



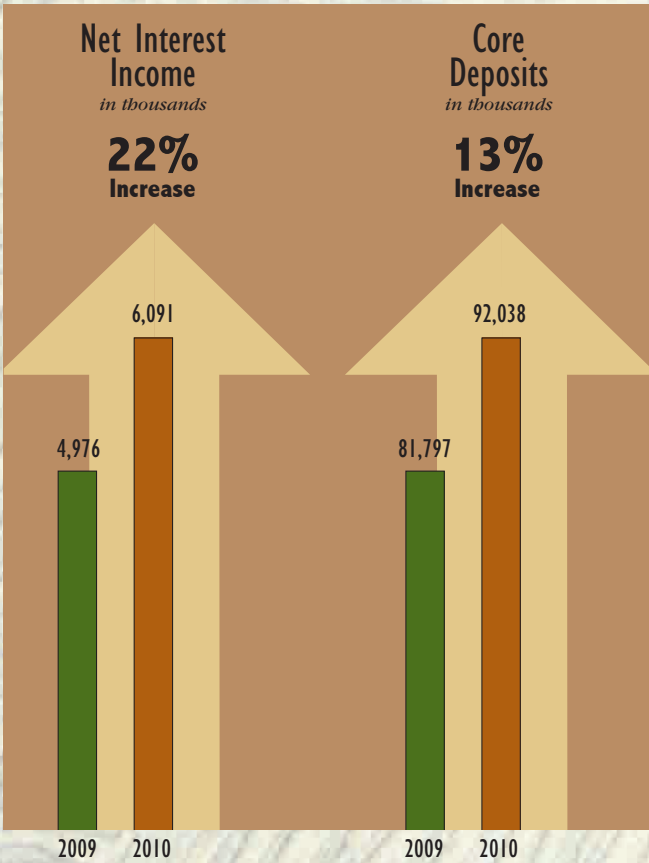
AMERICAN RIVIERA
BANK

2010 ANNUAL REPORT



2010 Highlights

Net Income	\$1,024,000
Return on Average Assets	0.75%
Return on Average Equity	5.57%
Earnings Per Share	\$0.41



Mission Statement

“At American Riviera Bank it is our goal to be the best Bank in Santa Barbara by consistently delivering innovative, responsive, client and community focused banking excellence. With integrity, professionalism, teamwork and optimism as the driving force behind everything we do, our employees, shareholders, and community alike will be the beneficiaries.”



AMERICAN RIVIERA
BANK



AMERICAN RIVIERA BANK

A Message to our Shareholders, Customers and Community:

In last year's letter, we closed with the comment: *"Expect great things from your bank in 2010."* We are pleased to report that great things did indeed happen at American Riviera Bank this year. Most notably, your bank reported \$1,024,000 of net profit in a year that remained difficult for many other banks as well as the economy as a whole. Although real estate and employment remain unsettled, there is growing evidence to suggest that the local economy in which we operate is slowly improving, and that 2011 will be a better year than 2010. Our outlook is that of continued profitability; as your bank is very well positioned in respect to net interest margin, capital, reserves, and liquidity to serve the needs of our clients while ensuring a return for our shareholders.

Our focus remains on delivering personalized service and sustaining long-term relationships with our clients. The trends we have experienced within our core deposit base would indicate that our clients enjoy banking with us, have been bringing more of their accounts to the bank, and have been spreading the word to their friends. In 2010, your bank was able to replace 152 higher-cost and more rate-sensitive time deposits totaling \$7.1 million with 325 relationship-based checking, interest checking and savings accounts totaling \$8.9 million. As a result, our net interest income increased \$1.1 million or 22% in 2010, and our net interest margin of 4.75% compared very favorably to all banks nationwide.

American Riviera Bank reported Tier 1 Capital of 13.3% of assets and Total Capital of 18.5% of risk-weighted assets at year end 2010. These ratios are well above regulatory standards for "well capitalized" designation and are the highest capital ratios of any bank operating in Santa Barbara including the large national banks. We see opportunity in the coming years to leverage our capital to provide more loans within our community to individuals, small businesses and investors as well as take advantage of growth related opportunities.

Our loan loss allowance was \$3.2 million, representing 3.38% of total loans at year end 2010. This reserve provides a strong cushion to absorb potential losses within our loan portfolio and protect our capital base. Unlike many banks, we ended the year without any foreclosed real estate on our books. Thankfully, this allows bank officers to focus on serving the needs of our clients and pursuing new lending opportunities as opposed to dealing with past issues. As a small bank, we continue to be in a better position when issues do arise to address each loan relationship individually to ensure the best possible outcome for both the bank and the client.

Lastly, your bank remains highly liquid which should provide depositors with comfort and ample resources to pursue growth opportunities in our recovering economy. The bank's liquid assets at year end 2010 totaled \$46.3 million. In 2010, it was a challenge to find enough qualified loan opportunities to deploy our deposits, however, this will be a key focus for our bankers in 2011 and we have adjusted our marketing, advertising and business development efforts accordingly. We look forward to continuing to serve the needs of our community, while growing your bank in a safe, sound and profitable manner.

Sincerely,

Lawrence Koppelman
Chairman of the Board

Jeff DeVine
President and CEO





AMERICAN RIVIERA
BANK

**FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2010 AND 2009
AND FOR THE YEARS THEN ENDED**

	Page
American Riviera Bank:	
Independent Auditor's Report.....	3
Balance Sheets as of December 31, 2010 and 2009.....	4
Statements of Operations for the Years Ended December 31, 2010 and 2009.....	5
Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2010 and 2009.....	6
Statements of Cash Flows for the Years Ended December 31, 2010 and 2009.....	7
Notes to Financial Statements.....	9



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, 2010 and 2009 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, 2010 and 2009 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.



