

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- auditor or experience in one or more positions that involve the performance of similar functions;
- o Experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor or person performing similar functions;
- o Experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing or evaluation of financial statements; or
- o Other relevant experience.

The rule contains a specific safe harbor provision to clarify that the designation of a person as an "audit committee financial expert" does not cause that person to be deemed to be an "expert" for any purpose under Section 11 of the Securities Act of 1933, as amended, or impose on such person any duties, obligations or liability greater than the duties, obligations and liability imposed on such person as a member of the audit committee and the board of directors, absent such designation. Such a designation also does not affect the duties, obligations or liability of any other member of the audit committee or board of directors.

- o A prohibition on insider trading during pension plan black-out periods.
- o Disclosure of off-balance sheet transactions.
- o A prohibition on personal loans to directors and officers.
- o Conditions on the use of non-GAAP (generally accepted accounting principles) financial measures.
- o Standards on professional conduct for attorneys requiring attorneys having an attorney-client relationship with a company, among other matters, to report "up the ladder" to the audit committee, another board committee or the entire board of directors certain material violations.
- o Expedited filing requirements for Form 4 reports of changes in beneficial ownership of securities reducing the filing deadline to within 2 business days of the date a transaction triggers an obligation to report.
- o Accelerated filing requirements for Forms 10-K and 10-Q by public companies which qualify as "accelerated filers" to a phased-in reduction of the filing deadline for Form 10-K reports and Form 10-Q reports.
- o Disclosure concerning website access to reports on Forms 10-K, 10-Q and 8-K, and any amendments to those reports, by "accelerated filers" as soon as reasonably practicable after such reports and material are filed with or furnished to the Securities and Exchange Commission.
- o Rules requiring national securities exchanges and national securities associations to prohibit the listing of any security whose issuer does not meet audit committee standards established pursuant to the Act including:
 - o Independence standards for members;
 - o Responsibility for selecting and overseeing the issuer's independent accountant;
 - o Responsibility for handling complaints regarding the issuer's accounting practices;
 - o Authority to engage advisers; and
 - o Funding requirements for the independent auditor and outside advisers engaged by the audit committee.

On November 4, 2003, the Securities and Exchange Commission adopted changes to the standards for the listing of issuer securities by the New York Stock Exchange and Nasdaq Stock Market. The revised standards for listing conform to and supplement Rule 10A-3 under the Securities Exchange Act of 1934, as amended, which the Securities and Exchange Commission adopted in April 2003 pursuant to the Act.

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The Company's securities are listed on the Nasdaq Stock Market. Consequently, in addition to the rules promulgated by the Securities and Exchange Commission pursuant to the Act, the Company must also comply with revised listing standards applicable to Nasdaq listed companies. Generally,

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listed companies were required to comply with the revised listing standards by the first annual meeting of shareholders following January 15, 2004. The revised Nasdaq listing standards applicable to the Company include the following:

- o A majority of directors of a listed company must be "independent", which excludes:
 - o Any director who is, or at any time in the past three years was, employed by a listed company, its parent or a subsidiary;
 - o Any director or any family member who received payments in excess of \$60,000 in the current year or prior three years from a listed company, its parent or a subsidiary;
 - o Any director whose family member is employed or during the last three years was employed as an executive officer of a listed company, its parent or a subsidiary;
 - o Any director or any family member who is a partner, controlling shareholder or executive officer of an organization to which a listed company made payments or from which a listed company received payments, for services or property, in the current year or prior three years in excess of the greater of \$200,000 or 5% of the recipient's consolidated gross revenues in the year of payment;
 - o Any director or any family member who is employed as an executive officer of another organization where during the current year or prior three years an executive officer of a listed company served on the compensation committee of such organization; and
 - o Any director or any family member who is a partner of the outside auditor of a listed company or was a partner or employee of the listed company's auditor and worked on the company's audit in the prior three years.
- o Independent directors of a listed company must meet alone in executive sessions at least two times annually.
- o Listed companies must certify adoption of a resolution or written charter dealing with nominations of directors and select nominees for election as directors either by determination of a majority of independent directors or by a nominating committee consisting solely of independent directors, with certain exceptions.
- o Compensation of a listed company's chief executive officer must be determined either by a majority of independent directors or by a compensation committee consisting solely of independent directors, with certain exceptions.
- o The audit committee of a listed company, subject to certain exceptions, must comply with requirements that include:
 - o The committee be comprised of at least three independent directors who have not participated in the preparation of financial statements for the company, its parent or subsidiaries during the last three years;
 - o Each director must be able to read and understand financial statements;
 - o At least one director must meet the "financial sophistication" criteria which the company must certify;

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- o The committee must adopt a written charter; and
- o The committee is responsible for the review and approval of all related-party transactions, except those approved by another board committee comprised of independent directors.

- o The adoption or amendment of any equity compensation arrangement after June 30, 2003, such as a stock option plan, requires shareholder approval, subject to certain exemptions.
- o A code of conduct had to be adopted by May 4, 2004 that (i) complies with the code of ethics requirements of the Act and the Nasdaq Marketplace Rules; (ii) covers all directors, officers and employees; (iii) includes an enforcement mechanism; and (iv) permits only the board of directors to grant waivers from or changes to the code of conduct affecting directors and executive officers and requires prompt disclosure thereof on a Form 8-K filing with the Securities and Exchange Commission.

The effect of the Act upon the Company is uncertain; however, the Company has incurred and it is anticipated that it will continue to incur increased costs to comply with the Act and the rules and regulations promulgated pursuant to the Act by the Securities and Exchange Commission, Nasdaq and other regulatory agencies having jurisdiction over the Company or the issuance and listing of its securities. The Company does not currently anticipate, however, that compliance with the Act and such rules and regulations will have a material adverse effect upon its financial position or results of its operations or its cash flows.

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On September 28, 2002, California Governor Gray Davis signed into law the California Corporate Disclosure Act (the "CCD Act"), which became effective January 1, 2003. The CCD Act requires publicly traded corporations incorporated or qualified to do business in California to disclose information about their past history, auditors, directors and officers. The CCD Act requires the Company to disclose:

- o The name of the a company's independent auditor and a description of services, if any, performed for the company during the previous 24 months;
- o The annual compensation paid to each director and executive officer, including stock or stock options not otherwise available to other company employees;
- o A description of any loans made to a director at a "preferential" loan rate during the previous 24 months, including the amount and terms of the loans;
- o Whether any bankruptcy was filed by a company or any of its directors or executive officers within the previous 10 years;
- o Whether any director or executive officer of a company has been convicted of fraud during the previous 10 years; and
- o Whether a company violated any federal securities laws or any securities or banking provisions of California law during the previous 10 years for which the company was found liable or fined more than \$10,000.

The Company does not currently anticipate that compliance with the CCD Act will have a material adverse effect upon its financial position or results of its operations or its cash flows.

The Check Clearing for the 21st Century Act (commonly referred to as "Check 21") was signed into law in 2003 and became effective on October 28, 2004. The law facilitates check truncation by creating a new negotiable

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instrument called a "substitute check" which permits banks to truncate original checks, to process check information electronically and to deliver "substitute checks" to banks that want to continue receiving paper checks. Check 21 is intended to reduce the dependence of the check payment system on physical transportation networks (which can be disrupted by terrorist attacks of the type which occurred on September 11, 2001) and to streamline the collection and return process. The law does not require banks to accept checks in electronic form nor does it require banks to use the new authority granted by the Act to create "substitute checks." The Company does not currently anticipate that compliance with the Act will have a material effect upon its financial position or results of its operations or its cash flows.

In addition to legislative changes, the various Federal and state financial institution regulatory agencies frequently propose rules and regulations to implement and enforce already existing legislation. It cannot be predicted whether or in what form any such rules or regulations will be enacted or the effect that such regulations may have on American River Bankshares or American River Bank.

Item 1A. Risk Factors.

The Company and its subsidiary, American River Bank, conduct business in an environment that includes certain risks described below which could have a material adverse effect on the Company's business, results of operations, financial condition, future prospects and stock price. You are also referred to the matters described under the heading "Cautionary Statements Regarding Forward-Looking Statements," for additional information regarding factors that may affect the Company's business.

- o American River Bankshares' business is subject to interest rate risk, and variations in interest rates may negatively affect its financial performance.

Changes in the interest rate environment may reduce the Company's net interest income. It is expected that the Company will continue to realize income from the differential or "spread" between the interest earned on loans, securities and other interest-earning assets, and interest paid on deposits, borrowings and other interest-bearing liabilities. Net interest spreads are affected by the difference between the maturities and repricing characteristics of interest-earning assets and interest-bearing liabilities. In addition, loan volume and yields are affected by market interest rates on loans, and rising interest rates generally are associated with a lower volume of loan originations. We cannot assure you that we can minimize the Company's interest rate risk. In addition, an increase in the general level of interest rates may adversely affect the ability of certain borrowers to pay the interest on and principal of their obligations. Accordingly, changes in levels of market interest rates could materially and adversely affect the Company's net interest spread, asset quality, loan origination volume and overall profitability.

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- o American River Bankshares' subsidiary, American River Bank, faces strong competition from financial service companies and other companies that offer banking services, which can hurt American River Bankshares' business.

The Company's subsidiary, American River Bank, conducts banking operations principally in Northern California. Increased competition in American River Bank's market may result in reduced loans and deposits. Ultimately, it may not be able to compete successfully against current and future competitors. Many competitors offer the banking services that are offered by American River Bank

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in its service area. These competitors include national and super-regional banks, finance companies, investment banking and brokerage firms, credit unions, government-assisted farm credit programs, other community banks and technology-oriented financial institutions offering online services. In particular, American River Bank's competitors include several major financial companies whose greater resources may afford them a marketplace advantage by enabling them to maintain numerous banking locations and mount extensive promotional and advertising campaigns. Additionally, banks and other financial institutions with larger capitalization and financial intermediaries not subject to bank regulatory restrictions have larger lending limits and are thereby able to serve the credit needs of larger customers. Areas of competition include interest rates for loans and deposits, efforts to obtain deposits, and range and quality of products and services provided, including new technology-driven products and services. Technological innovation continues to contribute to greater competition in domestic and international financial services markets as technological advances, such as Internet-based banking services that cross traditional geographic bounds, enable more companies to provide financial services. If American River Bank is unable to attract and retain banking customers, it may be unable to continue its loan growth and level of deposits, which may adversely affect its and the Company's results of operations, financial condition and future prospects.

- o Changes in economic conditions could result in an economic downturn in Northern California which could adversely affect American River Bankshares' business.

The Company's business is directly affected by factors such as economic, political and market conditions, broad trends in industry and finance, legislative and regulatory changes, changes in government monetary and fiscal policies and inflation, all of which are beyond the Company's control. A deterioration in economic conditions locally, regionally or nationally including as the result of terrorist activities within and outside California could result in an economic downturn in Northern California and trigger the following consequences, any of which could adversely affect the Company's business:

- o loan delinquencies and defaults may increase;
 - o problem assets and foreclosures may increase;
 - o demand for the Company's products and services may decline;
 - o low cost or non-interest bearing deposits may decrease; and
 - o collateral for loans may decline in value, in turn reducing customers' borrowing power, and reducing the value of assets and collateral as sources of repayment of existing loans.
- o American River Bankshares has a concentration risk in real estate related loans.

At December 31, 2005, approximately 71.5% of the Company's loan and lease portfolio consisted of real estate related loans. Substantially all of the Company's real property collateral is located in its operating markets in Northern California. A substantial decline in real estate values in the Company's primary market areas could occur as a result of an economic downturn, or other events including natural disasters such as earthquakes, fires, and floods. Such a decline in values could have an adverse impact on the Company by limiting repayment of defaulted loans through sale of the real estate collateral and by likely increasing the number of defaulted loans to the extent that the financial condition of its borrowers is adversely affected by such a decline in values. Those events could necessitate a significant increase in the provision for loan and lease losses which could adversely affect the Company's results of operations, financial condition, and future prospects.

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- o American River Bankshares is subject to extensive regulation, which could adversely affect its business.

The Company's operations are subject to extensive regulation by state and local governmental authorities and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of its operations. The Company believes that it is in substantial compliance in all material respects with laws, rules and regulations applicable to the conduct of its business. Because the Company's business is highly regulated, the laws, rules and regulations applicable to it are subject to regular modification and change. There can be no assurance that these laws, rules and regulations, or any other laws, rules or regulations, will not be adopted in the future, which could make compliance much more difficult or expensive, restrict the Company's ability to originate, broker or sell loans, further limit or restrict the amount of commissions, interest or other charges earned on loans originated or sold by the Company, or otherwise adversely affect the Company's results of operations, financial condition, or future prospects.

- o American River Bank's allowance for loan and lease losses may not be adequate to cover actual losses.

Like all financial institutions, American River Bank maintains an allowance for loan and lease losses to provide for loan defaults and non-performance, but its allowance for loan and lease losses may not be adequate to cover actual loan and lease losses. In addition, future provisions for loan and lease losses could materially and adversely affect American River Bank's and therefore the Company's operating results. American River Bank's allowance for loan and lease losses is based on prior experience, as well as an evaluation of the risks in the current portfolio. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates that may be beyond American River Bank's control, and these losses may exceed current estimates. Federal regulatory agencies, as an integral part of their examination process, review American River Bank's loans and leases and allowance for loan and lease losses. Although we believe that American River Bank's allowance for loan and lease losses is adequate to cover current losses, we cannot assure you that it will not further increase the allowance for loan and lease losses or that regulators will not require it to increase this allowance. Either of these occurrences could materially and adversely affect the Company's earnings.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The Company and American River Bank lease ten and own two of their respective premises. The Company's headquarters is located at 3100 Zinfandel Drive, Suite 450, Rancho Cordova, California. The office space is located in a six-story office building. The location also houses a convenience office of American River Bank that performs limited branch related transactions and business development. The lease is 91 months expiring on May 6, 2013. The premises consist of 7,378 square feet on the fourth floor. The space is leased from PGOCC, LLC.

American River Bank's head office is located at 1545 River Park Drive, Suite 107, Sacramento, California, in a modern, five floor building which has offstreet parking for its clients. American River Bank leases premises in the building from EOP-Point West, L.L.C. The lease term is ten years and expires on March 31, 2010. The premises consist of 9,498 square feet on the ground floor.

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American River Bank leases premises at 9750 Business Park Drive, Sacramento, California. The office space is leased from Bradshaw Plaza Group, which is owned in part by Charles D. Fite, a director of the Company. The lease term is seven years and expires on November 30, 2006. The premises consist of 4,590 square feet on the ground floor.

American River Bank leases premises at 10123 Fair Oaks Boulevard, Fair Oaks, California. The office space is leased from Marjorie Taylor, a former director of the Company. The lease term is 12 years and expires on March 1, 2009. The premises consist of 2,380 square feet on the ground floor.

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American River Bank leases premises at 2240 Douglas Boulevard, Roseville, California. The office space is leased from Twin Tree Land Company. The lease term is 10 years and expires on December 18, 2006. The premises consist of 3,790 square feet on the ground floor.

American River Bank leases premises at 520 Capitol Mall, Sacramento, California. The office space is leased from 520 Capitol Mall, Inc. The lease term is 10 years and expires on June 1, 2014. The premises consist of 4,010 square feet on the ground floor.

North Coast Bank, a division of American River Bank, leases premises at 8733 Lakewood Drive, Windsor, California. The office space is leased from R. and R. Partners. The two-year lease expired on December 31, 2005, management negotiated a one-year extension expiring on December 31, 2006. The premises consist of 2,200 square feet on the ground floor.

North Coast Bank, a division of American River Bank, owns premises at 412 Center Street, Healdsburg, California. The premises were purchased June 1, 1993. The purchase price for the land and building was \$343,849. The building consists of 2,620 square feet. The land consists of 10,835 square feet.

North Coast Bank, a division of American River Bank, leases premises at 50 Santa Rosa Avenue, Santa Rosa, California. The office space is leased from HSG Trust. The lease term is ten (10) years and expires on January 31, 2009. The premises consist of 7,072 square feet on the ground floor.

Bank of Amador, a division of American River Bank, leases premises at 422 Sutter Street, Jackson, California. The office space is leased from the United States Postal Service. The lease term is five (5) years and expires on May 31, 2006. The premises consist of 6,400 square feet on the ground floor and second floor.

Bank of Amador, a division of American River Bank, leases land at 26675 Tiger Creek Road, Pioneer, California. The Company owns the 2,460 square foot modular building and leases the land from Soaring Eagle Inc. The land lease term is five (5) years and expires on May 31, 2007.

Bank of Amador, a division of American River Bank, owns premises at 66 Main Street, Ione, California. The premises were purchased April 1, 1995. The purchase price for the land and building was \$167,500. The building consists of 2,576 square feet. The land consists of 9,700 square feet.

Bank of Amador, a division of American River Bank, leases the parking lot at 276 North Main Street, Jackson, California. The parking lot is leased from Wilhelmina Petkovich. The lease term is three (3) years and expires on December 31, 2007.

The leases on the premises located at 1545 River Park Drive, 9750

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Business Park Drive, 2240 Douglas Boulevard, 50 Santa Rosa Avenue, and 3100 Zinfandel Drive, contain options to extend for five years.

Included in the above are two facilities leased from current or former directors of the Company at terms and conditions which management believes are consistent with the commercial lease market.

The foregoing summary descriptions of leased premises are qualified in their entirety by reference to the lease agreements listed as exhibits in Part IV, Item 15 of this report.

Item 3. Legal Proceedings.

There are no material legal proceedings adverse to the Company and its subsidiaries to which any director, officer, affiliate of the Company, or 5% shareholder of the Company or its subsidiaries, or any associate of any such director, officer, affiliate or 5% shareholder of the Company or its subsidiaries are a party, and none of the above persons has a material interest adverse to the Company or its subsidiaries.

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 material pending legal proceedings to which either it or its subsidiaries may be a party or has recently been a party, which will have a material adverse effect on the financial condition or results of operations of the Company or its subsidiaries, taken as a whole.

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

There were no matters submitted to a vote of the shareholders during the fourth quarter of 2005.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

The Company's common stock began trading on the NASDAQ National Stock Market ("NASDAQ") under the symbol "AMRB" on October 26, 2000. The following table shows the high and the low prices for the common stock, for each quarter, as reported by NASDAQ. The prices have been adjusted to reflect 5% stock dividends declared in 2005 and in 2004.

| 2005 | High | Low |
|----------------|---------|---------|
| First quarter | \$22.38 | \$19.85 |
| Second quarter | 22.62 | 19.76 |
| Third quarter | 23.10 | 19.91 |
| Fourth quarter | 22.89 | 21.05 |
| 2004 | High | Low |
| First quarter | \$19.05 | \$17.24 |
| Second quarter | 20.18 | 18.03 |

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| | | |
|----------------|-------|-------|
| Third quarter | 21.21 | 17.69 |
| Fourth quarter | 21.77 | 19.41 |
| ===== | | |

The closing price for the Company's common stock on March 7, 2006 was \$27.31.

Holders

As of March 3, 2006, there were approximately 2,823 shareholders of record of the Company's common stock.

Dividends

The Company has paid quarterly cash dividends on its common stock since the first quarter of 2004; prior to that, the Company paid cash dividends twice a year since 1992. It is currently the intention of the Board of Directors of the Company to continue payment of cash dividends on a quarterly basis. In 2005 and 2004, the Company declared cash dividends in the amount of \$.54 and \$.42, respectively, per common share. The amounts have been adjusted to reflect 5% stock dividends declared in 2005 and in 2004. There is no assurance, however, that any dividends will be paid in the future since they are subject to regulatory restrictions, and dependent upon earnings, financial condition and capital requirements of the Company and its subsidiaries.

The California General Corporation Law (the "Corporation Law") provides that a corporation may make a distribution to its shareholders if the corporation's retained earnings equal at least the amount of the proposed distribution. The Corporation Law further provides that, in the event that sufficient retained earnings are not available for the proposed distribution, a corporation may nevertheless make a distribution to its shareholders if it meets two conditions, which generally stated are as follows: (1) the corporation's assets equal at least 1-1/4 times its liabilities; and (2) the corporation's current assets equal at least its current liabilities or, if the average of the corporation's earnings before taxes on income and before interest expenses for the two preceding fiscal years was less than the average of the corporation's interest expenses for such fiscal years, then the corporation's current assets must equal at least 1-1/4 times its current liabilities.

The Board of Governors generally prohibits a bank holding company from declaring or paying a cash dividend which would impose undue pressure on the capital of subsidiary banks or would be funded only through borrowing or other arrangements that might adversely affect a bank holding company's financial position. The Board of Governors' policy is that a bank holding company should not continue its existing rate of cash dividends on its common stock unless its

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net income is sufficient to fully fund each dividend and its prospective rate of earnings retention appears consistent with its capital needs, asset quality and overall financial condition.

