AMERICAN RIVIERA
BANK

A Message to our Shareholders, Customers and Community:

As we reflect back on 2009, it was a year filled with both challenges and opportunities for American Riviera Bank. The challenges of the economy certainly grabbed the headlines, but it was the opportunities which we took advantage of to grow our Bank, service our customers, strengthen our balance sheet and position our Bank for future growth and profitability for which we are most proud.

The prolonged recession, declining real estate values and the uncertain employment environment put a strain on many bank borrowers, and in turn, the banking industry as a whole. In many respects, the greater Santa Barbara area faired better than other regions within California and the Nation. However, the community in which we operate was not immune, and we too found it necessary to provision appropriately and add significantly to our loan loss allowance. In 2009, we provisioned over $2.7 million compared to $0.3 million in 2008. By year end 2009, our allowance had doubled to 2.43% of outstanding loans compared to 1.22% at year end 2008. As a small bank, we continue to be in a better position to address each loan relationship individually to ensure the best possible outcome for both the Bank and the client.

In 2009, American Riviera Bank once again remained true to its mission. We offered our clients a safe place to deposit funds at competitive interest rates. At the same time, we loaned this money out to businesses and individuals in our community. We call this “sustainable banking” and will be rolling out an advertising campaign in the second quarter of 2010 to highlight these principles and our strong capital position. This was not the case with many of our competitors, who were focused on a combination of reducing lending and raising capital. At December 31, 2009, our capital as a percentage of total assets was just under 13%, the highest capital ratio of any bank operating in Santa Barbara.

We used capital strength and knowledgeable relationship bankers to take advantage of competitive opportunities, and as a result, our loan portfolio increased 22% and assets reached $133 million. Total deposits rose 25%, but this is only part of the story. Our relationship banking focus allowed us to let $16 million in interest rate sensitive certificates of deposit roll off which were replaced by $37 million of core checking, savings and money market deposits. These three categories of accounts grew a remarkable 84% with 501 new accounts. As a result of the above efforts, net interest margin remained above peers in 2009 at 3.97%, and increased every quarter from a low of 3.38% in the first quarter to a high of 4.35% in the fourth quarter. Word of mouth is getting around that American Riviera Bank is a great place to do your banking, and there continues to be a steady stream of new account activity.

Lastly, your management team focused on conserving resources during a difficult year. We were able to grow net interest income by 37% while allowing non-interest expense, excluding expenses related to other real estate owned and FDIC fees, to expand at only 3%. High touch service remains the order of the day and we were able to add several experienced team members to the lending department including our new Chief Credit Officer, Kenneth Jacobsen. Expect great things from your bank in 2010!

Sincerely,

Lawrence Koppelman
Chairman of the Board

Jeff DeVine
President and CEO

AMERICAN RIVIERA BANK

FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2009 AND 2008
AND FOR THE YEARS THEN ENDED

Page

American Riviera Bank:

PERRY-SMITH
THE POWER OF CONFIDENCE

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INDEPENDENT AUDITOR'S REPORT

The Shareholders and
Board of Directors
American Riviera Bank

We have audited the accompanying balance sheets of American Riviera Bank as of December 31, 2009 and 2008 and the related statements of operations, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether' the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 financial statements referred to above present fairly, in all material respects, the financial position of American Riviera Bank as of December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Perry-Smith LLP

March 17,2010

AMERICAN RIVIERA BANK

BALANCE SHEETS

December 31, 2009 and 2008
(Dollars in thousands)

	2009	2008
ASSETS		
Cash and due from banks	$ 1,881	$ 1,980
Federal funds sold	10,295	2,955
Total cash and cash equivalents	12,176	4,935
Interest-bearing deposits in other financial institutions	7,256	6,504
Available-for-sale investment securities	5,220	11,178
Loans	105,945	87,119
Allowance for loan losses	(2,578)	(1,060)
Net loans	103,367	86,059
Bank premises and equipment, net	1,081	1,282
Other real estate owned	2,230	-
Accrued interest receivable and other assets	1,780	1,125
Total assets	$ 133,110	$ 111,083
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing deposits	$ 10,179	$ 6,892
Savings deposits	526	296
Money market deposits	54,783	31,829
Interest-bearing demand deposits	16,309	5,507
Time deposits equal to or greater than $100,000	20,542	22,650
Time deposits less than $100,000	3,281	17,487
Total deposits	105,620	84,661
Long term borrowings	9,000	6,000
Accrued interest payable and other liabilities	796	882
Total liabilities	115,416	91,543
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Preferred stock – no par value; 5,000,000 shares authorized, none issued	-	-
Common stock – no par value; 10,000,000 shares authorized; 2,506,756 shares issued and outstanding in 2009 and 2008	26,193	26,144
Accumulated deficit	(8,546)	(6,645)
Accumulated other comprehensive income, net of taxes	47	41
Total shareholders' equity	17,694	19,540
Total liabilities and shareholders' equity	$ 133,110	$ 111,083

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

AMERICAN RIVIERA BANK

STATEMENTS OF OPERATIONS

For the Years Ended December 31, 2009 and 2008
(Dollars in thousands except per share data)

	2009	2008
Interest income:		
Interest and fees on loans	$ 6,777	$ 5,435
Interest on available-for-sale investment securities	302	133
Interest on Federal funds sold	17	73
Interest on deposits in other financial institutions	137	116
Total interest income	7,233	5,757
Interest expense:		
Interest on savings deposits	7	5
Interest on money market deposits	983	946
Interest on interest-bearing demand deposits	134	175
Interest on time deposits equal to or greater than $100,000	671	305
Interest on time deposits less than $100,000	219	517
Total interest expense on deposits	2,014	1,948
Interest expense from borrowings	243	181
Total interest expense	2,257	2,129
Net interest income before provision for loan losses	4,976	3,628
Provision for loan losses	2,706	344
Net interest income after provision for loan losses	2,270	3,284
Non-interest income:		
Gain on sale of investments	20	-
Service charges, commissions and fees	78	83
Total non-interest income	98	83
Non-interest expense:		
Salaries and employee benefits	1,956	1,913
Occupancy and equipment	695	705
Impairment charges and expenses on other real estate owned	403	-
Other	1,214	962
Total non-interest expense	4,268	3,580
Loss before provision for taxes and extraordinary items	(1,900)	(213)
Provision for taxes	1	1
Net loss	$ (1,901)	$ (214)
Loss per share	$ (0.76)	$ (0.09)
Weighted average number of shares outstanding	2,506,756	2,506,756

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

AMERICAN RIVIERA BANK

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2009 and 2008

(Dollars in thousands except share data)