March 16, 2011

AMERICAN RIVIERA BANK

BALANCE SHEETS

December 31, 2010 and 2009

(Dollars in thousands, except per share amounts)

	2010	2009
ASSETS		
Cash and due from banks	\$ 3,798	\$ 1,881
Federal funds sold	<u>17,880</u>	<u>10,295</u>
Total cash and cash equivalents	21,678	12,176
Interest-bearing deposits in other financial institutions	8,499	7,256
Available-for-sale investment securities	16,126	5,220
Loans	93,885	105,945
Allowance for loan losses	<u>(3,172)</u>	<u>(2,578)</u>
Net loans	90,713	103,367
Bank premises and equipment, net	894	1,081
Other real estate owned	-	2,230
Accrued interest receivable and other assets	<u>1,600</u>	<u>1,780</u>
Total assets	<u><u>\$ 139,510</u></u>	<u><u>\$ 133,110</u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing deposits	\$ 16,011	\$ 10,179
Savings deposits	806	526
Money market deposits	56,117	54,783
Interest-bearing demand deposits	19,104	16,309
Time deposits equal to or greater than \$100,000	13,964	20,542
Time deposits less than \$100,000	<u>2,745</u>	<u>3,281</u>
Total deposits	108,747	105,620
Short term FHLB borrowings	6,000	-
Long term FHLB borrowings	5,000	9,000
Accrued interest payable and other liabilities	<u>958</u>	<u>796</u>
Total liabilities	<u>120,705</u>	<u>115,416</u>
Commitments and contingencies (Note 10)		
Shareholders' equity:		
Preferred stock – no par value; 5,000,000 shares authorized, none issued	-	-
Common stock – no par value; 10,000,000 shares authorized; 2,512,570 and 2,506,756 shares issued and outstanding in 2010 and 2009, respectively	26,283	26,193
Accumulated deficit	(7,522)	(8,546)
Accumulated other comprehensive income, net of taxes	<u>44</u>	<u>47</u>
Total shareholders' equity	<u>18,805</u>	<u>17,694</u>
Total liabilities and shareholders' equity	<u><u>\$ 139,510</u></u>	<u><u>\$ 133,110</u></u>

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

AMERICAN RIVIERA BANK
STATEMENTS OF OPERATIONS

For the Years Ended December 31, 2010 and 2009
(Dollars in thousands except shares and per share data)

	2010	2009
Interest income:		
Interest and fees on loans	\$ 6,927	\$ 6,777
Interest on available-for-sale investment securities	339	302
Interest on Federal funds sold	22	17
Interest on deposits in other financial institutions	<u>100</u>	<u>137</u>
Total interest income	<u>7,388</u>	<u>7,233</u>
Interest expense:		
Interest on savings deposits	8	7
Interest on money market deposits	541	983
Interest on interest-bearing demand deposits	146	134
Interest on time deposits equal to or greater than \$100,000	243	671
Interest on time deposits less than \$100,000	<u>34</u>	<u>219</u>
Total interest expense on deposits	972	2,014
Interest expense from borrowings	<u>325</u>	<u>243</u>
Total interest expense	<u>1,298</u>	<u>2,257</u>
Net interest income before provision for loan losses	6,091	4,976
Provision for loan losses	<u>648</u>	<u>2,706</u>
Net interest income after provision for loan losses	<u>5,443</u>	<u>2,270</u>
Non-interest income:		
Gain on sale of investments	25	20
Loss on sale of other real estate owned	(120)	-
Service charges, commissions and fees	<u>119</u>	<u>78</u>
Total non-interest income	<u>24</u>	<u>98</u>
Non-interest expense:		
Salaries and employee benefits	2,239	1,956
Occupancy and equipment	693	695
Impairment charges and expenses on other real estate owned	169	403
Other	<u>1,341</u>	<u>1,214</u>
Total non-interest expense	<u>4,442</u>	<u>4,268</u>
Income (loss) before provision for taxes and extraordinary items	1,025	(1,900)
Provision for taxes	<u>1</u>	<u>1</u>
Net income (loss)	<u>\$ 1,024</u>	<u>\$ (1,901)</u>
Income (loss) per share, basic and diluted	<u>\$ 0.41</u>	<u>\$ (0.76)</u>
Weighted average number of shares outstanding	<u>2,506,995</u>	<u>2,506,756</u>

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, 2010 and 2009

(Dollars in thousands except share data)

	<u>Common Stock</u>		<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Income (Net of Taxes)</u>	<u>Total Shareholders' Equity</u>	<u>Total Comprehensive Income (Loss)</u>
	<u>Shares</u>	<u>Amount</u>				
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 change in unrealized gains on available-for-sale investment securities, net of tax				6	6	<u>6</u>
Total comprehensive loss						<u>\$ (1,895)</u>
Share-based compensation expense		<u>49</u>			<u>49</u>	
Balance, December 31, 2009	2,506,756	26,193	(8,546)	47	17,694	
Comprehensive income:						
Net income			1,024		1,024	\$ 1,024
Other comprehensive loss:						
Net change in unrealized gains on available-for-sale investment securities, net of tax				(3)	(3)	<u>(3)</u>
Total comprehensive income						<u>\$ 1,021</u>
Vested restricted stock awards issued	7,875					
Shares surrendered to pay taxes on vesting of restricted stock	(2,061)	(9)			(9)	
Share-based compensation expense		<u>99</u>			<u>99</u>	
Balance, December 31, 2010	<u>2,512,570</u>	<u>\$ 26,283</u>	<u>\$ (7,522)</u>	<u>\$ 44</u>	<u>\$ 18,805</u>	

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

AMERICAN RIVIERA BANK
STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2010 and 2009

(Dollars in thousands)

	2010	2009
Cash flows from operating activities:		
Net income (loss)	\$ 1,024	\$ (1,901)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for loan losses	648	2,706
Depreciation and amortization	313	330
Gain on sale of investments	(25)	(20)
Net (decrease) increase in deferred loan origination costs and fees	(14)	40
Net amortization (accretion) of investment security premiums (discounts)	53	(14)
Share-based compensation expense	99	49
Write down of other real estate owned	156	383
Loss on sale of other real estate owned	120	-
Decrease (increase) in accrued interest receivable and other assets	204	(727)
Increase (decrease) in accrued interest payable and other liabilities	162	(86)
	<u>2,740</u>	<u>760</u>
Net cash provided by operating activities	<u>2,740</u>	<u>760</u>
Cash flows from investing activities:		
Increase in interest-bearing deposits in other financial institutions	(1,243)	(752)
Decrease (increase) in loans, net	11,037	(21,667)
Proceeds from sales of available-for-sale investment securities	2,009	2,020
Proceeds from principle payments of available-for-sale investment securities	1,353	294
Proceeds from calls and maturities of available-for-sale investment securities	9,000	14,095
Purchase of available-for-sale investment securities	(23,301)	(10,407)
Purchase of Federal Home Loan Bank stock	(94)	(9)
Purchase of The Independent Bankers Bank stock	(1)	(1)
Payment of first lien on other real estate owned	-	(1,000)
Proceeds from sale of other real estate owned	2,937	-
Purchase of premises and equipment	(53)	(51)
	<u>1,644</u>	<u>(17,478)</u>
Net cash provided by (used in) in investing activities	<u>1,644</u>	<u>(17,478)</u>
Cash flows from financing activities:		
Increase in demand, interest bearing and savings deposits, net	10,241	37,273
Decrease in time deposits, net	(7,114)	(16,314)
Net proceeds from borrowings	2,000	3,000
Restricted shares surrendered	(9)	-
	<u>5,118</u>	<u>23,959</u>
Net cash provided by financing activities	<u>5,118</u>	<u>23,959</u>
Increase in cash and cash equivalents	9,502	7,241
Cash and cash equivalents at beginning of year	<u>12,176</u>	<u>4,935</u>
Cash and cash equivalents at end of year	<u>\$ 21,678</u>	<u>\$ 12,176</u>

