TriCo Bancshares Annual Report 1984

Board of Directors

Robert H. Steveson
President and Chief Executive Officer, Tri Counties Bank and TriCo Bancshares, Chico

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Chairman of the Board. Secretary-Treasurer, Vereschagin Oil Company, petroleum distribution company, Orland

Everett B. Beich
Vice-Chairman of the Board. Owner, Beich Companies, moblie home park commercial development companies, Chico

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Secretary of the Board. Principal Partner, Hignell & Hignell, Inc., investment and development company, Chico

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Retired Physician, Chico

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Physician and Surgeon, Chico

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Owner, Wehah Farms, rice and grain operations, Richvale

Wayne Meeks
Owner, Wayne Meeks Red Bluff Ford-Mercury, Red Bluff

Donald E. Murphy
Vice President & General Manager J.H. McKnight Ranch, Nelson

Robert J. Stern
President, R.J. Stern Co., Inc., retail store, Oroville

Standing left to right:

Wendell J. Lundberg
Donald E. Murphy
Wayne Meeks
Robert J. Stern

Seated left to right:

Sankey M. Hall, Jr.
Robert H. Steveson
Fred W. Hignell, III

Standing left to right:

Gerald H. Compton
DeWayne E. Caviness, M.D.

Seated left to right:

Donald J. Casey, M.D.
Alex A. Vereschagin, Jr.
Everett B. Belch

"Since 1975 you've helped Tri·Counties Bank become a financial leader of Northern California."

Dear Shareholder:

"The Goals of TriCo Bancshares and Tri Counties Bank are Easy to Understand"

- Earn Adequate Return for Shareholders
- The Customer Deserves the Best in Service and Products
- The Quality of Bank Assets and Liquidity Management is important
- We Desire to be a Model Corporate Citizen
- Our Employees Deserve an Opportunity to Grow and Prosper

We are committed to be the dominant community Bank in our Northern California service area during the next few years.

Tri Counties Bank's acquisition of Shasta County Bank in 1981 and the corresponding downturn in both the national and local economy had a substantial adverse impact on Tri Counties Bank. While we have remained profitable, our results for the past two years leave much to be desired if measured only by financial results. Rather than close all but our most profitable offices, we have chosen to continue serving Northern California as a full-service community bank. We have worked diligently for the past three years toward restoring our Bank to its previous levels of profitability and high quality of assets.

I believe our customers deserve the best in service and the best in quality products. I pledge our entire staff to provide outstanding value in banking services. Customers are the only reason for this Bank to continue in business. Therefore we commit 100% of our effort toward offering outstanding banking values.

I pledge TriCo Bancshares and Tri Counties Bank and its assets to become a model corporate citizen. Recognizing that our first responsibility is to operate a sound, safe and profitable banking institution, we also accept our responsibility to be the best and to preserve our quality of life here in Northern California.

I commit to our employees, customers and shareholders, that TriCo Bancshares and Tri Counties Bank will operate in a positive and stimulating environment that encourages all employees to offer the very best in banking services.

Over the past 10 years, we have generated 190 new jobs in Northern California. We have developed 22 managers and loan officers - corporate executives who are not transferred every 18 months - who live in our communities, and support our communities as well as operate our Bank. We have not closed our branches or drastically cut our staff and services as many major banks have in the past year. While we have experienced earnings below our expectations, we have remained profitable and continue to offer the communities we serve outstanding banking services.

I believe in Northern California. All of our employees, management and directors are living here and raising their families here. Our customers - depositors and borrowers - are located here. We don't have any loans to foreign governments. We don't deal in brokered deposits or "hot money" from all over the United States. Our borrowers - most of them small businesses - are making a living in Northern California. It may be harder to earn a profit today than it was five or six years ago, but we are working with our customers and, for the most part, they are making significant improvement.

