AMERICAN RIVER BANKSHARES
Form DEF 14A
April 06, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x   Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

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American River Bankshares

(Name of Registrant as Specified In Its Charter)

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AMERICAN RIVER BANKSHARES

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

May 17, 2018

TO THE SHAREHOLDERS OF AMERICAN RIVER BANKSHARES:

NOTICE IS HEREBY GIVEN that, pursuant to the call of its Board of Directors, the Annual Meeting of Shareholders (the "Meeting") of American River Bankshares (the "Company") will be held on Thursday, May 17, 2018 at 3:00 p.m. Pacific Time, at the Rancho Cordova City Hall, American River Room North, 2729 Prospect Park Drive, Rancho Cordova, CA 95670 for the following purposes:

1. **Election of Directors**. To elect nominees, Nicolas C. Anderson, Kimberly A. Box, Charles D. Fite, Jeffery Owensby, David E. Ritchie, Jr., William A. Robotham, Stephen H. Waks, Philip A. Wright, and Michael A. Ziegler to serve until the 2019 Annual Meeting of Shareholders and until their successors are duly elected and qualified.
2. **Ratification of Independent Registered Public Accounting Firm**. To ratify the selection of Crowe Horwath, LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2018.
3. **Executive Compensation**. To hold an advisory (non-binding) vote to approve named executive officer compensation.
4. **Other Business**. To transact such other business as may properly come before the Meeting and any and all postponements or adjournments thereof.

Article III, Section 3.3 of the bylaws of the Company provides for the nomination of directors in the following manner:

"Nominations for election of members of the board may be made by the board or by any holder of any outstanding class of capital stock of the corporation entitled to vote for the election of directors. Notice of intention to make any nominations (other than for persons named in the notice of the meeting called for the election of directors) shall be made in writing and shall be delivered or mailed to the president of the corporation by the later of: (i) the close of business twenty-one (21) days prior to any meeting of shareholders called for the election of directors; or (ii) ten (10) days after the date of mailing of notice of the meeting to shareholders. Such notification shall contain the following information to the extent known to the notifying shareholder: (a) the name and address of each proposed nominee; (b) the principal occupation of each proposed nominee; (c) the number of shares of capital stock of the corporation owned by each proposed nominee; (d) the name and residence address of the notifying shareholder; (e) the number of shares of capital stock of the corporation owned by the notifying shareholder; (f) the number of shares of capital stock of any bank, bank holding company, savings and loan association, or other depository institution owned beneficially by the nominee or by the notifying shareholder and the identities and locations of any such institutions; and (g) whether the proposed nominee has ever been convicted of or pleaded nolo contendere to any criminal offense involving dishonesty or breach of trust, filed a petition in bankruptcy or been adjudged bankrupt. The notification shall be signed by the nominating shareholder and by each nominee, and shall be accompanied by a written consent to be named as a nominee for election as a director from each proposed nominee. Nominations not made in accordance with these procedures shall be disregarded by the chairperson of the meeting, and upon his or her instructions, the inspectors of election shall disregard all votes cast for each such nominee. The foregoing requirements do not apply to the nomination of a person to replace a proposed nominee who has become unable to serve as a director between the last day for giving notice in accordance with this paragraph and the date of election of directors if the procedure called for in this paragraph was followed with respect to the nomination of the proposed nominee."

The Board of Directors has fixed the close of business on March 26, 2018 as the record date for determination of shareholders entitled to notice of, and to vote at, the Meeting and any and all postponements or adjournments thereof.

BY ORDER OF THE BOARD OF DIRECTORS

	Stephen H. Waks
Dated: April 6, 2018	Corporate Secretary

Please sign and return the enclosed Proxy Card ("PROXY") as promptly as possible and indicate if you will attend the meeting in person. ALTERNATIVELY, a shareholder can choOse to vote by telephone or by using the internet as indicated on the proxy. if you vote by telephone or electronically through the internet, you do not need to return the proxy. please refer to the proxy statement AND PROXY for a more complete description of the procedures for telephone and internet voting.

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AMERICAN RIVER BANKSHARES

PROXY STATEMENT

FOR

ANNUAL MEETING OF SHAREHOLDERS

May 17, 2018

INTRODUCTION

This proxy statement is furnished in connection with the solicitation of proxies for use at the 2018 Annual Meeting of Shareholders (the "Meeting") of American River Bankshares (the "Company") to be held on Thursday, May 17, 2018, at 3:00 p.m. Pacific Time, at the Rancho Cordova City Hall, American River Room North, 2729 Prospect Park Drive, Rancho Cordova, CA 95670 for the following purposes and at any and all postponements or adjournments thereof. Only shareholders of record on March 26, 2018 (the "Record Date") will be entitled to notice of the Meeting and to vote at the Meeting. At the close of business on the Record Date, the Company had outstanding and entitled to be voted 5,883,781 of the Company's no par value common stock. Directions to the Meeting can be found later in this proxy statement.

Revocability of Proxies

A proxy for voting your shares at the Meeting is enclosed. Any shareholder who executes and delivers such proxy has the right to and may revoke it at any time before it is exercised by filing with the Secretary of the Company an instrument revoking it or a duly executed proxy bearing a later date. In addition, a proxy will be revoked if the shareholder executing such proxy is in attendance at the Meeting and such shareholder votes in person. Subject to such revocation, all shares represented by a properly executed proxy received in time for the Meeting will be voted by the proxyholders in accordance with the instructions specified on the proxy.

Unless otherwise directed in the accompanying proxy, the shares represented by your executed proxy will be voted "FOR" the nominees for election of directors named herein, "FOR" the ratification of the selection of Crowe Horwath LLP as the Company's independent registered public accounting firm for the 2018 fiscal year, and "FOR" approval on an advisory (non-binding) basis of the Company's named executive officer compensation. If any other business is properly presented at the Meeting and at any and all postponements or adjournments thereof, the proxy will be voted in accordance with the recommendations of management.

Solicitation of Proxies

This solicitation of proxies is being made by the Board of Directors of the Company. The expenses of preparing, assembling, printing, and mailing this proxy statement and the materials used in this solicitation of proxies will be borne by the Company. It is contemplated that proxies will be solicited principally through the use of the mail, but directors, officers, and employees of the Company may solicit proxies personally or by telephone, without receiving special compensation. The Company will reimburse banks, brokerage houses and other custodians, nominees and fiduciaries for their reasonable expenses in forwarding the proxy statement and materials to shareholders whose stock in the Company is held of record by such entities. In addition, the Company may use the services of individuals or companies it does not regularly employ in connection with this solicitation of proxies, if management determines it advisable.

Voting Securities

On any matter submitted to the vote of the shareholders, each holder of common stock will be entitled to one vote, in person or by proxy, for each share of common stock he or she held of record on the books of the Company as of the Record Date.

A majority of the shares entitled to vote, represented either in person or by a properly executed proxy, will constitute a quorum at the Meeting. If, by the time scheduled for the Meeting, a quorum of shareholders of the Company is not present or if a quorum is present but sufficient votes in favor of any of the proposals have not been received, the Meeting may be held for purposes of voting on those proposals for which sufficient votes have been received, and the persons named as proxyholders may propose one or more adjournments of the Meeting to permit further solicitation of proxies with respect to any of the proposals as to which sufficient votes have not been received.

Votes cast will be counted by the Inspector of Election for the Meeting. Approval of any proposal (other than the election of directors) requires the affirmative vote of a majority of the shares represented and voting at the Annual Meeting which also constitutes a majority of the required quorum (unless a greater number is required as described in a proposal). In the election of directors, the nine (9) nominees receiving the highest number of affirmative votes will be elected. Shares represented by proxies that reflect abstentions or "broker non-votes" will be treated by the Inspector of Election as shares present and entitled to vote for purposes of determining the presence of a quorum; however, broker non-votes will not be treated as shares voted on any proposal and therefore will have no effect upon the outcome of any proposal. Abstentions will not be treated as affirmative votes on any proposal at the Meeting and will have the same effect as a vote "against" a proposal (other than the election of directors proposal) if the affirmative votes in favor of a proposal are less than a majority of the required quorum. "Broker non-votes" means shares held by brokers or nominees as to which instructions have not been received from the beneficial owners or persons entitled to vote and the broker or nominee does not have discretionary voting power under applicable rules of the stock exchange or other self-regulatory organization of which the broker or nominee is a member.

Any shareholder may choose to vote shares of common stock by telephone by calling the toll-free number (at no cost to the shareholder) indicated on the proxy. Telephone voting is available 24 hours per day. Easy to follow voice prompts allow a shareholder to vote shares and to confirm that instructions have been properly recorded. The Company's telephone voting procedures are designed to authenticate the identity of shareholders by utilizing individual control numbers. *If a shareholder votes by telephone, there is no need to return the proxy.*

Any shareholder may choose to vote shares of common stock electronically by using the Internet, as indicated on the proxy. Internet voting procedures are designed to authenticate the identity of a shareholder and to confirm that instructions have been properly recorded. The Company believes these procedures are consistent with the requirements of applicable law. *If a shareholder votes electronically by using the Internet, there is no need to return the proxy.*

If you vote by telephone or Internet, your vote must be received by 1:00 a.m., Eastern Time, on May 17, 2018 to ensure that your vote is counted.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information as of March 26, 2018, concerning the equity ownership of the Company's directors, director-nominees, and the executive officers named in the "Summary Compensation Table" in this proxy statement, shareholders known to us to beneficially own more than 5% of our common stock, and directors, director-nominees, and executive officers as a group. Unless otherwise indicated in the notes to the table, each person listed below possesses sole voting and sole investment power, or shared voting and investment power with a spouse, for the shares of the Company's common stock listed below. All of the shares shown in the following table are owned both of record and beneficially except as indicated in the notes to the table. The Company has only one class of shares outstanding, common stock. Management is not aware of any arrangements which may, at a subsequent date, result in a change in control of the Company. The table below does not include David T. Taber, who resigned from all positions with the Company and American River Bank on October 31, 2017 and Loren E. Hunter, who resigned from all positions with the Company and American River Bank on January 3, 2018.