AMERICAN RIVIERA BANK

STATEMENTS OF CASH FLOWS *(continued)*

For the Years Ended December 31, 2010 and 2009
(Dollars in thousands)

Supplemental disclosure of cash flow information:

	2010		2009
Cash paid during the period for:			
Interest expense	\$ 1,396	\$	2,230
Income taxes	\$ 1	\$	1
Non-cash investing activities:			
Unrealized holding (losses) gains on available-for-sale investment securities	\$ (5)	\$	10
Transfers to other real estate owned	\$ 983	\$	1,695

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

AMERICAN RIVIERA BANK

NOTES TO 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 medium-sized businesses, professionals, real estate investors and not-for-profit organizations located in Santa Barbara and the surrounding areas.

The deposits of the Bank are insured by the FDIC up to applicable legal limits. The Bank is participating in the FDIC's Transaction Account Guarantee Program (TAG). Under this program, through December 31, 2010, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Coverage under TAG was in addition to and separate from the coverage available under the FDIC's general deposit insurance rules. Although coverage under TAG expired December 31, 2010, the FDIC adopted a final rule amending its deposit insurance regulations on November 15, 2010 to implement Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act providing for unlimited deposit insurance for noninterest-bearing transaction accounts for two years starting December 31, 2010.

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, 2010 through March 16, 2011, 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.

AMERICAN RIVIERA BANK

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Investment Securities

Investment securities are classified into the following categories:

- X 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.
- X 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, 2010 and 2009, 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 as a change to earnings for all investments.

An investment security is impaired when its carrying value is greater than its fair value. Investment securities that are impaired are evaluated on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether such a decline in their fair 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 the Bank 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 the Bank will be required to sell the security before recovering its forecasted cost, the entire impairment loss is recognized as a charge to earnings.

AMERICAN RIVIERA BANK

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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, 2010 and 2009.

Allowance for Loan Losses

The allowance for loan losses is an estimate of credit losses inherent in the Bank's loan portfolio that have been incurred as of the balance-sheet date. The allowance 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 and loan growth. Credit exposures determined to be uncollectible are charged against the allowance. Cash received on previously charged off amounts is recorded as a recovery to the allowance. The overall allowance consists of two primary components, specific reserves related to impaired loans and general reserves for inherent losses related to loans that are not impaired.

AMERICAN RIVIERA BANK

NOTES TO FINANCIAL STATEMENTS

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

Allowance for Loan Losses *(continued)*

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 principal and interest, according to the contractual terms of the original agreement. Loans determined to be impaired are individually evaluated for impairment. When a loan is impaired, the Bank measures impairment based on the present value of expected future cash flows discounted at the loan's original contractual interest rate, except that as a practical expedient, it may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. A loan is collateral dependent if the repayment of the loan is expected to be provided solely by the underlying collateral.

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

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

The Bank determines a separate allowance for each portfolio segment (loan type). These portfolio segments include commercial, real estate - commercial, real estate - residential (including home equity loans), construction, and consumer and other. The allowance for loan losses attributable to each portfolio segment, which includes both impaired loans and loans that are not impaired, is combined to determine the Bank's overall allowance, which is included in the balance sheets.

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

Pass - Represents credits that satisfactorily meet all of the Bank's underwriting criteria, and provide adequate protection for the Bank through the paying capacity of the borrower and/or the margin (value) and marketability (liquidity) of the collateral.

AMERICAN RIVIERA BANK

NOTES TO FINANCIAL STATEMENTS

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

Allowance for Loan Losses *(continued)*

Special Mention - A Special Mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the institution's credit position at some future date. Special Mention loans are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

Substandard - Substandard loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful - Loans classified Doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

Loss - Loans classified Loss are considered uncollectable and charged off immediately.

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

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

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

AMERICAN RIVIERA BANK

NOTES TO FINANCIAL STATEMENTS

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

Allowance for Loan Losses *(continued)*

Real estate - residential (single family residential real estate and home equity lines of credit) – The degree of risk in residential real estate lending depends primarily on the loan amount in relation to collateral value, the interest rate and the borrower's ability to repay in an orderly fashion. These loans generally possess a lower inherent risk of loss than other real estate portfolio segments. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

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

Consumer and other – Consumer and other loans is comprised of loans to individuals, including installment loans, revolving lines of credit and term loans. Most installment loans are made directly for consumer purchases, but business loans granted for the purchase of vehicles may also be included. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

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

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

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

AMERICAN RIVIERA BANK

NOTES TO FINANCIAL STATEMENTS

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

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.

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 non-interest expense when incurred.

The Bank had no OREO properties at December 31, 2010. At December 31, 2009 the Bank had \$2,230,000 invested in one property acquired through deed-in-lieu.

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, 2010 and 2009, FHLB stock totaled \$517,000 and \$423,000 and is included on the balance sheet in accrued interest receivable and other assets.

AMERICAN RIVIERA BANK

NOTES TO FINANCIAL STATEMENTS

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

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 all of our deferred income tax assets as of December 31, 2010 and 2009 will not be fully realized and therefore a valuation allowance was recorded.

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 statements of income.

Income (Loss) Per Share

Basic income (loss) per share (EPS), which excludes dilution, is computed by dividing net income (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 and restricted stock awards, 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 and restricted stock 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. At December 31, 2010 and 2009, all outstanding stock options and unvested restricted stock awards are excluded from the calculation of diluted earnings per share as they are anti-dilutive.

AMERICAN RIVIERA BANK

NOTES TO FINANCIAL STATEMENTS

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

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 restricted stock grants. 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 award is granted, and that the exercise price per share 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.

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

The Bank records compensation cost for all share-based payments based on the estimated fair value of the options on the grant date 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 the Bank has not paid dividends and has 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.