The payment of cash dividends by American River Bank is subject to restrictions set forth in the California Financial Code (the "Financial Code"). The Financial Code provides that a bank may not make a cash distribution to its shareholders in excess of the lesser of (a) the bank's retained earnings; or (b) the bank's net income for its last three fiscal years, less the amount of any distributions made by the bank or by any majority-owned subsidiary of the bank to the shareholders of the bank during such period. However, a bank may, with the approval of the Commissioner, make a distribution to its shareholders in an amount not exceeding the greater of (a) its retained earnings; (b) its net

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income for its last fiscal year; or (c) its net income for its current fiscal year. In the event that the Commissioner determines that the shareholders' equity of a bank is inadequate or that the making of a distribution by the bank would be unsafe or unsound, the Commissioner may order the bank to refrain from making a proposed distribution.

The FDIC may also restrict the payment of dividends by a subsidiary bank if such payment would be deemed unsafe or unsound or if after the payment of such dividends, the bank would be included in one of the "undercapitalized" categories for capital adequacy purposes pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991.

As of December 31, 2005, American River Bank had \$2.2 million in retained earnings available for dividend payments to the Company, which in turn could be paid out to shareholders of the Company.

Stock Repurchases

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 198,698 shares reported in the table as shares that may be repurchased under the plan represent shares eligible for the calendar year 2005. The repurchases are to 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 this repurchase program 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.

| 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 October 1 through October 31, 2005 | 11,970 | \$ 22.00 | 11,970 |
| Month #2 November 1 through November 30, 2005 | 18,375 | \$ 21.84 | 18,375 |
| Month #3 December 1 through December 31, 2005 | 9,240 | \$ 22.08 | 9,240 |
| Total | 39,585 | \$ 21.94 | 39,585 |

During 2005, the Company repurchased 80,325 shares; during 2004, the Company repurchased 10,253 shares; during 2003, the Company repurchased 1,654 shares and in 2002, the Company repurchased 72,353 shares under the repurchase plan.

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Item 6. Selected Financial Data.

FINANCIAL SUMMARY—The following table presents certain consolidated financial information concerning the business of the Company and its subsidiaries. This information should be read in conjunction with the Consolidated Financial Statements, the notes thereto, and Management's Discussion and Analysis included in this report. All per share data has been retroactively restated to reflect stock dividends and stock splits. In December 2004 the Company completed a merger with Bank of Amador. The merger transaction was accounted for using the pooling method of accounting and accordingly the results of their operations are included in the table below.

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

| | 2005 | 2004 | 2003 | 2002 |
|--|------------|------------|------------|------------|
| STATEMENT OF OPERATIONS DATA | | | | |
| Net interest income | \$ 26,462 | \$ 19,418 | \$ 16,866 | \$ 15,066 |
| Provision for loan and lease losses | 322 | 895 | 946 | 6 |
| Other income | 2,329 | 2,395 | 2,253 | 2,329 |
| Other expenses | 13,493 | 11,713 | 10,372 | 9,329 |
| Income before income taxes | 14,976 | 9,205 | 7,801 | 7,329 |
| Income taxes | 5,792 | 3,378 | 3,060 | 2,929 |
| Net income | \$ 9,184 | \$ 5,827 | \$ 4,741 | \$ 4,400 |
| Earnings per share - basic | \$ 1.63 | \$ 1.24 | \$ 1.08 | \$ 1.11 |
| Earnings per share - diluted | 1.60 | 1.18 | 1.00 | 0.99 |
| Cash dividends per share | 0.54 | 0.42 | 0.27 | 0.27 |
| Book value per share | 11.20 | 10.57 | 7.93 | 7.93 |
| Tangible book value per share | 7.98 | 7.29 | 7.92 | 7.92 |
| BALANCE SHEET DATA: | | | | |
| Balance sheet totals—end of period: | | | | |
| Assets | \$ 612,763 | \$ 586,666 | \$ 397,393 | \$ 342,500 |
| Loans and leases, net | 365,571 | 352,467 | 262,464 | 229,000 |
| Deposits | 500,706 | 475,387 | 322,507 | 275,700 |
| Shareholders' equity | 62,746 | 58,990 | 35,457 | 31,700 |
| Average balance sheet amounts: | | | | |
| Assets | \$ 596,670 | \$ 439,012 | \$ 363,175 | \$ 309,500 |
| Loans and leases | 360,319 | 277,647 | 248,342 | 209,100 |
| Earning assets | 537,031 | 400,265 | 333,800 | 280,600 |
| Deposits | 494,905 | 357,420 | 279,883 | 263,300 |
| Shareholders' equity | 60,641 | 39,163 | 33,461 | 29,500 |
| SELECTED RATIOS: | | | | |
| For the year: | | | | |
| Return on average equity | 15.14% | 14.88% | 14.17% | 15.14% |
| Return on average assets | 1.54% | 1.33% | 1.31% | 1.31% |
| Efficiency ratio * | 45.16% | 53.12% | 53.73% | 53.73% |
| Net interest margin * | 4.98% | 4.90% | 5.10% | 5.10% |
| Net chargeoffs to average loans & leases | 0.04% | 0.08% | 0.08% | 0.08% |
| At December 31: | | | | |
| Average equity to average assets | 10.16% | 8.92% | 9.21% | 9.21% |
| Leverage capital ratio | 7.66% | 8.35% | 8.96% | 8.96% |

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| | | | | |
|---|-------|-------|-------|----|
| Allowance for loan and leases losses to total loans and leases | 1.53% | 1.54% | 1.48% | 1. |
|---|-------|-------|-------|----|

* fully taxable equivalent

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following is American River Bankshares management's discussion and analysis of the significant changes in income and expense accounts for the years ended December 31, 2005, 2004, and 2003.

Cautionary Statements Regarding Forward-Looking Statements

Certain matters discussed or incorporated by reference in this Annual Report on Form 10-K including, but not limited to, matters described in "Item 7 - 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, and Section 27A of the Securities Act of 1933, as amended. Such forward-looking statements may contain words related to future projections including, but not limited to, words such as "believe," "expect," "anticipate," "intend," "may," "will," "should," "could," "would," and variations of those words and similar words that are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those projected. Factors that could cause or contribute to such differences include, but are not limited to, the following: (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. The factors set forth under "Item 1A - Risk Factors" in this report and other cautionary statements and information set forth in this report should be carefully considered and understood as being applicable to all related forward-looking statements contained in this report, when evaluating the business prospects of the Company and its subsidiaries.

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

Critical Accounting Policies

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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, peer group experience 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 historical 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 they are probable of occurring and estimable; and (2) SFAS No. 114,

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"Accounting by Creditors for Impairment of a Loan," which requires that losses be accrued 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 or loss events 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. The use of factors and ranges is inherently subjective and our actual losses could be greater or less than the estimates. The Company's goal is to maintain an allowance for loan and lease losses that is between the lower and upper ranges as described above. If the allowance for loan and lease losses falls below the lower range of adequate reserves (by reason of loan and lease growth, actual losses, the effect of changes in risk ratings, or some combination of these factors), the Company has a strategy for supplementing the allowance for loan and lease losses, over the short term, so that it would again fall within the lower and upper acceptable ranges. For further information regarding our allowance for loan and lease losses, see "Allowance for Loan and Lease Losses Activity" discussion later in this Item 7.

Stock-Based Compensation

The Company accounts for its stock-based compensation under the recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Since the Company's stock option plan provides for the issuance of options at a price of no less than the fair market value at the date of the grant, no compensation expense is recognized in the financial statements unless the options are modified after the grant date.

In December 2004, the Financial Accounting Standards Board issued

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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 is required to apply 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. Management believes that the effect of FAS 123 (R) will be consistent with its pro forma disclosures included in Note 2 to the Consolidated Financial Statements in Item 8 - Financial Statements and Supplementary Data. 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 forfeiture rates 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 2005 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.

Overview

The Company recorded its 88th consecutive profitable quarter for the quarter ended December 31, 2005. Net income in 2005 increased 57.6% to \$9,184,000 versus \$5,827,000 in 2004. Diluted earnings per share for 2005 and 2004 were \$1.60 and \$1.18, respectively. For 2005, the Company realized a return on average equity of 15.14% and a return on average assets of 1.54%, as compared to 14.88% and 1.33% for 2004. During December of 2004, the Company completed a

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merger with Bank of Amador, therefore, 2005 includes the first full year of results from Bank of Amador.

Net income for 2004 was \$1,086,000 (22.9%) higher than the \$4,741,000 recorded in 2003. Diluted earnings per share in 2003 were \$1.00, return on average assets was 1.31% and return on average equity was 14.17%. All share and per share data for 2005, 2004 and 2003 have been adjusted for a three-for-two stock split distributed on October 31, 2003 and 5 percent stock dividends distributed on December 23, 2005 and January 28, 2005.

Table One below provides a summary of the components of net income for the years indicated:

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Table One: Components of Net Income

| For the twelve months ended: | | | |
|---|-----------------|-----------------|-----------------|
| (In thousands, except percentages) | 2005 | 2004 | 2003 |
| Net interest income* | \$ 26,767 | \$ 19,602 | \$ 17,035 |
| Provision for loan and lease losses | (322) | (895) | (946) |
| Noninterest income | 2,329 | 2,395 | 2,253 |
| Noninterest expense | (13,493) | (11,713) | (10,372) |
| Provision for income taxes | (5,792) | (3,378) | (3,060) |
| Tax equivalent adjustment | (305) | (184) | (169) |
| Net income | \$ 9,184 | \$ 5,827 | \$ 4,741 |
| ===== | | | |
| Average total assets | \$ 596,670 | \$ 439,012 | \$ 363,175 |
| Net income as a percentage of average total assets | 1.54% | 1.33% | 1.31% |

* Fully taxable equivalent basis (FTE)

During 2005, total assets of the Company increased \$26,097,000 (4.4%) to a total of \$612,763,000 at year-end. At December 31, 2005, net loans totaled \$365,571,000, up \$13,104,000 (3.7%) from the ending balances on December 31, 2004. Deposit growth for the year was 5.3% resulting in ending deposit balances of \$500,706,000. The Company ended 2005 with a Tier 1 capital ratio of 10.6% and a total risk-based capital ratio of 11.9%.

Results of Operations

Net Interest Income and Net Interest Margin

Net interest income represents the excess of interest and fees earned on interest earning assets (loans, securities, federal funds sold and investments in time deposits) over the interest paid on deposits and borrowed funds. Net interest margin is net interest income expressed as a percentage of average earning assets.

The Company's fully taxable equivalent net interest margin was 4.98% in 2005 and 4.90% in 2004. The fully taxable equivalent net interest margin in dollars was up \$7,165,000 (36.6%) in 2005 over 2004.

The fully taxable equivalent interest income component increased from \$22,820,000 in 2004 to \$33,518,000 in 2005, representing a 46.9% increase. The increase in the fully taxable equivalent interest income for 2005 compared to the same period in 2004 is broken down by rate (up \$3,036,000) and volume (up \$7,662,000). The rate increase can be attributed to increases implemented by the Company during 2004 and 2005 in response to the Federal Reserve Board (the "FRB") increases in the Federal funds and Discount rates. Increases by the FRB have resulted in thirteen 25 basis point increases since June 2004. The overall increasing interest rate environment over the past year and a half has resulted in a 54 basis point increase in the yield on average earning assets from 5.70% for 2004 to 6.24% for 2005. The volume increase was the result of a 34.2% increase in average earning assets. Average loan balances were up \$82,672,000 (29.8%) in 2005 over the balances in 2004, while average investment securities balances were up \$53,499,000 (46.7%). The increase in average loans and

investments is the result of the Bank of Amador acquisition which was completed in December 2004, and a concentrated focus on business lending, the demand for commercial real estate and the effects of a favorable local market.

The fully taxable equivalent interest income component increased from \$19,937,000 in 2003 to \$22,820,000 in 2004, representing a 14.5% increase. The increase in the fully taxable equivalent interest income for 2004 compared to the same period in 2003 is broken down by rate (down \$562,000) and volume (up \$3,445,000). The rate decrease can be attributed to decreases implemented by the Company during 2001 and 2002 in response to the Federal Reserve Board (the "FRB") decreases in the Federal funds and Discount rates. Recent increases by the FRB have resulted in five 25 basis point increases since June 2004; however, these recent increases have had only a minor effect. The overall lower interest rate environment over the past three years has resulted in a 27 basis point drop in the yield on average earning assets from 5.97% for 2003 to 5.70% for 2004. The volume increase was the result of a 19.9% increase in average earning assets. Average loan balances were up \$29,305,000 (11.8%) in 2004 over the balances in 2003, while average investment securities balances were up \$39,566,000 (52.7%). The increase in average loans is the result of a concentrated focus on business lending, the demand for commercial real estate and the effects of a favorable local market. The increase in investment securities is primarily due to the Company investing its excess funds in investment securities. The excess funds were created by an increase in deposit balances and other borrowings. The Bank of Amador acquisition was completed in December 2004 and had a minimal impact on the average balances during 2004.

Interest expense increased \$3,533,000 (109.8%) in 2005 compared to 2004. The average balances on interest bearing liabilities were \$91,680,000 (32.5%) higher in 2005 versus 2004. The higher balances accounted for a \$1,028,000 increase in interest expense. The higher balances were due to the Bank of Amador acquisition and internal growth of average interest bearing deposits. The increase in rates paid on interest bearing liabilities resulted in an increase of \$2,505,000 in interest expense. The rates paid on interest bearing liabilities increased 67 basis points on a year-over-year basis and was a result of the higher interest rate environment over the past year and a half;

Interest expense increased \$316,000 (10.9%) in 2004 compared to 2003. The average balances on interest bearing liabilities were \$45,734,000 (19.4%) higher in 2004 versus 2003. The higher balances accounted for a \$452,000 increase in interest expense. The higher balances were due to internal growth of average interest bearing deposits (\$33,991,000) and an increase in other borrowings (\$11,743,000). The decrease in rates paid on interest bearing liabilities partially offset the increased expense due to the volume growth. The decrease in rates paid on interest bearing liabilities was a result of the lower interest rate environment over the past three years. Although rates increased over the last few months of 2004, the rates paid on interest bearing liabilities decreased nine basis points on a year-over-year basis and accounted for a decrease in interest expense of \$136,000 for the period.

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

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changes in average interest rates.

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Table Two: Analysis of Net Interest Margin on Earning Assets

| Year Ended December 31, | 2005 | | | 2004 | | |
|---|-------------------|------------------|--------------|-------------------|------------------|--------------|
| (Taxable Equivalent Basis) (In thousands, except percentages) | Avg Balance | Interest | Avg Yield | Avg Balance | Interest | Avg Yield |
| Assets: | | | | | | |
| Earning assets | | | | | | |
| Loans and leases (1) | \$ 360,319 | \$ 26,536 | 7.36% | \$ 277,647 | \$ 18,115 | 6.52% |
| Taxable investment securities | 141,855 | 5,436 | 3.83% | 101,728 | 3,751 | 3.69% |
| Tax-exempt investment securities (2) | 25,705 | 1,228 | 4.78% | 12,324 | 713 | 5.79% |
| Corporate stock | 559 | 40 | 7.16% | 568 | 40 | 7.04% |
| Federal funds sold | 2,826 | 90 | 3.18% | 2,711 | 67 | 2.47% |
| Investments in time deposits | 5,767 | 188 | 3.26% | 5,287 | 134 | 2.53% |
| Total earning assets | 537,031 | 33,518 | 6.24% | 400,265 | 22,820 | 5.70% |
| Cash & due from banks | 29,566 | | | 30,263 | | |
| Other assets | 35,760 | | | 12,836 | | |
| Allowance for loan & lease losses | (5,687) | | | (4,352) | | |
| | \$ 596,670 | | | \$ 439,012 | | |
| Liabilities & Shareholders' Equity: | | | | | | |
| Interest bearing liabilities: | | | | | | |
| NOW & MMDA | \$ 185,634 | 2,247 | 1.21% | \$ 146,041 | 1,099 | 0.75% |
| Savings | 39,102 | 150 | 0.38% | 24,527 | 56 | 0.23% |
| Time deposits | 113,719 | 3,249 | 2.86% | 72,987 | 1,356 | 1.86% |
| Other borrowings | 35,003 | 1,105 | 3.16% | 38,223 | 707 | 1.85% |
| Total interest bearing liabilities | 373,458 | 6,751 | 1.81% | 281,778 | 3,218 | 1.14% |
| Demand deposits | 156,450 | | | 113,865 | | |
| Other liabilities | 6,121 | | | 4,206 | | |
| Total liabilities | 536,029 | | | 399,849 | | |
| Shareholders' equity | 60,641 | | | 39,163 | | |
| | \$ 596,670 | | | \$ 439,012 | | |
| Net interest income & margin (3) | | \$ 26,767 | 4.98% | | \$ 19,602 | 4.90% |

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- (1) Loan and lease interest includes loan and lease fees of \$1,091,000, \$741,000 and \$814,000 in 2005, 2004 and 2003, 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 34% for the periods presented.
- (3) Net interest margin is computed by dividing net interest income by total average earning assets.

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

Year ended December 31, 2005 over 2004 (dollars in thousands)
Increase (decrease) due to change in:

| Interest-earning assets: | Volume | Rate (4) | Net Change |
|--------------------------------------|----------|----------|------------|
| | ----- | ----- | ----- |
| Net loans and leases (1) (2) | \$ 5,394 | \$ 3,027 | \$ 8,421 |
| Taxable investment securities | 1,480 | 205 | 1,685 |
| Tax-exempt investment securities (3) | 774 | (259) | 515 |
| Corporate stock | (1) | 1 | -- |
| Federal funds sold & other | 3 | 20 | 23 |
| Investment in time deposits | 12 | 42 | 54 |
| | ----- | ----- | ----- |
| Total | 7,662 | 3,036 | 10,698 |
| | ----- | ----- | ----- |
| Interest-bearing liabilities: | | | |
| Demand deposits | 298 | 850 | 1,148 |
| Savings deposits | 33 | 61 | 94 |
| Time deposits | 757 | 1,136 | 1,893 |
| Other borrowings | (60) | 458 | 398 |
| | ----- | ----- | ----- |
| Total | 1,028 | 2,505 | 3,533 |
| | ----- | ----- | ----- |
| Interest differential | \$ 6,634 | \$ 531 | \$ 7,165 |
| | ===== | ===== | ===== |

Year Ended December 31, 2004 over 2003 (in thousands)
Increase (decrease) due to change in:

| Interest-earning assets: | Volume | Rate (4) | Net Change |
|--------------------------------------|----------|----------|------------|
| | ----- | ----- | ----- |
| Net loans and leases (1) (2) | \$ 1,976 | \$ (605) | \$ 1,371 |
| Taxable investment securities | 1,354 | 85 | 1,439 |
| Tax-exempt investment securities (3) | 109 | (33) | 76 |
| Corporate stock | 14 | (2) | 12 |
| Federal funds sold & other | (25) | 44 | 19 |
| Investment in time deposits | 17 | (51) | (34) |
| | ----- | ----- | ----- |
| Total | 3,445 | (562) | 2,883 |
| | ----- | ----- | ----- |
| Interest-bearing liabilities: | | | |
| Demand deposits | 191 | (4) | 187 |
| Savings deposits | 16 | 5 | 21 |
| Time deposits | 18 | (105) | (87) |

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| | | | |
|-----------------------|----------|----------|----------|
| Other borrowings | 227 | (32) | 195 |
| | ----- | ----- | ----- |
| Total | 452 | (136) | 316 |
| | ----- | ----- | ----- |
| Interest differential | \$ 2,993 | \$ (426) | \$ 2,567 |
| | ===== | ===== | ===== |

- (1) The average balance of non-accruing loans and leases is immaterial as a percentage of total loans and leases and, as such, has been included in net loans and leases.
- (2) Loan and lease fees of \$1,091,000, \$741,000 and \$814,000 for the years ended December 31, 2005, 2004 and 2003, 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 34% for the periods presented.
- (4) The rate/volume variance has been included in the rate variance.

Provision for Loan and Lease Losses

The Company provided \$322,000 for loan and lease losses in 2005 as compared to \$895,000 for 2004. Net loan charge-offs for 2005 were \$139,000 as compared to \$209,000 in 2004. In 2005, net loan charge-offs as a percentage of average loans outstanding were .04% compared to .08% in 2004. In 2003, the Company provided \$946,000 for loan and lease losses and net charge-offs were \$194,000. For further information please see "Allowance for Loan and Lease Losses Activity."

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Service Charges and Fees and Other Income

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

Table Four: Components of Noninterest Income

| | Year Ended December 31, | | |
|---|-------------------------|----------|----------|
| | 2005 | 2004 | 2003 |
| | ----- | ----- | ----- |
| Service charges on deposit accounts | \$ 672 | \$ 551 | \$ 534 |
| Gain on life insurance death benefit | -- | 553 | -- |
| Accounts receivable servicing fees | 356 | 316 | 247 |
| Merchant fee income | 509 | 393 | 357 |
| Fees from lease brokerage services | -- | 9 | 381 |
| Income from residential lending division | 283 | 187 | 366 |
| Gain on sale of available-for-sale securities | 48 | -- | 33 |
| Other | 461 | 386 | 335 |
| | ----- | ----- | ----- |
| | \$ 2,329 | \$ 2,395 | \$ 2,253 |
| | ===== | ===== | ===== |

Noninterest income was down \$66,000 (2.8%) to \$2,329,000 in 2005 from the 2004 level. A portion of this decrease represents the tax-free net proceeds

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from a life insurance policy (\$553,000) the Company received in June of 2004 as a result of the death of a former executive officer. Without the life insurance proceeds received in 2004, noninterest income for 2005 would have shown an increase of \$487,000. The increase in noninterest income can be attributed to increases in fees from service charges (up \$121,000 or 22.0%), increases in fees from merchant income (up \$116,000 or 29.5%), and an increase in residential lending fee income (up \$96,000 or 51.3%). The increase in service charges and merchant fee income is the direct result of an increased number of deposit and merchant accounts, many of which can be attributed to the Bank of Amador acquisition completed in December 2004.