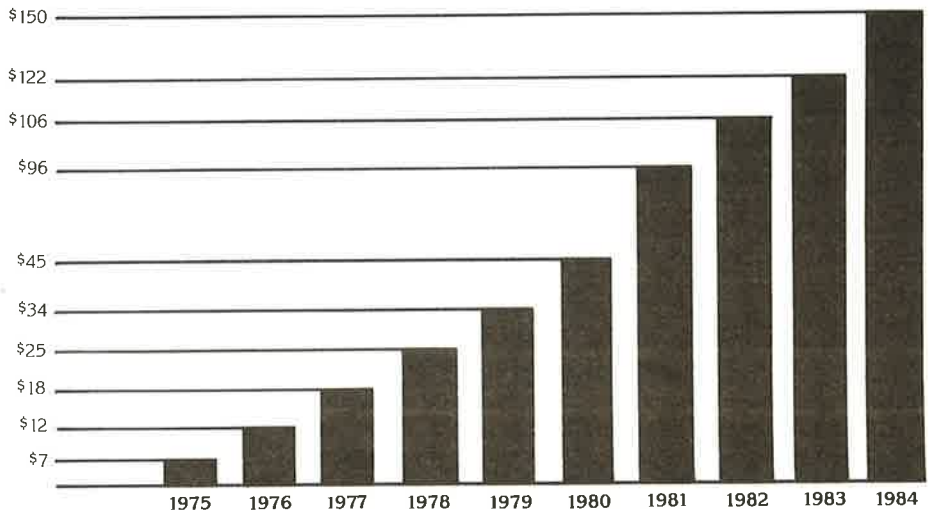
I believe in Northern California and I believe in TriCo Bancshares and Tri Counties Bank. We appreciate your continued support.

Sincerely,

Robert H. Steveson
President and Chief
Executive Officer

"Tri·Counties Bank & TriCo Bancshares will continue to grow with the people and businesses of Northern California."

Total Assets (in millions)



During the past 10 years, Tri·Counties Bank has:

- opened five banking offices in Butte and Glenn Counties.
- acquired 100% of Shasta County Bank — including six branch offices.
- developed full service banking capabilities.
- became one of the leading small business lenders in Northern California.
- became a significant real estate lender in Northern California.
- developed our own data processing support.
- established 42,000 account relationships in 10 Northern California Communities.
- developed 190 professional banking employees.

ACCOUNTANTS' REPORT

Board of Directors and Shareholders
TriCo Bancshares and Subsidiaries
Chico, California

We have examined the consolidated balance sheets of TriCo Bancshares and Subsidiaries as of December 31, 1984 and 1983, and the related consolidated statements of income, changes in shareholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of TriCo Bancshares for the year ended December 31, 1982, were examined by other auditors whose report dated January 28, 1983, expressed an unqualified opinion on those statements.

In our opinion, the 1984 and 1983 financial statements referred to above present fairly the consolidated financial position of TriCo Bancshares and Subsidiaries as of December 31, 1984 and 1983, and the consolidated results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.

Certified Public Accountants

San Francisco, California
January 31, 1985

CONSOLIDATED BALANCE SHEETS

December 31, 1984 and 1983
(in thousands, except share amounts)

Assets	1984	1983
Cash and due from banks	$10,715	$ 9,606
Federal funds sold	1,000	—
Investment securities (approximate market value: $21,979 and $17,768)	22,310	18,412
Loans held for sale	4,407	—
Loans:		
Commercial	38,992	36,198
Consumer installment	29,178	21,974
Real estate mortgages	20,007	17,141
Real estate construction	3,753	4,618
	91,930	79,931
Less: Allowance for loan losses	945	801
Net loans	90,985	79,130
Premises and equipment, net	6,611	6,198
Accrued interest receivable	1,714	1,628
Investment in real estate	8,037	—
Other real estate	3,701	4,010
Other assets	3,028	3,181
Total assets	$152,508	$122,165

Liabilities and Shareholders' Equity	1984	1983
Deposits:		
Non-interest-bearing demand	$ 27,524	$ 24,065
Interest-bearing demand	38,261	38,973
Savings	11,488	13,436
Time certificates, $100,000 and over	14,925	9,721
Other time certificates	40,602	22,393
Total deposits	132,800	108,588
Mortgage loans payable	3,131	413
Accrued interest payable and other liabilities	2,400	1,480
Deferred income taxes	228	485
Long-term debt	5,772	3,613
Total liabilities	144,331	114,579
Commitments and contingencies (Note L)		
Shareholders' equity:		
Common stock, no par value; shares authorized 20,000,000; shares issued and outstanding 791,847 and 745,730 shares	6,674	6,037
Retained earnings	1,503	1,549
Total shareholders' equity	8,177	7,586
Total liabilities and shareholders' equity	$152,508	$122,165

See notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 1984, 1983 and 1982
(in thousands, except share amounts)