AMERICAN RIVIERA BANK

NOTES TO FINANCIAL STATEMENTS

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

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

Transfers of Financial Assets

In June 2009, the Financial Accounting Standards Board ("FASB") issued FASB Accounting Standards Update ("ASU") 2009-16, *Accounting for Transfers of Financial Assets (Statement 166)*, which amends previously issued accounting guidance to enhance accounting and reporting for transfers of financial assets, including securitizations or continuing exposure to the risks related to transferred financial assets. Prior to the issuance of Statement 166, transfers under participation agreements and other partial loan sales fell under the general guidance for transfers of financial assets. Statement 166 introduces a new definition for a participating interest along with the requirement for partial loan sales to meet the definition of a participating interest for sale treatment to occur. If a participation or other partial loan sale does not meet the definition, the portion sold should remain on the books and the proceeds recorded as a secured borrowing until the definition is met. Additionally, existing provisions that require the transferred assets to be isolated from the originating institution (transferor), that the transferor does not maintain effective control through certain agreements to repurchase or redeem the transferred assets and that the purchasing institution (transferee) has the right to pledge or exchange the assets acquired were retained. The Bank adopted this new accounting standard on January 1, 2010. The impact of adoption was not material to the Bank's financial position, results of operations or cash flows.

Fair Value Measurements

In January 2010, the FASB issued FASB ASU 2010-06, *Improving Disclosures about Fair Value Measurements*, which amends and clarifies existing standards to require additional disclosures regarding fair value measurements. Specifically, the standard requires disclosure of the amounts of significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for these transfers, the reasons for any transfers in or out of Level 3, and information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements on a gross basis. This standard clarifies that reporting entities are required to provide fair value measurement disclosures for each class of assets and liabilities—previously separate fair value disclosures were required for each major category of assets and liabilities. This standard also clarifies the requirement to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. Except for the requirement to disclose information about purchases, sales, issuances and settlements in the reconciliation of recurring Level 3 measurements

AMERICAN RIVIERA BANK

NOTES TO FINANCIAL STATEMENTS

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

Adoption of New Financial Accounting Standards *(continued)*

Fair Value Measurements *(continued)*

on a gross basis, these disclosures are effective for the year ended December 31, 2010. The requirement to separately disclose purchases, sales, issuances, and settlements of recurring Level 3 measurements becomes effective for the Bank for the year beginning on January 1, 2011. The Bank adopted this new accounting standard as of January 1, 2010 and the impact of adoption was not material to the Bank's financial position, results of operations or cash flows.

Disclosures about Credit Quality

In July 2010, the FASB issued FASB ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. ASU 2010-20 requires more robust and disaggregated disclosures about the credit quality of loans and allowances for loan losses, including disclosure about credit quality indicators, past due information and modifications of finance receivables. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on and after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this guidance has significantly expanded disclosure requirements related to accounting policies and disclosures related to the allowance for loan losses but did not have an impact on the Bank's financial position, results of operation or cash flows.

2. FAIR VALUE MEASUREMENTS

The estimated carrying and fair values of the Bank's financial instruments at December 31, 2010 and 2009 are as follows *(Dollars in thousands)*:

	2010		2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and due from banks	\$ 3,798	\$ 3,798	\$ 1,881	\$ 1,881
Federal funds sold	17,880	17,880	10,295	10,295
Interest-bearing deposits in other financial institutions	8,499	8,538	7,256	7,281
Investment securities	16,126	16,126	5,220	5,220
Loans, net	90,713	92,309	103,367	104,763
Other real estate owned	-	-	2,230	2,230
FHLB stock	517	517	423	423
TIB Stock	54	54	53	53
Accrued interest receivable	423	423	490	490
Financial liabilities:				
Deposits	\$ 108,747	\$ 108,726	\$ 105,620	\$ 105,522
Borrowings	11,000	10,634	9,000	8,683
Accrued interest payable	66	66	164	164

AMERICAN RIVIERA BANK

NOTES TO FINANCIAL STATEMENTS

2. FAIR VALUE MEASUREMENTS *(continued)*

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, 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. Fair values for interest-bearing deposits in other financial institutions are estimated using discounted cash flow analyses using interest rates offered at each reporting date by the Bank for deposits with similar remaining maturities. 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 pay 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.

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.

AMERICAN RIVIERA BANK

NOTES TO FINANCIAL STATEMENTS

2. FAIR VALUE MEASUREMENTS *(continued)*

Fair Value Hierarchy (continued)

Management monitors the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

Management evaluates the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets, total liabilities or total earnings.

Assets Recorded at Fair Value

There were no changes in the valuation techniques used during 2010. 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, 2010 and 2009:

Recurring Basis

The following tables present information about the Bank's assets and liabilities measured at fair value on a recurring basis as of December 31, 2010 and 2009 (*Dollars in thousands*):

<u>Description</u>	<u>2010</u>			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Available-for-sale investment securities				
Debt securities:				
U.S. government agencies	\$ 3,003		\$ 3,003	
Mortgage-backed securities	11,552		11,552	
Corporate debt	<u>1,571</u>		<u>1,571</u>	
Total assets measured at fair value	<u>\$ 16,126</u>	<u>\$</u>	<u>\$ 16,126</u>	<u>\$</u>

<u>Description</u>	<u>2009</u>			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Available-for-sale investment securities				
Debt securities:				
U.S. government agencies	\$ 2,012		\$ 2,012	
Mortgage-backed securities	1,639		1,639	
Corporate debt	<u>1,569</u>		<u>1,569</u>	
Total assets measured at fair value	<u>\$ 5,220</u>	<u>\$</u>	<u>\$ 5,220</u>	<u>\$</u>

Fair values for Level 2 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. During the years ended December 31, 2010 and 2009, there were no significant transfers in or out of Levels 1 and 2.

AMERICAN RIVIERA BANK

NOTES TO FINANCIAL STATEMENTS

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 as of December 31, 2010 and 2009 (*Dollars in thousands*):

2010					
Description	Fair Value	Level 1	Level 2	Level 3	Total Losses
Impaired loans					
Commercial	\$ 994	\$ -	\$ 994	\$ -	\$ 505
Real estate - commercial	3,509	-	-	3,509	71
Construction	1,601	-	1,601	-	241
Total assets measured at fair value on a non-recurring basis	\$ 6,104	\$ -	\$ 2,595	\$ 3,509	\$ 817
2009					
Description	Fair Value	Level 1	Level 2	Level 3	Total Losses
Impaired loans	\$ 5,765	\$ -	\$ 5,765	\$ -	\$ 872
Other real estate owned	2,230	-	-	2,230	383
Total assets measured at fair value on a non-recurring basis	\$ 7,995	\$ -	\$ 5,765	\$ 2,230	\$ 1,255

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. Certain impaired loans were determined to be collateral dependent and categorized as Level 2 due to the use of current appraised values. Impaired loans with fair value based on a discounted cash flow model are categorized as Level 3 due to the use of unobservable assumptions. 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 in appraisals and assumptions in fair value measurements.