Noninterest income was up \$142,000 (6.3%) to \$2,395,000 in 2004 from the 2003 level. Much of this increase (\$553,000) represents the tax-free net proceeds from a life insurance policy the Company received in June of 2004 as a result of the death of a former executive officer. Without the life insurance proceeds, noninterest income would have shown a decrease of \$411,000. The decrease in noninterest income can be attributed to decreases in fees from lease brokerage services (down \$372,000 or 97.6%) and a decrease in residential lending fee income (down \$179,000 or 48.9%). The decrease in lease brokerage services resulted from the majority of originated leases being recorded during 2004 on the books of the Company as opposed to receiving fee income for brokering the leases to outside funding sources. In addition, overall lease volume decreased (from \$5,940,000 in 2003 to \$4,967,000 in 2004) as a result of the change from a nationwide lessor to a lessor that does business in California counties located near American River Bank branch locations. The residential lending division experienced a decrease in loan volume as a result of a slight increase in mortgage rates, which caused the number of refinances to decrease.

Salaries and Benefits

Salaries and benefits, which include commissions, were \$6,958,000 (up \$910,000 or 15.0%) for 2005 as compared to \$6,048,000 in 2004. The increase is primarily the result of salaries, taxes and benefits paid to the employees of the three new offices added as a result of the Bank of Amador acquisition which was completed in December 2004 (\$742,000) and cost of living raises, higher salary costs to retain key employees in a competitive market, and overall higher health care related costs. At the end of 2005, the full-time equivalent staff was 122, down 1 from the 123 at the end of 2004.

Salaries and benefits, which include commissions, were \$6,048,000 (down \$185,000 or 3.0%) for 2004 as compared to \$6,223,000 in 2003. The decrease is primarily the result of lower incentive accruals (\$156,000 or 18.5%) and lower commissions paid in the Residential Lending Division. The lower incentive accrual relates to an adjustment in the incentive program by reducing the overall percentage available to employees. The decreased commissions in the Residential Lending Division are directly related to the drop in fees generated. At the end of 2004, the full-time equivalent staff was 123, up 22 from the 101

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at the end of 2003. Much of the increase in the number of employees came as a result of the acquisition of Bank of Amador in December 2004 and did not have a material impact on overall salary and benefit expense for 2004.

Occupancy, Furniture and Equipment

Occupancy expense increased \$276,000 (29.0%) during 2005 to \$1,229,000, up from \$953,000 in 2004. The majority of the increase relates to the three new offices added in Amador County (\$152,000), the cost associated for a full year related to the 2004 opening of a new banking office in Downtown Sacramento (\$38,000) located at 520 Capitol Mall, Suite 100, Sacramento, CA 95814, expenses

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related to the 2005 opening of a new Company headquarters (\$36,000) located at 3100 Zinfandel Drive, Suite 450, Rancho Cordova, CA 95670, and annual rent increases on the Company's leased facilities. Furniture and equipment expense was \$918,000 in 2005 compared to \$752,000 in 2004, representing a \$166,000 (22.1%) increase. The increase in furniture and equipment expense relates to the three new offices added in Amador County (\$166,000).

Occupancy expense increased \$136,000 (16.6%) during 2004 to \$953,000, up from \$817,000 in 2003. The majority of the increase relates to the cost associated with the new banking office in Downtown Sacramento (\$114,000) located at 520 Capitol Mall, Suite 100, Sacramento, CA 95814 and annual rent increases on the Company's leased facilities. Furniture and equipment expense was \$752,000 in 2004 compared to \$653,000 in 2003, representing a \$99,000 (15.2%) increase. The majority of the increase in furniture and equipment expense relates to the new banking office (\$51,000) and higher maintenance and repair costs associated with technology related equipment (\$44,000).

Other Expenses

Other expenses were \$4,388,000 (up \$466,000 or 11.9%) for 2005 as compared to \$3,922,000 for 2004. The 2004 expense included a donation of \$503,000 to establish the American River Bankshares Foundation (the "Foundation"). Donations made to the Foundation in 2005 were \$455,000 less than in 2004. The actual increase in other expenses of \$466,000 and the overall lower donation to the Foundation of \$455,000 added together represent an increase in other expenses of \$921,000. This increase can be attributed to the December 2004 acquisition of Bank of Amador and the resulting three new Amador County offices (\$935,000 increase). Included in the \$935,000 increase is \$322,000 related to amortization of the core deposit intangible associated with the acquisition. The overhead efficiency ratio on a taxable equivalent basis for 2005 was 45.2% as compared to 53.1% in 2004.

Other expenses were \$3,960,000 (up \$1,291,000 or 48.4%) for 2004 as compared to \$2,669,000 for 2003. Professional fees increased \$143,000 (42.7%) from \$335,000 during 2003 to \$478,000 in 2004. Professional fees, which includes accounting, legal and other professional services, was up primarily due to retainer fees paid to a deposit gathering relationship established in 2004 (\$172,000). Donations were \$527,000 (up \$501,000) for 2004 compared to \$26,000 in 2003. The increase in donations results from the Company's decision to create and fund the Foundation (\$503,000). Directors expense increased from \$353,000 (up \$165,000 or 46.7%) in 2003 to \$518,000 in 2004. The increase in Directors expense relates to higher amounts accrued under the Gross-Up Plan (the "Plan"). The Plan compensates for the tax effects of the exercise of nonstatutory stock options. The Plan named certain non-employee Directors as participants and applies only to those options granted on August 25, 1995. The Plan encourages participating optionees to retain shares acquired through the exercise of nonstatutory stock options by the Company paying to the participating optionee an amount equal to the taxable income resulting from an exercise of a nonstatutory stock option multiplied by the Company's effective tax rate, subject to the optionee's agreement to hold the shares acquired for a minimum of one (1) year. Other operating expenses increased from \$939,000 in 2003 (up \$217,000 or 22.1%) to \$1,156,000 in 2004. These increases related to the benefit payments related to the death of a former Company executive (\$82,000), and normal expenses related to the overall growth of the Company. The overhead efficiency ratio on a taxable equivalent basis for 2004 was 53.1% as compared to 53.7% in 2003.

Provision for Taxes

The effective tax rate on income was 38.7%, 36.7% and 39.2% in 2005, 2004 and 2003, respectively. The effective tax rate was greater than the federal statutory tax rate due to state tax expense (net of federal tax effect) of

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\$1,033,000, \$589,000 and \$538,000 in these years. Tax-exempt income of \$896,000, \$533,000 and \$454,000 from investment securities in these years helped to reduce the effective tax rate. The 2004 effective tax rate was further reduced by tax exempt income of \$553,000 from the proceeds from a life insurance policy.

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Balance Sheet Analysis

The Company's total assets were \$612,763,000 at December 31, 2005 as compared to \$586,666,000 at December 31, 2004, representing an increase of \$26,097,000 (4.4%). The average balances of total assets during 2005 were \$596,670,000 which represents an increase of \$157,658,000 (35.9%) over the December 31, 2004 total of \$439,012,000. Approximately \$134,000,000 of the increase is attributable to the Bank of Amador acquisition in December 2004.

Investment Securities

The Company classifies its investment securities as trading, held to maturity or available for sale. The Company's intent is to hold all securities classified as held to maturity until maturity and management believes that it has the ability to do so. Securities 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 December 31 of the years indicated.

Table Five: Investment Securities Composition

(dollars in thousands)

| Available-for-sale (at fair value) | 2005 | 2004 | 2003 |
|---|-------------------|-------------------|------------------|
| Debt securities: | | | |
| U.S. Government agencies | \$ 49,119 | \$ 46,701 | \$ 21,450 |
| Mortgage-backed securities | 33,326 | 40,359 | 26,757 |
| Obligations of states and political subdivisions | 37,106 | 27,240 | 12,061 |
| Corporate debt securities | 1,014 | 1,114 | 787 |
| Commercial paper | | | 1,000 |
| Equity securities: | | | |
| Corporate stock | 624 | 627 | 631 |
| Total available-for-sale investment securities | \$ 124,189 | \$ 116,041 | \$ 62,686 |
| Held-to-maturity (at amortized cost) | | | |
| Debt securities: | | | |
| Mortgage-backed securities | \$ 45,012 | \$ 41,203 | \$ 26,960 |
| Obligations of states and political subdivisions | | | 200 |
| Total held-to-maturity investment securities | \$ 45,012 | \$ 41,203 | \$ 27,160 |

See Table Fifteen for a breakdown of the investment securities by maturity and the corresponding weighted average yields.

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Loans and Leases

The Company concentrates its lending activities in the following principal areas: 1) commercial; 2) commercial real estate; 3) multi-family real estate; 4) real estate construction (both commercial and residential); 5) residential real estate; 6) lease financing receivable; 7) agriculture; and 8) consumer loans. At December 31, 2005, these categories accounted for approximately 21%, 42%, 1%, 28%, 1%, 2%, 2% and 3%, respectively, of the Company's loan portfolio. This mix was relatively unchanged compared to 19%, 46%, 1%, 25%, 1%, 3%, 2% and 3% at December 31, 2004. 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 over \$215 million in new loans; however, higher than normal loan and lease paydowns and payoffs resulted in net increases in balances for commercial (\$11,107,000 or 16.6%), multi-family real estate (\$1,107,000 or 41.6%), real estate construction (\$12,886,000 or 14.3%), and consumer loans (\$2,483,000 or 26.4%). Despite the new borrowers, the Company experienced a decrease in commercial real estate (\$11,763,000 or 7.1%), residential real estate (\$556,000 or 10.6%), lease financing receivable (\$2,027,000 or 20.3%), and agriculture (\$123,000 or 1.5%) as a result of paydowns. Table Six below summarizes the composition of the loan and lease portfolio for the past five years as of December 31.

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Table Six: Loan and Lease Portfolio Composition

| (dollars in thousands) | December 31, | | | | |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| Commercial | \$ 77,971 | \$ 66,864 | \$ 57,346 | \$ 49,231 | \$ 43,619 |
| Real estate: | | | | | |
| Commercial | 154,500 | 166,263 | 142,249 | 119,977 | 99,355 |
| Multi-family | 3,767 | 2,660 | 5,301 | 7,573 | 803 |
| Construction | 103,048 | 90,162 | 37,434 | 32,385 | 30,821 |
| Residential | 4,680 | 5,236 | 1,508 | 1,661 | 3,119 |
| Lease financing receivable | 7,967 | 9,994 | 9,276 | 6,766 | 2,499 |
| Agriculture | 8,129 | 8,252 | 8,027 | 8,824 | 10,251 |
| Consumer | 11,900 | 9,417 | 5,950 | 6,371 | 7,598 |
| Deferred loan fees, net | 371,962 (712) | 358,848 (885) | 267,091 (678) | 232,788 (583) | 198,065 (425) |
| Allowance for loan and Lease losses | (5,679) | (5,496) | (3,949) | (3,197) | (2,614) |
| Total net loans and leases | \$ 365,571 | \$ 352,467 | \$ 262,464 | \$ 229,008 | \$ 195,026 |

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.

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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 customers and the loan wholesalers. American River Bank receives an origination fee for loans closed.

Average net loans and leases in 2005 were \$360,319,000 which represents an increase of \$82,672,000 (29.8%) over the average in 2004. Average net loans and leases in 2004 were \$277,647,000 which represents an increase of \$29,305,000 (11.8%) over the average in 2003. Loan growth in 2005 and 2004 resulted from a favorable economy in the Company's market area, new borrowers developed through the Company's marketing efforts and credit extensions expanded to existing borrowers. Additionally the average loan growth in 2005 increased in part do to the addition of the Bank of Amador loans at the end of 2004.

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

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

In management's judgment, a concentration exists in real estate loans which represented approximately 71.5% of the Company's loan and lease portfolio at December 31, 2005, down from 73.7% at December 31, 2004. Although management believes this concentration to have no more than the normal risk of collectability, a substantial decline in the economy in general, or a decline in real estate values in the Company's primary market areas in particular, could have an adverse impact on the collectability of these loans and require an increase in the provision for loan and lease losses which could adversely affect the Company's future prospects, results of operations, 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 unlikely.

The recorded investments in loans and leases that were considered to be impaired totaled \$91,000 and \$247,000 at December 31, 2005 and 2004, respectively. The related allowance for losses for these loans and leases at December 31, 2005 and December 31, 2004 was \$24,000 and \$62,000, respectively. Management believes that the allowance allocations are adequate for the inherent risk of those loans and leases. The average recorded investment in impaired loans and leases for the years ended December 31, 2005, 2004 and 2003 was

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\$271,000, \$124,000 and \$148,000, respectively.

Interest due but excluded from interest income on nonaccrual loans and leases was not material during 2005, 2004 and 2003. In 2005, 2004 and 2003, interest income recognized from payments received on nonaccrual loans and leases was also not material.

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Table Seven below sets forth nonaccrual loans and leases and loans and leases past due 90 days or more as of year-end for the past five years.

Table Seven: Non-Performing Loans and Leases

| (dollars in thousands) | December 31, | | | |
|---|--------------|---------------|---------------|---------------|
| | 2005 | 2004 | 2003 | 2002 |
| Past due 90 days or more and still accruing: | | | | |
| Commercial | \$ 24 | \$ -- | \$ 2 | \$ 2 |
| Real estate | -- | -- | -- | -- |
| Lease financing receivable | -- | 11 | -- | -- |
| Consumer and other | -- | -- | -- | -- |
| Nonaccrual: | | | | |
| Commercial | -- | 52 | -- | 42 |
| Real estate | 15 | 113 | -- | 160 |
| Lease financing receivable | 52 | 71 | 179 | -- |
| Consumer and other | -- | -- | -- | 2 |
| Total non-performing loans and leases | \$ 91 | \$ 247 | \$ 181 | \$ 206 |

There were no loan or lease concentrations in excess of 10% of total loans and leases not otherwise disclosed as a category of loans and leases as of December 31, 2005. Management is not aware of any potential problem loans or leases, which were accruing and current at December 31, 2004 or 2005, where serious doubt exists as to the ability of the borrower to comply with the present repayment terms.

Allowance for Loan and Lease Losses Activity

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

The adequacy of the ALLL and the level of the related provision for loan and lease losses is determined based on management's judgment after consideration of numerous factors including but not limited to: (i) local and regional economic conditions, (ii) borrowers' financial condition, (iii) loan

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

The 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 maintained by categories of the loan and lease portfolio based on loan type and loan rating; however, the entire allowance is available to cover actual loan and lease losses. While management uses available information to recognize possible losses on loans and leases, future additions to the allowance may be necessary, based on changes in economic conditions and other matters. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's ALLL. Such agencies may require the Company to provide additions to the allowance based on their judgment of information available to them at the time of their examination.

The adequacy of the ALLL is determined based on three components. First, is the dollar weighted risk rating of the loan portfolio, including all outstanding loans and leases. Every extension of credit has been assigned a risk rating based upon a comprehensive definition intended to measure the inherent risk of lending money. Each rating has an assigned risk factor expressed as a

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reserve percentage. Second, established specific reserves consistent with SFAS No. 114 "Accounting by Creditors for Impairment of a Loan" are assigned to individually impaired loans. These are estimated potential losses associated with specific borrowers based upon estimated cash flows or collateral value and events affecting the risk rating. Third, the Company maintains a reserve for qualitative factors that may affect the portfolio as a whole, such as those factors described above, including a reserve for model imprecision consistent with SFAS No. 5 "Accounting for Contingencies".

The allowance for loan and lease losses totaled \$5,679,000 or 1.53% of total loans and leases at December 31, 2005, \$5,496,000 or 1.54% of total loans and leases at December 31, 2004, and \$3,949,000 or 1.48% at December 31, 2003.

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 for percentages)

| | Year Ended December 31, | | | |
|--------------------------------------|-------------------------|------------|------------|------------|
| | 2005 | 2004 | 2003 | 2002 |
| Average loans and leases outstanding | \$ 360,319 | \$ 277,647 | \$ 248,342 | \$ 209,133 |

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| | | | | | |
|---|----------|----------|----------|----------|----|
| Allowance for loan & lease losses at beginning of period | \$ 5,496 | \$ 3,949 | \$ 3,197 | \$ 2,614 | \$ |
| Loans and leases charged off: | | | | | |
| Commercial | 72 | -- | 13 | 44 | |
| Real estate | -- | -- | -- | 59 | |
| Consumer | -- | 1 | 8 | 48 | |
| Lease financing receivable | 134 | 268 | 333 | -- | |
| Total | 206 | 269 | 354 | 151 | |
| Recoveries of loans and leases previously charged off: | | | | | |
| Commercial | 9 | 57 | 113 | 1 | |
| Real estate | -- | -- | 47 | 85 | |
| Consumer | 2 | 3 | -- | 4 | |
| Lease financing receivable | 56 | -- | -- | -- | |
| Total | 67 | 60 | 160 | 90 | |
| Net loans and leases charged off | 139 | 209 | 194 | 61 | |
| Allowance acquired in merger | -- | 861 | -- | -- | |
| Additions to allowance charged to operating expenses | 322 | 895 | 946 | 644 | |
| Allowance for loan and lease losses at end of period | \$ 5,679 | \$ 5,496 | \$ 3,949 | \$ 3,197 | \$ |
| Ratio of net charge-offs to average loans and leases outstanding | .04% | .08% | .08% | .03% | |
| Provision for loan and lease losses to average loans and leases outstanding | .09% | .32% | .38% | .31% | |
| Allowance for loan and lease losses to loans and leases, net of deferred fees, at end of period | 1.53% | 1.54% | 1.48% | 1.38% | |

It is the policy of management to maintain the allowance for loan and lease losses at a level adequate for known and inherent risks in the portfolio. Our methodology incorporates a variety of risk considerations, both quantitative and qualitative, in establishing an allowance for loan and lease losses that management believes is appropriate at each reporting date. Based on information currently available to analyze inherent credit risk, including economic factors, overall credit quality, historical delinquencies and a history of actual

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charge-offs, management believes that the provision for loan and lease losses and the allowance for loan and lease losses are prudent and adequate. Adjustments may be made based on differences from estimated loan and lease growth, the types of loans constituting this growth, changes in risk ratings within the portfolio, and general economic conditions. However, no prediction of the ultimate level of loans and leases charged off in future periods can be made with any certainty.

As part of its loan review process, management has allocated the

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overall allowance based on specific identified problem loans and leases, qualitative factors, uncertainty inherent in the estimation process and historical loss data. A risk exists that future losses cannot be precisely quantified or attributed to particular loans or leases or classes of loans and leases. Management continues to evaluate the loan and lease portfolio and assesses current economic conditions that will affect management's conclusion as to future allowance levels. Table Nine below summarizes the allocation of the allowance for loan and lease losses for the five years ended December 31, 2005. The allocation presented should not be interpreted as an indication that charges to the allowance for loan and lease losses will be incurred in these amounts or proportions, or that the portion of the allowance allocated to each loan and lease category represents the total amounts available for charge-offs that may occur within these categories.

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

(in thousands,
except percentages)

| | December 31, 2005 | | December 31, 2004 | | December |
|----------------------------|-------------------|--|-------------------|--|-----------------|
| | Amount | Percent of loans in each category to total loans | Amount | Percent of loans in each category to total loans | Amount |
| Commercial | \$ 1,056 | 21.0% | \$ 1,028 | 18.6% | \$ 865 |
| Real estate | 3,948 | 71.5% | 3,825 | 73.7% | 2,579 |
| Agriculture | 213 | 2.2% | 110 | 2.3% | 201 |
| Consumer | 246 | 3.2% | 220 | 2.6% | 91 |
| Lease financing receivable | 216 | 2.1% | 313 | 2.8% | 213 |
| Total allocated | \$ 5,679 | 100.0% | \$ 5,496 | 100.0% | \$ 3,949 |

| | December 31, 2002 | | December 31, 2001 | |
|----------------------------|-------------------|--|-------------------|--|
| | Amount | Percent of loans in each category to total loans | Amount | Percent of loans in each category to total loans |
| Commercial | \$ 660 | 21.1% | \$ 923 | 22.0% |
| Real estate | 2,173 | 69.5% | 1,288 | 67.7% |
| Agriculture | 116 | 3.8% | 147 | 5.3% |
| Consumer | 152 | 2.9% | 206 | 3.8% |
| Lease financing receivable | 96 | 2.7% | 50 | 1.2% |
| Total allocated | \$ 3,197 | 100.0% | \$ 2,614 | 100.0% |

Other Real Estate

At December 31, 2005 and 2004, the Company did not have any Other Real Estate properties.