Name and Address (1) of Beneficial Owner	Amount and Nature of Beneficial Ownership		Percent of Class(2)	
Nicolas C. Anderson	—	(3)	—	
Kevin B. Bender	31,192	(4)	0.5	%
Kimberly A. Box	18,724	(5)	0.3	%
Mitchell A. Derenzo	74,439	(6)	1.3	%
Charles D. Fite	172,457	(7)	2.9	%
Jeffery Owensby	6,515		0.1	%
Dennis F. Raymond	—	(8)	—	
David E. Ritchie	11,663	(9)	0.2	%
William A. Robotham	96,982	(10)	1.6	%
Stephen H. Waks	76,810	(11)	1.3	%
Philip A. Wright	83,721	(12)	1.4	%
Michael A. Ziegler	24,484	(13)	0.4	%
All directors, director-nominees, and executive officers as a group (11 persons)	596,987	(14)	10.1	%

5% or Greater Owners of Voting Securities

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership		Percent of Class	
Basswood Capital Management, L.L.C. 645 Madison Avenue, 10th Floor, New York, NY 10022	635,735	(15)	10.8	%
Maltese Capital Management, LLC 150 East 52nd Street, 30th Floor, New York, NY 10022	505,354	(16)	8.6	%
Dimensional Fund Advisors LP 6300 Bee Cave Road Building One Austin, TX 78746	365,922	(17)	6.3	%
The Banc Funds Company, LLC.	352,419	(18)	6.0	%

20 North Wacker Drive, Suite 3300 Chicago, IL 60606			
Firefly Value Partners, LP 601 West 26th Street, Suite 1520 New York, NY 10001	331,533	(19)	5.6 %

(1) The address for all persons listed is c/o American River Bankshares, 3100 Zinfandel Drive, Suite 450, Rancho Cordova, CA 95670.

(2) Includes shares subject to stock options exercisable within 60 days of the Record Date and restricted shares.

(3) Mr. Anderson was named to the Board of Directors effective March 22, 2018.

(4) Includes 14,909 shares which Mr. Bender has the right to acquire upon the exercise of stock options within 60 days of the Record Date and 7,069 restricted shares.

(5) Includes 1,247 restricted shares.

(6) Includes 12,579 shares which Mr. Derenzo has the right to acquire upon the exercise of stock options within 60 days of the Record Date and 7,205 restricted shares.

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(7) Includes 2,785 shares which Mr. Fite has the right to acquire upon the exercise of stock options within 60 days of the Record Date and 1,627 restricted shares.

(8) Mr. Raymond joined the Company as its Executive Vice President and Chief Lending Officer on December 7, 2017.

(9) Mr. Ritchie was appointed to the Company's and American River Bank's Boards of Directors and to the position of President and Chief Executive Officer effective November 6, 2017. Includes 11,663 restricted shares.

(10) Includes 2,785 shares which Mr. Robotham has the right to acquire upon the exercise of stock options within 60 days of the Record Date and 1,247 restricted shares.

(11) Includes 2,785 shares which Mr. Waks has the right to acquire upon the exercise of stock options within 60 days of the Record Date and 1,247 restricted shares.

(12) Includes 4,360 shares which Mr. Wright has the right to acquire upon the exercise of stock options within 60 days of the Record Date and 1,247 restricted shares.

(13) Includes 2,785 shares which Mr. Ziegler has the right to acquire upon the exercise of stock options within 60 days of the Record Date and 1,247 restricted shares.

(14) Includes 42,988 shares subject to stock options exercisable within 60 days of the Record Date and 33,799 restricted shares.

(15) This information is taken from a Schedule 13G/A as of December 31, 2017, filed with the SEC on February 9, 2018 by Basswood Capital Management LLC, which reflects ownership of 635,735 shares.

(16) This information is taken from a Schedule 13G/A as of December 31, 2017, filed with the SEC on February 5, 2018 by Maltese Capital Management LLC, which reflects ownership of 505,354 shares.

(17) This information is taken from Schedule 13G/A as of December 31, 2017, filed with the SEC on February 9, 2018 by Dimensional Fund Advisors LP, which reflects ownership of 365,922 shares

(18) This information is taken from Schedule 13G/A as of December 31, 2017, filed with the SEC on February 13, 2018 by The Banc Funds Company, L.L.C., which reflects ownership of 352,419 shares.

(19) This information is taken from Schedule 13G/A as of December 31, 2017, filed with the SEC on February 14, 2018 by Firefly Value Partners, LP, which reflects ownership of 331,533 shares.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

The Company's Bylaws provide that the number of directors of the Company shall not be less than eight (8) nor more than fifteen (15) until changed by an amendment to Article III, Section 3.2 of the Bylaws duly adopted by the vote or written consent of holders of a majority of the outstanding shares entitled to vote. The exact number of directors shall be fixed from time to time within the authorized range by, among other means, (i) a resolution duly adopted by the Board of Directors; or (ii) a bylaw or amendment thereof duly adopted by the vote of a majority of the shares entitled to vote represented at a duly held meeting at which a quorum is present; or (iii) by the written consent of the holders of a majority of the outstanding shares entitled to vote.

The Board of Directors has nominated the nine (9) incumbent directors named below for election as directors of the Company and to apprise you of their qualifications to serve as directors, we include the information below concerning each of the nominees, as of the Record Date, that each nominee has given us regarding age, current positions held, principal occupation and business experience for the past five years, and the names of other publicly-held companies of which the nominee currently serves as a director or has served as a director during the past five years. In addition to the information presented regarding each nominee's specific experience, qualifications, attributes and skills that led the Nominating Committee to recommend that our Board of Directors nominate these individuals, all of the nominees have a reputation for honesty, integrity and adherence to high ethical standards. The Nominating Committee also believes that the nominees possess the willingness to engage management and each other in a positive and collaborative fashion, and are prepared to make the significant commitment of time and energy to serve on our Board of Directors and its committees. The following persons are the nominees of the Board of Directors for election to serve for a one-year term until the 2019 annual meeting of shareholders and until their successors are duly elected and qualified:

NICOLAS C. ANDERSON *Age: 33, Director since 2018; Principal Occupation: Chief Executive Officer, Capitol Digital & Califorensics, 2015 – Present; Managing Partner, Elm Grove Partners; 2013 – Present.*

Mr. Anderson is Chief Executive Officer of Capitol Digital & Califorensics, a company that provides digital forensics and high-value digital discovery services to law firms, corporations and government agencies. Headquartered in Sacramento, the company has been operating in the region for over 20 years. Mr. Anderson is also currently a managing Partner of Elm Grove Partners, a private investment firm headquartered in New Haven, Connecticut, organized to acquire and operate companies in the lower middle market. He has been involved in a variety of community-based organizations including presently, a mentor in "Streetwise Partners," a New York based program that matches aspiring professionals from low income backgrounds with career mentors to provide them the support and guidance they may not receive elsewhere to reach their career goals. Mr. Anderson graduated from Harvard University with an AB in Economics (Bachelor of Arts degree in Economics) and graduated with Distinction from the Harvard Business School with a Master of Business Administration degree. We believe that Mr. Anderson's strong educational background, financial and investment experience as well as being a CEO directing strategy and operations of an expanding company qualifies him to serve on our Board of Directors.

KIMBERLY A. BOX *Age: 58, Director since 2012; Principal Occupation: President & CEO since 2017 and President & COO since 2016, of Gatekeeper Innovation, Inc.; President & CEO, Kamere, Inc. since 2011.*

Ms. Box is President and CEO of Gatekeeper Innovation, Inc., a company that provides products for medication safekeeping. She is a former Hewlett Packard Vice President with vast experience in the IT industry. Over her career, she has led IT outsourcing services, product engineering and support services including leading a $1 billion global organization. Ms. Box is also very active in the community, having served on the board of directors of several not-for-profit organizations including the local chapter of the American Red Cross. She is also a dynamic international keynote speaker on topics including leadership, diversity, transformation and has authored the book, "Woven Leadership – The Power of Diversity to Transform Your Organization for Success." Ms. Box is currently Chairman of American River Bank's Loan Committee. Her extensive experience in the IT industry, her entrepreneurial acumen and her active involvement in the community provides valuable insight and contribution to our Board of Directors.

CHARLES D. FITE *Age: 60. Director since 1993; Principal Occupation: President, Fite Development Company in Sacramento since 1980. President, Fite Properties Inc. since 1999 and President, Fite Construction Inc. since 1999.*

Mr. Fite is President of the Fite Development Company, founded in 1970 by D. Bruce Fite. As President, Mr. Fite is involved in all aspects of the company's operations including development, management, marketing and financing of both existing and proposed projects. Mr. Fite serves as Chairman of the American River Bankshares Foundation, a non-profit organization whose mission is to serve the needs of the most vulnerable women and children within our communities. Mr. Fite is a licensed real estate broker and has over 30 years of experience as a real estate developer. He has been the Chairman of the Board of Directors of American River Bankshares since 2001. Mr. Fite's qualifications to serve as Chairman of our Board of Directors include his business acumen, integrity, leadership and knowledge of the commercial real estate market, as well as his community service.

JEFFERY OWENSBY *Age: 60. Director since 2016; Principal Occupation: Partner, Kennaday Leavitt Owensby, PC, October 2016 to present. Partner, Rediger, McHugh & Owensby, LLP, November 2007 to October 2016.*

Mr. Owensby is an Equity Partner at Kennaday Leavitt Owensby PC, a healthcare and employment legal practice. His 34 years of industry experience include top professional roles in labor and employment law. He is regularly called upon as a subject matter expert and is an active contributor pro bono with many philanthropic and community entities. Mr. Owensby serves on the Board of Directors of the American River Bankshares Foundation, a non-profit organization whose mission is to serve the needs of the most vulnerable women and children within our communities. Mr. Owensby's extensive legal experience, analytical capabilities and diligence in guiding organizations through complex decision-making processes makes him a great addition to the Board of Directors.

DAVID E. RITCHIE, JR. *Age: 59. Director since 2017; Principal Occupation: President and Chief Executive Officer of American River Bankshares since 2017.*

Mr. Ritchie's prior roles include Senior Vice President and Regional Manager, Commercial Banking at US Bank, Executive Vice President and Regional Manager of Commercial Banking at One West Bank and 25 years in various leadership positions with Wells Fargo Bank. He attended University of Southern California and University of California, Irvine and holds a Bachelor of Arts degree in Economics. He has served on the board of directors of the San Juan Capistrano Chapter of Legatus and is past chairman of the board of directors of the Orangewood Children's Foundation in Southern California, an organization he was involved with for thirteen years, among many other community roles. Mr. Ritchie's extensive experience in the banking industry as well as his involvement in the community makes him highly qualified to serve on our Board of Directors.