	Common Stock Shares	Common Stock Amount	Accumulated Deficit	Accumulated Other Comprehensive Income (Net of Taxes)	Total Shareholders' Equity	Total Comprehensive Income (Loss)
Balance, December 31, 2007	2,506,756	$ 26,006	$ (6,431)		$ 19,575	
Comprehensive loss:						
Net loss			(214)		(214)	$ (214)
Other comprehensive income, net of tax:						
Net change in unrealized gains on available-for-sale investment securities, net of tax				$ 41	41	41
Total comprehensive loss						$ (173)
Share-based compensation expense		138			138	
Balance, December 31, 2008	2,506,756	26,144	(6,645)	41	19,540	
Comprehensive loss:						
Net loss			(1,901)		(1,901)	$ (1,901)
Other comprehensive income, net of tax:						
Net change in unrealized gains on available-for-sale investment securities, net of tax				6	6	6
Total comprehensive loss						$ (1,895)
Share-based compensation expense		49			49	
Balance, December 31, 2009	2,506,756	$ 26,193	$ (8,546)	$ 47	$ 17,694	

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

AMERICAN RIVIERA BANK

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2009 and 2008
(Dollars in thousands)

	2009	2008
Cash flows from operating activities:		
Net loss	$ (1,901)	$ (214)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for loan losses	2,706	344
Gain on sale of investments	(20)	-
Depreciation and amortization	330	310
Net increase in deferred loan origination costs and fees	40	18
Net (accretion) amortization of investment security (discounts) premiums	(14)	4
Share-based compensation expense	49	138
Write down of other real estate owned	383	-
Increase in accrued interest receivable and other assets	(727)	(226)
(Decrease) increase in accrued interest payable and other liabilities	(86)	50
Net cash provided by operating activities	760	424
Cash flows from investing activities:		
(Increase) decrease in interest-bearing deposits in other financial institutions	(752)	554
Increase in loans, net	(21,667)	(24,952)
Proceeds from sales of available-for-sale investment securities	2,020	-
Proceeds from principle payments of available-for-sale investment securities	294	-
Proceeds from calls and maturities of available-for-sale investment securities	14,095	-
Purchase of available-for-sale investment securities	(10,407)	(11,112)
Purchase of Federal Home Loan Bank stock	(9)	(256)
Purchase of The Independent BankersBank stock	(1)	-
Payment of first lien on other real estate owned	(1,000)	-
Purchase of premises and equipment	(51)	(21)
Net cash used in investing activities	(17,478)	(35,787)
Cash flows from financing activities:		
Increase in demand, interest bearing and savings deposits, net	37,273	18,742
(Decrease) increase in time deposits, net	(16,314)	15,389
Net proceeds from borrowings	3,000	3,750
Net cash provided by financing activities	23,959	37,881
Increase in cash and cash equivalents	7,241	2,518
Cash and cash equivalents at beginning of year	4,935	2,417
Cash and cash equivalents at end of year	$ 12,176	$ 4,935
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest expense	$ 2,230	$ 2,151
Income taxes	$ 1	$ 1
Non-cash investing activities:		
Unrealized holding gains on available-for-sale investment securities	$ 10	$ 70
Transfers to other real estate owned	$ 1,695	$ -

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

American Riviera Bank (the "Bank") opened for business on July 18, 2006 in Santa Barbara, California. As a state-chartered non-member bank, the Bank is subject to regulation by the California Department of Financial Institutions (the "DFI"), and the Federal Deposit Insurance Corporation (the "FDIC"). The Bank's deposits are insured by the FDIC up to applicable legal limits. The Bank provides a full range of financial products and services to customers who are predominately small to middle-market businesses, professionals and not-for-profit organizations located in Santa Barbara and the surrounding areas.

The deposits of the Bank are insured by the Federal Deposit Insurance Corporation (the “FDIC”) up to applicable legal limits. The Bank is participating in the FDIC's Transaction Account Guarantee Program. Under this program, through June 30, 2010, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account and the Bank is assessed an annual fee of 10 basis points for all deposit amounts exceeding the existing deposit insurance limit of $250,000. Coverage under the Transaction Account Guarantee Program is in addition to and separate from the coverage available under the FDIC's general deposit insurance rules.

The accounting and reporting policies of the Bank conform to accounting principles generally accepted in the United States of America and prevailing practices within the banking industry.

Subsequent Events

We have reviewed all events occurring from December 31, 2009 through March 17, 2010, the date the financial statements were available to be issued and no subsequent events occurred requiring accrual or disclosure.

Use of Estimates

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

Cash and Cash Equivalents

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

Interest-Bearing Deposits in Other Financial Institutions

Interest-bearing deposits in other financial institutions represent short term deposits with other banks with original maturities greater than ninety days.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment Securities

Investment securities are classified into the following categories:

- Available-for-sale securities, reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of taxes, as accumulated other comprehensive income (loss) within shareholders' equity.

- Held-to-maturity securities, which management has the positive intent and ability to hold, 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. At December 31, 2009 and 2008, all securities are classified as available-for-sale and there were no transfers between categories.

Gains and losses on the sale of securities are computed using 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 periodically evaluated for impairment 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 Bank to retain its investment in the securities for a period of time sufficient to allow for an anticipated recovery in fair value, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term "other than temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other-than-temporary and management does not intend to sell the security or it is more likely than not that it will not be required to sell the security before recovery, only the portion of the impairment loss representing credit exposure is recognized as a charge to earnings, with the balance recognized as a charge to other comprehensive income. If management intends to sell the security or it is more likely than not that it will be required to sell the security before recovering its forecasted cost, the entire impairment loss is recognized as a charge to earnings.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Loans

Loans are stated at principal balances outstanding. Interest is accrued daily based upon outstanding loan balances. However, when, in the opinion of management, loans are considered to be impaired and the future collectibility of interest and principal is in serious doubt, loans are placed on nonaccrual status and the accrual of interest income is suspended. Any interest accrued but unpaid is charged against income. Payments received are applied to reduce principal to the extent necessary to ensure collection. Subsequent payments on these loans, or payments received on nonaccrual loans for which the ultimate collectibility of principal is not in doubt, are applied first to earned but unpaid interest and then to principal.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due (including both principal and interest) in accordance with the contractual terms of the loan agreement. An impaired loan is measured based on the present value of expected future cash flows discounted at the loan's effective rate or, as a practical matter, at the loan's observable market price or the fair value of collateral if the loan is collateral dependent.

Substantially all loan origination fees, commitment fees, direct loan origination costs and purchase premiums and discounts on loans are deferred and recognized as an adjustment of yield, to be amortized to interest income over the contractual term of the loan. The unamortized balance of deferred fees and costs is reported as a component of net loans.