Deposits

At December 31, 2005, total deposits were \$500,706,000 representing an

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increase of \$25,319,000 (5.3%) over the December 31, 2004 balance of \$475,387,000. The Company's deposit growth plan for 2005 was to concentrate its efforts on increasing noninterest-bearing demand, interest-bearing money market and NOW accounts, and savings accounts. However, due to the competitive rate environment, interest-bearing money market and NOW accounts and savings accounts decreased slightly, but noninterest-bearing demand increased 14.4% in 2005. During 2004, deposits increased \$152,880,000 (47.4%) from the total of \$322,507,000 at December 31, 2003, of which \$114,255,000 of the increase can be attributed to the Bank of Amador acquisition completed in December 2004.

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Other Borrowed Funds

Other borrowings outstanding as of December 31, 2005 consist of advances (both long-term and short-term) from the Federal Home Loan Bank (the "FHLB") and an overnight borrowing from a correspondent bank. The following table summarizes these borrowings (dollars in thousands):

| | 2005 | | 2004 | |
|-----------------------------------|-----------|-------|-----------|-------|
| | Amount | Rate | Amount | Rate |
| Short-term borrowings: | | | | |
| FHLB advances | \$ 39,386 | 3.73% | \$ 24,457 | 1.85% |
| Advances from correspondent banks | -- | -- | -- | -- |
| Total short-term borrowings | \$ 39,386 | 3.73% | \$ 24,457 | 1.85% |
| Long-term borrowings: | | | | |
| FHLB advances | \$ 4,270 | 4.10% | \$ 9,832 | 3.15% |
| Total long-term borrowings | \$ 4,270 | 4.10% | \$ 9,832 | 3.15% |

The maximum amount of short-term borrowings at any month-end during 2005, 2004 and 2003, was \$39,386,000, \$40,855,000, and \$38,100,000, 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 | \$ 39,386 | \$ 4,270 |
| Maturity | 2006 | 2007 |
| Average rates | 3.73% | 4.10% |

The Company has also been issued a total of \$2,000,000 in letters of credit by the FHLB which have been pledged to secure Local Agency Deposits. The

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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 2005 or 2004 and management does not expect to draw upon these lines in the future.

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.

On September 20, 2001, the Company announced a plan to repurchase, as conditions warrant, up to 5% annually of the Company's common stock. Each year the Company may repurchase up to 5% of the shares outstanding (adjusted for stock splits or stock dividends). The repurchases are to 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 this repurchase program at any time for any reason. During 2005, the Company repurchased 80,325 shares; during 2004, the Company repurchased 10,253 shares; during 2003, the Company repurchased 1,654 shares and in 2002, the Company repurchased 72,353 shares under the repurchase plan. See "Stock Repurchases" under Item 5 on page 21 for more information regarding the stock repurchase plan.

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The Company and American River Bank are subject to certain regulatory capital requirements administered by the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation. Failure to meet these minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, banks must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and American River Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. At December 31, 2005, shareholders' equity was \$62,746,000, representing an increase of \$3,756,000 (6.4%) from \$58,990,000 at December 31, 2004. This increase was attributable principally to the retention of earnings after the payment of cash dividends. In 2004, shareholders' equity increased \$23.5 million (66.4%) from 2003 due in part to the Bank of Amador acquisition. The ratio of total risk-based capital to risk adjusted assets was 11.9% at December 31, 2005 compared to 10.9% at December 31, 2004. Tier 1 risk-based capital to risk-adjusted assets was 10.6% at December 31, 2005 and 9.6% at December 31, 2004.

Table Ten below lists the Company's actual capital ratios at December 31, 2005 and 2004 as well as the minimum capital ratios for capital adequacy.

Table Ten: Capital Ratios

| | At December 31, | | Minimum Regulatory |
|---------------------------------|-----------------|------|----------------------|
| Capital to Risk-Adjusted Assets | 2005 | 2004 | Capital Requirements |
| | | | |

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| | | | |
|---------------------------|-------|-------|-------|
| Leverage ratio | 7.7% | 8.4% | 4.00% |
| Tier 1 Risk-Based Capital | 10.6% | 9.6% | 4.00% |
| Total Risk-Based Capital | 11.9% | 10.9% | 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. American River Bank's ratios are in excess of the regulatory definition of "well capitalized."

Management believes that the Company's capital is adequate to support current operations and anticipated growth, cash dividends and future capital requirements of the Company and its subsidiaries.

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 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 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 consolidated 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 and leases, securities and interest bearing liabilities

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(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 year-end balances.

Table Eleven below summarizes the effect on net interest income (NII)

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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 December 31, 2005

| (dollars in thousands) | \$ Change in NII from Current 12 Month Horizon ----- |
|---|---|
| Variation from a constant rate scenario | |
| +200bp | \$ 707 |
| -200bp | \$ (1,184) |

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

Interest Rate Sensitivity Analysis

Interest rate sensitivity is a function of the repricing characteristics of the portfolio of assets and liabilities. These repricing characteristics are the time frames within which the interest-bearing assets and liabilities are subject to change in interest rates either at replacement, repricing or maturity. Interest rate sensitivity management focuses on the maturity of assets and liabilities and their repricing during periods of changes in market interest rates. Interest rate sensitivity is measured as the difference between the volumes of assets and liabilities in the current portfolio that are subject to repricing at various time horizons. The differences are known as interest sensitivity gaps.

A positive cumulative gap may be equated to an asset sensitive position. An asset sensitive position in a rising interest rate environment will cause a bank's interest rate margin to expand. This results as floating or variable rate loans reprice more rapidly than fixed rate certificates of deposit that reprice as they mature over time. Conversely, a declining interest rate environment will cause the opposite effect. A negative cumulative gap may be equated to a liability sensitive position. A liability sensitive position in a rising interest rate environment will cause a bank's interest rate margin to contract, while a declining interest rate environment will have the opposite effect.

As reflected in Table Twelve below, at December 31, 2005, the cumulative gap through the one-year time horizon indicates a slightly liability sensitive position.

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Table Twelve: Interest Rate Sensitivity
December 31, 2005

| Assets and Liabilities which mature or reprice within (days): | | | | | | Non- |
|--|------|--------|---------|----------|-----------|------|
| (dollars in thousands) | 0-90 | 91-180 | 181-365 | Over 365 | repricing | |
| Assets: | | | | | | |

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| | | | | | |
|---|------------|-------------|-------------|------------|--------------|
| Investments | \$ 11,502 | \$ 12,307 | \$ 18,562 | \$ 135,532 | \$ -- |
| Loans and leases | 188,144 | 26,505 | 29,379 | 121,543 | -- |
| Other assets | -- | -- | -- | -- | 69,289 |
| <hr/> | | | | | |
| Total assets | \$ 199,646 | \$ 38,812 | \$ 47,941 | \$ 257,075 | \$ 69,289 |
| <hr/> | | | | | |
| Liabilities: | | | | | |
| Noninterest bearing | \$ -- | \$ -- | \$ -- | \$ -- | \$ 164,397 |
| Interest bearing: | | | | | |
| NOW Accounts | 23,183 | 9,273 | 6,953 | 6,955 | -- |
| Money market | 66,720 | 26,688 | 20,019 | 20,016 | -- |
| Savings | 18,855 | 7,542 | 3,771 | 7,543 | -- |
| Time certificates | 48,617 | 24,831 | 23,981 | 21,362 | -- |
| Short-term borrowings | 22,840 | 5,515 | 11,031 | -- | -- |
| Long-term borrowings | -- | -- | -- | 4,270 | -- |
| Other liabilities | -- | -- | -- | -- | 5,655 |
| Shareholders' equity | -- | -- | -- | -- | 62,746 |
| <hr/> | | | | | |
| Total liabilities and shareholders' equity | \$ 180,215 | \$ 73,849 | \$ 65,755 | \$ 60,146 | \$ 232,798 |
| <hr/> | | | | | |
| Interest rate sensitivity gap | \$ 19,431 | \$ (35,037) | \$ (17,814) | \$ 196,929 | \$ (163,509) |
| Cumulative interest rate sensitivity gap | \$ 19,431 | \$ (15,606) | \$ (33,420) | \$ 163,509 | -- |

Inflation

The impact of inflation on a financial institution differs significantly from that exerted on manufacturing, or other commercial concerns, primarily because its assets and liabilities are largely monetary. In general, inflation primarily affects the Company through its effect on market rates of interest, which affects the Company's ability to attract loan customers. Inflation affects the growth of total assets by increasing the level of loan demand, and potentially adversely affects capital adequacy because loan growth in inflationary periods can increase at rates higher than the rate that capital grows through retention of earnings which may be generated in the future. In addition to its effects on interest rates, inflation increases overall operating expenses. Inflation has not had a material effect upon the results of operations of the Company during the years ended December 31, 2005, 2004 and 2003.

Liquidity

Liquidity management refers to the Company's ability to provide funds on an ongoing basis to meet fluctuations in deposit levels as well as the credit needs and requirements of its clients. Both assets and liabilities contribute to the Company's liquidity position. Federal funds lines, short-term investments and securities, and loan and lease repayments contribute to liquidity, along with deposit increases, while loan and lease funding and deposit withdrawals decrease liquidity. The Company assesses the likelihood of projected funding requirements by reviewing historical funding patterns, current and forecasted economic conditions and individual client funding needs. Commitments to fund loans and outstanding standby letters of credit at December 31, 2005 were approximately \$137,802,000 and \$3,393,000, 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.

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The Company's sources of liquidity consist of cash and due from correspondent banks, overnight funds sold to correspondent banks, unpledged marketable investments and loans held for sale. On December 31, 2005, consolidated liquid assets totaled \$99.2 million or 16.2% of total assets compared to \$96.4 million or 16.4% of total assets on December 31, 2004. In addition to liquid assets, the Company maintains short-term lines of credit in the amount of \$48,000,000 with correspondent banks. At December 31, 2005, the Company had \$48,000,000 available under these credit lines. Additionally, the American River Bank is a member of the FHLB. At December 31, 2005, American River Bank could have arranged for up to \$49,196,000 in secured borrowings from the FHLB. These borrowings are secured by pledged mortgage loans and investment securities. At December 31, 2005, the Company had \$3,534,000 available under these 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 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 its subsidiaries 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. The maturity distribution of certificates of deposit is set forth in Table Thirteen below for the periods presented. These deposits are generally more rate sensitive than other deposits and, therefore, are more likely to be withdrawn to obtain higher yields elsewhere if available.

Table Thirteen: Certificates of Deposit Maturities
December 31, 2005

| (dollars in thousands) | Less than \$100,000 | Over \$100,000 |
|---------------------------------------|---------------------|------------------|
| Three months or less | \$ 15,470 | \$ 33,147 |
| Over three months through six months | 11,248 | 13,583 |
| Over six months through twelve months | 12,148 | 11,833 |
| Over twelve months | 10,862 | 10,500 |
| Total | \$ 49,728 | \$ 69,063 |

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

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

| (dollars in thousands) | One year or less | One year through five years | Over five years | Total |
|------------------------|---------------------|--------------------------------|--------------------|-------|
| December 31, 2005 | | | | |

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| | | | | | | | | |
|-------------|----|---------|----|--------|----|---------|----|---------|
| Commercial | \$ | 46,631 | \$ | 24,410 | \$ | 6,930 | \$ | 77,971 |
| Real estate | | 102,693 | | 60,814 | | 102,488 | | 265,995 |
| Agriculture | | 1,001 | | 1,354 | | 5,774 | | 8,129 |
| Consumer | | 1,362 | | 3,032 | | 7,506 | | 11,900 |
| Leases | | 402 | | 7,464 | | 101 | | 7,967 |
| Total | \$ | 152,089 | \$ | 97,074 | \$ | 122,799 | \$ | 371,962 |

Loans and leases shown above with maturities greater than one year include \$169,383,000 of floating interest rate loans and \$50,490,000 of fixed rate loans and leases.

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The carrying amount, maturity distribution and weighted average yield of the Company's investment securities available-for-sale and held-to-maturity portfolios are presented in Table Fifteen below. The yields on tax-exempt obligations have been computed on a tax equivalent basis.

Table Fifteen: Securities Maturities and Weighted Average Yields
December 31, 2005, 2004 and 2003

| (Taxable Equivalent Basis) | 2005 | | 2004 | |
|---|-----------------|------------------------|-----------------|------------------------|
| | Carrying Amount | Weighted Average Yield | Carrying Amount | Weighted Average Yield |
| (dollars in thousands) | | | | |
| Available-for-sale securities: | | | | |
| U.S. Treasury and agency securities | | | | |
| Maturing within 1 year | \$ 21,012 | 3.37% | \$ 7,055 | 3.37% |
| Maturing after 1 year but within 5 years | 28,107 | 3.70% | 39,645 | 3.70% |
| State & political subdivisions | | | | |
| Maturing within 1 year | -- | -- | 1,105 | 4.43% |
| Maturing after 1 year but within 5 years | 15,426 | 4.43% | 6,574 | 4.43% |
| Maturing after 5 years but within 10 years | 17,386 | 6.39% | 17,393 | 6.39% |
| Maturing after 10 years | 4,294 | 6.37% | 2,168 | 6.37% |
| Government sponsored mortgage-backed securities | 36,326 | 4.30% | 40,359 | 4.30% |
| Other | | | | |
| Maturing within 1 year | -- | -- | 1,115 | 2.18% |
| Maturing after 1 year but within 5 years | 1,014 | 4.67% | -- | -- |
| Non maturing | 624 | 6.18% | 627 | 6.18% |
| Total investment securities | \$ 124,189 | 4.40% | \$ 116,041 | 4.40% |
| Held-to-maturity securities: | | | | |
| State & political subdivisions | | | | |
| Maturing within 1 year | \$ -- | -- | \$ -- | -- |
| Government sponsored mortgage-backed securities | 45,012 | 4.37% | 41,203 | 4.37% |
| Total investment securities | \$ 45,012 | 4.37% | \$ 41,203 | 4.37% |

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The carrying values of available-for-sale securities include net unrealized (losses) gains of (\$1,279,000), \$880,000 and \$1,430,000 at December 31, 2005, 2004 and 2003, respectively. The carrying values of held-to-maturity securities do not include unrealized gains or losses, however, the net unrealized (losses) gains at December 31, 2005, 2004 and 2003 were (\$354,000), \$125,000 and \$56,000, respectively. Table 15 does not include FHLB or FRB Stock, which do not have stated maturity dates or readily available market values. The balance in FHLB and FRB Stock at December 31, 2005, 2004 and 2003 was \$2,608,000, \$2,158,000 and \$1,546,000, respectively.

Off-Balance Sheet Arrangements

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

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

| | December 31, | |
|--|--------------|------------|
| | 2005 | 2004 |
| Commitments to extend credit (dollars in thousands): | | |
| Revolving lines of credit secured by | | |
| 1-4 family residences | \$ 16,845 | \$ 2,328 |
| Commercial real estate, construction and land | | |
| development commitments secured by real estate | 55,313 | 66,066 |
| Other unused commitments, principally commercial loans | 65,644 | 57,019 |
| | \$ 137,802 | \$ 125,413 |
| | ===== | ===== |
| Letters of credit | \$ 3,393 | \$ 2,788 |
| | ===== | ===== |

As of December 31, 2005, commitments to extend credit and letters of credit were the only financial instruments with off-balance sheet risk. The Company has not entered into any contracts for financial derivative instruments such as futures, swaps, options or similar instruments. Real estate commitments are generally secured by property with a loan-to-value ratio of 65% to 75%. In addition, the majority of the Company's commitments have variable interest rates.

Certain financial institutions have elected to use special purpose vehicles ("SPV") to dispose of problem assets. The SPV is typically a subsidiary

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company with an asset and liability structure and legal status that makes its obligations secure even if the parent corporation goes bankrupt. Under certain circumstances, these financial institutions may exclude the problem assets from their reported impaired and non-performing assets. The Company does not use those vehicles or any other structures to dispose of problem assets.

Contractual Obligations

The Company leases certain facilities at which it conducts its operations. Future minimum lease commitments under non-cancelable operating leases are noted in Table Sixteen below. Table Sixteen below presents certain of the Company's contractual obligations as of December 31, 2005. Included in the table are amounts payable under the Company's Deferred Compensation and Deferred Fees Plans and are listed in the "other" category. These amounts represented \$1,147,000 and are anticipated to be primarily payable at least five years in the future.

Table Sixteen: Contractual Obligations

| (dollars in thousands) | Payments due by period | | | |
|--|------------------------|---------------------|-----------------|---------------|
| | Total | Less than 1 year | 1-3 years | 3-5 years |
| Long-Term Debt | \$ 4,270 | \$ -- | \$ 4,270 | \$ -- |
| Capital Lease Obligations | -- | -- | -- | -- |
| Operating Leases | 4,037 | 860 | 1,382 | 922 |
| Purchase Obligations | -- | -- | -- | -- |
| Other Long-Term Liabilities Reflected on the Company's Balance Sheet under GAAP | 1,147 | -- | -- | -- |
| Total | \$ 9,454 | \$ 860 | \$ 5,652 | \$ 922 |

Accounting Pronouncements

In March 2004, the Financial Accounting Standards Board (the "FASB") and Emerging Issues Task Force (the "EITF") reached consensus on several issues being addressed in EITF Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. The consensus provides guidance for evaluating whether an investment is other-than-temporarily impaired

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and was effective for other-than-temporary impairment evaluations made in reporting periods beginning after June 15, 2004. The disclosure provisions of EITF Issue No. 03-1 continue to be effective for the Company's consolidated financial statements for the year ended December 31, 2005.

On November 3, 2005, the FASB issued FASB Staff Position ("FSP") Nos. FAS 115-1 and FAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. This FSP addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. This FSP also includes accounting considerations subsequent to the recognition of an

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other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. This FSP nullifies certain requirements of EITF Issue No. 03-1, and supersedes EITF Topic No. D-44, Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value. The guidance in this FSP amends FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities. The FSP is effective for reporting periods beginning after December 15, 2005. The Company does not anticipate any material impact to its financial condition or results of operations as a result of the adoption of this guidance.

In December 2004, the FASB issued Statement No. 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 may elect to adopt FAS 123 (R) using a modified prospective method or modified retrospective method. Under the modified retrospective method, the Company would restate previously issued financial statements, basing the compensation expense on that previously reported in their pro forma disclosures required by FAS 123. The modified prospective method would require the Company to record compensation expense for the unvested portion of previously granted awards that remain outstanding at the date of adoption as these awards continue to vest. FAS 123 (R) is effective January 1, 2006. Management has elected to use the modified prospective method and has completed its evaluation of the effect of FAS 123 (R), and does not expect it to have a material impact on its financial position or results of operations.

On June 7, 2005, the FASB issued Statement No. 154 ("FAS 154"), Accounting Changes and Error Corrections - a replacement of Accounting Principles Board (APB) Opinion No. 20, Accounting Changes, and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements. Under the provisions of FAS 154, voluntary changes in accounting principles are applied retrospectively to prior periods' financial statements unless it would be impractical to do so. FAS 154 supersedes APB Opinion No. 20, which required that most voluntary changes in accounting principles be recognized by including in the current period's net income the cumulative effect of the change. FAS 154 also makes a distinction between "retrospective application" of a change in accounting principle and the "restatement" of financial statements to reflect the correction of an error. The provisions of FAS 154 are effective for accounting changes made in fiscal years beginning after December 15, 2005. Management of the Company does not expect the adoption of this standard to have a material impact on its financial position or results of operations.

Other Matters

Effects of Terrorism. The terrorist actions on September 11, 2001 and thereafter and 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.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

The information required by Item 7A of Form 10-K is contained in the "Market Risk Management" section of Item 7-"Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 38-40.

Item 8. Financial Statements and Supplementary Data.

| INDEX TO CONSOLIDATED FINANCIAL STATEMENTS | Page |
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| Report of Independent Registered Public Accounting Firm | 46 |
| Consolidated Balance Sheet, December 31, 2005 and 2004 | 47 |
| Consolidated Statement of Income for the Years Ended December 31, 2005, 2004 and 2003 | 48 |
| Consolidated Statement of Changes in Shareholders' Equity for the Years Ended December 31, 2005, 2004 and 2003 | 49 |
| Consolidated Statement of Cash Flows for the Years Ended December 31, 2005, 2004 and 2003 | 50-51 |
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All schedules have been omitted since the required information is not present in amounts sufficient to require submission of the schedule or because the information required is included in the Consolidated Financial Statements or notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Shareholders and Board of Directors
American River Bankshares

We have audited the accompanying consolidated balance sheet of American River Bankshares and subsidiaries (the "Company") as of December 31, 2005 and 2004 and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of American River Bankshares and subsidiaries as of December 31, 2005 and 2004, and the consolidated results of their operations and their consolidated cash flows for each of the years in the three-year period ended December 31, 2005, in

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conformity with accounting principles generally accepted in the United States of America.