Impaired loans, classified as Level 2, are collateral dependent and have been adjusted to fair value based on the estimated fair value of underlying collateral, less estimated selling costs. Generally, 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 \$817,000 and \$872,000 represent impairment charges and specific reserves recognized during the years ended December 31, 2010 and 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.

AMERICAN RIVIERA BANK

NOTES TO FINANCIAL STATEMENTS

3. AVAILABLE-FOR-SALE INVESTMENT SECURITIES

The amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2010 and 2009 consisted of the following (*Dollars in thousands*):

	2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. government agencies	\$ 3,000	\$ 3	\$ -	\$ 3,003
Mortgage-backed securities	11,542	78	(68)	11,552
Corporate debt	1,509	63	(1)	1,571
	<u>\$ 16,051</u>	<u>\$ 144</u>	<u>\$ (69)</u>	<u>\$ 16,126</u>

	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
	<u>\$ 5,140</u>	<u>\$ 83</u>	<u>\$ (3)</u>	<u>\$ 5,220</u>

Net unrealized gains on available-for-sale investment securities totaling \$44,000 and \$47,000 were recorded net of \$31,000 and \$33,000 in tax liabilities as accumulated other comprehensive income within shareholders' equity at December 31, 2010 and 2009, respectively. The following table summarizes the securities sold and called for the years ended December 31, 2010 and 2009 (*Dollars in thousands*):

	2010	
	Proceeds	Gross Gains
Sales	\$ 2,009	\$ 25
Calls	9,000	-
	<u>\$ 11,009</u>	<u>\$ 25</u>
	2009	
	Proceeds	Gross Gains
Sales	\$ 2,020	\$ 20
Calls	10,000	-
	<u>\$ 12,020</u>	<u>\$ 20</u>

AMERICAN RIVIERA BANK

NOTES TO FINANCIAL STATEMENTS

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

The amortized cost and estimated fair value of investment securities at December 31, 2010 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
Within one year	\$ 1,000	\$ 1,001
After one year through three years	1,009	1,072
After three years through five years	500	499
After five years and beyond	2,000	2,002
	4,509	4,574
Investment securities not due at a single maturity date:		
Mortgage-backed securities	11,542	11,552
	\$ 16,051	\$ 16,126

U.S. Government Agencies Collateralized by Mortgage Obligations

At December 31, 2010, the Bank had two U.S. Government agency securities collateralized by mortgage obligation securities in an unrealized loss position for less than 12 months. The unrealized loss on the Bank's U.S. Government agency securities collateralized by mortgage obligation securities was caused by interest rate changes. The contractual cash flows of those securities are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Bank's investment. 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, 2010.

Corporate Debt

At December 31, 2010, 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. 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, 2010.

AMERICAN RIVIERA BANK

NOTES TO FINANCIAL STATEMENTS

4. LOANS

Outstanding loans at December 31, 2010 and 2009 are summarized below (*Dollars in thousands*):

	2010	2009
Real estate - commercial	\$ 42,135	\$ 27,373
Commercial	23,678	33,469
Construction	13,426	34,554
Real estate - residential	12,970	8,690
Consumer and other	<u>1,864</u>	<u>2,060</u>
	94,073	106,146
Deferred loan origination fees and costs, net	(188)	(201)
Allowance for loan losses	<u>(3,172)</u>	<u>(2,578)</u>
	<u>\$ 90,713</u>	<u>\$ 103,367</u>

The Bank deferred \$35,000 and \$32,000 in salaries and employee benefits as loan origination costs for the years ended December 31, 2010 and 2009, respectively.

Loans with a fair value of approximately \$24,012,000 and \$22,999,000 were pledged to secure borrowing arrangements as of December 31, 2010 and 2009, respectively (Note 9).

5. ALLOWANCE FOR LOAN LOSSES

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

	Years Ended December 31,	
	2010	2009
Balance, beginning of year	\$ 2,578	\$ 1,060
Provision charged to operations	648	2,706
Recoveries added to the allowance	187	-
Losses charged to the allowance	<u>(241)</u>	<u>(1,188)</u>
Balance, end of year	<u>\$ 3,172</u>	<u>\$ 2,578</u>

AMERICAN RIVIERA BANK

NOTES TO FINANCIAL STATEMENTS

5. ALLOWANCE FOR LOAN LOSSES (continued)

The following table shows the allocation of the allowance for loan losses at December 31, 2010 by portfolio segment and by impairment methodology (*Dollars in thousands*):

	Commercial	Real Estate – Commercial	Real Estate – Residential	Construction	Consumer and Other	Total
<u>Allowance for Credit Losses</u>						
Ending balance allocated to portfolio segments	\$ 1,763	\$ 607	\$ 421	\$ 279	\$ 102	\$ 3,172
Ending balance: individually evaluated for impairment	\$ 505	\$ 71	\$ -	\$ -	\$ -	\$ 576
Ending balance: collectively evaluated for impairment	\$ 1,258	\$ 536	\$ 421	\$ 279	\$ 102	\$ 2,596
<u>Loans</u>						
Ending balance	\$ 23,678	\$ 42,135	\$ 12,970	\$ 13,426	\$ 1,864	\$ 94,073
Ending balance: individually evaluated for impairment	\$ 3,980	\$ 3,580	\$ -	\$ 5,735	\$ -	\$ 13,295
Ending balance: collectively evaluated for impairment	\$ 19,698	\$ 38,555	\$ 12,970	\$ 7,691	\$ 1,864	\$ 80,778

The following table shows the loan portfolio allocated by management's internal risk ratings at December 31, 2010 (*Dollars in thousands*):

	Credit Exposure					Total
	Commercial	Real Estate – Commercial	Real Estate – Residential	Construction	Consumer and Other	
Grade:						
Pass	\$ 14,784	\$ 36,792	\$ 11,585	\$ 7,691	\$ 1,547	\$ 72,399
Special Mention	2,202	3,347	-	-	-	5,549
Substandard	6,692	1,996	1,385	5,735	317	16,125
Total	\$ 23,678	\$ 42,135	\$ 12,970	\$ 13,426	\$ 1,864	\$ 94,073

The following table shows an ageing analysis of the loan portfolio by the time past due at December 31, 2010 (*Dollars in thousands*):

	30-89 Days Past Due	90 Days and Still Accruing	Nonaccrual	Total Past Due	Current	Total
Commercial	\$ 400	\$ -	\$ 920	\$ 1,320	\$ 22,358	\$ 23,678
Real Estate – Commercial	-	-	-	-	42,135	42,135
Real Estate – Residential:						
Non-revolving	-	-	-	-	8,622	8,622
Equity LOC	-	-	-	-	4,348	4,348
Construction:						
Residential	-	-	2,087	2,087	4,191	6,278
Other and land	-	-	1,601	1,601	5,547	7,148
Consumer and Other	-	-	-	-	1,864	1,864
Total	\$ 400	\$ -	\$ 4,608	\$ 5,008	\$ 89,065	\$ 94,073

AMERICAN RIVIERA BANK

NOTES TO FINANCIAL STATEMENTS

5. ALLOWANCE FOR LOAN LOSSES *(continued)*

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.