The Bank may acquire loans through business combinations or purchases for which differences may exist between the contractual cash flows and the cash flows expected to be collected when due, at least in part due to credit quality. When the Bank acquires such loans, the yield that may be accreted is limited to the excess of the Bank’s initial investment in the loan. The excess of contractual cash flows over cash flows expected to be collected may not be recognized as an adjustment to yield, loss, or a valuation allowance. Subsequent increases in cash flows expected to be collected are recognized prospectively through adjustment of the loan’s yield over its remaining life. Decreases in cash flows expected to be collected are recognized as impairments. The Bank does not “carry over” or create a valuation allowance in the initial accounting for loans acquired under these circumstances. The Bank did not have any loans accounted for under these procedures as of December 31, 2009 and 2008.

Allowance for Loan Losses

The determination of the allowance is based on estimates made by management, to include consideration of the character of the loan portfolio, specifically identified problem loans, potential losses inherent in the portfolio taken as a whole and economic conditions in the Bank's service area.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Allowance for Loan Losses *(continued)*

Loans determined to be impaired or classified are evaluated by management for specific risk of loss. In addition, reserve factors are assigned to currently performing loans based on management's assessment of the following for each identified loan type: (1) inherent credit risk, (2) historical losses, (3) qualitative factors and (4) where the Bank has not experienced losses, the loss experience of peer banks.

The allowance for loan losses is established through a provision for loan losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after credit losses (net of recoveries) and loan growth. The allowance for loan losses at December 31, 2009 and 2008 reflects management's estimate of probable losses in the portfolio. In addition, the FDIC and California Department of Financial Institutions, as an integral part of their examination process, review the adequacy of the allowance for loan and lease losses. These agencies may require additions to the allowance for loan and lease losses based on their judgment about information available at the time of their examinations.

The Bank maintains a separate allowance for losses related to undisbursed loan commitments. Management estimates the amount of probable losses by applying a loss factor to the available portion of undisbursed lines of credit. This allowance of $29,000 and $26,000 at December 31, 2009 and 2008, respectively, is included in accrued interest payable and other liabilities in the balance sheet.

These estimates are particularly susceptible to changes in the economic environment and market conditions.

The Bank's Board of Directors reviews the adequacy of the allowance for loan losses at least quarterly. The allowance will be adjusted based on that review if, in the judgment of the Board of Directors and management, changes are warranted.

Bank Premises and Equipment

Bank premises and equipment are carried at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets. The useful lives of furniture, fixtures and equipment are estimated to be three to seven years. Leasehold improvements are amortized over the lesser of the respective lease term (including renewal periods that are reasonably assured) or their useful lives, which are generally nine years.

Certain operating leases contain scheduled and specified rent increases or incentives in the form of tenant improvement allowances or credits. The scheduled rent increases are recognized on a straight-line basis over the lease term as an increase in the amount of rental expense recognized each period. Lease incentives are capitalized at the inception of the lease and amortized on a straight-line basis over the lease term as a reduction of rental expense. Amounts accrued in excess of amounts paid related to the scheduled rent increases and the unamortized deferred credits are included in accrued interest payable and other liabilities on the balance sheet.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Bank Premises and Equipment *(continued)*

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. The Bank evaluates premises and equipment for financial impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

Other Real Estate Owned

Other real estate owned (OREO) is comprised of property acquired through foreclosure proceedings or acceptance of deeds-in-lieu of foreclosure. Losses recognized at the time of acquiring property in full or partial satisfaction of debt are charged against the allowance for credit losses. OREO is initially recorded at fair value less estimated disposition costs. Fair value of OREO is generally based on an independent appraisal of the property. Subsequent to initial measurement, OREO is carried at the lower of the recorded investment or fair value less costs to sell. Revenues and expenses associated with OREO, and subsequent adjustment to the fair value of the property and to the estimated costs of disposal, are realized and reported as a component of noninterest expense when incurred.

At December 31, 2009 the Bank had $2,230,000 invested in one property acquired through foreclosure. The property is carried at fair value. Fair value is based on current market price less estimated sales cost. The Bank had no OREO properties at December 31, 2008.

Investment in Federal Home Loan Bank Stock

As a member of the Federal Home Loan Bank system, the bank is required to maintain an investment in the capital stock of the Federal Home Loan Bank (FHLB). The investment is carried at cost. At December 31, 2009 and 2008, FHLB stock totaled $423,000 and $414,000 and is included on the balance sheet in accrued interest receivable and other assets.

Income Taxes

The determination of the amount of deferred income tax assets which are more likely than not to be realized is primarily dependent on projections of future earnings, which are subject to uncertainty and estimates that may change given economic conditions and other factors. The realization of deferred income tax assets is assessed and a valuation allowance is recorded if it is “more likely than not” that all or a portion of the deferred tax asset will not be realized. “More likely than not” is defined as greater than a 50% chance. All available evidence, both positive and negative is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed. Based upon our analysis of available evidence, we have determined that some portion of our deferred income tax assets as of December 31, 2009 and 2008 will not be fully realized and therefore a valuation allowance was recorded.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Accounting for Uncertainty in Income Taxes

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

Loss Per Share

Loss per share (EPS), which excludes dilution, is computed by dividing net loss by the weighted-average number of common shares outstanding for the period. Diluted earnings per share 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 share in the earnings of the Bank. The treasury stock method is applied to determine the dilutive effect of stock options in computing diluted earnings per share. However, diluted earnings per share are not presented when a net loss occurs because the conversion of potential common stock is anti-dilutive.

Share-Based Payments

The Bank has one share-based compensation plan, the American Riviera Bank 2009 Omnibus Stock Incentive Plan (the "Plan"), which has been approved by its shareholders and permits the grant of equity compensation in the form of stock options, stock appreciation rights, restricted stock, deferred shares and performance shares and units for up to 748,276 shares of the Bank's common stock. The Plan is designed to attract and retain employees and directors. The amount, frequency, and terms of share-based awards may vary based on competitive practices, the Bank's operating results and government regulations. New shares are issued upon option exercise or vesting of grants. The Plan does not provide for the settlement of awards in cash. The Plan requires that the option or grant price may not be less than the fair market value of the stock at the date the option or share is granted, and that the stock must be paid in full at the time the option is exercised.

Restricted stock awards are grants of shares of the Bank’s common stock that are subject to forfeiture until specific conditions or goals are met. Conditions may be based on continuing employment or service and/or achieving specified performance goals. During the period of restriction, Plan participants holding restricted share awards have no voting or cash dividend rights. The restrictions lapse in accordance with a schedule or with other conditions determined by the Board of Directors as reflected in each award agreement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-Based Payments *(continued)*

Upon the vesting of each restricted stock award, the Bank issues the associated common shares from its inventory of authorized common shares. All outstanding awards under the Plan immediately vest in the event of a change of control of the Bank. The shares associated with any awards that fail to vest become available for re-issuance under the Plan.