WILLIAM A. ROBOTHAM *Age: 76. Director since 2004; Principal Occupation: CPA, Former Executive Partner, Pisenti & Brinker LLP, Certified Public Accountants in Santa Rosa since 1996.*

Mr. Robotham has been a Certified Public Accountant since 1967. He joined Pisenti & Brinker LLP in 1966, became a partner in 1969, managing partner in 1983 and executive partner in 1996. He has served as the partner-in-charge of the Auditing and Accounting department, the Tax department and the Management Advisory Services department. Mr. Robotham currently works in tax, general practice and management consulting for the firm. Mr. Robotham is currently Vice Chairman of the Board of Directors of American River Bankshares and serves as the Chairman of the Audit Committee for American River Bankshares. Mr. Robotham was a founding member and a director of North Coast Bank. He remained on the North Coast Bank board of directors until 2003 when North Coast Bank was merged into American River Bank. He joined the American River Bank Board of Directors in 2004. Mr. Robotham has also been the President of Randal Nutritional Products, Inc. ("Randal") since 2000. Randal is based in Santa Rosa and has been manufacturing nutritional products since 1947. Mr. Robotham is also a founding member of the Board of Directors of the American River Bankshares Foundation and serves as the Foundation's Vice Chairman.
Mr. Robotham's experience in public and private business and his more than 40 years of experience in the field of public accounting led us to conclude he should serve on our Board of Directors.

STEPHEN H. WAKS *Age: 71. Director since 1986; Principal Occupation: Attorney-at-Law; Owner of Stephen H. Waks, Inc. dba Waks Law Firm since 1979.*

Mr. Waks has been a practicing attorney since 1974, and has practiced law in Sacramento since 1977. His law practice has focused on real estate law, tax law and business law. In his law practice, Mr. Waks has developed expertise in dealing both on a business level and on a legal level with many banks and financial institutions. He has also represented many clients as they negotiated and documented business and real estate loans. His knowledge of the real estate market and his experience has made him knowledgeable about the opportunities that exist for a community bank to improve its services and operations and makes his continued service on our Board of Directors a valuable asset.

PHILIP A. WRIGHT *Age: 71. Director since 2009; Principal Occupation: Real Estate Broker and President and Owner of Wright Investment Inc. dba Wright Realty since 1984; Developer, Wright Investment since 1984 and President, Trowbridge & Wright Investment Inc. since 1976.*

Mr. Wright was a founding member of the board of directors of North Coast Bank and was its first Chairman from 1990 to 1995. He remained on the North Coast Bank Board of Directors until 2003 and joined the American River Bank Board of Directors in 2004 when the two banks merged. Mr. Wright was named to the American River Bankshares Board of Directors in 2009. Mr. Wright has been an active real estate agent/broker for over 40 years. He owned a mortgage company for four years and presently manages his own real estate business. Mr. Wright has been involved in subdividing and marketing land in Sonoma County since 1977, which included processing all governmental permits, project financing, budgets, construction bidding and overseeing construction of the final project. Mr. Wright's extensive experience in the real estate business as well as in the banking industry qualifies him to serve as a member of our Board of Directors.

MICHAEL A. ZIEGLER *Age: 73. Director since 2002; Principal Occupation: President and Chief Executive Officer of PRIDE Industries in Roseville, California.*

As President/CEO of PRIDE Industries, Mr. Ziegler oversees a company with over $330 million in sales and more than 5,600 part-time and full time employees working throughout the country. Mr. Ziegler attended San Francisco State University and completed his MBA at the University of San Francisco. He was a graduate of the Stanford Small Business Executive Program and has an Honorary Ph.D. from the Golden Gate University. His entrepreneurial background revolves around business ownership, sales/marketing and leadership. He serves on the board of directors of Greater Sacramento Area Economic Council, UC Davis Health System National Board of Advisors, Teichert Inc., California Chamber of Commerce, PRIDE Foundation, and he is a founding member of the board of directors and a senior fellow of the American Leadership Forum Mountain Valley Chapter. Mr. Ziegler's experience in running a large-scale company including his involvement in many academic and community activities makes him a valuable member of our Board of Directors.

All proxies will be voted for the election of the nine (9) nominees recommended by the Board of Directors, unless authority to vote for the election of any director or all directors is withheld. All of the nominees are incumbent directors.

If any of the nominees should unexpectedly decline or be unable to serve as a director, the proxies may be voted for a substitute nominee to be designated by the Board of Directors. The Board of Directors has no reason to believe that any nominee will become unavailable and has no present intention to nominate persons in addition to or in lieu of those named above.

None of the Company's directors, nominees for election as directors listed above, or executive officers listed on page 3 of this proxy statement, were selected pursuant to any arrangement or understanding other than with the directors and executive officers of the Company acting within their capacities as such. There are no family relationships between any two or more of the directors, nominees for director, or executive officers. Except as disclosed above, no director or officer of the Company currently serves, or within the last five years has served, as a director of any public company, including any company which has a class of securities registered under, or which is subject to the periodic reporting requirements of, the Securities Exchange Act of 1934, or of any company registered as an investment company under the Investment Company Act of 1940. None of the nominees were subject to any legal, judicial or administrative proceedings involving or based on violations of federal or state securities, commodities, banking or insurance laws and regulations or settlements thereof, involvement in mail or wire fraud or fraud in connection with any business entity, any disciplinary sanctions or orders imposed by a stock, commodities or derivatives exchange or other self-regulatory organization, convictions in a criminal proceeding (excluding traffic violations and minor offenses) or had a petition under bankruptcy laws filed against themselves or an affiliate, in each case within the last ten years.

Recommendation of Management

The Board of Directors recommends a vote "FOR" each of the nine (9) nominees listed above.

CORPORATE GOVERNANCE

Our Board of Directors and management are dedicated to the standard of exemplary corporate governance and believe that corporate governance is vital to the continued success of the Company. The Board of Directors annually reviews and updates the charters of the committees of the Board of Directors in response to evolving "best practices" and the results of changes in the regulatory environment.

Director Independence

Our Board of Directors has determined that each of our non-employee directors (excluding David E. Ritchie, Jr.) is independent. Each of our Audit, Nominating and Compensation Committees is composed only of independent directors.

Our Board of Directors has adopted certain standards to assist it in assessing the independence of each of our directors. A director who otherwise meets the definition of independence under applicable NASDAQ listing standards may be deemed "independent" by the Board of Directors after consideration of all of the relationships between the Company and the director, or any of his or her immediate family members (as defined in the NASDAQ listing rules), or any entity with which the director or any of his or her immediate family members is affiliated by reason of being a partner, officer or a significant shareholder thereof. However, ordinary banking relationships (such as depository, lending, and other services readily available from other financial institutions) are not considered by the Board of Directors in determining a director's independence, as the Board of Directors considers these relationships to be immaterial. A banking relationship is considered "ordinary" if:

- the relationship is on substantially the same terms as those prevailing at the time for comparable transactions with non-affiliated persons;
- with respect to an extension of credit, it has been made in compliance with applicable law, including Regulation O of the Board of Governors of the Federal Reserve System and Section 13(k) of the Securities Exchange Act of 1934;
- no event of default has occurred and is continuing beyond any period of cure; and
- the relationship has no other extraordinary characteristics.

In assessing the independence of our directors, our Board of Directors carefully considered all of the business relationships between the Company and our directors or their affiliated companies, other than ordinary banking relationships. This review was based primarily on responses of the directors to questions in a directors' and officers' questionnaire regarding employment, business, familial, compensation and other relationships with the Company and our management. Where business relationships other than ordinary banking relationships existed, the Board of Directors determined that, except in the case of Mr. Ritchie, none of the relationships between the Company and the directors or the directors' affiliated companies impair the directors' independence because the amounts involved are immaterial to the directors or to those companies when compared to their annual income or gross revenues. The Board of Directors also determined for all of the relationships between the Company and our directors or the directors' affiliated companies, that none of the relationships had unique characteristics that could influence the director's impartial judgment as a director of the Company.

Code of Ethics

The Company has adopted a Code of Ethics that complies with the rules promulgated by the Securities and Exchange Commission pursuant to the Sarbanes-Oxley Act of 2002 and applicable NASDAQ listing rules. The Code of Ethics requires that the Company's directors, officers (including the principal executive, financial and accounting officers, or controller and persons performing similar functions) and employees conduct business in accordance with the highest ethical standards and in compliance with all laws, rules and regulations applicable to the Company. The Code of Ethics is intended to supplement the provisions of any other personnel policies of the Company or codes of conduct, which may establish additional standards of ethical behavior applicable to the Company's directors, officers and employees.

The Code of Ethics was filed as Exhibit 14.1 to the Company's 2003 Annual Report on Form 10-K and may be accessed through the Company's website by following the instructions for accessing reports filed with the Securities and Exchange Commission hereafter in this proxy statement under the heading "Website" or a copy is available, free of charge, upon written request to Mitchell A. Derenzo, American River Bankshares, 3100 Zinfandel Drive, Suite 450, Rancho Cordova, CA 95670.

Leadership Structure

The positions of the Chairman of the Board of Directors and the President and Chief Executive Officer ("CEO") are filled by different persons. Mr. Fite, an independent director, serves as the Board of Directors Chairman, while Mr. Ritchie serves as President and CEO. The Board of Directors believes that separating the roles of Chairman and President and CEO is preferable and in the best interests of shareholders because it enhances the Board of Directors' ability to fulfill its oversight responsibilities, inclusive of senior management. Separating the positions also provides an independent viewpoint and focus at meetings of the Board of Directors, and improves communication between management and the Board of Directors by giving our President and CEO a single initial source for Board of Directors-level communication and input on significant decisions.