We have also audited in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 8, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ Perry-Smith LLP

Sacramento, California
March 8, 2006

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AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

December 31, 2005 and 2004
(Dollars in thousands)

| | 2005 | 2004 |
|--|------------|------------|
| | ----- | ----- |
| ASSETS | | |
| Cash and due from banks | \$ 34,825 | \$ 28,115 |
| Federal funds sold | 1,250 | 7,000 |
| | ----- | ----- |
| Total cash and cash equivalents | 36,075 | 35,115 |
| Interest-bearing deposits in banks | 4,844 | 5,939 |
| Investment securities (Notes 5 and 10): | | |
| Available for sale, at fair value | 124,189 | 116,041 |
| Held to maturity, at amortized cost (fair value of \$44,658 and \$41,328 at December 31, 2005 and 2004, respectively) | 45,012 | 41,203 |
| Loans and leases, less allowance for loan and lease losses of \$5,679 in 2005 and \$5,496 in 2004 (Notes 6, 10, 12 and 17) | 365,571 | 352,467 |
| Premises and equipment, net (Note 7) | 2,090 | 1,876 |
| Federal Home Loan Bank stock | 2,608 | 2,158 |
| Accounts receivable servicing receivables, net (Note 8) | 2,000 | 2,409 |
| Goodwill (Notes 3 and 4) | 16,321 | 16,146 |
| Intangible assets (Notes 3 and 4) | 1,831 | 2,183 |
| Accrued interest receivable and other assets (Notes 11 and 16) | 12,222 | 11,129 |
| | ----- | ----- |
| | \$ 612,763 | \$ 586,666 |
| | ===== | ===== |

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LIABILITIES AND
SHAREHOLDERS' EQUITY

| | | |
|---|------------|------------|
| Deposits: | | |
| Noninterest bearing | \$ 164,397 | \$ 143,710 |
| Interest bearing (Note 9) | 336,309 | 331,677 |
| | ----- | ----- |
| Total deposits | 500,706 | 475,387 |
| Short-term borrowings (Note 10) | 39,386 | 24,457 |
| Long-term borrowings (Note 10) | 4,270 | 9,832 |
| Accrued interest payable and other liabilities (Note 16) | 5,655 | 18,000 |
| | ----- | ----- |
| Total liabilities | 550,017 | 527,676 |
| | ----- | ----- |
| Commitments and contingencies (Note 12) | | |
| Shareholders' equity (Notes 13 and 14): | | |
| Common stock - no par value; 20,000,000 shares authorized; issued and outstanding - 5,604,479 shares in 2005 and 5,314,732 shares in 2004 | 47,474 | 42,557 |
| Retained earnings | 16,029 | 15,878 |
| Accumulated other comprehensive (loss) income, net of taxes (Notes 5 and 18) | (757) | 555 |
| | ----- | ----- |
| Total shareholders' equity | 62,746 | 58,990 |
| | ----- | ----- |
| | \$ 612,763 | \$ 586,666 |
| | ===== | ===== |

The accompanying notes are an integral part of these consolidated financial statements.

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AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

For the Years Ended December 31, 2005, 2004 and 2003
(Dollars in thousands, except per share data)

| | 2005 | 2004 | 2003 |
|--|-----------|-----------|-----------|
| | ----- | ----- | ----- |
| Interest income: | | | |
| Interest and fees on loans and leases | \$ 26,536 | \$ 18,115 | \$ 16,744 |
| Interest on Federal funds sold | 90 | 67 | 4 |
| Interest on deposits in banks | 188 | 134 | 16 |
| Interest and dividends on investment securities: | | | |
| Taxable | 5,436 | 3,751 | 2,311 |
| Exempt from Federal income taxes | 931 | 537 | 47 |

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| | | | |
|--|----------|----------|---------|
| Dividends | 32 | 32 | 2 |
| | ----- | ----- | ----- |
| Total interest income | 33,213 | 22,636 | 19,76 |
| | ----- | ----- | ----- |
| Interest expense: | | | |
| Interest on deposits (Note 9) | 5,646 | 2,511 | 2,39 |
| Interest on borrowings (Note 10) | 1,105 | 707 | 51 |
| | ----- | ----- | ----- |
| Total interest expense | 6,751 | 3,218 | 2,90 |
| | ----- | ----- | ----- |
| Net interest income | 26,462 | 19,418 | 16,86 |
| Provision for loan and lease losses (Note 6) | 322 | 895 | 94 |
| | ----- | ----- | ----- |
| Net interest income after provision for loan and lease losses | 26,140 | 18,523 | 15,92 |
| | ----- | ----- | ----- |
| Noninterest income: | | | |
| Service charges | 672 | 551 | 53 |
| Gain on sale of available-for-sale investment securities (Note 5) | 48 | | 3 |
| Other income (Note 15) | 1,609 | 1,844 | 1,68 |
| | ----- | ----- | ----- |
| Total noninterest income | 2,329 | 2,395 | 2,25 |
| | ----- | ----- | ----- |
| Noninterest expense: | | | |
| Salaries and employee benefits (Notes 6 and 16) | 6,958 | 6,048 | 6,23 |
| Occupancy (Notes 7 and 12) | 1,229 | 953 | 81 |
| Furniture and equipment (Notes 7 and 12) | 918 | 752 | 65 |
| Loss on sale of available-for-sale investment securities (Note 5) | | 38 | |
| Other expense (Note 15) | 4,388 | 3,922 | 2,66 |
| | ----- | ----- | ----- |
| Total noninterest expense | 13,493 | 11,713 | 10,37 |
| | ----- | ----- | ----- |
| Income before provision for income taxes | 14,976 | 9,205 | 7,80 |
| Provision for income taxes (Note 11) | 5,792 | 3,378 | 3,06 |
| | ----- | ----- | ----- |
| Net income | \$ 9,184 | \$ 5,827 | \$ 4,74 |
| | ===== | ===== | ===== |
| Basic earnings per share (Note 13) | \$ 1.63 | \$ 1.24 | \$ 1.0 |
| | ===== | ===== | ===== |
| Diluted earnings per share (Note 13) | \$ 1.60 | \$ 1.18 | \$ 1.0 |
| | ===== | ===== | ===== |
| Cash dividends per share of issued and outstanding common stock, adjusted for stock dividends | \$ 0.54 | \$ 0.42 | \$ 0.2 |
| | ===== | ===== | ===== |

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The accompanying notes are an integral part of these consolidated financial statements.

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AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
 CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
 For the Years Ended December 31, 2005, 2004 and 2003
 (Dollars in thousands)

| | Common Stock | | Retained Earnings | Accumulated Other Comprehensive Income (Net of Tax) |
|--|--------------|-----------|-------------------|---|
| | Shares | Amount | | |
| Balance, January 1, 2003 | 3,938,883 | \$ 16,064 | \$ 14,358 | \$ |
| Comprehensive income (Note 18): | | | | |
| Net income | | | 4,741 | |
| Other comprehensive loss, net of tax: | | | | |
| Net change in unrealized gains on available-for-sale investment securities | | | | |
| Total comprehensive income | | | | |
| Cash dividend (\$.27 per share) | | | (1,192) | |
| Fractional shares redeemed | (225) | | (7) | |
| Stock options exercised | 135,704 | 653 | | |
| Retirement of common stock (Note 13) | (19,102) | (24) | | |
| | 4,055,260 | 16,693 | 17,900 | |
| Balance, December 31, 2003 | | | | |
| Comprehensive income (Note 18): | | | | |
| Net income | | | 5,827 | |
| Other comprehensive loss, net of tax: | | | | |
| Net change in unrealized gains on available-for-sale investment securities | | | | |
| Total comprehensive income | | | | |
| Stock issued in acquisition (Note 3) | 775,548 | 18,284 | | |
| Cash dividend (\$.42 per share) | | | (2,044) | |
| 5% stock dividend | 252,392 | 5,805 | (5,805) | |
| Stock options exercised | 263,446 | 1,959 | | |
| Retirement of common stock (Note 13) | (31,914) | (184) | | |

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| | | | |
|--|-----------|-----------|-----------|
| Balance, December 31, 2004 | 5,314,732 | 42,557 | 15,878 |
| Comprehensive income (Note 18): | | | |
| Net income | | | 9,184 |
| Other comprehensive loss, net of tax: | | | |
| Net change in unrealized gains on available-for-sale investment securities | | | |
| Total comprehensive income | | | |
| Cash dividend (\$.54 per share) | | | (3,012) |
| Fractional shares redeemed | (1) | (32) | |
| 5% stock dividend | 266,801 | 6,021 | (6,021) |
| Stock options exercised | 113,309 | 945 | |
| Retirement of common stock (Note 13) | (90,362) | (2,017) | |
| | ----- | ----- | ----- |
| Balance, December 31, 2005 | 5,604,479 | \$ 47,474 | \$ 16,029 |
| | ===== | ===== | ===== |

The accompanying notes are an integral part of these consolidated financial statements.

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AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2005, 2004 and 2003
(Dollars in thousands)

| | 2005 | 2004 |
|---|----------|----------|
| | ----- | ----- |
| Cash flows from operating activities: | | |
| Net income | \$ 9,184 | \$ 5,827 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | |
| Provision for loan and lease losses | 322 | 895 |
| (Decrease) increase in deferred loan and lease origination fees, net | (173) | (79) |
| Depreciation and amortization | 1,014 | 575 |
| Amortization of investment security premiums and discounts, net | 1,099 | 1,249 |
| Provision for accounts receivable servicing receivable allowance for losses | 35 | |
| (Gain) loss on sale of available-for-sale investment securities | (48) | 38 |
| Gain on life insurance death benefit | | (553) |
| Increase in cash surrender value of life insurance policies | (178) | (69) |
| Provision for deferred income taxes | (422) | (82) |
| Decrease (increase) in accrued interest receivable and other assets | 179 | (1,136) |
| (Decrease) increase in accrued interest payable and other liabilities | (12,604) | 1,920 |

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| | ----- | ----- |
|--|----------|----------|
| Net cash (used in) provided by operating activities | (1,592) | 8,585 |
| | ----- | ----- |
| Cash flows from investing activities: | | |
| Cash acquired in acquisition | | 26,294 |
| Proceeds from the sale of available-for-sale investment securities | 6,964 | 5,019 |
| Proceeds from called available-for-sale investment securities | 280 | |
| Proceeds from matured available-for-sale investment securities | 20,180 | 5,435 |
| Proceeds from matured held-to-maturity investment securities | | 200 |
| Purchases of available-for-sale investment securities | (41,596) | (50,875) |
| Purchases of held-to-maturity investment securities | (16,901) | (23,737) |
| Proceeds from principal repayments for available-for-sale mortgage-backed securities | 3,411 | 8,507 |
| Proceeds from principal repayments for held-to-maturity mortgage-backed securities | 12,495 | 8,758 |
| Net decrease (increase) in interest-bearing deposits in banks | 1,095 | (1,189) |
| Net increase in loans and leases | (13,242) | (12,064) |
| Net decrease (increase) in accounts receivable servicing receivables | 374 | (631) |
| Death benefit from life insurance policy | | 1,236 |
| Purchases of equipment | (886) | (704) |
| Net (increase) decrease in FHLB and FRB stock | (450) | (612) |
| Purchase of life insurance policies | | |
| | ----- | ----- |
| Net cash used in investing activities | (28,276) | (34,363) |
| | ----- | ----- |

(Continued)

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AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(Continued)

For the Years Ended December 31, 2005, 2004 and 2003

(Dollars in thousands)

| | 2005 | 2004 | 2003 |
|---|-----------|-----------|----------|
| | ----- | ----- | ----- |
| Cash flows from financing activities: | | | |
| Net increase in demand, interest-bearing and savings deposits | \$ 12,722 | \$ 37,341 | \$ 4,400 |
| Net increase (decrease) in time deposits | 12,597 | (3,697) | |
| Repayment of long-term debt | (5,562) | (53) | |
| Increase (decrease) in other borrowings | 14,929 | (2,200) | |
| Exercise of stock options | 945 | 1,959 | |
| Cash paid to repurchase common stock | (2,017) | (184) | |
| Payment of cash dividends | (2,754) | (2,070) | |
| Cash paid for fractional shares in connection with stock | | | |

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| | | | |
|---|------------|------------|-------|
| dividends and stock splits | (32) | | |
| | ----- | ----- | ----- |
| Net cash provided by financing activities | 30,828 | 31,096 | 5 |
| | ----- | ----- | ----- |
| Increase in cash and cash equivalents | 960 | 5,318 | |
| Cash and cash equivalents at beginning of year | 35,115 | 29,797 | 2 |
| | ----- | ----- | ----- |
| Cash and cash equivalents at end of year | \$ 36,075 | \$ 35,115 | \$ 2 |
| | ===== | ===== | ===== |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid during the year for: | | | |
| Interest expense | \$ 6,509 | \$ 3,149 | \$ |
| Income taxes | \$ 5,990 | \$ 1,765 | \$ |
| Non-cash investing activities: | | | |
| Net change in unrealized gain on available-for-sale investment securities | \$ (2,159) | \$ (550) | \$ |
| Non-cash financing activities: | | | |
| Dividends declared and unpaid | \$ 841 | \$ 582 | \$ |
| Adjustments to goodwill | \$ 238 | | |
| Supplemental schedule related to acquisition (Notes 3 and 4): | | | |
| Deposits | | \$ 119,236 | |
| Other liabilities | | 489 | |
| Payable to Bank of Amador shareholders | | 12,730 | |
| Interest bearing deposits in banks | | (100) | |
| Available-for-sale investment securities | | (22,542) | |
| Loans, net | | (78,737) | |
| Premise and equipment | | (226) | |
| Intangible assets | | (18,296) | |
| Other assets | | (4,544) | |
| Stock issued | | 18,284 | |
| | | ----- | |
| Cash acquired | | \$ 26,294 | |
| | | ===== | |

The accompanying notes are an integral part of these consolidated financial statements.

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AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. THE BUSINESS OF THE COMPANY

American River Bankshares (the "Company") was incorporated under the laws of the State of California in 1995 under the name of American River Holdings and changed its name in 2004 to American River Bankshares. As a bank holding company, the Company is authorized to engage in the activities permitted under the Bank Holding Company Act

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of 1956, as amended, and regulations thereunder. As a community oriented bank holding company, the principal communities served are located in Sacramento, Placer, Yolo, El Dorado, Amador, and Sonoma counties.

The Company owns 100% of the issued and outstanding common shares of its banking subsidiary, American River Bank (ARB). ARB was incorporated in 1983. ARB accepts checking and savings deposits, offers money market deposit accounts and certificates of deposit, makes secured and unsecured commercial, secured real estate, and other installment and term loans and offers other customary banking services. ARB operates five banking offices in Sacramento and Placer counties, three banking offices in Sonoma County under the name North Coast Bank (NCB), a division of ARB, and three banking offices in Amador County under the name Bank of Amador, a division of ARB.

On December 3, 2004, the Company acquired Bank of Amador located in Jackson, California (more fully described in Note 3). Bank of Amador was merged with and into American River Bank and now operates as Bank of Amador, a division of American River Bank. The merger transaction was accounted under the purchase method of accounting and accordingly the results of their operations have been included in the consolidated financial statements since the date of acquisition.

The Company also owns one inactive subsidiary, American River Financial.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

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

Reclassifications

Certain reclassifications have been made to prior years' balances to conform to classifications used in 2005.

Principles of Consolidation

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

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and

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liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

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AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

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

Investment Securities

Investments are classified into the following categories:

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

Management determines the appropriate classification of its investments at the time of purchase and may only change the classification in certain limited circumstances. All transfers between categories are accounted for at fair value.

Gains or losses on the sale of investment securities are computed on the specific identification method. Interest earned on investment securities is reported in interest income, net of applicable adjustments for accretion of discounts and amortization of premiums. In addition, unrealized losses that are other than temporary are recognized in earnings for all investments.

Investment securities are evaluated for impairment on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in their value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline and the intent and ability of the Company to retain its investment in the securities for a period of time sufficient to allow for an anticipated recovery in fair value, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term "other than temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value

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of the investment. Once a decline in value is determined to be other than temporary, the value of the security is reduced and a corresponding charge to earnings is recognized.

Federal Reserve Bank and Federal Home Loan Bank Stock

Investments in Federal Reserve Bank (FRB) and Federal Home Loan Bank (FHLB) stock are carried at cost and are redeemable at par with certain restrictions. Members of the FRB are required to purchase restricted stock in the FRB. Investments in FHLB are required to participate in FHLB programs. The FRB stock was surrendered in 2004 when the Company discontinued its membership in the FRB.

Loans and Leases

Loans and leases are reported at the principal amounts outstanding, adjusted for unearned income, deferred loan origination fees and costs, purchase premiums and discounts, write-downs and the allowance for loan and lease losses. Loan and lease origination fees, net of certain deferred origination costs, and purchase premiums and discounts are recognized as an adjustment to the yield of the related loans and leases.

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AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans and Leases (Continued)

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

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

Loan Sales and Servicing

Included in the portfolio are Small Business Administration (SBA) loans and Farmer Mac guaranteed loans that may be sold in the secondary market. Loans held for sale are carried at the lower of cost or market

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value. Market value is determined by the specific identification method as of the balance sheet date or the date that the purchasers have committed to purchase the loans. At the time the loan is sold, the related right to service the loan is either retained, with the Company earning future servicing income, or released in exchange for a one-time servicing-released premium. A portion of this premium may be required to be refunded if the borrower defaults or the loan prepays within ninety days of the settlement date. There were no sales of loans subject to these recourse provisions at December 31, 2005, 2004 and 2003. Loans subsequently transferred to the loan portfolio are transferred at the lower of cost or market value at the date of transfer. Any difference between the carrying amount of the loan and its outstanding principal balance is recognized as an adjustment to yield by the interest method. There were no loans held for sale at December 31, 2005 and 2004.

SBA and Farmer Mac loans with unpaid balances of \$1,609,000 and \$2,640,000 were being serviced for others as of December 31, 2005 and 2004, respectively. The Company also serviced loans that are participated with other financial institutions totaling \$20,911,000 and \$12,329,000 as of December 31, 2005 and 2004, respectively.

Servicing rights acquired through 1) a purchase or 2) the origination of loans which are sold or securitized with servicing rights retained are recognized as separate assets or liabilities. Servicing assets or liabilities are recorded at the difference between the contractual servicing fees and adequate compensation for performing the servicing, and are subsequently amortized in proportion to and over the period of the related net servicing income or expense. Servicing assets are periodically evaluated for impairment. Servicing assets were not considered material for disclosure purposes.

Allowance for Loan and Lease Losses

The allowance for loan and lease losses is maintained to provide for possible losses related to impaired loans and leases and other possible losses on loans and leases identified by management as doubtful, substandard and special mention, as well as losses that can be expected to occur in the normal course of business related to currently performing loans and leases. The determination of the allowance is based on estimates made by management, to include consideration of the character of the loan and lease portfolio including concentrations, types of lending, specifically identified problem loans and leases, inherent risk of loss in the portfolio taken as a whole and economic conditions in the Company's service areas.

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AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan and Lease Losses (Continued)

Commercial and real estate loans and leases determined to be impaired

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or classified are individually evaluated by management for specific risk of loss. In addition, reserve factors are assigned to currently performing loans and leases based on management's assessment of the following for each identified loan and lease type: (1) inherent credit risk and (2) historical losses. Management's risk assessment includes its own portfolio characteristics and performance, the loss experience of peer banks, and other economic conditions and factors. These estimates are particularly susceptible to changes in the economic environment and market conditions.

The Company's Loan Committee reviews the adequacy of the allowance for loan and lease losses at least quarterly, to include consideration of the relative risks in the portfolio and current economic conditions. The allowance is adjusted based on that review if, in the judgment of the Loan Committee and management, changes are warranted.

The allowance is established through a provision for loan and lease losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after credit losses and loan and lease growth. The allowance for loan and lease losses at December 31, 2005 and 2004, respectively, reflect management's estimate of possible losses in the portfolio.

Other Real Estate

Other real estate includes real estate acquired in full or partial settlement of loan obligations. When property is acquired, any excess of the recorded investment in the loan balance and accrued interest income over the estimated fair market value of the property less estimated selling costs is charged against the allowance for loan and lease losses. A valuation allowance for losses on other real estate is maintained to provide for temporary declines in value. The allowance is established through a provision for losses on other real estate which is included in other expenses. Subsequent gains or losses on sales or writedowns resulting from permanent impairments are recorded in other income or expense as incurred. There was no other real estate held by the Company at December 31, 2005 and 2004.

Premises and Equipment

Premises and equipment are carried at cost. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets. The useful life of the building and improvements is forty years. The useful lives of furniture, fixtures and equipment are estimated to be three to ten years. Leasehold improvements are amortized over the life of the asset or the term of the related lease, whichever is shorter. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred. Impairment of long-lived assets is evaluated by management based upon an event or changes in circumstances surrounding the underlying assets which indicate long-lived assets may be impaired.

Goodwill and Intangible Assets

Business combinations involving the Company's acquisition of equity interests or net assets of another enterprise or the assumption of net

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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 and is not deductible for tax purposes. A decline in net earnings could be indicative of a decline in the fair value of goodwill and result in impairment. For that reason, goodwill is assessed for impairment at least annually.

