
Administration

Robert H. Steveson

D. V. Carter

Joan Jones

Janet K. Hannis

**President & Chief
Executive Officer
Vice President &
Cashier
Assistant Vice
President
Executive Secretary**

Chico Office

Keith Orme
Arthur L. Hayes

Ronald Bee

Fred Ruggiero

**Manager
Vice President &
Loan Officer
Installment Loan
Officer
Operations Officer**

Willows Office

Carroll Taresh
Layne Horton

**Manager
Assistant Manager**

Durham Office

Daniel Herbert

Operations Supervisor



TRI-COUNTIES BANK

2171 Pillsbury Road
P.O. Box 1130
Chico, CA 95927
(916) 345-5151

154 North Tehama
P.O. Box 1158
Willows, CA 95988
(916) 934-2191

The Midway
P.O. Box 216
Durham, CA 95938
(916) 343-3735

Member FDIC

1977 Annual Report



TRI-COUNTIES BANK

Statements of Changes in Stockholders' Equity for the years ended, December 31, 1977 and 1976

	Common Stock Number of Shares	Amount	Capital Surplus	Undivided Profits	Total
Balance, January 1, 1976	100,000	\$500,000	\$ 329,123		\$ 829,123
Net income for the year				\$ 151,847	\$ 151,847
Transfer of undivided profits to capital surplus			89,108	(89,108)	
Balance, December 31, 1976	100,000	500,000	418,231	62,739	980,970
Net income for the year				152,030	152,030
45% stock dividend, less cash paid for fractional shares	44,905	224,525	(63,851)	(162,289)	(1,615)
Sale of common stock	31,893	159,465	255,144		414,609
Costs associated with the sale of common stock			(53,550)		(53,550)
Balance, December 31, 1977	176,798	\$883,990	\$ 555,974	\$ 52,480	\$ 1,492,444

Reserve for Loan Losses:

Transactions in the reserve for loan losses were as follows:

	1977	1976
Balance, beginning of year	\$64,117	\$18,000
Charged to operating expenses	11,000	
Loans charged off	(46,711)	
Recoveries of loans previously charged off	12,090	—
Balance, end of year	\$40,496	\$64,117

Notes to Financial Statements

Summary of Significant Accounting Policies: The accounting policies of Tri Counties Bank (the bank) conform to generally accepted accounting principles and to general practices of the banking industry. The following is a summary of the more significant policies:

Investment Securities: Investment securities are carried at cost increased by accretion of discounts and decreased by amortization of premiums. Gains and losses (determined on a specific identification basis) on sales and exchanges of investment securities are presented, net of related income taxes, separately in the statement of income.

Loans: Loans are stated net of undisbursed funds. Interest on commercial and real estate loans is accrued principally on a simple interest basis. Interest on consumer installment loans is recognized principally using the sum-of-the-months-digits method ("rule of 78's").

Interest on certain loans is not accrued if, in management's judgment, amounts are considered doubtful of collection. Loans placed in nonaccrual status amounted to \$39,299 at December 31, 1976. There were no loans classified as nonaccrual as of December 31, 1977.

Reserve for Loan Losses: The reserve for loan losses represents management's recognition of the assumed risks of extending credit and the quality of the loan portfolio. Although it is not possible to anticipate loan losses with complete accuracy, the evaluation of the quality of the loan portfolio considers such factors as the borrower's financial condition and repayment history, the value of any existing collateral and third-party guarantees.

In addition, other factors such as external business and economic conditions beyond the borrower's control are considered which, in management's judgment, deserve current recognition.

The reserve for loan losses is increased for provisions for loan losses charged to operating expense and recoveries of previously charged-off loans. The reserve is reduced for net loan losses.

Premises and Equipment: Premises and equipment are stated at cost less accumulated depreciation. Depreciation expense is computed using the straight-line method over the following estimated useful lives:

Bank premises	20 years
Furniture and equipment	3 to 10 years
Land improvements	10 years

Improvements and major renewals are capitalized, and maintenance and repairs are charged to operating expenses. Gains and losses from disposal of bank premises and equipment are included in operating expenses.

Income Taxes: The provision for income taxes includes amounts attributable to all significant timing differences between revenues and expenses reported for financial statement purposes and for income tax purposes, after excluding non-taxable revenues and non-deductible expenses. The principal timing differences result from the use of the cash method of accounting for tax purposes and differences in the provision for loan losses.

Investment and new job tax credits are applied as reductions of current federal income taxes in the years the credits are realized.

Dear Shareholder:

1977 was a good year for Tri Counties Bank. By any measure or standard our bank continued to show growth in assets, earnings and capital. In May 1977 we opened for business in our new office located at 154 N. Tehama Street, Willows, and now serve the residents of Glenn County as well as Butte County. We also started construction of our office in Durham. That office opened in March 1978. The number of customer accounts continues to reflect excellent market penetration.



	1976	1977
Number of Checking Accounts	4643	5848
Number of Savings Accounts	2298	3305
Number of Installment Loans	1229	1780

Your Directors, Staff and Management continued to deliver both growth and profit to your investment.

Total assets at year end were \$18,081,688 compared to \$11,893,719 in the previous year. Gross income of \$1,444,249 resulted in net operating income before taxes and securities transactions of \$187,030. This compares favorably to last years figure of \$82,754. Net profits after tax considerations were \$152,030.

By year end 1977 Tri Counties has busily engaged in the raising of capital to support the growth which we anticipate in Butte and Glenn Counties. We also filed an application with the State Banking Department for permission to establish an additional office of Tri Counties Bank in Chico. This was necessary to accommodate the increasing number of customers we have in Chico and the area immediately surrounding Chico.