The Bank records compensation cost for all share-based payments based on the estimated grant date fair value of the options or the fair value of the restricted stock on the grant date.

Management estimates the fair value of each option award as of the date of grant using a Black-Scholes-Merton option pricing formula and the following assumptions. Expected volatility is based on historical volatility of similar entities over a preceding period commensurate with the expected term of the option because the Bank's common stock has been publicly traded for a shorter period than the expected term for the options. We use a simplified method to determine the expected term of our stock options due to the lack of sufficient historical data. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant with substantially the same term as the expected term of the option. Expected dividend yield was not considered in the option pricing formula since we have not paid dividends and have no current plans to do so in the future. In addition to these assumptions, management makes estimates regarding pre-vesting forfeitures that will impact total compensation expense recognized under the Plan.

Comprehensive Income (Loss)

Comprehensive income (loss) is a more inclusive financial reporting methodology that includes disclosure of other comprehensive income or loss that historically has not been recognized in the calculation of net income or loss. Sources of other comprehensive income or loss include unrealized gains and losses on available-for-sale investment securities. Total comprehensive income (loss) and components of accumulated other comprehensive income (loss) are presented in the statement of changes in shareholders' equity.

Adoption of New Financial Accounting Standards

FASB Accounting Standards Codification™ (ASC or Codification)

In June 2009, the Financial Accounting Standards Board (FASB) issued new accounting standards ASC 105-10 (previously SFAS No. 168), *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles.* With the issuance of ASC 105-10, the FASB Accounting Standards Codification ("the Codification" or "ASC") becomes the single source of authoritative U.S. accounting and reporting standards applicable for all nongovernmental entities This change is effective for financial statements issued for interim or annual periods ended after September 15, 2009. Accordingly, all specific references to generally accepted accounting principles (GAAP) refer to the Codification and not to the pre-Codification literature.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Adoption of New Financial Accounting Standards *(continued)*

FASB Clarifies Other-Than-Temporary Impairment

In April 2009, the FASB issued ASC 320-10-35 (previously FSP 115-2 and 124-2 and EITF 99-20-2), *Recognition and Presentation of Other-Than-Temporary-Impairment.* This standard (i) changes previously existing guidance for determining whether an impairment to debt securities is other than temporary and (ii) replaces the previously existing requirement that the entity's management assert it has both the intent and ability to hold an impaired security until recovery with a requirement that management assert: (a) it does not have the intent to sell the security; and (b) it is more likely than not it will not have to sell the security before recovery of its cost basis. Under this standard, declines in fair value below cost that are deemed to be other than temporary are reflected in earnings as realized losses to the extent the impairment is related to credit losses for both held-to-maturity and available-for-sale securities. The amount of impairment related to other factors is recognized in other comprehensive income. These changes were effective for interim and annual periods ended after June 15, 2009. We adopted the provisions of this standard on April 1, 2009 and they did not have a material impact on our financial condition or results of operations.

FASB Clarifies Application of Fair Value Accounting

In April 2009, the FASB issued ASC 820-10 (previously FSP FAS 157-4), *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly.* This standard affirms the objective of fair value when a market is not active, clarifies and includes additional factors for determining whether there has been a significant decrease in market activity, eliminates the presumption that all transactions are distressed unless proven otherwise, and requires an entity to disclose a change in valuation technique. This standard was effective for interim and annual periods ended after June 15, 2009. We adopted the provisions of this standard on April 1, 2009 and they did not have a material impact on our financial condition or results of operations.

Subsequent Events

In May 2009, the FASB issued ASC 855-10 (previously SFAS No. 165), *Subsequent Events*, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The adoption of this standard on July 1, 2009 required us to disclose the date through which we evaluated subsequent events and had no effect on our financial position or results of operations.

2. FAIR VALUE MEASUREMENTS

The estimated carrying and fair values of the Bank's financial instruments at December 31, 2009 and 2008 are as follows *(Dollars in thousands)*:

	2009		2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and due from banks	$ 1,881	$ 1,881	$ 1,980	$ 1,980
Federal funds sold	10,295	10,295	2,955	2,955
Interest-bearing deposits in other financial institutions	7,256	7,281	6,504	6,504
Investment securities	5,220	5,220	11,178	11,178
Loans, net	103,367	104,763	86,059	87,404
Other real estate owned	2,230	2,230	-	-
FHLB stock	423	423	414	414
TIB Stock	53	53	52	52
Accrued interest receivable	490	490	477	477
Financial liabilities:				
Deposits	$ 105,620	$ 105,522	$ 84,661	$ 84,467
Borrowings	9,000	8,683	6,000	5,183
Accrued interest payable	165	165	138	138

The estimated fair values do not reflect any premium or discount that could result from offering the Bank's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

The following methods and assumptions were used to estimate the fair value of financial instruments. For cash and due from banks, Federal funds sold, interest-bearing deposits in other financial institutions, variable-rate loans, accrued interest receivable and payable, FHLB and The Independent BankersBank (TIB) stock, demand deposits and short-term borrowings, the carrying amount is estimated to be fair value. For investment securities, fair values are based on quoted market prices, quoted market prices for similar securities and indications of value provided by brokers. The fair values for fixed-rate loans are estimated using discounted cash flow analyses, using interest rates currently being offered at each reporting date for loans with similar terms to borrowers of comparable creditworthiness. The fair value of other real estate owned is based on current market price less estimated sales cost. Fair values for fixed-rate certificates of deposit are estimated using discounted cash flow analyses using interest rates offered at each reporting date by the Bank for certificates with similar remaining maturities. The fair value of long-term borrowings represents the amount the Bank would receive to enter into an identical liability of a similar maturity and structure. The fair values of commitments are estimated using the fees currently charged to enter into similar agreements and are not significant and, therefore, not included in the above table.

2. FAIR VALUE MEASUREMENTS *(continued)*

Fair Value Hierarchy

We group our assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. Valuations within these levels are based upon:

Level 1 – Quoted market prices for identical instruments traded in active exchange markets.

Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.

Level 3 – Model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the Bank's estimates of assumptions that market participants would use on pricing the asset or liability. Valuation techniques include management judgment and estimation which may be significant.