	1984	1983	1982
Interest income:			
Interest and fees on loans	$13,505	$11,945	$11,349
Interest on investment securities	1,983	1,288	1,032
Interest on federal funds sold	187	211	53
Total interest income	15,675	13,444	12,434
Interest expense:			
Interest on money market, savings and time certificates of deposit	7,026	5,801	4,632
Interest on time certificates of deposit, $100,000 and over	1,309	872	1,637
Interest on short-term borrowings	56	15	87
Interest on long-term debt	656	351	419
Total interest expense	9,047	7,039	6,775
Net interest income	6,628	6,405	5,659
Provision for loan losses	750	983	860
Net interest income after provision for loan losses	5,878	5,422	4,799
Other income:			
Service charges and other income	1,529	1,465	1,120
Gain on security transactions	70	143	268
Total other income	1,599	1,608	1,388
Other expenses:			
Salaries and employee benefits	3,449	3,246	3,133
Other operating expenses	3,731	3,088	2,756
Total other expenses	7,180	6,334	5,889
Income before provision for income taxes	297	696	298
Provision (credit) for income taxes	(179)	152	80
Net income	$ 476	$ 544	$ 218
Net income per share	$ .60	$ .73	$ .30

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 1984, 1983 and 1982
(in thousands, except share amounts)

	Common Stock			
	Number of Shares	Amount	Retained Earnings	Total
Balance, January 1, 1982	685,852	$5,288	$ 787	$6,075
Capital notes converted to common stock	41,211	570	—	570
Exercise of stock options	11,000	74	—	74
Net income	—	—	218	218
Balance, December 31, 1982	738,063	5,932	1,005	6,937
Capital notes converted to common stock	9,222	128	—	128
Net income	—	—	544	544
Retirement of stock	(1,555)	(23)	—	(23)
Balance, December 31, 1983	745,730	6,037	1,549	7,586
Capital notes converted to common stock	9,602	126	—	126
5% stock dividend, less cash paid for fractional shares	36,515	511	(522)	(11)
Net income	—	—	476	476
Balance, December 31, 1984	791,847	$6,674	$1,503	$8,177

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended December 31, 1984, 1983 and 1982
(in thousands)

	1984	1983	1982
Financial resources were provided by (applied to):			
Operations and shareholders' equity transactions:			
Net income	$ 476	$ 544	$ 218
Noncash items:			
Depreciation and amortization	676	414	669
Provision for loan losses	750	983	860
Provision for deferred income taxes	(257)	51	11
Gain on sale of loans and other real estate	—	(110)	(244)
Financial resources provided by operations	1,645	1,882	1,514
Capital notes converted to common stock	126	105	570
Exercise of stock options and other, net	—	—	74
Net effect of stock dividend	(11)	—	—
	1,760	1,987	2,158
Deposits and other financing activities:			
Deposits:			
Non-interest-bearing	3,459	(111)	(54,519)
Interest-bearing	20,753	15,625	64,038
	24,212	15,514	9,519
Long-term debt incurred	2,500	—	—
	26,712	15,514	9,519
Other activities - (increase) decrease in net non-earning assets:			
Cash and due from banks	(1,109)	(3,053)	(605)
Premises and equipment, net	(846)	(160)	(245)
Other real estate, net	309	(179)	(2,839)
Accrued interest receivable	(86)	294	178
Other	(90)	(74)	871
Increase (decrease) in liabilities:			
Accrued interest payable and other liabilities	920	(55)	(263)
Mortgage loans payable	2,718	291	122
Long-term debt	(341)	(401)	(848)
	1,475	(3,337)	(3,629)
Increase in financial resources invested in earning assets	$29,947	$14,164	$ 8,048
Increase (decrease) in earning assets:			
Federal funds sold	$ 1,000	$ (3,400)	$ 3,400
Investment securities	3,898	8,614	(571)
Loans held for sale	4,407	—	—
Loans, net	12,605	8,950	5,219
Investment in real estate	8,037	—	—
Total increase in earning assets	$29,947	$14,164	$ 8,048

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A—General Summary of Significant Accounting Policies:

Basis of Presentation

The consolidated financial statements include the accounts of TriCo Bancshares (the Company), its wholly owned subsidiary, Tri Counties Bank (the Bank) and the wholly owned subsidiaries of the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

Certain reclassifications have been made in the 1983 and 1982 financial statements to conform to classifications used in 1984.

Cash

The Bank is required to maintain an average cash reserve balance with the Federal Reserve Bank.

Investment Securities

Investment securities are carried at cost, adjusted for the accretion of discounts and amortization of premiums using the straight-line method. Gains and losses (determined on a specific identification basis) on sales of investment securities are presented separately in the statements of income.

Loans Held for Sale

At December 31, 1984, the Company was committed to sell approximately $4,407,000 in conventional mortgage loans to the Federal Home Loan Mortgage Corporation.

Loans

Loans are stated net of undisbursed funds. Interest on loans is accrued principally on a simple-interest basis. Interest on loans is not accrued if, in management's judgement, principal amounts are considered doubtful of collection.