Risk Oversight

Risk management is the responsibility of management and risk oversight is the responsibility of the Board of Directors. The Board of Directors administers its risk oversight function principally through its division of responsibility within its committee structure, with each committee being responsible for overseeing risk within its area of responsibility. For example, the Loan Committee of American River Bank (the “Loan Committee”) plays an important role in overseeing our loan functions and monitoring related risks. Responsibilities of our various committees are discussed under each committee in this proxy statement. Significant risk oversight matters considered by the committees are reported to and considered by the Board of Directors. Some significant risk oversight matters are reported directly to the Board of Directors, including matters not falling within the area of the responsibility of any committee. Types of risks with the potential to adversely affect the Company include cybersecurity, credit, interest rate, liquidity, and compliance risks, and other risks relating to our operations and reputation.

Management regularly provides the Board of Directors and its various committees with a significant amount of information regarding a wide variety of matters affecting the Company. Matters presented to the Board of Directors and its committees generally include information with respect to risk. The Board of Directors and its committees consider the risk aspects of such information and often request additional information with respect to issues that involve risks to the Company. The Board of Directors and its committees also raise risk issues on their own initiative.

To assist the Company with respect to enterprise risk management, and to assist the Board of Directors and its committees with respect to risk oversight, the Company has an Enterprise Risk Management Committee made up of appropriate management personnel that works to identify and assess risks across all operations of the Company. The Enterprise Risk Management Committee reports to the Board of Directors and all of its members attend either Board of Directors and/or other committee meetings as needed.

The Company does not believe the risk oversight function of the Board of Directors has had a significant effect on the leadership structure, although a change in leadership structure could result in changes in the implementation of the risk oversight function.

Review of Risk Associated With Compensation Plans

The Company develops and implements compensation plans that provide strategic direction to the participants and engages them in the Company’s success, which contributes to shareholder value. We believe our approach to goal setting, establishing targets with payouts at multiple levels of performance, evaluation of performance results and our discretion to approve or disapprove the payout of incentive compensation helps to mitigate excessive risk-taking that could harm Company value or reward poor judgment by our executive officers. Compensation policies and practices are determined by reviewing compensation analyses including industry/market benchmarking reports to determine competitive pay packages. The Company’s variable pay programs are designed to reward outstanding individual and team performance while mitigating risk taking behavior that might affect financial results. Performance incentive compensation rewards for all plans continue to be focused on results that possibly impact earnings, profitability, credit quality, loan growth, deposit growth, sound operations and compliance, sustainable culture, and leadership excellence. Incentive compensation plans, which are reviewed and revised on an annual basis, have defined terms and conditions which enable the Company to adjust the final scoring and payments under the plans. Generally, there is more oversight of plans that have a higher degree of risk, larger payouts, and that could have the greatest negative impact on the Company and American River Bank’s safety and soundness, such as credit related risks. Plan reviews and approvals increase before any payments are made as the risks associated with a plan increase.

The Compensation Committee met with senior management officers, including the Human Resources Officer, of the Company to review the 2017 incentive compensation plans and concluded that, based on the controls described above and elsewhere in this proxy statement, those plans do not present risks that are reasonably likely to have a material adverse effect on the Company.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company’s directors, executive officers and any persons beneficially owning ten percent or more of the Company’s common stock to timely file initial reports of ownership and reports of changes in that ownership with the Securities and Exchange Commission. Such persons are required by Securities and Exchange Commission regulations to send copies of such reports to the Company. To the Company’s knowledge, based solely on a review of the copies of such reports furnished to the Company and written representations that no other reports were required during the fiscal year ended December 31, 2017, the Company believes all such filing requirements applicable to its directors, executive officers and ten percent shareholders were met.

Committees of the Board of Directors

Nominating Committee. The Nominating Committee, whose members are Charles D. Fite (Chairman), Stephen H. Waks and Michael A. Ziegler, has the responsibility to assist the Board of Directors by (a) establishing criteria for candidates and identifying, evaluating, and recommending candidates, including candidates proposed by shareholders, for election to the Board of Directors, and (b) periodically reviewing and making recommendations on the composition of the Board of Directors. The Nominating Committee met twice in 2017. All members of the Nominating Committee are "independent," as that term is defined under applicable NASDAQ listing rules, including Director Fite from whom the Company has leased one of its bank premises since 1985. The current lease terms and the Company's policy are disclosed under "Transactions with Related Persons" on page 36 of this proxy statement. Candidates are selected in accordance with a Nominating Charter. The Nominating Charter includes a policy for consideration of candidates proposed by shareholders. Any recommendations by shareholders will be evaluated by the Board of Directors in the same manner as any other recommendation and in each case in accordance with the Nominating Charter. Shareholders that desire to recommend candidates for consideration by the Company's Board of Directors should mail or deliver written recommendations to the Company addressed as follows: Board of Directors, American River Bankshares, 3100 Zinfandel Drive, Suite 450, Rancho Cordova, CA 95670. Each recommendation should include biographical information indicating the background and experience of the candidate that qualifies the candidate for consideration as a director for evaluation by the Board of Directors. In addition to minimum standards of independence for non-employee directors and financial literacy, the Board of Directors considers various other criteria including the candidate's experience and expertise, financial resources, ability to devote the time and effort necessary to fulfill the responsibilities of a director and involvement in community activities in the market areas served by the Company that may enhance the reputation of the Company. The provisions of our Nominating Committee Charter regarding diversity, as a matter of practice, may seek or favor a candidate with particular areas of expertise that complement our existing Board of Directors composition or satisfy legal requirements. In general, our objective is for the Board of Directors to reflect a diversity of perspectives and a broad range of experiences through individuals that possess the background, skills, expertise, and commitment necessary to make a significant contribution to our Company. Qualified candidates are considered without regard to race, color, religion, sex, ancestry, national origin, disability, or any other factor that qualifies the candidate as a member of a protected class under applicable law.

The Company operates in a highly regulated industry and is subject to the supervision, regulation and periodic examination by state and federal banking regulatory authorities including the Board of Governors of the Federal Reserve System, California Department of Business Oversight and Federal Deposit Insurance Corporation. Directors of the Company are subject to certain rules and regulations and potential liabilities not otherwise applicable to directors of non-banking organizations. Consequently, evaluation of candidates by the Company's Board of Directors may include more extensive inquiries into personal background information including confirmation of the accuracy and completeness of background information by (a) requiring candidates to complete questionnaires to elicit information of the type required to be disclosed by the Company in reports filed with the Securities and Exchange Commission, NASDAQ, or such state and federal banking regulatory authorities, (b) conducting background investigations by qualified independent organizations experienced in conducting criminal and civil investigatory reviews, and (c) such other personal and financial reviews and analyses as the Board of Directors may deem appropriate in connection with the consideration of candidates.

Shareholders who wish to nominate a candidate for election to the Company's Board of Directors, as opposed to recommending a potential nominee for consideration by the Board of Directors, are required to comply with the advance notice and any other requirements of the Company's bylaws, applicable laws and regulations. The Board of Directors may elect to use third parties in the future to identify or evaluate candidates for consideration by the Board of Directors. The Nominating Charter adopted by the Board of Directors is attached to this proxy statement as ANNEX A. The Nominating Committee recommended the slate of nominees described in "Proposal No. 1, Election of Directors" on pages 4 through 6 of this proxy statement.

Compensation Committee. The Compensation Committee, whose members include Charles D. Fite, Jeffery Owensby, Michael A. Ziegler (Chairman), and William A. Robotham, oversees the performance and reviews the compensation of the executive officers and the directors of the Company and American River Bank. The Compensation Committee met eight (8) times during 2017. See the Compensation Discussion and Analysis on page 17 and the Compensation Committee Charter attached to this proxy statement as ANNEX B for additional information regarding the functions of the Compensation Committee.

- **Compensation Committee Interlocks and Insider Participation**
  - The CEO is a non-voting invited guest to the Compensation Committee meetings and can be present at discussions regarding compensation matters relative to non-CEO executive officers or directors. The CEO cannot be present during deliberations or voting on CEO compensation matters.
  - The Board of Directors has determined that all members of the Compensation Committee are "independent," as that term is defined under applicable NASDAQ listing rules including Director Fite from whom the Company has leased one of its bank premises since 1985. The current lease terms and the Company's policy are disclosed under "Transactions with Related Persons" on page 36 of this proxy statement.

Audit Committee. The Audit Committee, whose members are William A. Robotham (Chairman), Michael A. Ziegler and Philip A. Wright, oversees the Company's independent registered public accounting firm, analyzes the results of internal and regulatory examinations and monitors the financial and accounting organization and reporting. Director Robotham has been designated by the Board of Directors as an "audit committee financial expert" as defined under rules promulgated by the Securities and Exchange Commission pursuant to the Sarbanes-Oxley Act of 2002. The Audit Committee met five (5) times in 2017 and held one (1) "executive session" which only the non-employee directors attended, each of whom is "independent" as defined under applicable NASDAQ listing rules. In addition, each other member of the Audit Committee is "financially literate" as defined under applicable NASDAQ listing rules. See the Audit Committee Report on page 39 and the Audit Committee Charter attached to this proxy statement as ANNEX C for additional information regarding the functions of the Audit Committee. Effective March 22, 2018, Nicolas C. Anderson replaced Michael A. Ziegler on the Audit Committee.

Finance and Capital Committee. The Finance and Capital Committee, whose members include Jeffery Owensby, Stephen H. Waks (Chairman), and Michael A. Ziegler, has the responsibility to (a) oversee asset liability management and the investment portfolio including recommending to the Board of Directors the annual investment strategy; (b) recommend to the Board of Directors the annual operating budget for the Company; and (c) review premises leases and capital expenditures over $100,000 for recommendation to the Board of Directors. David E. Ritchie, Jr. serves an alternate committee member. The Finance and Capital Committee met five (5) times during 2017.

Executive Committee. The Executive Committee, whose members include Charles D. Fite (Chairman), David E. Ritchie, Jr., William A. Robotham, Stephen H. Waks, and Michael A. Ziegler oversees long range planning, formulates and recommends broad policy positions for the Board of Directors to consider and is responsible for evaluating and recommending to the Board of Directors matters pertaining to mergers and acquisitions. The Executive Committee did not have a meeting in 2017.

Loan Committee of American River Bank. The Loan Committee has the responsibility for establishing loan policy, approving loans which exceed certain dollar limits and reviewing the outside loan review firm’s examinations of the loan portfolios. The Loan Committee includes Kimberly A. Box (Chairman), Charles D. Fite, Stephen H. Waks, and Philip A. Wright. David E. Ritchie, Jr. serves as an alternate committee member. The Loan Committee met seventeen (17) times during 2017.