Assets Recorded at Fair Value

There were no changes in the valuation techniques used during 2009. The following tables present information about the Bank's assets and liabilities measured at fair value on a recurring and nonrecurring basis as of December 31, 2009 and 2008:

Recurring Basis

The Bank is required or permitted to record the following assets at fair value on a recurring basis under other accounting pronouncements *(Dollars in thousands)*.

As of December 31, 2009:

Description	Fair Value	Level 1	Level 2	Level 3
Available-for-sale investment securities	$ 5,220	$ -	$ 5,220	$ -

As of December 31, 2008:

Description	Fair Value	Level 1	Level 2	Level 3
Available-for-sale investment securities	$ 11,178	$ -	$ 11,178	$ -

Fair values for available-for-sale investment securities, which include debt securities of U.S. Governmental agencies and corporate debt are based on quoted market prices for similar securities.

2. FAIR VALUE MEASUREMENTS *(continued)*

Non-recurring Basis

The Bank may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. These include assets that are measured at the lower of cost or market value that were recognized at fair value which was below cost at the reporting date *(Dollars in thousands)*.

As of December 31, 2009:

Description	Fair Value	Level 1	Level 2	Level 3	Total Losses
Impaired loans	$ 5,765	$ -	$ 5,765	$ -	$ 872
Other real estate	2,230	-	-	2,230	383
Total assets measured at fair value on a non-recurring basis	$ 7,995	$ -	$ 5,765	$ 2,230	$ 1,255

At December 31, 2008, impaired loans recorded at fair value totaled $1,449,000 and is based on fair value of the collateral for all collateral dependent loans and for other impaired loans is estimated using a discounted cash flow model. Impaired loans were determined to be collateral dependent and categorized as Level 2 due to the use of current appraised values.

The fair value of impaired loans and other real estate owned is based on the fair value of the collateral for all collateral dependent loans and other real estate owned and for other impaired loans is estimated using a discounted cash flow model. Impaired loans were determined to be collateral dependent and categorized as Level 2 due to the use of current appraised values. Other real estate owned was determined to be collateral dependent and categorized as Level 3 due to ongoing real estate market conditions resulting in inactive market data, which in turn required the use of unobservable inputs and assumptions in fair value measurements.

Impaired loans are collateral dependent and have been adjusted to fair value based on the estimated fair value of underlying collateral, less estimated selling costs. If the Bank determines that the fair value of an impaired loan is less than the recorded investment in the loan, the carrying value is adjusted through a charge-off recorded through the allowance for loan losses. Total losses of $872,000 represents impairment charges recognized during the year ended December 31, 2009 related to the above impaired loans.

Other real estate property with a carrying amount totaling $2,613,000 at foreclosure was subsequently written down to a fair value of $2,230,000, resulting in a loss of $383,000 which was included in other expenses for the year ended December 31, 2009.

3. AVAILABLE-FOR-SALE INVESTMENT SECURITIES

The amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2009 and 2008 consisted of the following *(Dollars in thousands):*

	2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. government agencies	$ 2,000	$ 12	$ -	$ 2,012
Mortgage-backed securities	1,622	17	-	1,639
Corporate debt	1,518	54	(3)	1,569
	$ 5,140	$ 83	$ (3)	$ 5,220

	2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. government agencies	$ 10,095	$ 64	$ -	$ 10,159
Corporate debt	1,013	6	-	1,019
	$ 11,108	$ 70	$ -	$ 11,178

Net unrealized gains on available-for-sale investment securities totaling $47,000 and $41,000 were recorded net of $33,000 and $29,000 in tax liabilities as accumulated other comprehensive income within shareholders' equity at December 31, 2009 and 2008, respectively. The following table summarizes the securities sold and called for the year ended December 31, 2009 *(Dollars in thousands):*

	2009		
	Proceeds	Gross Gains	Gross Losses
Sales	$ 2,020	$ 20	$ -
Calls	10,000	-	-
	$ 12,020	$ 20	$ -

There were no sales or calls of available-for-sale investment securities for the year ended December 31, 2008.

3. AVAILABLE-FOR-SALE INVESTMENT SECURITIES *(continued)*

The amortized cost and estimated fair value of investment securities at December 31, 2009 by contractual maturity are shown below. 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. *(Dollars in thousands)*

	Amortized Cost	Estimated Fair Value
After one year through five years	$ 1,518	$ 1,569
After five years through ten years	2,000	2,012
	3,518	3,581
Investment securities not due at a single maturity date:		
Mortgage-backed securities	1,622	1,639
	$ 5,140	$ 5,220

At December 31, 2009, the Bank had one corporate debt security in an unrealized loss position for less than 12 months. The unrealized loss on the Bank's corporate debt security was caused by interest rate changes and illiquidity in certain markets. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Bank does not intend to sell, and it is more likely than not that it will not be required to sell the investment until a recovery of fair value, which may be maturity, the Bank does not consider this investment to be other-than-temporarily impaired at December 31, 2009. There were no securities in an unrealized loss position at December 31, 2008.

4. LOANS

Outstanding loans at December 31, 2009 and 2008 are summarized below *(Dollars in thousands)*:

	2009	2008
Commercial	$ 33,469	$ 30,281
Commercial - real estate	27,373	23,729
Construction and development	34,554	26,470
Consumer and other	10,750	6,800
	106,146	87,280
Deferred loan origination fees and costs, net	(201)	(161)
Allowance for loan losses	(2,578)	(1,060)
	$ 103,367	$ 86,059

The Bank deferred $32,000 and $30,000 in salaries and employee benefits as loan origination costs for the years ended December 31, 2009 and 2008, respectively.

4. LOANS *(continued)*

Changes in the allowance for loan losses were as follows *(Dollars in thousands):*

	Years Ended December 31, 2009	2008
Balance, beginning of year	$ 1,060	$ 716
Provision charged to operations	2,706	344
Losses charged to the allowance	(1,188)	-
Balance, end of year	$ 2,578	$ 1,060

At December 31, 2009, the recorded investment in impaired loans was $15,812,000 with a related valuation allowance of $0. All valuations were supported by current appraisals and any impaired amounts were immediately charged-off. The average outstanding balance of impaired loans for the year ended December 31, 2009 was $8,407,000, on which $0 was recognized as interest income on a cash basis. At December 31, 2008, the recorded investment in impaired loans was $1,574,000 with a related valuation allowance of $125,000. The average outstanding balance of impaired loans for the year ended December 31, 2008 was $1,505,000, on which $87,461 was recognized as interest income on a cash basis.