The following table shows information related to impaired loans at and for the year ended December 31, 2010 *(Dollars in thousands)*:

	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
Without an allowance recorded:					
Commercial	\$ 2,481	\$ 2,529	\$ -	\$ 2,654	\$ 123
Construction	5,735	6,266	-	6,401	212
With an allowance recorded:					
Commercial	1,499	1,499	505	1,133	58
Real Estate – Commercial	3,580	3,580	71	3,999	340
Total:					
Commercial	3,980	4,028	505	3,787	181
Real Estate – Commercial	3,580	3,580	71	3,999	340
Construction	5,735	6,266	-	6,401	212
	<u>\$ 13,295</u>	<u>\$ 13,874</u>	<u>\$ 576</u>	<u>\$ 14,187</u>	<u>\$ 733</u>

At December 31, 2009, the recorded investment in impaired loans was \$15,812,000 with no related valuation allowance. All valuations were supported by current appraisals. The average outstanding balance of impaired loans for the year ended December 31, 2009 was \$8,407,000, on which there was no interest income recognized on a cash basis.

Included in impaired loans at December 31, 2010 are 9 loans in the amount of \$5,806,000 that were considered to be troubled debt restructurings at December 31, 2010. Included in the impaired loans at December 31, 2009 are 2 loans in the amount of \$842,000 that were considered to be troubled debt restructurings. The Bank has no commitments to lend additional funds to borrowers with loans whose terms have been modified in troubled debt restructurings as of December 31, 2010 and 2009.

6. BANK PREMISES AND EQUIPMENT

Bank premises and equipment consisted of the following at December 31, 2010 and 2009 *(Dollars in thousands)*:

	<u>2010</u>	<u>2009</u>
Furniture, fixtures and equipment	\$ 520	\$ 492
Leasehold improvements	1,444	1,419
	1,964	1,911
Less accumulated depreciation and amortization	(1,070)	(830)
	<u>\$ 894</u>	<u>\$ 1,081</u>

Depreciation and amortization included in occupancy and equipment expense totaled \$240,000 and \$252,000, respectively, for the years ended December 31, 2010 and 2009.

AMERICAN RIVIERA BANK

NOTES TO FINANCIAL STATEMENTS

6. 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)*:

<u>Year Ending December 31,</u>	<u>Operating Lease</u>
2011	\$ 324
2012	334
2013	344
2014	354
2015	180
	<u>\$ 1,536</u>

Rental expense included in occupancy and equipment expense totaled \$317,000 and \$307,000, net of sublease income of \$31,000 and \$35,000 for the years ended December 31, 2010 and 2009, respectively. The sublease agreement was terminated in November 2010, 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, 2010 and 2009, amounts payable of \$296,000 and \$361,000, respectively, are included in accrued interest payable and other liabilities in the accompanying balance sheets.

7. INTEREST-BEARING DEPOSITS

Time deposits as of December 31, 2010 have the following maturities by year *(Dollars in thousands)*:

2011	\$ 14,918
2012	1,641
2013	150
	<u>\$ 16,709</u>

8. INCOME TAXES

Income tax expense for the years ended December 31, 2010 and 2009 consisted of the following *(Dollars in thousands)*:

	<u>2010</u>	<u>2009</u>
Current	\$ 1	\$ 1
Deferred	112	(754)
Change in valuation allowance	<u>(112)</u>	<u>754</u>
Income tax expense	<u>\$ 1</u>	<u>\$ 1</u>

AMERICAN RIVIERA BANK

NOTES TO FINANCIAL STATEMENTS

8. INCOME TAXES *(continued)*

Deferred tax assets (liabilities) at December 31, 2010 and 2009 consisted of the following *(Dollars in thousands)*:

	2010	2009
Deferred tax assets:		
Net operating losses	\$ 492	\$ 948
Organization costs	585	645
Allowance for loan losses	1,213	962
Accrual to cash conversion	-	86
Share-based compensation	72	63
OREO writedown	-	157
Accrued expenses	363	-
Premises and equipment	216	138
Other	-	12
	2,941	3,011
Deferred tax assets before valuation allowance	2,941	3,011
Valuation allowance	(2,879)	(2,991)
Total deferred tax assets	62	20
Deferred tax liabilities:		
Unrealized gain on available-for-sale		
Investment securities	(31)	(33)
Deferred loan costs	(21)	(18)
Prepaid expenses	(39)	-
Other	(2)	(2)
	(93)	(53)
Total deferred tax liabilities	(93)	(53)
Net deferred tax liabilities	\$ (31)	\$ (33)

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, 2010 or 2009.

The Bank's Federal and state income tax returns for the 2009, 2008, 2007 and 2006 tax years are currently open for examination.

At December 31, 2010, the Bank had Federal and state net operating loss carry forwards (NOL's) of \$ 956,000 and \$2,322,000, respectively. The Federal and state NOL's begin to expire in 2016 and 2018, respectively.

9. BORROWING ARRANGEMENTS

The Bank has unsecured Federal funds lines of credit with two of its correspondent banks under which it can borrow up to \$9,000,000 in aggregate. There were no borrowings outstanding under these arrangements at December 31, 2010 and December 31, 2009.

AMERICAN RIVIERA BANK

NOTES TO FINANCIAL STATEMENTS

9. 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, 2010, amounts pledged and available under such limits at the FHLB were approximately \$23,786,000 and \$13,818,000, respectively. At December 31, 2009, amounts pledged and available under such limits at the FHLB were approximately \$20,931,000 and \$11,299,000, respectively. As of December 31, 2010, the Bank had \$11,000,000 in borrowings outstanding with the FHLB at interest rates between 2.15% and 3.74%, with \$6 million maturing in May 2011, \$3 million maturing in 2014 and \$2 million maturing in 2015. 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 \$3 million maturing in 2014.