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AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill and Intangible Assets (Continued)

Intangible assets are comprised of core deposit intangibles which represent the estimated fair value of the long-term deposit relationships that were assumed when the Company acquired Bank of Amador. Core deposit intangibles are amortized using a method that approximates the expected run-off of the deposit base, which, in this case, is eight years.

Income Taxes

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

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

Comprehensive Income

Comprehensive income is reported in addition to net income for all periods presented. Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of other comprehensive income (loss) that historically has not been recognized in the calculation of net income. Unrealized gains and losses on the Company's available-for-sale investment securities are included in other comprehensive income (loss), adjusted for realized gains or losses included in net income. Total comprehensive income and the components of accumulated other comprehensive income (loss) are presented in the consolidated statement of changes in shareholders' equity.

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Earnings Per Share

Basic earnings per share (EPS), which excludes dilution, is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options, result in the issuance of common stock which shares in the earnings of the Company. The treasury stock method has been applied to determine the dilutive effect of stock options in computing diluted EPS. EPS is retroactively adjusted for stock splits and stock dividends for all periods presented.

Stock-Based Compensation

At December 31, 2005, the Company has two stock-based compensation plans, which are described more fully in Note 13. The Company accounts for these plans under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. Generally, stock-based compensation cost is not reflected in net income, as all options granted under these plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

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AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-Based Compensation (Continued)

Pro forma adjustments to the Company's consolidated net income and earnings per share are disclosed during the years in which the options become vested. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based compensation.

| | Year Ended December 31, | | |
|---|---|----------|-------|
| | 2005 | 2004 | 2003 |
| | ----- | | |
| | (Dollars in thousands, except per share data) | | |
| Net income, as reported | \$ 9,184 | \$ 5,827 | \$ 4, |
| Add: Stock-based compensation expense included in reported net income, net of tax effect | | | |
| Deduct: Total stock-based compensation expense determined under the fair value based method for | | | |

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| | | | |
|--|----------|----------|-------|
| all awards, net of related tax effects | (88) | (68) | (|
| | ----- | ----- | ----- |
| Pro forma net income | \$ 9,096 | \$ 5,759 | \$ 4, |
| | ===== | ===== | ===== |
| Basic earnings per share - as reported | \$ 1.63 | \$ 1.24 | \$ 1 |
| Basic earnings per share - pro forma | \$ 1.62 | \$ 1.22 | \$ 1 |
| Diluted earnings per share - as reported | \$ 1.60 | \$ 1.18 | \$ 1 |
| Diluted earnings per share - pro forma | \$ 1.59 | \$ 1.17 | \$ 0 |
| Weighted average fair value of options granted during the year | \$ 6.22 | \$ 4.69 | \$ 3 |

The fair value of each option is estimated on the date of grant using an option-pricing model.

| | | | |
|-------------------------|----------------|---------|-------|
| | 2005 | 2004 | |
| | ----- | ----- | ----- |
| Dividend yield | 2.27% to 2.71% | 2.15% | 1.7 |
| Expected volatility | 30.3% to 31.4% | 22.0% | 19. |
| Risk-free interest rate | 3.96% to 4.08% | 4.01% | 2.9 |
| Expected option life | 7 years | 7 years | |

Impact of New Financial Accounting Standards

Other-Than-Temporary Impairment

In March 2004, the Financial Accounting Standards Board (FASB) and Emerging Issues Task Force (EITF) reached consensus on several issues being addressed in EITF Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. The consensus provides guidance for evaluating whether an investment is other-than-temporarily impaired and was effective for other-than-temporary impairment evaluations made in reporting periods beginning after June 15, 2004. The disclosure provisions of EITF Issue No. 03-1 continue to be effective for the Company's consolidated financial statements for the year ended December 31, 2005.

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AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impact of New Financial Accounting Standards (Continued)

Other-Than-Temporary Impairment (Continued)

On November 3, 2005, the FASB issued FASB Staff Position (FSP) Nos. FAS 115-1 and FAS 124-1, The Meaning of Other-Than-Temporary Impairment and

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Its Application to Certain Investments. This FSP addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. This FSP also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. This FSP nullifies certain requirements of EITF Issue No. 03-1, and supersedes EITF Topic No. D-44, Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value. The guidance in this FSP amends FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities. The FSP is effective for reporting periods beginning after December 15, 2005. The Company does not anticipate any material impact to its financial condition or results of operations as a result of the adoption of this guidance.

Share-Based Payments

In December 2004, the FASB issued Statement No. 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 may elect to adopt FAS 123 (R) using a modified prospective method or modified retrospective method. Under the modified retrospective method, the Company would restate previously issued financial statements, basing the compensation expense on that previously reported in their pro forma disclosures required by FAS 123. The modified prospective method would require the Company to record compensation expense for the unvested portion of previously granted awards that remain outstanding at the date of adoption as these awards continue to vest. FAS 123 (R) is effective for the first fiscal year beginning after June 15, 2005, effectively January 1, 2006 for the Company. Management has elected to use the modified prospective method and has completed its evaluation of the effect of FAS 123 (R), and does not expect it to have a material impact on its financial position or results of operations.

Accounting Changes and Error Corrections

On June 7, 2005, the FASB issued Statement No. 154 (FAS 154), Accounting Changes and Error Corrections - a replacement of Accounting Principles Board (APB) Opinion No. 20, Accounting Changes, and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements. Under the provisions of FAS 154, voluntary changes in accounting principles are applied retrospectively to prior periods' financial statements unless it would be impractical to do so. FAS 154 supersedes APB Opinion No. 20, which required that most voluntary changes in accounting principles be recognized by including in the current period's net income the cumulative effect of the change. FAS 154 also makes a distinction between "retrospective application" of a change in accounting principle and the "restatement" of financial statements to reflect the correction of an error. The provisions of FAS 154 are effective for accounting changes made in fiscal years beginning after December 15, 2005. Management of the Company does not expect the adoption of this standard to have a material impact on its financial position or results of operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. MERGER TRANSACTION WITH BANK OF AMADOR

On December 3, 2004, the Company completed an acquisition of Bank of Amador (BNKA) through a merger and tax-free reorganization. The Company acquired BNKA and merged BNKA with and into ARB. The acquisition was completed because the Board of Directors and management of both organizations believed the combination would be in the best interests of shareholders of the Company and BNKA and that the combined companies could offer a broader array of services and products than each could offer on its own. Total consideration paid BNKA shareholders was determined through extensive negotiations supported by internal modeling, which management believed would result in earnings per share accretion to the Company's shareholders in 2005. These factors contributed to the purchase price which resulted in the recognition of goodwill.

The following table summarizes the terms of the acquisition (dollars in thousands):

| | | |
|--|----|---------|
| Shares of common stock issued | | 775,548 |
| Value of common stock issued | \$ | 18,284 |
| Cash paid to Bank of Amador shareholders | \$ | 12,730 |
| Total consideration paid | \$ | 31,014 |

During 2005, goodwill was increased \$238,000 representing the final adjustments to the initial allocation of the purchase price.

The following supplemental pro forma information discloses selected financial information for the periods indicated as though the merger had been completed at the beginning of each year presented (dollars in thousands, except per share data):

| | Year Ended December 31, | |
|--|-------------------------|-----------|
| | 2004 | 2003 |
| | ----- | ----- |
| Earnings as reported: | | |
| Revenue | \$ 25,031 | \$ 22,021 |
| Net income | \$ 5,827 | \$ 4,741 |
| Basic EPS | \$ 1.30 | \$ 1.13 |
| Diluted EPS | \$ 1.24 | \$ 1.05 |
| Pro forma merger adjustments: | | |
| Revenue | \$ 6,905 | \$ 7,043 |
| Net income | \$ 1,584 | \$ 1,817 |
| Pro forma earnings after merger adjustments: | | |
| Revenue | \$ 31,936 | \$ 29,064 |
| Net income | \$ 7,411 | \$ 6,558 |
| Basic EPS | \$ 1.42 | \$ 1.32 |
| Diluted EPS | \$ 1.37 | \$ 1.24 |

Pro forma net income for the year ended December 31, 2004 excludes nonrecurring charges of approximately \$2,086,000 on an after-tax basis, representing merger-related expenses and the cost of retiring outstanding stock options.

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AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. MERGER TRANSACTION WITH BANK OF AMADOR (Continued)

The estimated fair value of assets acquired and liabilities assumed are as follows (dollars in thousands):

| | |
|--|-----------|
| Cash and cash equivalents | \$ 26,294 |
| Interest-bearing deposits in banks | 100 |
| Available-for-sale investment securities | 22,542 |
| Gross loans | 79,598 |
| Allowance for loan and lease losses | (861) |
| Premises and equipment | 226 |
| Core deposit intangible | 2,213 |
| Goodwill | 16,083 |
| Other assets | 4,544 |
| | ----- |
| Total assets acquired | 150,739 |
| | ----- |
| Deposits | 119,236 |
| Other liabilities | 489 |
| | ----- |
| Total liabilities assumed | 119,725 |
| | ----- |
| Purchase price | \$ 31,014 |
| | ===== |

4. GOODWILL AND OTHER INTANGIBLE ASSETS

At December 31, 2005 and 2004, goodwill totaled \$16,321,000 and \$16,146,000, respectively. Goodwill is evaluated annually for impairment under the provisions of SFAS No. 142, Goodwill and Other Intangible Assets, and the Company determined that no impairment recognition was required for the years ended December 31, 2005 and 2004. Goodwill is not deductible for tax purposes.

Other intangible assets are comprised of core deposit intangibles totaling \$1,831,000 and \$2,183,000 at December 31, 2005 and 2004, respectively. Amortization included in other expense totaled \$352,000 and \$30,000 for the years ended December 31, 2005 and 2004, respectively. The remaining balance will be amortized over 6.9 years. Amortization expense for the next five years is estimated as follows (dollars in thousands):

| Year Ending December 31, ----- | | \$ | |
|--------------------------------------|--|-----|--|
| 2006 | | 330 | |
| 2007 | | 308 | |
| 2008 | | 286 | |
| 2009 | | 264 | |

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

5. INVESTMENT SECURITIES

The amortized cost and estimated fair value of investment securities at December 31, 2005 and 2004 consisted of the following (dollars in thousands):

Available-for-Sale

| | 2005 | | | |
|---|-------------------|------------------------------|-------------------------------|----------------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| | ----- | ----- | ----- | ----- |
| Debt securities: | | | | |
| U.S. Government agencies | \$ 49,860 | | \$ (741) | \$ 49,119 |
| Mortgage-backed securities | 37,065 | \$ 31 | (770) | 36,326 |
| Obligations of states and political subdivisions | 36,942 | 486 | (322) | 37,106 |
| Corporate debt securities | 1,017 | | (3) | 1,014 |
| Equity securities: | | | | |
| Corporate stock | 584 | 52 | (12) | 624 |
| | ----- | ----- | ----- | ----- |
| | \$ 125,468 | \$ 569 | \$ (1,848) | \$ 124,189 |
| | ===== | ===== | ===== | ===== |

| | 2004 | | | |
|---|-------------------|------------------------------|-------------------------------|----------------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| | ----- | ----- | ----- | ----- |
| Debt securities: | | | | |
| U.S. Government agencies | \$ 46,610 | \$ 181 | \$ (90) | \$ 46,701 |
| Mortgage-backed securities | 40,309 | 137 | (87) | 40,359 |
| Obligations of states and political subdivisions | 26,541 | 744 | (45) | 27,241 |
| Corporate debt securities | 1,115 | 1 | (2) | 1,114 |
| Equity securities: | | | | |
| Corporate stock | 586 | 62 | (21) | 627 |
| | ----- | ----- | ----- | ----- |
| | \$ 115,161 | \$ 1,125 | \$ (245) | \$ 116,041 |
| | ===== | ===== | ===== | ===== |

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Net unrealized losses on available-for-sale investment securities totaling \$1,279,000 were recorded, net of \$522,000 in tax benefits, as accumulated other comprehensive loss within shareholders' equity at December 31, 2005. Proceeds and gross realized gains from the sale of available-for-sale investment securities for the year ended December 31, 2005 totaled \$6,964,000 and \$48,000, respectively. There were no transfers of available-for-sale investment securities during the year ended December 31, 2005.

Net unrealized gains on available-for-sale investment securities totaling \$880,000 were recorded, net of \$325,000 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at December 31, 2004. Proceeds and gross realized losses from the sale of available-for-sale investment securities for the year ended December 31, 2004 totaled \$5,019,000 and (\$38,000), respectively. There were no transfers of available-for-sale investment securities during the year ended December 31, 2004 and 2003.

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AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

5. INVESTMENT SECURITIES (Continued)

Held-to-Maturity

| | 2005 | | | |
|----------------------------|-------------------|------------------------------|-------------------------------|------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Esti Fa Va |
| | ----- | ----- | ----- | ----- |
| Debt securities: | | | | |
| Mortgage-backed securities | \$ 45,012 | \$ 60 | \$ (414) | \$ |
| | ===== | ===== | ===== | ===== |

| | 2004 | | | |
|----------------------------|-------------------|------------------------------|-------------------------------|------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Esti Fa Va |
| | ----- | ----- | ----- | ----- |
| Debt securities: | | | | |
| Mortgage-backed securities | \$ 41,203 | \$ 216 | \$ (91) | \$ |
| | ===== | ===== | ===== | ===== |

There were no sales or transfers of held-to-maturity investment securities for the years ended December 31, 2005, 2004 and 2003.

The amortized cost and estimated fair value of investment securities at

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December 31, 2005 by contractual maturity are shown below (dollars in thousands).

| | Available-for-Sale | | Held-to-Maturity | |
|---|--------------------|----------------------------|-------------------|----------------------------|
| | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Within one year | \$ 21,165 | \$ 21,012 | | |
| After one year through five years | 45,306 | 44,547 | | |
| After five years through ten years | 17,066 | 17,386 | | |
| After ten years | 4,282 | 4,294 | | |
| | 87,819 | 87,239 | | |
| Investment securities not due at a single maturity date: | | | | |
| Mortgage-backed securities | 37,065 | 36,326 | \$ 45,012 | \$ 44,658 |
| Corporate stock | 584 | 624 | | |
| | \$ 125,468 | \$ 124,189 | \$ 45,012 | \$ 44,658 |
| | ===== | ===== | ===== | ===== |

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

Investment securities with amortized costs totaling \$57,898,000 and \$57,481,000 and estimated fair values totaling \$56,901,000 and \$57,599,000 were pledged to secure treasury tax and loan accounts, State Treasury funds on deposit, public agency and bankruptcy trustee deposits and borrowing arrangements (see Note 10) at December 31, 2005 and 2004, respectively.

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AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. INVESTMENT SECURITIES (Continued)

Investment securities with unrealized losses at December 31, 2005 are summarized and classified according to the duration of the loss period as follows (dollars in thousands):

| Less than 12 Months | | 12 Months or More | |
|---------------------|----------------------|-------------------|----------------------|
| Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | | | |
| | | | |

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Available-for-Sale

Debt securities:

| | | | | |
|---|-----------|----------|-----------|----------|
| U.S. Government agencies | \$ 29,344 | \$ (368) | \$ 19,775 | \$ (373) |
| Mortgage-backed securities | 16,779 | (374) | 16,619 | (396) |
| Obligations of states and political sub-divisions | 18,083 | (212) | 6,370 | (110) |
| Corporate debt securities | 1,014 | (3) | | |
| Corporate stock | | | 238 | (12) |
| | ----- | ----- | ----- | ----- |
| | \$ 65,220 | \$ (957) | \$ 43,002 | \$ (891) |
| | ===== | ===== | ===== | ===== |

Held-to-Maturity

Debt securities:

| | | | | |
|----------------------------|-----------|----------|----------|---------|
| Mortgage-backed securities | \$ 30,753 | \$ (344) | \$ 3,130 | \$ (70) |
| | ===== | ===== | ===== | ===== |

At December 31, 2005, the Company held 245 investment securities of which 101 were in a loss position for less than twelve months and 52 were in a loss position and had been in a loss position for twelve months or more. Management periodically evaluates each investment security in a loss position for other-than-temporary impairment, relying primarily on industry analyst reports and observation of market conditions and interest rate fluctuations. Management believes it will be able to collect all amounts due according to the contractual terms of the underlying investment securities and that the noted decline in fair value is considered temporary and due only to interest rate fluctuations.

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AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

6. LOANS AND LEASES

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

| | | |
|--|--------------|-------|
| | December 31, | |
| | ----- | ----- |
| | 2005 | 2004 |
| | ----- | ----- |

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| | | |
|---|------------|------------|
| Real estate - commercial | \$ 154,500 | \$ 166,263 |
| Real estate - construction | 103,048 | 90,162 |
| Real estate - multi-family | 3,767 | 2,660 |
| Real estate - residential | 4,680 | 5,236 |
| Commercial | 77,971 | 66,864 |
| Lease financing receivable | 7,967 | 9,994 |
| Agriculture | 8,129 | 8,252 |
| Consumer | 11,900 | 9,417 |
| | ----- | ----- |
| | 371,962 | 358,848 |
| Deferred loan and lease origination fees, net | (712) | (885) |
| Allowance for loan and lease losses | (5,679) | (5,496) |
| | ----- | ----- |
| | \$ 365,571 | \$ 352,467 |
| | ===== | ===== |

Certain loans have been pledged to secure borrowing arrangements (see Note 10).

The components of the Company's leases receivable are summarized as follows (dollars in thousands):

| | December 31, | |
|----------------------------------|--------------|-----------|
| | 2005 | 2004 |
| | ----- | ----- |
| Future lease payments receivable | \$ 8,470 | \$ 10,709 |
| Residual interests | 275 | 276 |
| Unearned income | (778) | (991) |
| | ----- | ----- |
| Net lease financing receivable | \$ 7,967 | \$ 9,994 |
| | ===== | ===== |

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

| Year Ending December 31, | |
|---------------------------------|----------|
| ----- | |
| 2006 | \$ 3,810 |
| 2007 | 2,495 |
| 2008 | 1,500 |
| 2009 | 521 |
| 2010 | 142 |
| Thereafter | 2 |
| | ----- |
| Total lease payments receivable | \$ 8,470 |
| | ===== |

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(Continued)

6. LOANS AND LEASES (Continued)

Changes in the allowance for loan and lease losses were as follows (dollars in thousands):

| | Year Ended December 31, | | |
|---------------------------------|-------------------------|----------|----------|
| | 2005 | 2004 | 2003 |
| Balance, beginning of year | \$ 5,496 | \$ 3,949 | \$ 3,197 |
| Allowance acquired | | 861 | |
| Provision charged to operations | 322 | 895 | 946 |
| Losses charged to allowance | (206) | (269) | (354) |
| Recoveries | 67 | 60 | 160 |
| | ----- | ----- | ----- |
| Balance, end of year | \$ 5,679 | \$ 5,496 | \$ 3,949 |
| | ===== | ===== | ===== |

At December 31, 2005 and 2004, nonaccrual loans and leases totaled \$67,000 and \$236,000, respectively. Interest foregone on nonaccrual loans for the years ended December 31, 2005, 2004 and 2003 was not material.

The recorded investment in loans and leases that were considered to be impaired totaled \$91,000 and \$247,000 at December 31, 2005 and 2004, respectively. The related allowance for loan and lease losses for these loans and leases as determined under loan impairment standards at December 31, 2005 and 2004 was \$24,000 and \$62,000, respectively. The average recorded investment in impaired loans and leases for the years ended December 31, 2005, 2004 and 2003 was \$271,000, \$124,000 and \$148,000, respectively. Interest income recognized on impaired loans and leases using a cash-basis method for the years ended December 31, 2005, 2004 and 2003 was not material.

Salaries and employee benefits totaling \$1,395,000, \$706,000 and \$570,000 have been deferred as loan and lease origination costs for the years ended December 31, 2005, 2004 and 2003, respectively.

7. PREMISES AND EQUIPMENT

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

| | December 31, | |
|-----------------------------------|--------------|--------|
| | 2005 | 2004 |
| Land | \$ 206 | \$ 206 |
| Building and improvements | 779 | 597 |
| Furniture, fixtures and equipment | 6,023 | 5,378 |
| Leasehold improvements | 1,133 | 1,123 |
| | ----- | ----- |

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| | | |
|---|----------|----------|
| | 8,141 | 7,304 |
| Less accumulated depreciation and amortization | (6,051) | (5,428) |
| | ----- | ----- |
| | \$ 2,090 | \$ 1,876 |
| | ===== | ===== |

Depreciation and amortization included in occupancy and furniture and equipment expense totaled \$672,000, \$562,000 and \$480,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

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AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

8. ACCOUNTS RECEIVABLE SERVICING RECEIVABLES

The Company purchases existing accounts receivable on a discounted basis from selected merchants and assumes the related billing and collection responsibilities on a recourse basis. Accounts receivable servicing fees included in other income totaled \$356,000, \$316,000 and \$247,000 for the years ended December 31, 2005, 2004 and 2003, respectively. The valuation allowance for these receivables is not significant.