At December 31, 2009, the Bank had $8,560,000 in loans placed on nonaccrual status and no accruing loans past due 90 days or more. Included in the impaired and nonaccrual loans above are 2 loans in the amount of $842,000 that were considered to be troubled debt restructurings at December 31, 2009. There are no outstanding commitments to lend additional funds to this borrower. At December 31, 2008, the Bank had no loans placed on nonaccrual status or accruing loans past due 90 days or more. There was $520,000 of interest income foregone related to loans on nonaccrual status during the year ended December 31, 2009. There was no interest foregone related to nonaccrual loans during the year ended December 31, 2008.

Loans with a fair value of approximately $22,999,000 and $21,569,000 were pledged to secure borrowing arrangements as of December 31, 2009 and 2008, respectively (Note 8).

5. BANK PREMISES AND EQUIPMENT

Bank premises and equipment consisted of the following at December 31, 2009 and 2008 *(Dollars in thousands)*:

	2009	2008
Furniture, fixtures and equipment	$ 492	$ 466
Leasehold improvements	1,419	1,394
	1,911	1,860
Less accumulated depreciation and amortization	(830)	(578)
	$ 1,081	$ 1,282

Depreciation and amortization included in occupancy and equipment expense totaled $252,000 and $239,000, respectively for the years ended December 31, 2009 and 2008.

5. BANK PREMISES AND EQUIPMENT *(continued)*

The Bank leases its headquarters and branch facility under a non-cancelable operating lease. The lease expires on June 30, 2015 and has two five year renewal options. The lease includes an annual rent adjustment based on changes in the Consumer Price Index (CPI) with a floor of 3% and a cap of 8%. Future minimum lease payments are as follows *(Dollars in thousands)*:

Year Ending December 31,	Operating Leases
2010	$ 314
2011	323
2012	333
2013	343
2014	353
Thereafter	179
	$ 1,845

Rental expense included in occupancy and equipment expense totaled $307,000 and $297,000, net of sublease income of $35,000 and $0 for the years ended December 31, 2009 and 2008, respectively. The sublease agreement is month-to-month, as such, any possible future sublease income is not considered in the future minimum lease payment schedule above.

In conjunction with the build-out of the headquarters and branch, the Bank received advances from the landlord for tenant improvements. The advances are payable to the landlord over the term of the lease in monthly installments of $3,473. As of December 31, 2009 and 2008, amounts payable of $361,000 and $427,000, respectively, are included in accrued interest payable and other liabilities in the accompanying balance sheet.

6. INTEREST-BEARING DEPOSITS

The time deposits as of December 31, 2009 have the following maturities by year *(Dollars in thousands)*:

2010	$ 23,343
2011	480
	$ 23,823

7. INCOME TAXES

Income tax expense for the years ended December 31, 2009 and 2008 consisted of the following *(Dollars in thousands)*:

	2009	2008
Current	$ 1	$ 1
Deferred	(754)	(12)
Change in valuation allowance	754	12
Income tax expense	$ 1	$ 1

7. INCOME TAXES *(continued)*

Deferred tax assets (liabilities) at December 31, 2009 and 2008 consisted of the following *(Dollars in thousands)*:

	2009	2008
Deferred tax assets:		
Net operating losses	$ 948	$ 878
Organization costs	645	704
Allowance for loan losses	962	406
Accrual to cash conversion	86	133
Share-based compensation	63	58
OREO writedown	157	-
Other	150	77
Deferred tax assets before valuation allowance	3,011	2,256
Valuation allowance	(2,991)	(2,237)
Total deferred tax assets	20	19
Deferred tax liabilities:		
Unrealized gain on available-for-sale Investment securities	(33)	(29)
Deferred loan cost	(18)	(19)
FHLB stock	(2)	-
Total deferred tax liabilities	(53)	(48)
Net deferred tax liabilities	$ (33)	$ (29)

The Bank files income tax returns in the United States and California jurisdictions. There are currently no pending federal, state or local income tax examinations by tax authorities. There are no unrecognized tax benefits as of December 31, 2009.

The Bank's Federal and state income tax returns for the 2008, 2007 and 2006 tax years are currently open for examination.

At December 31, 2009, the Bank had Federal and state net operating loss carry forwards (NOL's) of $ $2,305,000 and $2,302,000, respectively. The Federal NOL's begin to expire in 2026 and the state NOL's begin to expire in 2016, respectively.

8. BORROWING ARRANGEMENTS

The Bank has unsecured Federal funds line of credit with one of its correspondent banks under which it can borrow up to $5,000,000. There were no borrowings outstanding under this arrangement at December 31, 2009 and December 31, 2008.

8. BORROWING ARRANGEMENTS *(continued)*

In addition, the Bank has an arrangement with the Federal Home Loan Bank (FHLB) under which it may borrow an amount not to exceed 10% of total assets which must be fully secured by qualifying loans. At December 31, 2009, amounts pledged and available under such limits at the FHLB were approximately $20,931,000 and $11,299,000, respectively. At December 31, 2008, amounts pledged and available under such limits at the FHLB were approximately $17,887,000 and $9,635,000, respectively. As of December 31, 2009, the Bank had $9,000,000 in borrowings outstanding with the FHLB at interest rates between 2.49% and 3.74%, with $6 million maturing in May 2011 and the $3 million maturing in 2014. As of December 31, 2008, the Bank had $6,000,000 in borrowings outstanding with the FHLB at interest rates between 3.64% and 3.74% that mature in May 2011.

9. COMMITMENTS AND CONTINGENCIES

Financial Instruments With Off-Balance-Sheet Risk

The Bank 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 own exposure to fluctuations in interest rates. These financial instruments consist of the following *(Dollars in thousands)*:

	December 31, 2009	December 31, 2008
Commitments to extend credit	$ 19,355	$ 24,774
Standby letters of credit	$ 225	$ 195

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition 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. These commitments are normally unfunded portions of previously approved lines of credit. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include accounts receivable, inventory, 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 of a client to a third party. The credit risk involved in issuing standby 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, 2009 and 2008. The Bank recognizes these fees as revenue over the term of the commitment or when the commitment is used.

9. COMMITMENTS AND CONTINGENCIES *(continued)*

As of December 31, 2009, unsecured commercial loan commitments represent approximately 70% of total commitments and the majority of these commitments have variable interest rates. Commercial real estate and construction loans represent approximately 19% of total commitments and have primarily fixed rates. The remaining 11% of loan commitments represent home equity lines of credit, standby letters of credit and other consumer loans and are generally secured by residential real estate and have variable interest rates.

As of December 31, 2008, unsecured commercial loan commitments represent approximately 62% of total commitments and the majority of these commitments have variable interest rates. Commercial real estate and construction loans represent approximately 25% of total commitments and have primarily fixed rates. The remaining 13% of loan commitments represent home equity lines of credit, standby letters of credit and other consumer loans and are generally secured by residential real estate and have variable interest rates.