Loan Fees

Loan fees are recognized as income to the extent they represent reimbursements of loan origination costs.

Allowance for Loan Losses

The allowance for loan losses represents management's recognition of the assumed risks of extending credit and its evaluation of the overall 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 includes such factors as the borrower's financial condition and repayment history, the value of any existing collateral, and the existence of third-party guarantees. Other factors considered by management include past loan loss experience and external business and economic conditions beyond the borrower's control.

The allowance for loan losses is increased by provisions for loan losses charged to operating expense and recoveries of previously charged-off loans, and is reduced for actual loans charged-off.

Intangible Assets

Intangible assets (included in other assets) represent the purchased deposit account base (core deposits) acquired in connection with the acquisition of Shasta County Bank. Core deposits represent the present value of the expected future benefits to be realized from the acquired bank's deposit base, comprised principally of demand and savings deposits. Core deposits are amortized over 10 years using the straight-line method.

Premises and Equipment

Premises (including those acquired under capital lease) and equipment are stated at cost less accumulated depreciation and amortization. Land is carried at cost. Depreciation and amortization expenses are computed using the straight-line method over the shorter of the estimated useful life of the asset or lease term.

Investment in Real Estate

Investment in real estate is stated at the lower of cost or market and consists of properties either acquired or transferred from other real estate for the purpose of development or to be held as income earning assets.

Subsequent to acquisition or transfer, properties included in the investment in real estate account are periodically appraised. Any decline in value below the carrying amount of a property is charged to current operations by a provision for real estate losses. Income earned on the investment in real estate account, net of related expenses, is included in other operating expenses.

Other Real Estate

Other real estate is stated at the lower of cost or market and consists of properties acquired through foreclosure or in satisfaction of borrower obligations. These assets are recorded at the lower of the obligation satisfied or the property's fair market value determined as of the date of acquisition. Any required writedown to fair market value at the date of acquisition is charged to the allowance for loan losses.

Subsequent to acquisition, other real estate is periodically appraised. Any decline in value below the carrying amount of a property is charged to current operations by a provision for other real estate losses. The valuation allowance for such declines was $246,000 and $76,000 at December 31, 1984 and 1983.

Gains and losses on the disposition of other real estate, net of related expenses, are included in other operating expenses. Expenses prior to disposition are included in other operating expenses in the period the expenses are incurred.

Mortgage Loans Payable

In connection with the acquisition of other real estate and investment in real estate, the Company has incurred liabilities for the assumption of pre-existing mortgages. These mortgages bear

interest rates that range between 7.5% to 14%. The Company's intent is to dispose of the properties and related debt within one year. Therefore, the associated debt has not been classified as long-term.

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 nontaxable revenues and nondeductible expenses.The principal timing differences result from the use of the cash method of accounting for tax purposes, recognition of gain or loss on sales of participation loans, and differences in the method of calculating or timing of the provision for loan and other real estate losses. Investment tax credits reduce income tax expense using the flow-through method.

Income Per Share

Income per share is computed based on the weighted average number of shares of common stock and common stock equivalents assumed outstanding during each year. The assumed conversion of the convertible capital notes results in elimination of the related interest expense, net of tax effect, in the computation of income per share. In 1984, 1983 and 1982, the conversion of the capital notes was not assumed for computation purposes because the effect of such conversion would have been antidilutive. The weighted average number of shares used in the computation of net income per share were 791,847, 748,245 and 718,769 for 1984, 1983 and 1982. Fully diluted net income per share is not presented because such amounts would not differ materially from the reported income per share amounts in any of the years presented.

Note B—Investment Securities:

The carrying amount and estimated market values of investment securities at December 31, 1984 and 1983 were as follows:

	1984		1983	
	Carrying Amount	Market Value	Carrying Amount	Market Value
	(in thousands)			
U.S. Treasury and other U.S. Government Agencies and corporations	**$17,123**	**$16,813**	$18,104	$17,497
State and political subdivisions	**5,187**	**5,166**	308	271
	$22,310	**$21,979**	$18,412	$17,768

Investment securities with an aggregate carrying amount of $5,680,000 and $4,820,000 at December 31, 1984 and 1983, were pledged as collateral for public deposits as required by law.

The Bank generally intends to hold investment securities to maturity, and therefore, a valuation allowance has not been provided for the excess of adjusted carrying amount over market value.