During 2017, the Company’s Board of Directors held twelve (12) regular meetings and one (1) special meeting via teleconference. In addition, the Company’s Board of Directors held eight (8) “executive sessions” which only the non-employee directors attended, each of whom is “independent” as defined under applicable NASDAQ listing rules. All directors, except Mr. Anderson, who joined the Board of Directors in March 2018, attended at least 75% of the aggregate of the total number of meetings of the Board of Directors and the number of meetings of the committees on which they served.

See “Detail of Director Compensation Elements – Cash Compensation” on page 13 of this proxy statement for information regarding fees paid to directors during 2017 for Board of Directors and committee meetings.

Shareholder Communications

A majority of the members of the Board of Directors, each of whom is “independent” as defined under applicable NASDAQ listing rules, has established procedures for receipt and delivery of shareholder communications addressed to the Board of Directors. Any such shareholder communications, including communications by employees of the Company solely in their capacity as shareholders, should be mailed or delivered to the Company addressed as follows: Board of Directors, American River Bankshares, 3100 Zinfandel Drive, Suite 450, Rancho Cordova, CA 95670.

Annual Meeting Attendance

The Company requires members of its Board of Directors to attend the Company’s annual meeting of shareholders each year. All directors attended the Company’s annual meeting of shareholders held in 2017, with the exception of Mr. Anderson and Mr. Ritchie, who were not directors at the time of the meeting.

DIRECTOR COMPENSATION

Director Compensation Program

The Compensation Committee of the Board of Directors (the "Compensation Committee") oversees the Company's director compensation program. The compensation program includes elements that are designed specifically for the non-employee directors (excluding David E. Ritchie, Jr.). Additionally, the Compensation Committee is charged with the review, and recommendation to the Board of Directors, of all annual compensation decisions relating to the directors.

The Compensation Committee's compensation philosophy was developed to balance and align the interests of the directors and shareholders. The three primary elements of compensation for our directors are cash compensation, long-term equity-based incentive compensation, and retirement benefits.

In 2016, the Compensation Committee, upon approval of the Board of Directors, consulted with McLagan Consulting, a business unit of AON PLC. ("McLagan"), a compensation and benefits consulting firm, to evaluate the Board of Directors compensation for 2017. McLagan served as an independent compensation consultant to advise the Compensation Committee on all matters related to the Board of Directors compensation and general compensation programs including guidance on industry best practices. Based on discussions with McLagan, the Compensation Committee recommended, and the Board of Directors approved, no change in the cash retainers or equity portion of director compensation for 2017. The elements of director compensation are described below.

For the analysis of the 2017 director compensation, the Compensation Committee, with the help of McLagan, selected eighteen publicly-traded banking companies headquartered on the West Coast (the "Peer Group"). The Peer Group is used to benchmark compensation levels against companies that are similar in breadth and scope to our Company. The following eighteen companies have assets between $350 million and $1.3 billion as of March 31, 2016 and comprise the Peer Group: 1st Capital Bank, Anchor Bancorp, Bank of Commerce Holdings, Broadway Financial Corp, Central Valley Community Bancorp, Community West Bancshares, First Financial Northwest Inc., First Northern Community Bancorp, FNB Bancorp, Idaho Independent Bank, Oak Valley Bancorp, Pacific Financial Corp, Pacific Mercantile Bancorp, Plumas Bancorp, Riverview Bancorp Inc., Sound Financial Bancorp Inc., Summit State Bank and United Security Bancshares.

The Company targets total compensation to be at or above the Peer Group average. The goal of the cash compensation is to be close to the Peer Group average, while long-term incentive compensation and retirement benefits are targeted at or above the Peer Group averages. The decisions by the Board of Directors about director compensation are based on analysis of the Peer Group averages, the directors' completion of continuing education programs, attendance at Board of Directors and committee meetings and prompt responses to management's requests for information required to complete and timely file regulatory filings.

· **Overview of Director Compensation Elements**

The Company's Director Compensation Program consists of several compensation elements, as illustrated in the table below.

Pay Element	What the Pay Element Rewards	Purpose of the Pay Element
Cash Compensation	Director contribution to the governance of the Company.	· Provide fixed compensation based on competitive market practice.
Long-Term **Incentive** **Compensation**	Stock Options: · The Company's stock price performance; and · Continued role with the Company during a five-year vesting period. Restricted Stock: · The Company's stock price performance; and	· Maximize stock price performance; · Increase director ownership in the Company; and · Promote a long-term Company outlook.

	· Continued role with the Company during the vesting period.	
Retirement Benefits	· The Deferred Fee Plan is a nonqualified voluntary deferral program that allows the directors to tax-defer a portion (up to 100%) of their cash compensation. · The Director Emeritus Plan provides the director with retirement benefits for ongoing consulting.	· Provides a tax-deferred retirement savings program (1). · The Director Emeritus Plan makes available benefits for the directors to secure their consulting services following their retirement from the Company (1).

(1) See “Detail of Director Compensation Elements – Retirement Benefits” beginning on page 14 of this proxy statement for information regarding the details of the Deferred Fee Plan and the Director Emeritus Plan.

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The use of these compensation elements enables us to reinforce our pay for performance philosophy, as well as strengthen our ability to attract and retain highly qualified directors.

· **Detail of Director Compensation Elements**

The Compensation Committee believes the total compensation and benefits program for the directors should consist of the following: cash compensation, long-term incentive compensation and retirement benefits.

o **Cash Compensation**

The cash compensation paid to non-employee directors of American River Bankshares during 2017 included a retainer of $1,500.00 per month, a fee of $300.00 for attendance at each committee meeting, other than the Loan Committee whose outside director members received a fee of $400.00 for each meeting attended. The fee for attendance at each American River Bank Board of Directors meeting was $275.00.

In addition to the fees received as non-employee directors in connection with the attendance at Board of Directors and committee meetings, the Chairman of the Board of Directors received an additional retainer fee of $1,000.00 per month, and the Chairman of the Audit Committee, the Chairman of the Finance and Capital Committee, the Chairman of the Compensation Committee, and the Chairman of the Loan Committee each received an additional retainer fee of $375 per month and the Chairman of the Nominating Committee received an additional retainer of $291.67 per month.

Effective April 1, 2018, the retainer fee increased from $1,500.00 per month to $1,833.33 per month and the additional retainer received by the Chairman of the Audit Committee, the Chairman of the Finance and Capital Committee, the Chairman of the Compensation Committee, and the Chairman of the Loan Committee increased from of $375.00 per month to $416.67 per month. In addition, the fee for attendance at each committee meeting, other than the Loan Committee increased from $300.00 for attendance at each committee meeting, to $450.00 for attendance at each committee meeting and the Loan Committee whose outside director members fees increased from $400.00 for attendance at each Loan Committee meeting to $500.00 for attendance at each Loan Committee meeting. The fees paid in 2017 by American River Bankshares and American River Bank to all directors are disclosed in the "Director Compensation Table" on page 15 of this proxy statement.

o **Long-Term Incentive Compensation**

The long-term incentive compensation element has historically been provided in the form of stock options that vest and become exercisable ratably over five years. In 2010, restricted stock was added as another form of long-term incentive compensation. The Compensation Committee believes the use of stock options and restricted stock, rather than other forms of long-term incentive compensation, creates value for the director only if the shareholder value is increased through an increased stock price. The Compensation Committee believes that this creates strong alignment between the interests of the directors and shareholders.

On March 17, 2010, the Board of Directors adopted the 2010 Equity Incentive Plan (the "2010 Plan"). The 2010 Plan was approved by the Company's shareholders on May 20, 2010. In 2000, the Board of Directors approved the American River Bankshares 2000 Stock Option Plan (the "2000 Stock Option Plan"). The 2000 Stock Option Plan was approved by the shareholders in September 2000. The 2000 Stock Option Plan terminated the award of stock options on April 25, 2010. No new awards can be issued under the 2000 Stock Option Plan, however, awards outstanding and unexercised remain outstanding until exercised or terminated. Both plans allow for performance-related awards for directors, executive officers and other key employees. The fair value related to stock option and restricted stock awards to directors is shown in the "Director Compensation Table" on page 15 of this proxy statement.

Awards to the directors and are generally made annually, at the same time as awards to the general eligible officer population. Award recommendations are made at Compensation Committee meetings scheduled in advance to meet appropriate deadlines for compensation related decisions. The Compensation Committee then recommends the awards to the Board of Directors for their approval. The Board of Directors approves all awards of equity compensation at regularly scheduled meetings. The meetings are held after the close of the U.S. stock markets and the Board of Directors sets the exercise price for each stock option, or in the case of restricted stock, the total value of the award, using the closing price of the Company's common stock on the date of the award, with the exception of performance-based stock awards which use the thirty (30) calendar-day trailing average closing stock price to set the target value of each award. See also the "Long-Term Incentive Compensation" on page 24 of this proxy statement for more information regarding performance-based restricted stock awards.

There is a limited term in which the director can exercise stock options, known as the option term. The option term is generally ten years from the date of award. At the end of the option term, the right to purchase any unexercised options expires. Option holders generally forfeit any unvested options upon separation with the Company. In certain instances, stock options may vest on an accelerated schedule. Restricted stock awarded to the director will fully vest after a one-year term. A change in control may trigger accelerated vesting. In this instance, all unvested options and restricted stock will vest as of the date of the change in control.

Director equity awards are made after review of their performance for the preceding calendar year. The targeted awards are made based on factors including: (a) attendance at Board of Directors and committee meetings (30% of award target), (b) completion of a specified number of continuing education hours (40% of award target), and (c) prompt responses to management's requests for information required to complete and timely file regulatory filings (30% of award target). On May 18, 2017, Directors Box, Robotham, Waks, Wright and Ziegler were each awarded 1,247 shares of restricted stock with a value of $17,246 and Director Fite was awarded 1,627 shares of restricted stock with a value of $22,501, in each case based on the Company's closing stock price on May 18, 2017 of $13.83 per share. See also the "Director Compensation Table" on page 15 and the "Grants of Plan-Based Awards Table" for Directors on page 15 of this proxy statement for more information regarding director equity awards.

o **Retirement Benefits**

Effective December 20, 2001, a Deferred Fee Plan was established for the purpose of providing the directors an opportunity to defer tax on director fees. Participating directors may elect to defer a portion, up to 100%, of their monthly cash compensation. The Company bears the administration costs and pays interest on the deferred balances at a rate equal to the five-year U.S. Treasury Bond plus 4.0%, but does not make contributions to the deferred account balances. For 2017, the rate credited was 5.93%. The amounts deferred and the earnings thereon are unfunded and unsecured and subject to the claims of general creditors. During 2017, only Director Ziegler participated in the Deferred Fee Plan and deferred $31,200.