Concentrations of Credit Risk

A concentration of credit is defined by the Federal Reserve Bank as loans and or loan commitments to: (1) any individual borrower; (2) small, interrelated group of individuals; (3) single repayment source with normal credit risk or greater; and (4) an individual project that represents 25% or more of American Riviera Bank's Tier I capital and reserves.

The Bank grants real estate construction and commercial loans to customers in Santa Barbara and surrounding areas. Although the Bank intends to have a diversified loan portfolio, a substantial portion of its portfolio is secured by commercial and residential real estate.

In management's judgment, a concentration of approximately 31% at December 31, 2009, of the Bank's loans are in Commercial and Industrial loans and lines of credit within a variety of industries. Management also recognizes that a concentration of loans exists in Commercial Real Estate and Construction & Development loans, with 26% of the portfolio in Commercial Real Estate and 32% of the portfolio in Construction & Development as of December 31, 2009.

In management's judgment, a concentration of approximately 35% at December 31, 2008, of the Bank's loans are in Commercial and Industrial loans and lines of credit respectively, within a variety of industries. Management also recognizes that a concentration of loans exists in Commercial Real Estate and Construction & Development loans, with 27% of the portfolio in Commercial Real Estate and 30% of the portfolio in Construction & Development as of December 31, 2008.

Concentrations may also exist when certain types of loans reach a percentage of capital as in the case of Commercial Real Estate. Although management believes the loans within this concentration have no more than the normal risk of collectibility, a continued substantial decline in the performance of the economy in general or a continued decline in real estate values in the Bank's primary market area, in particular, could have an adverse impact on the collectibility of these loans. Personal and business income represents the primary source of repayment for a majority of these loans.

9. COMMITMENTS AND CONTINGENCIES *(continued)*

Concentrations in Deposit and Loan Relationships

As of December 31, 2009, the Bank did not have any deposit customers that exceed 5% of total deposits. As of December 31, 2008, $9,820,000, or 12% of deposits was to one customer. This customer is not a related party.

As of December 31, 2009 and 2008, the Bank did not have any loan customers that exceed 10% of total loans.

Contingencies

The Bank may be 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 financial position or results of operations of the Bank.

Federal Reserve Requirements

Banks are required to maintain reserves with the Federal Reserve Bank of San Francisco (the "FRB") equal to a percentage of their reservable deposits. As of December 31, 2009, the Bank was required to maintain a $86,000 reserve with the FRB. As of December 31, 2008 the Bank's cash position met this requirement and no reserve was required to be maintained with the FRB.

Correspondent Banking Agreements

The Bank maintains funds on deposit with other federally insured financial institutions under correspondent banking agreements. Those insured financial institutions have elected to participate in the FDIC sponsored Transaction Account Guarantee Program. Under that program, through June 30, 2010, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Coverage under the Transaction Account Guarantee Program (TAG) is in addition to and separate from the coverage available under the FDIC's general deposit insurance rules. The Bank maintains funds in money market accounts at certain correspondent banks. TAG does not provide additional coverage for these types of accounts. As of December 31, 2009 and 2008, the Bank had $3,508,000 and $0, of uninsured deposits.

10. SHARE-BASED PAYMENT

The American Riviera Bank 2009 Stock Incentive Plan (the "Plan") permits the grant of equity compensation in the form of stock options, stock appreciation rights, restricted stock, deferred shares and performance shares and units to directors, organizers and employees of the Bank. The Plan was approved by shareholders and adopted in October 2009 to replace the American Riviera Bank 2006 Stock Incentive Plan which had only permitted the use of stock options. There was no increase in the number of shares available in the Plan and all previously granted awards were transferred to the new Plan with no change in terms or conditions. The grant of options to the organizers during the start up phase of the Bank is considered a Non-Qualified Stock Option Award and is included below as such. All other option grants are included in the Employee Incentive Stock Option Awards below. All of the options granted under the Plan have a 10 year term and have been issued with exercise prices at the fair market value of the underlying shares at the date of grant. The Non-Qualified Stock Option Awards to the organizers vested 100% immediately, whereas the Employee Stock Option Awards vest over a three or five year period from the date the options were granted.

The following stock option information is for employee incentive stock option awards for the years ended December 31, 2009 and 2008 *(Dollars in thousands, except per share amounts)*:

	2009	2008
Weighted average grant date fair value per share of options granted	$ 2.77	$ 2.66
Significant weighted average assumptions:		
Expected term	7.5 years	7.5 years
Expected annual volatility	39%	26%
Expected annual dividend yield	0%	0%
Risk-free interest rate	3.11%	3.47%
Total share-based compensation expense included in salaries and benefits related to stock options	$ 48	$ 138

Non-Qualified Stock Option Awards Granted to Organizers

A summary of the award activity under the Plan for the years ended December 31, 2009 and 2008 are presented below *(Dollars in thousands, except per share amounts)*:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Options outstanding at January 1, 2008	234,500	$ 10.00	
Options outstanding at December 31, 2008	234,500	$ 10.00	
Options exercisable at December 31, 2008	234,500	$ 10.00	
Options outstanding at December 31, 2009	234,500	$ 10.00	6.5
Options exercisable at December 31, 2009	234,500	$ 10.00	6.5

10. SHARE-BASED PAYMENT *(continued)*

As of December 31, 2009, there was no unrecognized compensation related to stock option awards to the Bank's organizers. There was no intrinsic value related to non-qualified stock awards at December 31, 2009.

Employee Incentive Stock Option Awards

A summary of the award activity under the Plan for the years ended December 31, 2009 and 2008 are presented below *(Dollars in thousands except, per share amounts):*

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Options outstanding at January 1, 2008	248,218	$ 10.06	
Granted in 2008	70,000	$ 7.00	
Forfeited/expired in 2008	(79,270)	$ 10.02	
Options outstanding at December 31, 2008	238,948	$ 9.18	
Granted in 2009	22,500	$ 5.78	
Forfeited/expired in 2009	(73,592)	$ 10.15	
Options outstanding at December 31, 2009	187,856	$ 8.39	7.76
Options vested and expected to vest	187,856	$ 8.39	7.76
Options exercisable at December 31, 2009	107,690	$ 9.63	7.00

As of December 31, 2009, unrecognized compensation cost related to non-vested stock option awards to employees totaled $197,000. That cost is expected to be amortized on a straight-line basis over a weighted average period of 3.89 years, and will be adjusted for subsequent changes in forfeitures. There was no fair value attributable to the options vested for the year ended December 31, 2009. The aggregate intrinsic value of outstanding employee incentive stock awards was not significant at December 31, 2009.