9. INTEREST-BEARING DEPOSITS

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

| | December 31, | |
|-------------------------|--------------|------------|
| | 2005 | 2004 |
| | ----- | ----- |
| Savings | \$ 37,711 | \$ 38,957 |
| Money market | 133,443 | 139,373 |
| NOW accounts | 46,364 | 47,052 |
| Time, \$100,000 or more | 69,063 | 57,037 |
| Other time | 49,728 | 49,258 |
| | ----- | ----- |
| | \$ 336,309 | \$ 331,677 |
| | ===== | ===== |

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

| Year Ending December 31, ----- | |
|--------------------------------------|-----------|
| 2006 | \$ 97,429 |
| 2007 | 11,659 |
| 2008 | 5,558 |
| 2009 | 2,322 |

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| | |
|------------|------------|
| 2010 | 1,816 |
| Thereafter | 7 |
| | ----- |
| | \$ 118,791 |
| | ===== |

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

| | Year Ended December 31, | | |
|-------------------------|-------------------------|----------|----------|
| | 2005 | 2004 | 2003 |
| | ----- | ----- | ----- |
| Savings | \$ 150 | \$ 56 | \$ 35 |
| Money market | 2,164 | 1,057 | 884 |
| NOW accounts | 83 | 43 | 28 |
| Time, \$100,000 or more | 1,620 | 836 | 743 |
| Other time | 1,629 | 519 | 700 |
| | ----- | ----- | ----- |
| | \$ 5,646 | \$ 2,511 | \$ 2,390 |
| | ===== | ===== | ===== |

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AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

10. BORROWING ARRANGEMENTS

The Company has a total of \$48,000,000 in unsecured short-term borrowing arrangements to purchase Federal funds with four of its correspondent banks. There were no advances under the borrowing arrangements as of December 31, 2005 and 2004.

In addition, the Company has a line of credit available with the Federal Home Loan Bank which is secured by pledged mortgage loans (see Note 6) and investment securities (see Note 5). Borrowings may include overnight advances as well as loans with a term of up to thirty years. Advances totaling \$43,656,000 were outstanding from the Federal Home Loan Bank at December 31, 2005, bearing fixed interest rates ranging from 2.10% to 6.13% and maturing between January 3, 2006 and December 31, 2007. Advances totaling \$34,289,000 were outstanding from the Federal Home Loan Bank at December 31, 2004, bearing fixed interest rates ranging from 1.29% to 6.13% and maturing between January 24, 2005 and December 21, 2007. Amounts available under the borrowing arrangement with the Federal Home Loan Bank at December 31, 2005 and 2004 totaled \$3,534,000 and \$16,071,000, respectively.

The following table summarizes these borrowings (in thousands):

| | December 31, |
|--|--------------|
| | ----- |
| | 2005 |
| | 2004 |

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| | Amount | Weighted Average Rate | Amount | Weighted Average Rate |
|----------------------------------|-----------|-----------------------|-----------|-----------------------|
| Short-term portion of borrowings | \$ 39,386 | 3.73% | \$ 24,457 | 1.85% |
| Long-term borrowings | 4,270 | 4.10% | 9,832 | 3.15% |
| FHLB advances | \$ 43,656 | 3.76% | \$ 34,289 | 2.22% |

Future minimum principal payments on outstanding borrowings are as follows (dollars in thousands):

| Year Ending December 31, | |
|-----------------------------|-----------|
| 2006 | \$ 39,386 |
| 2007 | 4,270 |
| | \$ 43,656 |

The Company has also been issued \$2,000,000 in letters of credit by the Federal Home Loan Bank 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 2005 and management does not expect to draw upon these lines in the future.

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AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

11. INCOME TAXES

The provision for income taxes for the years ended December 31, 2005, 2004, and 2003 consisted of the following (dollars in thousands):

| | Federal | State | Total |
|----------------------------|----------|----------|----------|
| 2005 | | | |
| Current | \$ 4,706 | \$ 1,508 | \$ 6,214 |
| Deferred | (481) | 59 | (422) |
| Provision for income taxes | \$ 4,225 | \$ 1,567 | \$ 5,792 |

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| | ===== | ===== | ===== |
|----------------------------|----------|--------|----------|
| 2004 | | | |
| ---- | | | |
| Current | \$ 2,504 | \$ 956 | \$ 3,460 |
| Deferred | (25) | (57) | (82) |
| | ----- | ----- | ----- |
| Provision for income taxes | \$ 2,479 | \$ 899 | \$ 3,378 |
| | ===== | ===== | ===== |
| 2003 | | | |
| ---- | | | |
| Current | \$ 2,566 | \$ 968 | \$ 3,534 |
| Deferred | (332) | (142) | (474) |
| | ----- | ----- | ----- |
| Provision for income taxes | \$ 2,234 | \$ 826 | \$ 3,060 |
| | ===== | ===== | ===== |

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

| | December 31, | |
|---|--------------|----------|
| | 2005 | 2004 |
| | ----- | ----- |
| Deferred tax assets: | | |
| Allowance for loan and lease losses | \$ 2,382 | \$ 2,295 |
| Future benefit of State tax deduction | 506 | 214 |
| Deferred compensation | 517 | 484 |
| Unrealized losses on available-for-sale investment securities | 522 | |
| Other | 167 | 10 |
| | ----- | ----- |
| Total deferred tax assets | 4,094 | 3,003 |
| | ----- | ----- |
| Deferred tax liabilities: | | |
| Core deposit intangible | (819) | (970) |
| Investment market to market | (165) | (192) |
| Future liability of State deferred tax assets | (133) | (115) |
| Deferred loan costs | (430) | |
| Unrealized gain on available-for-sale investment securities | | (325) |
| Federal Home Loan Bank stock dividends | (122) | (88) |
| Other | (10) | (167) |
| | ----- | ----- |
| Total deferred tax liabilities | (1,679) | (1,857) |
| | ----- | ----- |
| Net deferred tax assets | \$ 2,415 | \$ 1,146 |
| | ===== | ===== |

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AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. INCOME TAXES (Continued)

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

| | Year Ended December 31, | | |
|---|-------------------------|---------|---------|
| | 2005 | 2004 | 2003 |
| Federal income tax statutory rate | 34.0 % | 34.0 % | 34.0 % |
| State franchise tax, net of Federal tax effect | 6.9 % | 6.4 % | 6.9 % |
| Tax benefit of interest on obligations of states and political subdivisions | (2.1) % | (2.0) % | (2.1) % |
| Tax-exempt income from life insurance policies | (0.4) % | (2.2) % | |
| Other | 0.3 % | 0.5 % | 0.4 % |
| | ----- | ----- | ----- |
| Effective tax rate | 38.7 % | 36.7 % | 39.2 % |
| | ===== | ===== | ===== |

12. COMMITMENTS AND CONTINGENCIES

Leases

The Company leases branch facilities, administrative offices and various equipment under noncancelable operating leases which expire on various dates through the year 2014. Certain of the leases have five year renewal options. Two of the branch facilities are leased from current or former members of the Company's Board of Directors (see Note 17).

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

| Year Ending December 31, ----- | |
|--------------------------------------|----------|
| 2006 | \$ 860 |
| 2007 | 689 |
| 2008 | 693 |
| 2009 | 556 |
| 2010 | 366 |
| Thereafter | 873 |
| | ----- |
| | \$ 4,037 |
| | ===== |

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Rental expense included in occupancy, furniture and equipment expense totaled \$887,000, \$718,000 \$600,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

Financial Instruments With Off-Balance-Sheet Risk

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

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AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. COMMITMENTS AND CONTINGENCIES (Continued)

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

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

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

| | December 31, | |
|--|--------------|------------|
| | 2005 | 2004 |
| Commitments to extend credit: | | |
| Revolving lines of credit secured by 1-4 family residences | \$ 16,845 | \$ 2,328 |
| Commercial real estate, construction and land development commitments secured by real estate | 55,313 | 66,066 |
| Other unused commitments, principally commercial loans | 65,644 | 57,019 |
| | \$ 137,802 | \$ 125,413 |
| | ===== | ===== |
| Standby letters of credit | \$ 3,393 | \$ 2,788 |
| | ===== | ===== |

Real estate commitments are generally secured by property with a

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loan-to-value ratio of 65% to 75%. In addition, the majority of the Company's commitments have variable interest rates.

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

Standby letters of credit are conditional commitments issued to guarantee the performance or financial obligation of a client to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to clients. 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 December 31, 2005 and 2004. The Company recognizes these fees as revenue over the term of the commitment or when the commitment is used.

Significant Concentrations of Credit Risk

The Company grants real estate mortgage, real estate construction, commercial, agricultural and consumer loans to clients throughout Sacramento, Placer, Yolo, Amador, El Dorado, Sonoma, Napa, Marin and Mendocino counties.

In management's judgment, a concentration exists in real estate-related loans which represented approximately 72% and 74% of the Company's loan portfolio at December 31, 2005 and 2004, respectively. Although management believes such concentrations to have no more than the normal risk of collectibility, a substantial decline in the economy in general, or a decline in real estate values in the Company's primary market areas in particular, could have an adverse impact on collectibility of these loans. However, personal and business income represent the primary source of repayment for a majority of these loans.

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AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. COMMITMENTS AND CONTINGENCIES (Continued)

Correspondent Banking Agreements

The Company maintains funds on deposit with other federally insured financial institutions under correspondent banking agreements. Uninsured deposits totaled \$20,623,000 at December 31, 2005.

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Contingencies

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

13. SHAREHOLDERS' EQUITY

Earnings Per Share

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

| For the Year Ended | Net Income | Weighted Average Number of Shares Outstanding | Per-Share Amount |
|----------------------------------|---------------|---|---------------------|
| ----- | ----- | ----- | ----- |
| December 31, 2005 | | | |
| ----- | | | |
| Basic earnings per share | \$ 9,184 | 5,620 | \$ 1.63 |
| | | | ===== |
| Effect of dilutive stock options | | 114 | |
| | | ----- | |
| Diluted earnings per share | \$ 9,184 | 5,734 | \$ 1.60 |
| | | | ===== |
| December 31, 2004 | | | |
| ----- | | | |
| Basic earnings per share | \$ 5,827 | 4,716 | \$ 1.24 |
| | | | ===== |
| Effect of dilutive stock options | | 215 | |
| | | ----- | |
| Diluted earnings per share | \$ 5,827 | 4,931 | \$ 1.18 |
| | | | ===== |
| December 31, 2003 | | | |
| ----- | | | |
| Basic earnings per share | \$ 4,741 | 4,398 | \$ 1.08 |
| | | | ===== |
| Effect of dilutive stock options | | 362 | |
| | | ----- | |
| Diluted earnings per share | \$ 4,741 | 4,760 | \$ 1.00 |

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

13. SHAREHOLDERS' EQUITY (Continued)

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. At December 31, 2005, grants outstanding combined with shares available for future grants totaled 649,629 shares under these plans. 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 purchase price of exercised options is payable in full in cash or shares of the Company's common stock owned by the optionee at the time the option is exercised. The options expire on dates determined by the Board of Directors, but not later than ten years from the date of grant. Options vest ratably over a five year period. Outstanding options under the 1995 plan are exercisable until their expiration; however, no new options will be granted under this plan.

A summary of the combined activity within the plans follows:

| | 2005 | | 2004 | |
|--|-----------|---------------------------------|-----------|---------------------------------|
| | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| Options outstanding, beginning of year | 359,748 | \$ 8.98 | 605,704 | \$ 5.80 |
| Options granted | 65,458 | \$ 21.05 | 69,850 | \$ 19.43 |
| Options exercised | (118,975) | \$ 4.00 | (290,449) | \$ 4.08 |
| Options canceled | (15,296) | \$ 17.77 | (25,358) | \$ 15.00 |
| Options outstanding, end of year | 290,935 | \$ 13.25 | 359,748 | \$ 8.98 |
| Options exercisable, end of year | 159,444 | \$ 8.43 | 257,478 | \$ 5.70 |

A summary of options outstanding at December 31, 2005 follows:

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| Range of Exercise Prices | Number of Options Outstanding December 31, 2005 | Weighted Average Remaining Contractual Life | Number of Options Exercisable December 31, 2005 |
|--------------------------|---|---|---|
| \$ 3.03 | 9,806 | .8 years | 9,806 |
| \$ 4.74 | 15,593 | 4.0 years | 15,593 |
| \$ 5.02 | 11,245 | 2.7 years | 11,245 |
| \$ 5.57 | 21,703 | 1.4 years | 21,703 |
| \$ 8.03 | 14,943 | 3.9 years | 14,943 |
| \$ 8.21 | 15,074 | 3.0 years | 15,074 |
| \$ 8.85 | 43,404 | 2.7 years | 43,404 |
| \$ 13.51 | 40,248 | 7.4 years | 40,248 |
| \$ 14.65 | 801 | 7.5 years | 801 |
| \$ 19.43 | 56,281 | 8.4 years | 56,281 |
| \$ 20.96 | 25,256 | 9.1 years | 25,256 |
| \$ 21.11 | 36,581 | 9.7 years | 36,581 |
| | 290,935 | | 159,400 |

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AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

13. SHAREHOLDERS' EQUITY (Continued)

Common Stock Repurchase Program

During 1997, the Board of Directors authorized the annual repurchase of up to five percent of the Company's common stock. Repurchases are generally made in the open market at market prices.

Stock Dividend

The Board of Directors declared 5% stock dividends on November 16, 2005 and December 16, 2004. All per share and stock option data included in the consolidated financial statements have been retroactively restated to reflect the stock dividends.

Stock Split

On September 17, 2003, the Board of Directors declared a three-for-two stock split, payable on October 31, 2003 to shareholders of record on October 17, 2003. All per share, shares outstanding and stock option data in the consolidated financial statements have been retroactively restated to reflect the stock split.

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14. REGULATORY MATTERS

Dividends

Upon declaration by the Board of Directors of the Company, all shareholders of record will be entitled to receive dividends. The California Financial Code restricts the total dividend payment of any state banking association in any calendar year to the lesser of (1) the bank's retained earnings or (2) the bank's net income for its last three fiscal years, less distributions made to shareholders during the same three-year period. At December 31, 2005, the subsidiaries had \$2,209,000 in retained earnings available for dividend payments to the Company.

Regulatory Capital

The Company and its banking subsidiary are subject to certain regulatory capital requirements administered by the Board of Governors of the Federal Reserve System and the FDIC. Failure to meet these minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the banking subsidiaries must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and its banking subsidiary's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and its banking subsidiary to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. Each of these components is defined in the regulations. Management believes that the Company and its banking subsidiary met all their capital adequacy requirements as of December 31, 2005 and 2004.

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AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

14. REGULATORY MATTERS (Continued)

Regulatory Capital (Continued)

In addition, the most recent notifications from the FDIC categorized ARB as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, ARB must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth below. There are no conditions or events since those notifications that management believes have changed the categories.

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| | December 31, | | |
|--|-------------------|-------|----|
| | 2005 | | |
| | Amount | Ratio | Am |
| | (dollars in thous | | |
| <u>Leverage Ratio</u> | | | |
| American River Bankshares and Subsidiaries | \$ 45,471 | 7.7% | \$ |
| Minimum regulatory requirement | \$ 23,746 | 4.0% | \$ |
| American River Bank | \$ 45,602 | 7.7% | \$ |
| Minimum requirement for "Well-Capitalized" institution | \$ 29,626 | 5.0% | \$ |
| Minimum regulatory requirement | \$ 23,701 | 4.0% | \$ |
| <u>Tier 1 Risk-Based Capital Ratio</u> | | | |
| American River Bankshares and Subsidiaries | \$ 45,471 | 10.6% | \$ |
| Minimum regulatory requirement | \$ 17,165 | 4.0% | \$ |
| American River Bank | \$ 45,602 | 10.7% | \$ |
| Minimum requirement for "Well-Capitalized" institution | \$ 25,680 | 6.0% | \$ |
| Minimum regulatory requirement | \$ 17,120 | 4.0% | \$ |
| <u>Total Risk-Based Capital Ratio</u> | | | |
| American River Bankshares and Subsidiaries | \$ 50,839 | 11.9% | \$ |
| Minimum regulatory requirement | \$ 34,330 | 8.0% | \$ |
| American River Bank | \$ 50,956 | 11.9% | \$ |
| Minimum requirement for "Well-Capitalized" institution | \$ 42,800 | 10.0% | \$ |
| Minimum regulatory requirement | \$ 34,240 | 8.0% | \$ |

15. OTHER NONINTEREST INCOME AND EXPENSE

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

| | Year Ended December 31, | | |
|---|-------------------------|----------|----------|
| | 2005 | 2004 | 2003 |
| Gain on life insurance death benefit | | \$ 553 | |
| Accounts receivable servicing fees (Note 8) | \$ 356 | 316 | \$ 247 |
| Merchant fee income | 509 | 393 | 357 |
| Income from residential lending division | 283 | 187 | 366 |
| Fees from lease brokerage services | | 9 | 381 |
| Other | 461 | 386 | 335 |
| | \$ 1,609 | \$ 1,844 | \$ 1,686 |

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AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

15. OTHER NONINTEREST INCOME AND EXPENSE (Continued)

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

| | Year Ended December 31, | | |
|-----------------------------------|-------------------------|----------|----------|
| | 2005 | 2004 | 2003 |
| Professional fees | \$ 732 | \$ 478 | \$ 335 |
| Outsourced item processing | 489 | 383 | 361 |
| Telephone and postage | 439 | 280 | 275 |
| Advertising and promotion | 331 | 288 | 198 |
| Donations | 82 | 527 | 26 |
| Stationery and supplies | 303 | 262 | 175 |
| Directors' compensation | 429 | 518 | 353 |
| Amortization of intangible assets | 352 | 30 | 7 |
| Other operating expenses | 1,231 | 1,156 | 939 |
| | ----- | ----- | ----- |
| | \$ 4,388 | \$ 3,922 | \$ 2,669 |
| | ===== | ===== | ===== |

16. EMPLOYEE BENEFIT PLANS

American River Bankshares 401(k) Plan

The American River Bankshares 401(k) Plan commenced January 1, 1993 and is available to all employees. Under the plan, the Company will match 100% of each participants' contribution up to 3% of annual compensation plus 50% of the next 2% of annual compensation. Employer Safe Harbor matching contributions (made after January 1, 2004) are 100% vested upon entering the plan. Employer contributions made prior to January 1, 2004 vest at a rate of 20% per year over a five year period. Employer contributions totaled \$220,000, \$169,000 and \$116,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

Employee Stock Purchase Plan

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

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American River Bankshares Deferred Compensation Plan -----

The Company has established a Deferred Compensation Plan for certain members of the management team and a Deferred Fee Agreement for Non-Employee Directors for the purpose of providing the opportunity for participants to defer compensation. Participants of the management team, who are selected by a Committee designated by the Board of Directors, may elect to defer annually a minimum of \$5,000 or a maximum of eighty percent of their base salary and all of their cash bonus. Directors may also elect to defer up to one hundred percent of their monthly fees. The Company bears all administration costs and funds the interest earned on participant deferrals at a rate based on U.S. Government Treasury rates. Deferred compensation, including interest earned, totaled \$1,147,000, \$851,000 and \$615,000 at December 31, 2005, 2004 and 2003, respectively.

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AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. EMPLOYEE BENEFIT PLANS (Continued)

Salary Continuation Plan -----

The Company has agreements to provide certain current executives, or their designated beneficiaries, with annual benefits for up to 15 years after retirement or death. These benefits are substantially equivalent to those available under life insurance policies purchased by the Company on the lives of the executives. The Company accrues for these future benefits from the effective date of the agreements until the executives' expected final payment dates in a systematic and rational manner. At the balance sheet date, the amount of accrued benefits approximates the then present value of the benefits expected to be provided at retirement. The expense recognized under this plan totaled \$115,000, \$29,000 and \$42,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

Under these plans, the Company invested in single premium life insurance policies with cash surrender values totaling \$5,073,000 and \$4,895,000 at December 31, 2005 and 2004, respectively. On the consolidated balance sheet, the cash surrender value of life insurance policies is included in accrued interest receivable and other assets. Income on these policies, net of expense, totaled approximately \$179,000, \$69,000 and \$27,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

17. RELATED PARTY TRANSACTIONS

During the normal course of business, the Company enters into transactions with related parties, including Directors and affiliates. These transactions include borrowings from the Company with substantially the same terms, including rates and collateral, as loans to unrelated parties. The following is a summary of the aggregate activity involving related party borrowers during 2005 (dollars in

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thousands):

| | |
|--|----------|
| Balance, January 1, 2005 | \$ 7,048 |
| Disbursements | 170 |
| Amounts repaid | 242 |
| | ----- |
| Balance, December 31, 2005 | \$ 6,976 |
| | ===== |
| Undisbursed commitments to related parties, December 31, 2005 | \$ 31 |
| | ===== |

The Company also leases two branch facilities from current and former members of the Company's Board of Directors. Rental payments to the Directors totaled \$115,000, \$112,000 and \$109,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

18. OTHER COMPREHENSIVE LOSS

At December 31, 2005, 2004 and 2003, the Company had other comprehensive loss as follows (dollars in thousands):

| | Before Tax | Tax Benefit (Expense) | After Tax |
|---|---------------|-----------------------------|--------------|
| | ----- | ----- | ----- |
| For the Year Ended December 31, 2005 | | | |
| ----- | | | |
| Other comprehensive loss: | | | |
| Unrealized holding losses | \$ (2,111) | \$ 827 | \$ (1,284) |
| Less reclassification adjustment for realized gains included in net income | 48 | (20) | 28 |
| | ----- | ----- | ----- |
| | \$ (2,159) | \$ 847 | \$ (1,312) |
| | ===== | ===== | ===== |

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

18. OTHER COMPREHENSIVE LOSS (Continued)

| | Before Tax | Tax Benefit (Expense) | After Tax |
|--|---------------|-----------------------------|--------------|
| | ----- | ----- | ----- |

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For the Year Ended December 31, 2004

| | | | |
|---|----|-------|--------|
| Other comprehensive loss: | | | |
| Unrealized holding losses | \$ | (588) | \$ 256 |
| Less reclassification adjustment for realized losses included in net income | | (38) | 15 |
| | | ----- | ----- |
| | \$ | (550) | \$ 241 |
| | | ===== | ===== |

For the Year Ended December 31, 2003

| | | | |
|--|----|-------|--------|
| Other comprehensive loss: | | | |
| Unrealized holding losses | \$ | (686) | \$ 266 |
| Less reclassification adjustment for realized gains included in net income | | 33 | (13) |
| | | ----- | ----- |
| | \$ | (719) | \$ 279 |
| | | ===== | ===== |

19. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The following methods and assumptions were used by the Company to estimate the fair value of its financial instruments at December 31, 2005 and 2004:

Cash and cash equivalents: For cash and cash equivalents, the carrying amount is estimated to be fair value.