10. 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, 2010	December 31, 2009
Commitments to extend credit	\$ 18,765	\$ 19,335
Standby letters of credit	\$ 40	\$ 225

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 deposit accounts, accounts receivable, inventory, equipment and deeds of trust on commercial or residential real estate.

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, 2010 and 2009.

AMERICAN RIVIERA BANK

NOTES TO FINANCIAL STATEMENTS

10. COMMITMENTS AND CONTINGENCIES *(continued)*

Financial Instruments With Off-Balance-Sheet Risk *(continued)*

The Bank recognizes these fees as revenue over the term of the commitment or when the commitment is used.

As of December 31, 2010, unsecured commercial loan commitments represent approximately 90% of total commitments and the majority of these commitments have variable interest rates. Secured commercial real estate and construction loans represent approximately 7% of total commitments and have primarily fixed rates. The remaining 3% of loan commitments represent home equity lines of credit, standby letters of credit and other consumer loans, which are collateralized and uncollateralized and generally have variable interest rates.

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, which are collateralized and uncollateralized and generally 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 a bank's Tier I capital and reserves.

The Bank grants real estate construction and commercial loans to customers in Santa Barbara and surrounding areas and a substantial portion of its portfolio is secured by commercial and residential real estate.

Concentrations may also exist when certain types of loans exceed 125% of the Bank's total risk based-capital (RBC). At December 31, 2010, a concentration representing approximately 225% of the Bank's RBC was in Real Estate – Commercial loans. These loans include both owner occupied and non-owner occupied commercial real estate and are within a variety of industries.

At December 31, 2009 a concentration of approximately 175% of the Bank's RBC was in Commercial loans and lines of credit within a variety of industries. Management also recognizes that a concentration of loans exists in Real Estate-Commercial and Construction loans, with 144% of the Bank's RBC in Real Estate-Commercial and 180% of the Bank's RBC in Construction as of December 31, 2009.

Although management believes the loans within these concentrations have no more than the normal risk of collectibility, a continued substantial decline in the performance of the economy or a continued decline in real estate values in the Bank's primary market area could have an adverse impact on the collectibility of these loans.

AMERICAN RIVIERA BANK

NOTES TO FINANCIAL STATEMENTS

10. COMMITMENTS AND CONTINGENCIES *(continued)*

Concentrations in Deposit and Loan Relationships

As of December 31, 2010 and 2009, the Bank did not have any deposit customers that exceed 5% of total deposits.

As of December 31, 2010 and 2009, 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, 2010 and 2009, the Bank was required to maintain a \$337,000 and \$86,000 reserve 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 (TAG). Under that program, through December 31, 2010, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Coverage under TAG was in addition to and separate from the coverage available under the FDIC's general deposit insurance rules. Although coverage under TAG expired December 31, 2010, the FDIC adopted a final rule amending its deposit insurance regulations on November 15, 2010 to implement Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act providing for unlimited deposit insurance for noninterest-bearing transaction accounts for two years starting December 31, 2010. The Bank maintains funds in money market accounts at certain correspondent banks. As of December 31, 2010 and 2009, the Bank had \$1,756,000 and \$3,508,000, of uninsured deposits.

11. 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, officers, key employees and consultants 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 granting 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. All of the options

AMERICAN RIVIERA BANK

NOTES TO FINANCIAL STATEMENTS

11. SHARE-BASED PAYMENT *(continued)*

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 Employee Stock Option Awards vest over a three or five year period from the date the options were granted.

Non-Qualified Stock Option Awards Granted to Organizers

A summary of the award activity under the Plan for the years ended December 31, 2010 and 2009 is presented below:

<u>Options</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>
Options outstanding at January 1, 2009	<u>234,500</u>	<u>\$ 10.00</u>	
Options outstanding at December 31, 2009	<u>234,500</u>	<u>\$ 10.00</u>	
Options exercisable at December 31, 2009	<u>234,500</u>	<u>\$ 10.00</u>	
Options outstanding at December 31, 2010	<u>234,500</u>	<u>\$ 10.00</u>	<u>5.5</u>
Options exercisable at December 31, 2010	<u>234,500</u>	<u>\$ 10.00</u>	<u>5.5</u>

As of December 31, 2010, 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 option awards at December 31, 2010.

Employee Incentive Stock Option Awards

The following stock option information is for employee incentive stock option awards for the years ended December 31, 2010 and 2009 (*Dollars in thousands, except per share amounts*):

	<u>2010</u>	<u>2009</u>
Weighted average grant date fair value per share of options granted	-	\$ 2.77
Significant weighted average assumptions:		
Expected term	-	7.5 years
Expected annual volatility	-	39%
Expected annual dividend yield	-	N/A
Risk-free interest rate	-	3.11%
Total share-based compensation expense included in salaries and benefits related to stock option awards	\$ 69	\$ 49

AMERICAN RIVIERA BANK

NOTES TO FINANCIAL STATEMENTS

11. SHARE-BASED PAYMENT *(continued)*

Employee Incentive Stock Option Awards *(continued)*

A summary of the award activity under the Plan for the years ended December 31, 2010 and 2009 are presented below:

<u>Options</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>
Options outstanding at January 1, 2009	<u>238,948</u>	\$ 9.18	
Granted in 2009	22,500	\$ 5.78	
Forfeited/expired in 2009	<u>(73,592)</u>	<u>\$ 10.15</u>	
Options outstanding at December 31, 2009	<u>187,856</u>	\$ 8.39	
Granted in 2010	-	\$ -	
Forfeited/expired in 2010	<u>(5,000)</u>	<u>\$ 10.00</u>	
Options outstanding at December 31, 2010	<u>182,856</u>	<u>\$ 8.35</u>	<u>6.79</u>
Options vested and expected to vest	<u>182,856</u>	<u>\$ 8.35</u>	<u>6.79</u>
Options exercisable at December 31, 2010	<u>122,856</u>	<u>\$ 9.19</u>	<u>6.34</u>

As of December 31, 2010, unrecognized compensation cost related to non-vested stock option awards to employees totaled \$144,000. That cost is expected to be amortized on a straight-line basis over a weighted average period of 2.98 years, and will be adjusted for subsequent changes in forfeitures. The fair value attributable to the options vested for the year ended December 31, 2010 was \$2,125. 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 options was not significant at December 31, 2010 and 2009.

Restricted Common Stock Awards

In 2010, the Bank granted 617 shares of restricted common stock to an officer, which had a fair market value of \$4.05 per share on the date of grant. These restricted common stock awards vest 35% after Year 1, 35% after Year 2 and 30% after Year 3.

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% after Year 1, 35% after Year 2 and 30% after Year 3.