Restricted Common Stock Awards

In 2009, the Bank granted 22,500 shares of restricted common stock to selected officers, which had a fair market value of $4.00 per share on the date of grant. These restricted common stock awards vest 35% in Year 1, 35% in Year 2 and 30% in Year 3. There were no restricted shares granted or outstanding prior to January 1, 2009.

10. SHARE-BASED PAYMENT *(continued)*

As of December 31, 2009, 22,500 shares of restricted stock are nonvested and expected to vest. Compensation cost charged against income for restricted stock awards was $1,230 for the year ended December 31, 2009. There was no compensation cost related to restricted stock awards for the year ended December 31, 2008. There were no tax benefits recognized in the statement of income for restricted stock awards for the years ended December 31, 2009 or 2008. At December 31, 2009, the total compensation cost related to nonvested restricted common stock but not yet recognized was $88,770. Restricted stock compensation expense is recognized on a straight line basis over the vesting period. This cost is expected to be recognized over a weighted average remaining period of approximately 2.9 years and will be adjusted for subsequent changes in estimated forfeitures. Restricted common stock had an intrinsic value of $6,750 at December 31, 2009.

11. SHAREHOLDERS' EQUITY

Dividends

Upon declaration by the Board of Directors, 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, 2009, no amounts were free of such restrictions.

Regulatory Capital

The Bank is subject to certain regulatory capital requirements administered by 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 Bank's financial statements.

Under capital adequacy guidelines, the Bank 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. These quantitative measures are established by regulation and require that minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets be maintained. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

The Bank is also subject to additional capital guidelines under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table below. The most recent notification from the FDIC categorized the Bank as well capitalized under these guidelines. There are no conditions or events since that notification that management believes have changed the Bank's category. Management believes that the Bank meets all its capital adequacy requirements as of December 31, 2009 and 2008.

11. SHAREHOLDERS' EQUITY *(continued))*

As of December 31, 2009 and 2008, total average assets for leverage capital purposes were $136,972,000 and $100,078,000, respectively and total risk weighted assets were $121,409,000 and $101,152,000, respectively. Capital ratios as of December 31, 2009 and 2008 are as follows *(Dollars in thousands)*:

	2009		2008	
	Amount	Ratio	Amount	Ratio
Leverage Ratio				
American Riviera Bank	$ 17,646	12.9%	$ 19,499	19.5%
Minimum for "Well-Capitalized" institution under prompt corrective action provisions	$ 6,849	5.0%	$ 5,004	5.0%
Minimum regulatory requirement	$ 5,479	4.0%	$ 4,003	4.0%
Tier 1 Risk-Based Capital Ratio				
American Riviera Bank	$ 17,646	14.5%	$ 19,499	19.3%
Minimum for "Well-Capitalized" institution under prompt corrective action provisions	$ 7,285	6.0%	$ 6,069	6.0%
Minimum regulatory requirement	$ 4,856	4.0%	$ 4,046	4.0%
Total Risk-Based Capital Ratio				
American Riviera Bank	$ 19,186	15.8%	$ 20,585	20.4%
Minimum for "Well-Capitalized" institution under prompt corrective action provisions	$ 12,141	10.0%	$ 10,115	10.0%
Minimum regulatory requirement	$ 9,713	8.0%	$ 8,092	8.0%

12. EMPLOYEE BENEFIT PLANS

Profit Sharing Plan

In 2006, the Bank adopted the American Riviera Bank 401(k) Profit Sharing Plan and Trust (the "Plan"). All employees 21 years of age or older are immediately eligible to participate in the Plan. Eligible employees may elect to make tax deferred contributions up to the maximum amount allowed by law. The Bank may make additional contributions to the Plan at the discretion of the Board of Directors. Bank contributions vest immediately for all employees. The Bank contributed $48,000 and $36,000 in the form of employer matching contributions to the Plan during the years ended December 31, 2009 and 2008, respectively.

13. OTHER EXPENSES

Other expenses for the years ended December 31, 2009 and 2008 consisted of the following *(Dollars in thousands)*:

	2009	2008
Professional Fees	$ 323	$ 326
Regulatory Assessments	258	80
Data processing	210	158
Software amortization	102	103
Advertising and marketing	75	63
Insurance	46	38
Other	200	194
	$ 1,214	$ 962

14. RELATED PARTY TRANSACTIONS

During the normal course of business, the Bank enters into transactions with related parties, including executive officers and directors. The following is a summary of the aggregate activity involving related party borrowers.

Loans

These loans are made with substantially the same terms, including rates and collateral, as loans to unrelated parties *(Dollars in thousands).*

Balance, January 1, 2009	$ 7,628
Disbursements	4,266
Amounts repaid	(3,177)
Balance, December 31, 2009	$ 8,717

As of December 31, 2009 total undisbursed commitments to related parties, were $2,546,000.

As of December 31, 2009 and 2008, there were no loans to related parties that exceeded 10% of the Bank's total loans.

Deposits

As of December 31, 2009 and 2008, there were no deposits to related parties that exceeded 5% of the Bank's total deposits.

14. RELATED PARTY TRANSACTIONS *(continued)*

Other Related Party Transactions

An organizer who is also a member of the Board of Directors served as the general contractor for the bank site build out and continues to provide general maintenance services. The services provided to the Bank were based on the prevailing terms and conditions as for any other entity. An organizer who is also a member of the Board of Directors is affiliated with the insurance brokerage company which supplies the Bank's insurance coverage. This insurance coverage is provided at prevailing terms and conditions as for any other client. The Board of Directors of the Bank approved these transactions. Certain organizers who are also members of the Board of Directors are affiliated with the company which subleases space from the Bank. The rental fee for this space is based on the prevailing rates, terms and conditions as for any other entity. The Board of Directors of the Bank approved these transactions.

15. COMPREHENSIVE INCOME (LOSS)

Comprehensive income is reported in addition to net income (loss) 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 (loss). Unrealized gains and losses on the Bank's available-for-sale investment securities are included in other comprehensive income (loss). Total comprehensive income (loss) and the components of accumulated other comprehensive income are presented in the statement of changes in shareholders' equity.

At December 31, 2009 and 2008, the Bank held securities classified as available-for-sale which had net unrealized gains or losses as follows *(Dollars in thousands):*

For the Year Ended December 31, 2009

	Before Tax	Tax Expense	After Tax
Other comprehensive income:			
Unrealized holding gains	$ 30	$ (12)	$ 18
Less reclassification adjustment for net gains included in net income	20	(8)	12
Total other comprehensive income	$ 10	$ (4)	$ 6

For the Year Ended December 31, 2008

	Before Tax	Tax Liability	After Tax
Net unrealized holding gains	$ 70	$ (29)	$ 41