Our bank continues to have a high regard for the need to commit both time and dollars to the training and development of our employees. At present we are training at all levels of our staff with emphasis on communications, principles and Banking and lending. Our goal is to achieve high standards of proficiency for our banking customers and personal attention to their needs.

The continued development of our management officers and training of our staff is essential to maintaining this level of customer service we desire to deliver. Our Board and Directors recognizes this and have provided policy and philosophy statements that encourage growth in the abilities of our employees.

1978 should be an excellent year for your bank. The National and local economy calls for a moderate to fast growth. Our Willows office has been open 7 months in 1977 and is ready for good growth during 1978. Durham opened early in 1978 and is "the only bank in town." Chico office continues to show good gains in both deposits and loans. We also started a Real Estate loan department at our Chico office during 1977 and should develop a good volume of loans and excellent income from that department.

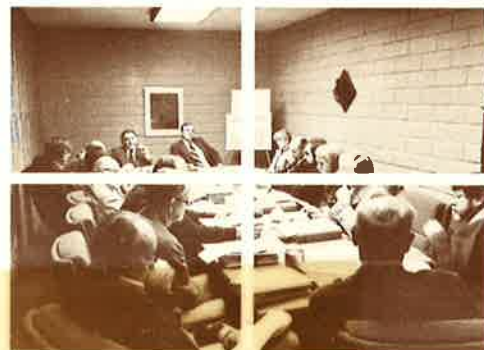
Remember, every new customer we obtain assists us in our ability to earn a good return for you our shareholder.

Sincerely,

**Robert H. Steveson
President**

Board of Directors

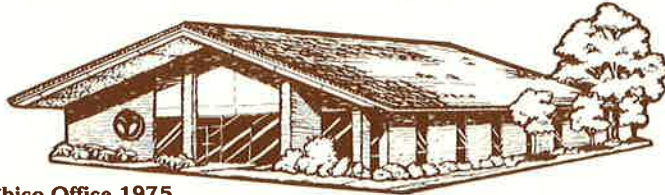
- Everett Beich
- Donald Casey
- Dewayne Caviness
- Gerald Compton
- Vernon Fish
- George Hacke
- J. Herod Hall
- Sankey M. Hall, Jr.
- Fred Hignell III
- Wendell Lundberg
- Wayne Meeks
- Donald Murphy
- Robert Stern
- Robert Steveson
- Alex Vereschagin, Jr.



Comparative Statement of Condition

Assets

	Dec. 31, 1977	Dec. 31, 1976
Cash & Due From Banks	\$ 751,921	\$1,604,139
Federal Funds Sold	— 0 —	350,000
U.S. Treasury Securities	1,537,719	896,326
Other U.S. Govt. Agencies	1,605,629	608,891
State & Local Agencies	784,840	880,522
Loans (Net)	12,625,326	7,177,571
Bank Premises & Equipment	490,671	212,534
Other Assets	285,582	163,736
Total Assets	\$18,081,688	\$11,893,719



Chico Office 1975

Liabilities and Stockholders Equity

Liabilities

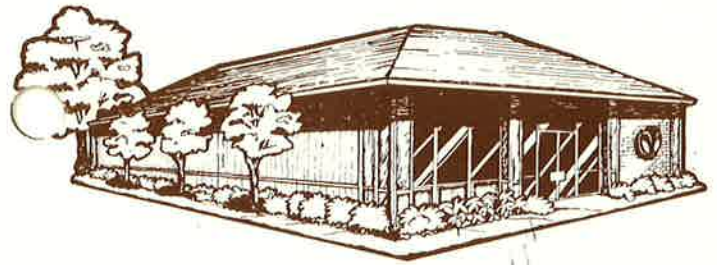
	Dec. 31, 1977	Dec. 31, 1976
Demand Deposits	\$6,326,541	\$4,603,011
Savings & Time Deposits	9,669,007	6,264,852
Total Deposits	15,995,548	10,867,863
Federal Funds Purchased	500,000	—
Other Liabilities	93,696	44,886
Total Liabilities	\$16,589,244	\$10,912,749

Stockholders Equity

Common Stock	883,990	500,000
Capital Surplus	555,974	418,231
Undivided Profits	52,480	62,739
Total Stockholders Equity	\$1,492,444	\$980,970
Total Stockholders Equity and Liabilities	\$18,081,688	\$11,893,719



Willows Office 1977



Durham Office 1978

Statements of Income for the years ended, December 31, 1977 and 1976

Operating income:

	1977	1976
Interest and fees on loans	\$1,085,035	\$629,743
Interest on securities:		
U.S. Treasury	110,840	44,105
U.S. government agencies	86,750	40,549
State and local agencies	62,524	21,165
Interest on time deposits	6,206	60,309
Interest on federal funds sold	6,460	15,342
Service charges on deposit accounts	68,042	38,181
Other operating income	18,392	11,899
Total operating income	\$1,444,249	\$861,293

Operating expenses:

Interest on deposits	456,560	257,713
Salaries and employee benefits	419,264	241,024
Occupancy expense	60,820	48,667
Equipment expense	37,200	15,901
Data processing expense	59,660	41,977
Provision for loan losses	11,000	47,000
Other operating expense	212,715	126,257
Total operating expenses	\$1,257,219	\$778,539

Income before income taxes, securities transactions and extraordinary item	187,030	82,754
Applicable income taxes	49,334	33,242
Income before securities transactions and extraordinary item	137,696	49,512
Securities transactions, less related income taxes of \$4,800 and \$39,645 in 1977 and 1976, respectively	5,200	42,948
Income before extraordinary item	142,896	92,460
Extraordinary item — reduction of federal income taxes arising from carryforward of net operating loss	9,134	59,387
Net income	\$ 152,030	\$151,847