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

Investment securities: For investment securities, fair values are based on quoted market prices, where available. If quoted market prices are not available, fair values are estimated using quoted market prices for

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similar securities and indications of value provided by brokers.

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AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

19. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Loans and leases: For variable-rate loans and leases that reprice frequently with no significant change in credit risk, fair values are based on carrying values. The fair values for other loans and leases are estimated using discounted cash flow analyses, using interest rates being offered at each reporting date for loans and leases with similar terms to borrowers of comparable creditworthiness. The carrying amount of accrued interest receivable approximates its fair value.

FHLB stock: The carrying amount of FHLB stock approximates its fair value. This investment is carried at cost and is redeemable at par with certain restrictions.

Accounts receivable servicing receivables: The carrying amount of accounts receivable servicing receivables approximates their fair value because of the relatively short period of time between the origination of the receivables and their expected collection.

Cash surrender value of life insurance policies: The fair value of life insurance policies are based on cash surrender values at each reporting date as provided by insurers.

Deposits: The fair values for demand deposits are, by definition, equal to the amount payable on demand at the reporting date represented by their carrying amount. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow analysis using interest rates offered at each reporting date for certificates with similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.

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

Commitments to extend credit: The fair value of commitments are based on fees currently charged to enter into similar agreements, net of origination fees. These fees were not material at December 31, 2005 and 2004.

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

| December 31, 2005 | | December 31, 2004 | |
|-------------------|----------------------|-------------------|----------------------|
| Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |

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| | ----- | ----- | ----- | ----- |
|--|-----------|-----------|-----------|-----------|
| Financial assets: | | | | |
| Cash and due from banks | \$ 34,825 | \$ 34,825 | \$ 28,115 | \$ 28,115 |
| Federal Funds sold | 1,250 | 1,250 | 7,000 | 7,000 |
| Interest-bearing deposits in banks | 4,844 | 4,823 | 5,939 | 5,901 |
| Investment securities | 169,201 | 168,847 | 157,244 | 157,369 |
| Loans and leases | 365,571 | 364,589 | 352,467 | 352,768 |
| FHLB stock | 2,608 | 2,608 | 2,158 | 2,158 |
| Accounts receivable servicing receivables | 2,000 | 2,000 | 2,409 | 2,409 |
| Accrued interest receivable | 2,925 | 2,925 | 2,504 | 2,504 |
| Cash surrender value of life insurance policies | 5,073 | 5,073 | 4,895 | 4,895 |

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AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

19. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

| | December 31, 2005 | | December 31, 2004 | |
|--------------------------|--------------------|----------------------------|--------------------|----------------------------|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Financial liabilities: | | | | |
| Deposits | \$ 500,706 | \$ 500,906 | \$ 475,387 | \$ 476,139 |
| Short-term borrowings | 39,386 | 39,386 | 24,457 | 24,457 |
| Long-term debt | 4,270 | 3,423 | 9,832 | 10,223 |
| Accrued interest payable | 795 | 795 | 553 | 553 |

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AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

20. PARENT ONLY CONDENSED FINANCIAL STATEMENTS

CONDENSED BALANCE SHEET

December 31, 2005 and 2004
(Dollars in thousands)

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| | 2005 | 2004 |
|--|-----------|-----------|
| | ----- | ----- |
| ASSETS | | |
| Cash and due from banks | \$ 316 | \$ 2,654 |
| Investment in subsidiaries | 62,997 | 61,075 |
| Dividends receivable from subsidiaries | 842 | 9,985 |
| Other assets | 973 | 822 |
| | ----- | ----- |
| | \$ 65,128 | \$ 74,536 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Liabilities: | | |
| Dividends payable to shareholders | \$ 841 | \$ 582 |
| Other liabilities | 1,541 | 14,964 |
| | ----- | ----- |
| Total liabilities | 2,382 | 15,546 |
| | ----- | ----- |
| Shareholders' equity: | | |
| Common stock | 47,474 | 42,557 |
| Retained earnings | 16,029 | 15,878 |
| Accumulated other comprehensive (loss) income, net of taxes | (757) | 555 |
| | ----- | ----- |
| Total shareholders' equity | 62,746 | 58,990 |
| | ----- | ----- |
| | \$ 65,128 | \$ 74,536 |
| | ===== | ===== |

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AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

20. PARENT ONLY CONDENSED FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENT OF INCOME

For the Years Ended December 31, 2005, 2004 and 2003
(Dollars in thousands)

| | 2005 | 2004 | 2003 |
|---------|-------|-------|-------|
| | ----- | ----- | ----- |
| Income: | | | |

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| | | | |
|--|----------|-----------|-------|
| Dividends declared by subsidiaries - eliminated in consolidation | \$ 6,522 | \$ 12,035 | \$ |
| Management fee from subsidiaries - eliminated in consolidation | 2,760 | 2,193 | 1, |
| Other income | 19 | 20 | |
| | ----- | ----- | ----- |
| Total income | 9,301 | 14,248 | 2, |
| | ----- | ----- | ----- |
| Expenses: | | | |
| Salaries and employee benefits | 2,338 | 2,042 | 2, |
| Professional fees | 225 | 107 | |
| Directors' compensation | 339 | 433 | |
| Donations | | 503 | |
| Other expenses | 611 | 524 | |
| | ----- | ----- | ----- |
| Total expenses | 3,513 | 3,609 | 2, |
| | ----- | ----- | ----- |
| Income (loss) before equity in undistributed income of subsidiaries | 5,788 | 10,639 | (|
| Equity in undistributed (distributed) income of subsidiaries | 3,107 | (5,355) | 4, |
| | ----- | ----- | ----- |
| Income before income taxes | 8,895 | 5,284 | 4, |
| Income tax benefit | 289 | 543 | |
| | ----- | ----- | ----- |
| Net income | \$ 9,184 | \$ 5,827 | \$ 4, |
| | ===== | ===== | ===== |

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AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

20. PARENT ONLY CONDENSED FINANCIAL STATEMENTS (Continued)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2005, 2004 and 2003
(Dollars in thousands)

| | 2005 | 2004 | 2003 |
|--|----------|----------|-------|
| | ----- | ----- | ----- |
| Cash flows from operating activities: | | | |
| Net income | \$ 9,184 | \$ 5,827 | \$ 4, |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |

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| | | | |
|---|----------|-----------|-------|
| Undistributed (distributed) earnings of subsidiaries | (8,895) | 5,355 | (4, |
| Decrease (increase) in dividends receivable from subsidiaries | 5,780 | (9,635) | |
| Decrease (increase) in other assets | 9,225 | (149) | |
| (Decrease) increase in other liabilities | (692) | 1,149 | |
| | ----- | ----- | ----- |
| Net cash provided by operating activities | 14,602 | 2,547 | |
| | ----- | ----- | ----- |
| Cash flows from investing activities: | | | |
| Cash paid to Bank of Amador shareholders | (12,730) | | |
| Purchase of equipment | (353) | | |
| | ----- | ----- | ----- |
| Net cash used in investing activities | (13,083) | | |
| | ----- | ----- | ----- |
| Cash flows from financing activities: | | | |
| Cash dividends paid | (2,753) | (2,070) | (1, |
| Exercise of stock options | 945 | 1,959 | |
| Cash paid to repurchase common stock | (2,017) | (184) | |
| Cash paid for fractional shares in connection with stock dividends and stock splits | (32) | | |
| | ----- | ----- | ----- |
| Net cash used in financing activities | (3,857) | (295) | (|
| | ----- | ----- | ----- |
| Net (decrease) increase in cash and cash equivalents | (2,338) | 2,252 | |
| Cash and cash equivalents at beginning of year | 2,654 | 402 | |
| | ----- | ----- | ----- |
| Cash and cash equivalents at end of year | \$ 316 | \$ 2,654 | \$ |
| | ===== | ===== | ===== |
| Non-cash investing activities: | | | |
| Payable to Bank of Amador shareholders | | \$ 12,730 | |
| Common stock issued in acquisition | | \$ 18,284 | |
| Non-cash financing activities: | | | |
| Dividends declared and unpaid | \$ 841 | \$ 582 | \$ |

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Selected Quarterly Information (Unaudited)

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

| | March 31, | June 30, | September 30, | December 31, |
|------|-----------|----------|---------------|--------------|
| 2005 | | | | |

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| | | | | | | | | |
|-------------------------------------|----|-------|----|-------|----|-------|----|-------|
| Interest income | \$ | 7,674 | \$ | 8,011 | \$ | 8,562 | \$ | 8,966 |
| Net interest income | | 6,315 | | 6,439 | | 6,753 | | 6,955 |
| Provision for loan and lease losses | | 217 | | 55 | | -- | | 50 |
| Noninterest income | | 581 | | 584 | | 594 | | 570 |
| Noninterest expense | | 3,328 | | 3,403 | | 3,464 | | 3,298 |
| Income before taxes | | 3,351 | | 3,565 | | 3,883 | | 4,177 |
| Net income | | 2,051 | | 2,190 | | 2,376 | | 2,567 |

| | | | | | | | | |
|----------------------------|----|------|----|------|----|------|----|------|
| Basic earnings per share | \$ | .37 | \$ | .39 | \$ | .42 | \$ | .46 |
| Diluted earnings per share | | .36 | | .38 | | .41 | | .45 |
| Cash dividends per share | | .119 | | .124 | | .143 | | .150 |

| | | | | |
|---------------------------|---------------|---------------|---------------|---------------|
| Price range, common stock | \$21.05-22.89 | \$19.91-23.10 | \$19.76-22.62 | \$19.85-22.38 |
|---------------------------|---------------|---------------|---------------|---------------|

2004

| | | | | | | | | |
|-------------------------------------|----|-------|----|-------|----|-------|----|-------|
| Interest income | \$ | 5,113 | \$ | 5,356 | \$ | 5,672 | \$ | 6,495 |
| Net interest income | | 4,422 | | 4,638 | | 4,869 | | 5,489 |
| Provision for loan and lease losses | | 198 | | 231 | | 266 | | 200 |
| Noninterest income | | 429 | | 1,022 | | 441 | | 503 |
| Noninterest expense | | 2,749 | | 3,463 | | 2,814 | | 2,687 |
| Income before taxes | | 1,904 | | 1,966 | | 2,230 | | 3,105 |
| Net income | | 1,160 | | 1,427 | | 1,339 | | 1,901 |

| | | | | | | | | |
|----------------------------|----|------|----|------|----|------|----|------|
| Basic earnings per share | \$ | .26 | \$ | .31 | \$ | .29 | \$ | .38 |
| Diluted earnings per share | | .24 | | .30 | | .28 | | .37 |
| Cash dividends per share | | .105 | | .105 | | .105 | | .105 |

| | | | | |
|---------------------------|---------------|---------------|---------------|---------------|
| Price range, common stock | \$17.24-19.05 | \$18.03-20.18 | \$17.69-21.21 | \$19.41-21.77 |
|---------------------------|---------------|---------------|---------------|---------------|

The earnings per share and price range have been adjusted for 5% stock dividends in 2005 and 2004.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

There has been no change in the independent accountants engaged to audit the financial statements of the Company and its subsidiaries during the last two fiscal years ended December 31, 2005. There have been no disagreements with such independent accountants during the last two fiscal years ended December 31, 2005, on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

Item 9A. Controls and Procedures.

Effectiveness of Disclosure 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 December 31, 2005. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and

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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 December 31, 2005, there have been no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, these controls.

Report of Management on Internal Control Over Financial Reporting

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

The Company's management, including the Chief Executive Officer and Chief Financial Officer, has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. In making this assessment, management used the criteria applicable to the Company as set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control--Integrated Framework. Based upon such assessment, management believes that, as of December 31, 2005, the Company's internal control over financial reporting is effective based upon those criteria.

Perry-Smith LLP, the registered public accounting firm that audited the Company's consolidated financial statements included in this Annual Report under Item 8, "Financial Statements and Supplementary Data," has issued a report with respect to management's assessment of the effectiveness of the Company's internal control over financial reporting. The report of Perry-Smith LLP is set forth immediately below.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Directors
American River Bankshares

We have audited management's assessment, included in the accompanying Report of Management on Internal Control Over Financial Reporting, that American River Bankshares and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("the COSO criteria"). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our

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opinion.

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

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

In our opinion, management's assessment that American River Bankshares and subsidiaries maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also in our opinion, American River Bankshares and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of American River Bankshares and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2005 and our report dated March 8, 2006 expressed an unqualified opinion thereon.

/s/ Perry-Smith LLP

Sacramento, California
March 8, 2006

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Item 9B. Other Information.

None.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The information required by Item 10 of Form 10-K is incorporated by reference to the information contained in the Company's Proxy Statement for the 2006 Annual Meeting of Shareholders which will be filed pursuant to Regulation 14A.

Item 11. Executive Compensation.

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The information required by Item 11 of Form 10-K is incorporated by reference to the information contained in the Company's Proxy Statement for the 2006 Annual Meeting of Shareholders which will be filed pursuant to Regulation 14A.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by Item 12 of Form 10-K is incorporated by reference to the information contained in the Company's Proxy Statement for the 2006 Annual Meeting of Shareholders which will be filed pursuant to Regulation 14A.

Item 13. Certain Relationships and Related Transactions.

The information required by Item 13 of Form 10-K is incorporated by reference to the information contained in the Company's Proxy Statement for the 2006 Annual Meeting of Shareholders which will be filed pursuant to Regulation 14A.

Item 14. Principal Accounting Fees and Services.

The information required by Item 14 of Form 10-K is incorporated by reference to the information contained in the Company's Proxy Statement for the 2006 Annual Meeting of Shareholders which will be filed pursuant to Regulation 14A.

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PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a)(1) Financial Statements. Listed and included in Part II, Item 8.

(2) Financial Statement Schedules. Not applicable.

(3) 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 June 30, 2004, filed with the Commission |

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on August 11, 2004.

- (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 and addendum between American River Bank and Bradshaw Plaza Group each dated January 31, 2000, related to 9750 Business Park Drive, Sacramento, California. **
 - (10.3) Lease agreement between American River Bank and Marjorie G. Taylor dated April 5, 1984, and addendum dated July 16, 1997, related to 10123 Fair Oaks Boulevard, Fair Oaks, California. **
 - (10.4) Lease agreement between American River Bank and Sandalwood Land Company dated August 28, 1996, related to 2240 Douglas Boulevard, Suite 100, Roseville, California. **
 - *(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. **
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- *(10.9) Registrant's Deferred Compensation Plan dated May 1, 1998.**
 - *(10.10) Registrant's Deferred Fee Plan dated April 1, 1998. **
 - *(10.11) American River Bank Employee Severance Policy dated March 18, 1998. **
 - *(10.12) First Amendment dated December 20, 2000, to the Registrant's Deferred Compensation Plan dated May 1, 1998, incorporated by reference from Exhibit 10.22 to the Registrant's Annual Report on Form 10-K for the period ended December 31, 2000, filed with the Commission on April 2, 2001.
 - *(10.13) Amendment No. 1 to the Registrant's Incentive Compensation Plan, incorporated by reference from Exhibit 10.23 to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2001, filed with the Commission on August 14, 2001.

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- (10.14) 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. **
- (10.15) 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 Form 10-Q for the period ended September 30, 2003, filed with the Commission on November 7, 2003.
- *(10.16) Employment Agreement between Registrant and David T. Taber dated August 22, 2003, incorporated by reference from Exhibit 10.30 to the Registrant's Form 10-Q for the period ended September 30, 2003, filed with the Commission on November 7, 2003.
- (10.17) Lease agreement between R & R Partners, a California General Partnership and North Coast Bank, N.A., dated July 1, 2003, related to 8733 Lakewood Drive, Suite A, Windsor, California, incorporated by reference from Exhibit 10.32 to the Company's Form 10-Q for the period ended September 30, 2003, filed with the Commission on November 7, 2003.
- *(10.18) Salary Continuation Agreement between American River Bank and Mitchell A. Derenzo dated August 22, 2003, incorporated by reference from Exhibit 10.33 to the Company's Form 10-Q for the period ended September 30, 2003, filed with the Commission on November 7, 2003.
- *(10.19) Salary Continuation Agreement between the Registrant and David T. Taber dated August 22, 2003, incorporated by reference from Exhibit 10.34 to the Company's Form 10-Q for the period ended September 30, 2003, filed with the Commission on November 7, 2003.
- *(10.20) Salary Continuation Agreement between American River Bank and Douglas E. Tow dated August 22, 2003, incorporated by reference from Exhibit 10.35 to the Company's Form 10-Q for the period ended September 30, 2003, filed with the Commission on November 7, 2003.
- *(10.21) Registrant's 2000 Stock Option Plan with forms of Nonqualified Stock Option Agreement and Incentive Stock Option Agreement. **
- (10.22) First Amendment dated April 21, 2004, to the 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 10.37 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.
- *(10.23) 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.

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- (10.24) Agreement between Bank of Amador and the United States Postal Service, dated April 24, 2001, related to 424 Sutter Street, Jackson, California. ***
- (10.25) Ground lease agreement between Bank of Amador and the James B. Newman and Helen M. Newman, dated June 1, 1992, related to 26675 Tiger Creek Road, Pioneer, California. ***
- * (10.26) Salary Continuation Agreement between Bank of Amador and Larry D. Standing dated April 1, 2004, and related Endorsement Split Dollar Agreement dated April 1, 2004. ***
- * (10.27) Amended and Restated Director Retirement Agreement dated as of August 1, 2003, between Bank of Amador and Larry D. Standing. ***
- * (10.28) Employment Agreement between Registrant and Larry D. Standing dated December 3, 2004. ***
- (10.29) 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.
- (10.30) 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.
- (10.31) 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.
- * (10.32) 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.
- (10.33) First Amendment to Commercial Lease Agreement between R. & R. Partners, and North Coast Bank, a division of American River Bank, dated January 2, 2006, related to 8733 Lakewood Drive, Suite A, Windsor, California, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on January 3, 2006.
- (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.
- (23.1) Consent of Perry-Smith LLP.
- (31.1) Certifications of Chief Executive Officer pursuant to

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Section 302 of the Sarbanes-Oxley Act of 2002.

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- (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.

An Annual Report for the fiscal year ended December 31, 2005 and Notice of Annual Meeting and Proxy Statement for the Company's 2006 Annual Meeting will be mailed to security holders subsequent to the date of filing this Report. Copies of said materials will be furnished to the Commission in accordance with the Commission's Rules and Regulations.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

March 7, 2006

By: /s/ DAVID T. TABER

David T. Taber
Chief Executive Officer
(Principal Executive Officer)

March 7, 2006

By: /s/ MITCHELL A. DERENZO

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

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Pursuant to the requirements of the Securities and Exchange Act of

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1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|-------------------------|---------|
| /s/ CHARLES D. FITE ----- Charles D. Fite | Director, Chairman | 3/07/06 |
| /s/ ROGER J. TAYLOR ----- Roger J. Taylor | Director, Vice Chairman | 3/06/06 |
| /s/ AMADOR S. BUSTOS ----- Amador S. Bustos | Director | 3/08/06 |
| /s/ ROBERT J. FOX ----- Amador S. Bustos | Director | 3/08/06 |
| /s/ WILLIAM A. ROBOTHAM ----- William A. Robotham | Director | 3/08/06 |
| /s/ DAVID T. TABER ----- David T. Taber | Director | 3/08/06 |
| /s/ STEPHEN H. WAKS ----- Stephen H. Waks | Director | 3/07/06 |
| /s/ MICHAEL A. ZIEGLER ----- Michael A. Ziegler | Director | 3/07/06 |

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32.1

Certification of American River Bankshares Chief
Executive Officer and Chief Financial Officer
pursuant to Section 906 of the Sarbanes-Oxley Act
of 2002

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