In January 2003, the Board of Directors approved a Directors Retirement Plan and in June 2004, this Directors Retirement Plan was replaced with a Director Emeritus Plan, whereby each non-employee director (excluding David Ritchie and former CEO, David Taber) is entitled, upon full retirement from the Board of Directors of the Company or its subsidiaries, to receive installment payments over a 24 month period following retirement which are equal to the total Board of Director and committee fees received by a director for such service during the two full calendar years prior to retirement. To qualify for the payments, a director participating in the Director Emeritus Plan must continue to support the Company by making himself/herself available for consultation with management and/or the Board of Directors, continue to be a referral source for business to the Company and attend Company functions such as annual meetings for a period of two years after retirement. The Director Emeritus Plan contains a ten-year vesting component. A director vests 10% for each year of service on the Board of Directors of the Company or its subsidiaries. During 2017, there $43,161 in payments under the Director Emeritus Plan to two retired directors. Effective July 1, 2012, benefit accruals were suspended under the Director Emeritus Plan, but the benefits that had been previously earned continued in effect and there have been no new participants in the Director Emeritus Plan after July 1, 2012.

Director Compensation Table

The following table shows the compensation of the Company’s non-employee directors (excluding David Ritchie and former CEO, David Taber) during the fiscal year 2017.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($) (1)	Option Awards ($) (2)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) (3)	Total ($)
Nicolas C. Anderson (4)	—	—	—	—	—
Kimberly A. Box	$ 32,600	$ 17,246	—	—	$49,846
Charles D. Fite	$ 35,500	$ 22,501	—	—	$58,001
Robert J. Fox (5)	$ 26,111	—	—	—	$26,111
Jeffery Owensby	$ 24,325	—	—	—	$24,325
William A. Robotham	$ 29,400	$ 17,246	—	—	$46,646
Stephen H. Waks	$ 33,800	$ 17,246	—	—	$51,046
Philip A. Wright	$ 27,525	$ 17,246	—	—	$44,771
Michael A. Ziegler	$ 31,200 (6)	$ 17,246	—	$ 11,096	$59,542

(1) The amount reported in this column represents the fair value determined in accordance with FASB ASU 2016-09 of 1,247 shares of restricted stock awarded to Ms. Box, Mr. Robotham, Mr. Waks, Mr. Wright, and Mr. Ziegler and 1,627 shares of restricted stock awarded to Mr. Fite, each awarded on May 18, 2017. Please refer to footnote 2 to our audited financial statements included in our annual report to shareholders for the year ended December 31, 2017 for a discussion of the assumptions related to the calculation of such value.

(2) There were no stock options awarded to any of the non-employee directors during 2017. As of December 31, 2017, the aggregate number of unexercised stock options (all of which are vested) held by each director is as follows: Ms. Box, zero; Mr. Fite, 5,570; Mr. Fox, zero; Mr. Owensby, zero; Mr. Robotham, 5,570; Mr. Waks, 5,570; Mr. Wright, 4,360, and Mr. Ziegler, 5,570. The exercise price on all of the stock options held by the directors exceeded the Company’s closing stock price of $15.24 per share on December 31, 2017, except 15,500 stock options, 13,925 of which were awarded on February 18, 2009, and have an exercise price of $8.50 per share and 1,575 which were awarded on May 21, 2008, and have an exercise price of $12.38. The 13,925 stock options awarded on February 18, 2009 are held as to 2,785 shares each by Mr. Fite, Mr. Robotham, Mr. Waks, Mr. Wright, and Mr. Ziegler. The 1,575 shares awarded on May 21, 2008 are held by Mr. Wright. On February 20, 2018, 11,140 unexercised stock options expired. These 11,140 stock options were held as to 2,785 shares each by Mr. Fite, Mr. Robotham, Mr. Waks, and Mr. Ziegler. As a result of Mr. Fox’s resignation, effective March 27, 2017, he had 90 days in which to decide whether to exercise his remaining stock options or they would be forfeited. He exercised 2,785 stock options and 2,785 stock options were forfeited as the exercise price was higher than the market value.

(3) Amount represents the preferential rate paid on amounts deferred under the Deferred Fee Plan. See discussion above on page 14 of this proxy statement under “Retirement Benefits for discussion of the Deferred Fee Plan.”

(4) Mr. Anderson joined the Board in March 2018 and did not receive any fees or stock awards in 2017.

(5) Mr. Fox retired from the Board of Directors effective March 27, 2017 and his fees earned in 2017 included $17,711 for service on the Board of Directors and $8,400 under the Director Emeritus Plan.

(6) Mr. Ziegler deferred $31,200 of the total fees he earned in 2017, under the Deferred Fee Plan. See page 14 of this proxy statement under Retirement Benefits for discussion of the Deferred Fee Plan.

Grants of Plan-Based Awards Table for Directors

The following table summarizes the equity stock awards pursuant to the Company's 2010 Plan to the Company's non-employee directors (excluding David Ritchie and former CEO, David Taber) in the fiscal year ended December 31, 2017. Shareholders approved the 2010 Plan on May 20, 2010. All of the awards were made on May 18, 2017. All restricted stock awarded to the directors fully vests one year after the award date. Restricted stock may become vested in full in the event of a change in control as defined in the 2010 Plan. There were no other awards made to any non-employee director during 2017 under the Company's 2010 Plan.

Grants of Plan-Based Awards Table

Name	Award Date	All Other Stock Awards: Number of Shares of Stock or Units (#) (1)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards ($) (2)
Kimberly A. Box	5/18/17	1,247	—	$ 17,246
Charles D. Fite	5/18/17	1,627	—	$ 22,501
William A. Robotham	5/18/17	1,247	—	$ 17,246
Stephen H. Waks	5/18/17	1,247	—	$ 17,246
Philip A. Wright	5/18/17	1,247	—	$ 17,246
Michael A. Ziegler	5/18/17	1,247	—	$ 17,246

(1) It is the Company's policy that each restricted stock award is based on the market price per share of the Company's common stock on the date of award. There is no dollar amount of consideration paid by the director on the award date or vesting date of a restricted stock award.

(2) The amount reported in this column represents the fair value of restricted stock awarded during the year shown in accordance with FASB ASU 2016-09. Please refer to footnote 2 to our audited financial statements included in our annual report to shareholders for the year ended December 31, 2017 for a discussion of the assumptions related to the calculation of such value.

EXECUTIVE OFFICERS

The executive officers of the Company during 2017 were the following persons:

Name	**Age**	**Officer Since**	**Principal Occupation During the Past Five Years**
David E. Ritchie, Jr.	59	November 2017	President and Chief Executive Officer, American River Bank and American River Bankshares since November 2017. From 2014 to 2017, Mr. Ritchie served as Senior Vice President and Regional Manager of US Bank's Commercial Banking office in Torrance, California and from 2011 to 2014, he was the Executive Vice President and Regional Manager of One West Bank's Commercial Banking offices in Orange County and San Diego, California.
David T. Taber	57	1985 to October 2017	Former President and Chief Executive Officer, American River Bankshares from 1995 until his resignation on October 31, 2017. Chief Executive Officer of American River Bank from 2004 until October 31, 2017.
Mitchell A. Derenzo	56	1992	Executive Vice President and Chief Financial Officer of American River Bankshares since 1995. Chief Financial Officer of American River Bank since 1992.
Kevin B. Bender	54	1999	Executive Vice President and Chief Operating Officer since 2009. Executive Vice President and Chief Information Officer of American River Bankshares and American River Bank from 2005 to 2009.
Loren E. Hunter	59	2014 to January 2018	Former Executive Vice President and Chief Credit Officer of American River Bankshares and American River Bank from May 12, 2014 until his resignation on

			January 3, 2018. From 2007 to 2014, Mr. Hunter served as Vice President, Regional Credit Officer for Rabobank N.A., the California banking division of Rabobank Group, a global financial services provider.
Dennis F. Raymond, Jr.	52	December 2017	Executive Vice President and Chief Lending Officer, American River Bank and American River Bankshares since December 2017. From 2011 to 2017, Mr. Raymond served as Senior Vice President, Market Manager with Farmers & Merchants Bank of Central California.

COMPENSATION DISCUSSION AND ANALYSIS

Oversight of Executive Compensation Program

The Compensation Committee of the Board of Directors (the "Compensation Committee") oversees the Company's compensation programs. The compensation programs include elements that are designed specifically for the executive officers, which include the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO") and the other executive officers named in the "Summary Compensation Table" on page 32 of this proxy statement. Additionally, the Compensation Committee is charged with the review and recommendation to the Board of Directors of all annual compensation decisions relating to the executive officers.

The Compensation Committee is composed entirely of non-employee members of the Board of Directors. The Board of Directors has determined that each member of the Compensation Committee is independent under applicable NASDAQ listing rules. No Compensation Committee member participates in any of the Company's employee compensation programs. The CEO of the Company was not present during the Compensation Committee voting or deliberations regarding his compensation.

Over the years, the Compensation Committee has taken the following actions to improve the links between executive officer pay and performance including:

- Established performance-based awards in the Company's incentive compensation programs;
- Retained independent compensation consultants to advise on executive officer compensation issues and help the Compensation Committee take a longer view of the multiple facets of its responsibility;
- Designed and updated a more clearly defined competitive pay strategy which would be useful over multiple years and more strictly based on a shareholder benefit model; and
- Reviewed and approved an industry specific peer group for more precise performance comparisons.