As of December 31, 2010, there were 15,242 shares of restricted stock that are nonvested and expected to vest. Compensation cost charged against income for restricted stock awards was \$30,100 and \$1,230 for the years ended December 31,

AMERICAN RIVIERA BANK

NOTES TO FINANCIAL STATEMENTS

11. SHARE-BASED PAYMENT *(continued)*

Restricted Common Stock Awards *(continued)*

2010 and 2009, respectively. There was no tax benefits recognized in the statement of income for restricted stock awards for the years ended December 31, 2010 or 2009. At December 31, 2010 and 2009, the total compensation cost related to nonvested restricted common stock not yet recognized was \$61,160 and \$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 1.9 years and will be adjusted for subsequent changes in estimated forfeitures. Restricted common stock awards had an intrinsic value of \$64,779 and \$96,750 at December 31, 2010 and 2009.

12. 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, 2010, 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 (leverage ratio) 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 under prompt corrective action, 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, 2010 and 2009.

AMERICAN RIVIERA BANK

NOTES TO FINANCIAL STATEMENTS

12. SHAREHOLDERS' EQUITY *(continued)*

As of December 31, 2010 and 2009, total average assets for leverage capital purposes were \$141,406,000 and \$136,972,000, respectively, and total risk weighted assets were \$108,963,000 and \$121,409,000, respectively. Capital ratios as of December 31, 2010 and 2009 are as follows *(Dollars in thousands)*:

	2010		2009	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<u>Leverage Ratio</u>				
American Riviera Bank	\$ 18,761	13.3%	\$ 17,646	12.9%
Minimum for "Well-Capitalized" institution under prompt corrective action provisions	\$ 7,070	5.0%	\$ 6,849	5.0%
Minimum regulatory requirement	\$ 5,656	4.0%	\$ 5,479	4.0%
<u>Tier 1 Risk-Based Capital Ratio</u>				
American Riviera Bank	\$ 18,761	17.2%	\$ 17,646	14.5%
Minimum for "Well-Capitalized" institution under prompt corrective action provisions	\$ 6,538	6.0%	\$ 7,285	6.0%
Minimum regulatory requirement	\$ 4,359	4.0%	\$ 4,856	4.0%
<u>Total Risk-Based Capital Ratio</u>				
American Riviera Bank	\$ 20,146	18.5%	\$ 19,186	15.8%
Minimum for "Well-Capitalized" institution under prompt corrective action provisions	\$ 10,896	10.0%	\$ 12,141	10.0%
Minimum regulatory requirement	\$ 8,717	8.0%	\$ 9,713	8.0%

13. 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 \$52,000 and \$48,000 in the form of employer matching contributions to the Plan during the years ended December 31, 2010 and 2009, respectively.

AMERICAN RIVIERA BANK

NOTES TO FINANCIAL STATEMENTS

14. OTHER EXPENSES

Other expenses for the years ended December 31, 2010 and 2009 consisted of the following (*Dollars in thousands*):

	<u>2010</u>	<u>2009</u>
Professional fees	\$ 324	\$ 323
Regulatory assessments	280	258
Data processing	219	210
Advertising and marketing	132	75
Software amortization	102	102
Insurance	54	46
Other	<u>230</u>	<u>200</u>
	<u>\$ 1,341</u>	<u>\$ 1,214</u>

15. 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, 2010	\$ 7,950
Disbursements	3,157
Amounts repaid	<u>(6,950)</u>
Balance, December 31, 2010	<u>\$ 4,157</u>

As of December 31, 2010, total undisbursed commitments to related parties were \$1,781,000.

As of December 31, 2010 and 2009, there were no loans to related parties that exceeded 10% of the Bank's total loans.

Deposits

As of December 31, 2010 and 2009, there were no deposits to related parties that exceeded 5% of the Bank's total deposits.

AMERICAN RIVIERA BANK

NOTES TO FINANCIAL STATEMENTS

15. RELATED PARTY TRANSACTIONS *(continued)*

Other Related Party Transactions

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 rates, terms and conditions as for any other entity. 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 rates, terms and conditions as for any other client. The Board of Directors of the Bank approved these transactions.

16. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) is reported in addition to net income (loss) for all periods presented. Comprehensive income (loss) 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 (loss) are presented in the statement of changes in shareholders' equity.

At December 31, 2010 and 2009, the Bank held securities classified as available-for-sale which had net unrealized gains as follows *(Dollars in thousands)*:

For the Year Ended December 31, 2010

	Before Tax	Tax Expense	After Tax
Other comprehensive loss:			
Unrealized holding gains	\$ 20	\$ (8)	\$ 12
Less reclassification adjustment for net gains included in net income	25	(10)	15
Total other comprehensive loss	\$ (5)	\$ 2	\$ (3)

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



AMERICAN RIVIERA BANK

Board of Directors

Lawrence Koppelman,
Chairman

Bruce N. Anticouni, ESQ

Frank E. Burgess

Darren D. Caesar

Joe Campanelli

Jeff DeVine

Michael Giles

Douglas Margerum

Gordon McKay, CPA

Guy Taylor

From left: Ken Jacobsen, SVP, Chief Credit Officer; Michelle Martinich, SVP, Chief Financial Officer; Jeff DeVine, President & CEO; Laurie Leighty, SVP Operations and Human Resources

Investor Relations

The following firms are presently believed to make a market in American Riviera Bank stock:

Stone & Youngberg, LLC, Member, NYSE
PO Box 1688
Big Bear Lake, CA 92315
PHONE: 800.288.2811

Wedbush Morgan Securities, Member, NYSE
4949 SW Meadows Rd, Suite 100
Lake Oswego, OR 97035
PHONE: 800.569.2138

Accountant

Perry - Smith, LLP
400 Capitol Mall, Suite 1200
Sacramento CA 95814
PHONE: 916.492.5109

Transfer Agent

Registrar and Transfer Company
10 Commerce Drive
Cranford, NJ 07016
www.rtco.com
PHONE: 800-368-5948

American Riviera Bank Trading Symbol: OTC/BB:ARBV
Exchange: OTC BB
Web Site: www.otcmarkets.com
The common stock of American Riviera Bank is traded on the "Over the Counter - Electronic Bulletin Board."
The Company's common stock symbol is ARBV.

Emeritus Board of Directors

Harvey Bottelsen

Jeff Giller

Palmer Jackson, Jr.

Alix Mattingly





AMERICAN RIVIERA
BANK

Member
FDIC

1033 Anacapa Street • Santa Barbara, CA 93101 • (805) 965-5942 • americanrivierabank.com