The responsibilities of the Compensation Committee, as stated in its charter, include the following:

- Conduct oversight of the Company's overall compensation strategy and objectives pursuant to the goals of the Company including, but not limited to, assessment of the risks, if any, to the Company from such compensation strategy and related compensation incentives, strategies and objectives and a determination of whether any risks are presented thereby which are reasonably likely to have a material adverse effect on the Company. If the Compensation Committee determines that any risks are presented which are reasonably likely to have a material adverse effect on the Company, then the Compensation Committee will recommend to the Board of Directors alternative compensation incentives, strategies and objectives intended to mitigate such risks.
- Review and recommend to the Board of Directors changes to the structure and design of the compensation elements for executive officers including annual base salary, annual cash incentive compensation, long-term equity incentive compensation, retirement plans (e.g. 401(k), deferred compensation, and salary continuation agreements), and change in control benefits and severance.
- Review and recommend to the Board of Directors changes in the structure and design of the compensation elements for directors of the Company and its subsidiaries and any committees thereof, including cash (e.g., meeting fees and retainers), and the long-term equity incentive compensation plans.

- Review and recommend to the Board of Directors the appropriate peer group to be used in benchmarking executive officer and director compensation.
- Annually recommend to the Board of Directors the compensation of the CEO, including base salary, annual cash incentive compensation opportunity and changes to other compensation elements.
- Annually recommend to the Board of Directors, the compensation of other executive officers (based on the recommendation of the CEO) including base salary, annual cash incentive compensation opportunity and changes to other compensation elements.
- Recommend to the Board of Directors the performance metrics and applicable weightings as required by the Company's Executive Annual Incentive Compensation Plan.
- Recommend to the Board of Directors changes to the compensation of directors of the Company and/or any subsidiary of the Company.
- Recommend to the Board of Directors annual equity awards to directors, executive officers and other key employees, pursuant to Board of Directors approved equity awards methodology.
- Recommend to the Board of Directors the participants in the Company's Deferred Compensation Plan.

- Recommend to the Board of Directors employment and/or severance agreements for the executive officers.
- Periodically review and recommend to the Board of Directors changes to executive officer retirement benefits, employment agreements, change in control benefits and severance plans.
- Periodically review the Company succession plans relating to positions held by the executive officers and make recommendations to the Board of Directors regarding the process for selecting the individuals to fill these positions.
- Evaluate the CEO's performance relative to the goals and objectives of the Company and discuss evaluations of other executive officers with the CEO.
- Annually review and recommend to the Board of Directors for approval such changes to this Charter, if any, as may be deemed necessary.
- Prepare and submit an appropriate "Compensation Committee Report" pursuant to applicable regulations of the Securities and Exchange Commission for inclusion in the management proxy statement for each annual meeting of shareholders, stating, among other matters, whether (a) the Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management; and (b) the Compensation Committee has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in such proxy statement and the Company's Annual Report on Form 10-K.
- Perform such other duties and responsibilities as may be required by the rules and regulations which govern the Company and are consistent with the purpose of the Compensation Committee, or as the Board of Directors may deem appropriate.

Overview of Compensation Philosophy

The Compensation Committee's compensation philosophy was developed to balance and align the interests of the executive officers and shareholders. The philosophy is intended to attract, motivate, reward and retain the most qualified management talent required to achieve corporate objectives and increase shareholder value, while at the same time the compensation philosophy seeks to make the most efficient use of shareholder resources. To this end, the compensation philosophy emphasizes rewards for performance.

The three primary components of compensation for the executive officers are base salary, annual cash incentive compensation opportunity and long-term, equity-based incentive compensation. The Company also provides the executive officers with retirement benefits that are earned over time.

To be effective, the compensation philosophy must reflect the corporate mission, culture, and long-term goals of the Company. In order to recruit and retain the most qualified and competent individuals as executive officers, the Company strives to maintain a compensation program that is competitive in its peer industry labor market. The purpose of the compensation program is to reward individual performance tied to the achievement of Company objectives. The following objectives are considered in setting the compensation programs for the executive officers:

- reward performance which supports the Company's core values of performance, integrity, teamwork, and advancement opportunities;
- provide a significant percentage of total compensation that is at-risk, or variable, based on predetermined performance criteria;
- design competitive total compensation and rewards programs to enhance the Company's ability to attract and retain knowledgeable and experienced executive officers; and
- set compensation and incentive compensation levels that reflect competitive market practices.

Compensation Consultant

In 2016, the Compensation Committee, consulted with McLagan Consulting, a business unit of AON PLC. ("McLagan"), a compensation and benefits consulting firm, to evaluate executive officer compensation for 2017. McLagan served as an independent compensation consultant to advise the Compensation Committee on all matters related to the executive officers' compensation. McLagan also provided guidance on industry best practices and assisted the Compensation Committee by providing comparative market data on compensation practices and programs for the executive officers based on an analysis of peer competitors. McLagan advised the Compensation Committee in (1) determining base salaries, (2) setting performance goals and award levels for the Company's Executive Incentive Compensation Plan (the "Incentive Compensation Plan"), (3) determining the appropriateness of individual grant levels for equity awards, (4) evaluating the retirement plans and benefit amounts, (5) evaluating the perquisite program and allowances provided, and (6) determining the appropriateness of the change in control and termination benefits.

Other than compensation related consulting, McLagan did not provide any other services. The Board of Directors and management do not believe the services provided by McLagan created a conflict of interest. No compensation services performed by McLagan exceeded in the aggregate, more than $120,000 in the last fiscal year.

Peer Group and Benchmark Targets

For the analysis of the 2017 executive officer compensation, the Compensation Committee, with the help of McLagan, selected eighteen publicly-traded banking companies headquartered on the West Coast (the “Peer Group”). The Peer Group was used to benchmark executive officer compensation levels against companies that have executive officer positions with responsibilities similar in breadth and scope to the Company and that compete with the Company for executive officer talent. The following eighteen companies have assets between $350 million and $1.3 billion as of March 31, 2016 and comprise the Peer Group: 1st Capital Bank, Anchor Bancorp, Bank of Commerce Holdings, Broadway Financial Corp, Central Valley Community Bancorp, Community West Bancshares, First Financial Northwest Inc., First Northern Community Bancorp, FNB Bancorp, Idaho Independent Bank, Oak Valley Bancorp, Pacific Financial Corp, Pacific Mercantile Bancorp, Plumas Bancorp, Riverview Bancorp Inc., Sound Financial Bancorp Inc., Summit State Bank and United Security Bancshares. The Compensation Committee reviews data obtained from McLagan to ensure that the total executive officer compensation program continues to be fair to the shareholders and competitive for the executive officers.

Compensation Benchmarking Relative to Market

Using the data provided by McLagan, the Compensation Committee considered “market” at the median of this data. The Compensation Committee targets total compensation at-market, tied to excellent Company and individual performance. Base compensation, annual incentive compensation, long-term incentive compensation, retirement and other benefits are targeted at close to market.

Decisions by the Compensation Committee about the compensation elements are based on data provided by McLagan as well as Company performance and the executive officers level of responsibility, skill level, experience and contributions to the Company.

Review of Executive Officer Performance

The Compensation Committee reviews, on an annual basis, each compensation element for each executive officer. In each case, the Compensation Committee takes into account the scope of responsibilities and years of experience and balances these against competitive salary levels. The Compensation Committee has the opportunity to interact with the executive officers at various times during the year, which allows the Compensation Committee to form its own assessment of each individual’s performance.

In addition, each year the CEO presents to the Compensation Committee an evaluation of each executive officer, which includes a review of individual contribution, performance against specific targets, and strengths and weaknesses. Following this presentation and discussions with the compensation consultant, the Compensation

Committee makes its own assessments and approves the compensation for each executive officer.

At the 2011 and 2017 Annual Meetings of Shareholders, the Board of Directors recommended and shareholders approved proposals for an advisory vote to (a) approve the compensation of the executive officers and (b) establish an annual frequency for future advisory votes on compensation for the executive officers. At the 2012 through 2016 Annual Meetings of Shareholders, the shareholders of the Company approved the advisory vote proposal to approve the compensation of the executive officers. This proxy statement also includes "Proposal No. 3, Advisory (Non-binding) Vote to Approve Named Executive Officer Compensation" at page 40 of this proxy statement. The Compensation Committee, as well as the Board of Directors, reviews and considers the results of these shareholder advisory votes on the compensation for the executive officers in connection with the implementation of Company compensation programs for executives officers.

In 2016, based on review of the data provided by McLagan, the Compensation Committee recommended to the Board of Directors increases to the base salary effective April 1, 2017, but no changes were recommended to the long-term incentive compensation or retirement benefits nor were any modifications made to the percentage available to the executive officers under the Company's Annual Cash Incentive Compensation Plan. See also the "Long-Term Incentive Compensation" on page 24 of this proxy statement for more information regarding the performance-based restricted stock awards.

Overview of Executive Officers Compensation Elements

The Company’s compensation program for executive officers consists of several compensation elements, as illustrated in the table below.

Pay Element	What the Pay Element Rewards	Purpose of the Pay Element
Base Salary	Core competence in the executive officer’s role relative to skills, years of experience and contributions to the Company.	· Provide fixed compensation based on competitive market salary levels.
Annual Cash **Incentive Compensation**	Contributions toward the Company’s achievement of specified profitability, growth, and quality.	· Provides focus on meeting annual goals that lead to the long-term success of the Company; · Stresses annual performance-based cash incentive compensation; and · Motivates achievement of critical annual performance metrics.
Long-Term **Incentive Compensation**	<u>Stock Options and Restricted Stock:</u> · The Company’s stock price performance; and · Continued employment with the Company during a specified vesting or performance period.	· Maximize stock price performance; · Increase executive officer ownership in the Company; and · Retention in a challenging business environment and competitive labor market.
Retirement Benefits	The Company’s employee benefit plans are available to eligible employees, including the executive officers; to reward long-term service to the Company, and include both tax-qualified and nonqualified retirement plans. · The Company offers a qualified 401(k) program that the executive officers are eligible to participate in. · The Deferred Compensation Plan is a nonqualified voluntary deferral program that allows the executive officers to defer a portion of their base salary and annual cash incentive compensation. Deferred amounts and earnings are unfunded.	· Encourages retention of executive officers for the balance of his/her career. · Provides a tax-deferred retirement savings plan subject to IRS limitations on qualified plans. The 401(k) Plan is described in more detail on page 26 of this proxy statement. · Provides a tax-deferred retirement savings alternative for amounts exceeding IRS limitations on qualified programs. The deferred compensation plan is described in more detail on page 27 of this proxy statement. · The Salary Continuation Agreements make available retirement benefits comparable to peer group executive officers. The Salary Continuation Agreements are described in more detail on page 27 of this proxy statement.

	· The Salary Continuation Agreements are nonqualified, noncontributory plans that provide retirement benefits.	
Health and Welfare Benefits	Executive officers participate in employee benefit plans generally available to all employees, including medical, health, life insurance, disability plans, and vacation and personal absence time.	· These benefits are part of a broad-based, competitive total compensation program.
Additional Benefits and Perquisites	Active participation in business promotional activities on behalf of the Company.	· The Chief Executive Officer is provided the use of a Company owned vehicle to promote Company business in the Company's market area and for incidental personal use.
Change in Control and Termination Benefits	The employment agreements provide severance benefits if an executive officers' employment is terminated within two years after a change in control.	· Change in control severance benefits are designed to retain the executive officers and provide continuity of management in the event of an actual or threatened change in control. The employment agreements are described in more detail on page 29 of this proxy statement.

The use of the above compensation elements enables the Company to reinforce its pay for performance philosophy, as well as strengthen the ability to attract and retain highly qualified executive officers. The Compensation Committee believes that this combination of the compensation elements provides an appropriate mix of fixed and variable pay, balances short-term operational performance with long-term shareholder value, and encourages recruitment and maximizes retention of the executive officers.

Detail of Executive Officer Compensation Elements

The Compensation Committee believes the total compensation and benefits program for the executive officers should consist of the following: base salary, annual cash incentive compensation, long-term incentive compensation, retirement plans, health and welfare benefits, perquisite allowance payments and change in control benefits, as more fully described below.

Base Salary

Increases to base salaries, if any, are driven primarily by individual performance and compensation information provided by McLagan to the Compensation Committee, including an analysis of the data from the Peer Group discussed at page 19 of this proxy statement. Individual performance is evaluated by reviewing each executive officer's success in achieving business results, promoting core values, focusing on the keys to business success and demonstrating leadership abilities.

In setting the base salary of the executive officers for fiscal year 2017, the Compensation Committee reviewed the compensation information provided by McLagan. The Compensation Committee also considered the Company's level of success in its short- and long-term goals to:

- achieve specific profitability, growth and asset quality targets;
- communicate strategy and financial results effectively; and
- increase emphasis on employee satisfaction.

The Compensation Committee based its compensation decisions on the Company's performance related to the objectives listed above. The Compensation Committee does not rely solely on predetermined formulas or a limited set of criteria when it evaluates the performance of the executive officers. The Compensation Committee reviews the information provided by the compensation consultant, general economic conditions and marketplace compensation trends. The Compensation Committee usually adjusts base salaries for executive officers when:

- the current compensation demonstrates a significant deviation from the data from the Peer Group;
- recognizing outstanding individual performance; or
- recognizing an increase in responsibility.

In line with the compensation philosophy outlined above, the Compensation Committee strives to reward the successful Company's executive officers with a total compensation package in which a majority of the incentive compensation portion is based upon the variable portion of the compensation elements. The base salaries paid to the executive officers during fiscal year 2017 are shown in the "Summary Compensation Table" on page 32 of this proxy statement.

Annual Cash Incentive Compensation

The annual cash incentive compensation is administered under the Incentive Compensation Plan and provide executive officers with the opportunity to earn cash incentive compensation based on the achievement of specific Company-wide, division, and individual performance goals. The Compensation Committee designs the annual incentive compensation component to align executive officers compensation with annual (short-term) performance. Incentive compensation payments are generally paid in cash in March of each year for the prior fiscal year's performance provided that the executive officer remains in the Company's employ at the time of payment.

The Compensation Committee approves a target incentive compensation payout as a percentage of the base salary earned during the incentive compensation period for each executive officer. These targets are based on competitive practices for each comparable position and the compensation information provided by the consultant to the Compensation Committee. The incentive compensation target percentage in the table below represents the executive officer's annual incentive compensation opportunity if the annual performance goals are achieved.

Messrs.	Taber	Derenzo	Bender	Hunter	Raymond
Target Incentive Compensation (% of Base Salary) *	50%	30%	30%	30%	30%

*Mr. Ritchie's employment agreement set the incentive compensation for 2017 and 2018 at $160,000 per year, thereafter, the target will be set at 50% of base salary.

The Incentive Compensation Plan establishes a set of metrics that are selected to drive annual performance. Each metric has a weight within the Incentive Compensation Plan, and the sum of the weights is 100%.

Several financial metrics are commonly referenced in defining Company performance for executive officer compensation. These metrics are defined below and their use in the Incentive Compensation Plan is further described below.

- Profitability Measures

  - **Return on Equity Relative to Peers and to Internal Targets**

To ensure compensation is proportional to the return on investment earned by shareholders, we use a return on equity target as a metric in the Incentive Compensation Plan. The return on equity is measured against the Peer Group selected by the Compensation Committee as well as relative to an internal target. Return on equity is a key driver for earnings per share.

- **Growth Measures**

  - **Loan Growth Relative to Peers**

To ensure long-term growth of the Company, growth in loans is essential. The Incentive Compensation Plan metrics for loan growth are based on how well the Company grows in loans on an annual basis as measured against the Peer Group.

- **Risk Management Measures**

  - **Quality of Bank Performance**

To ensure long-term growth of the Company, the quality of bank performance is essential. The Incentive Compensation Plan metrics for quality of bank performance is based upon how well the Company performs during audits of key risk management areas.

Incentive Compensation Plan Weightings for 2017

The following chart indicates the weight of each metric as a percent of the total incentive compensation opportunity.

Messrs. **(1)**	Taber	Derenzo	Hunter	Bender
ROE Relative to Peers (2)	41.25%	37.50 %	37.50 %	37.50 %
Loan Growth Relative to Peers (2)	25.00%	10.00 %	10.00 %	10.00 %
ROE Relative to Internal Target (3)	33.75%	42.50 %	42.50 %	32.50 %
Quality of Bank Performance	—	10.00 %	10.00 %	20.00 %(4)

(1) Mr. Ritchie is not included in this chart as his incentive compensation target for 2017 was set at $160,000 and Mr. Raymond is not included in this chart as his hire date was December 7, 2017 so he did not qualify for the incentive compensation program due to duration of employment with the Company.

(2) The target for the ROE Relative to Peers and Loan Growth Relative to Peers is the 50th percentile and would result in attaining 100% of the available payout. Attaining the 30th percentile would result in a payout of 50% of the available payout and attaining the 75th percentile would result in a payout of 150% of the available payout. Results achieved between the minimum and maximum would result in a pro rata share of the incentive compensation available.

(3) The ROE Relative to Internal Target metric minimum is set at 85% of the target and results in incentive compensation equal to 50% of the available payout. The maximum for this metric is set at 120% of the target and results in incentive compensation equal to a 150% of the available payout for this metric. Results achieved between the minimum and maximum would result in a pro rata share of the incentive compensation available.

(4) If this metric is met the weighting will drop to 10% for Quality of Bank Performance and the payout for ROE Relative to Internal Target will increase from 32.50% to 42.50%.

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The amount of incentive compensation paid to each executive officer under the Incentive Compensation Plan is adjusted based on how well the Company performs against the stated performance goal of each metric. If the Company exceeds the target by 120% the amount available increases to an amount up to 75% of base salary in the case of Mr. Taber and up to 45% of base salary in the case of Messrs. Derenzo, Hunter, and Bender. If the Company attains 85% of target the amount available decreases to 25% of base salary in the case of Mr. Taber and to 15% of base salary in the case of Messrs. Derenzo, Hunter, and Bender. The Incentive Compensation Plan also establishes minimum funding thresholds. If performance on any metric falls below 85%, no incentive compensation will be paid for that metric and if the results of the Quality of Bank Performance metric is not met then no incentive compensation will be earned on any of the metrics. The Incentive Compensation Plan requires the executive officer to remain employed by the Company on the date of payment. Mr. Taber resigned from the Company on October 31, 2017, and he was paid an amount equal to his pro-rated portion of the incentive compensation he earned for 2016 in the amount of $114,252.32. Mr. Hunter resigned from the Company on January 3, 2018, and forfeited his 2017 incentive compensation.

For 2017, the Company’s actual results compared to target are as follows:

Metric	Result
ROE Relative to Peers	Did not meet the minimum or the target
Loan Growth Relative to Peers	Did not meet the minimum or the target
ROE Relative to Internal Target	Exceeded the target
Quality of Bank Performance	Met target

As a result of meeting or exceeding the Company targets for ROE Relative to Internal Target and Quality of Bank Performance, incentive compensation was earned in 2017 for each of the executive officers listed below.

The table below represents the 2017 target amount of cash compensation available for each metric and the amount earned by Messrs. Derenzo and Bender. Mr. Ritchie is not included in this table as his incentive compensation target for 2017 was set at $160,000. Mr. Taber is not included in this table as the Separation and Release Agreement between the Company and Mr. Taber required an amount of $114,252.32 to be paid to him in lieu of his 2017 incentive compensation payment. Mr. Hunter is not included in this table as he resigned on January 3, 2018 and forfeited his incentive compensation at that time. Mr. Raymond is not included in this table as his hire date was December 7, 2017 and he did not qualify for the incentive compensation program due to the short duration of his employment with the Company.

Metric	Target Payout-Derenzo	Actual Payout-Derenzo	Target Payout-Bender	Actual Payout-Bender
ROE Relative to Peers	$26,815	$—	$26,815	$—
Loan Growth Relative to Peers	$6,310	$—	$6,310	$—
ROE Relative to Internal Target	$23,661	$28,022	$23,661	$28,022
Quality of Bank Performance	$6,310	$6,310	$6,310	$6,310

In January 2018, the Board of Directors approved the weight of each metric as a percent of the total incentive compensation opportunity for the 2018 plan year as follows:

	Chief Financial Officer	Chief Operating Officer	Chief Lending Officer	Chief Credit Officer
Pretax/Pre Provision for Loan and Lease Losses	25.00 %	25.00 %	25.00 %	25.00%
Net Income After Tax	25.00 %	25.00 %	25.00 %	