Note C—Allowance for Loan Losses:

Transactions in the allowance for loan losses were as follows:

	Year Ended December 31		
	1984	1983	1982
	(in thousands)		
Balance, beginning of year	**$ 801**	$1,092	$ 626
Provision charged to operations	**750**	983	860
Loans charged-off	**(917)**	(1,354)	(551)
Recoveries of loans previously charged-off	**311**	80	157
Balance, end of year	**$ 945**	$ 801	$1,092

Loans classified as nonaccrual amounted to approximately $1,515,000, $2,625,000 and $746,000 at December 31, 1984, 1983 and 1982.

Note D—Premises and Equipment:

Premises and equipment are comprised of:

	December 31,	
	1984	1983
	(in thousands)	
Premises (including $831,000 acquired under capital lease)	**$4,906**	$4,613
Furniture and equipment	**2,236**	1,745
	7,142	6,358
Less accumulated:		
Depreciation	**(1,519)**	(1,168)
Amortization of capital lease	**(135)**	(108)
	5,488	5,082
Land	**1,123**	1,116
	$6,611	$6,198

Depreciation and amortization of premises and equipment amounted to $451,000, $393,000 and $383,000 in 1984, 1983 and 1982.

Note E—Income Taxes:

The provision (credit) for income taxes included in the statements are comprised of:	Year Ended December 31,		
	1984	1983	1982
		(in thousands)	
Tax expense and (credit) applicable to income net of tax credits:			
Federal	**$(199)**	$ 79	$ 52
State	**20**	73	28
	$(179)	$ 152	$ 80
Current:			
Federal	**$ —**	$ —	$ —
State	**78**	73	69
	78	73	69
Deferred:			
Federal	**(199)**	79	38
State	**(58)**	—	(27)
	(257)	79	11
	$(179)	$ 152	$ 80

The components of deferred income tax expense are as follows:	Year Ended December 31,		
	1984	1983	1982
		(in thousands)	
Items applied to increase (reduce) deferred income taxes:			
Tax credits	**$(172)**	$(155)	$ —
Accrual income deferred for tax purposes, net	**(237)**	(426)	45
Provision for loan losses	**(19)**	370	(193)
Provision for loss on other real estate	**(68)**	(40)	(47)
Amortization of core deposits	**14**	56	—
Use of accelerated depreciation methods for tax purposes	**37**	59	56
Loss on sale of participation loans	**—**	—	(9)
Capitalized leases	**(9)**	(15)	—
Direct financing leases	**73**	151	—
Restoration of deferred taxes, applicable to utilization of prior year's net operating loss carryovers	**109**	75	162
Other differences	**15**	4	(3)
	$(257)	$ 79	$ 11

A reconciliation of the federal statutory income tax rate to the Company's consolidated effective tax rate is as follows:	Year Ended December 31,		
	1984	1983	1982
Federal statutory income tax rate	**46.0 %**	46.0 %	46.0 %
Reduction of taxes previously provided, no longer required	**(33.8)**	—	—
State income taxes, net of federal tax benefit	**5.9**	6.3	6.3
Investment tax credits	**(57.9)**	(22.2)	(4.5)
Tax-exempt interest on municipal obligations	**(10.7)**	(6.2)	(19.4)
Tax bracket rate differential	**(6.8)**	(2.9)	(6.6)
Other	**(2.9)**	.8	5.0
Effective tax rate	**(60.2)%**	21.8 %	26.8 %

Investment tax credits utilized to reduce the provision for federal income taxes for the years ended December 31, 1984, 1983 and 1982 were $172,000, $155,000 and $13,000.

The Company has tax credit carryforwards of $598,000 available to offset future federal income taxes on its federal income tax returns. The tax credit carryforwards expire in varying amounts between 1990 and 1999.

In 1984, the Company adjusted income taxes for amounts provided in prior years which are no longer required. The effect of the adjustment was to increase net income $100,000 or $.13 per share.

Investment tax credits include $135,000 and $143,000 which relate to leasing transactions that the Company has entered into for 1984 and 1983.

Note F—Long-term Debt:

Long-term debt at December 31, 1984, and 1983 consisted of:

	1984	1983
	(in thousands)	
9½% convertible subordinated capital notes payable in annual installments of $458,000, including interest; balance due March 27, 1988. Notes are convertible into common stock of the Company originally at $13.82 per share (subject to certain adjustments as defined in the Note agreement). The adjusted price December 31, 1984 was $13.16. Notes may be prepaid in whole or in part at par value any time prior to maturity, subject to the holder's prior right of conversion.	**$2,147**	$2,482
9% subordinated capital notes due April 1, 1989, with interest payable semiannually. Notes may be prepaid in whole or in part at any time.	**150**	150
Term loan agreement collateralized by 100% of Tri Counties Bank stock, with quarterly interest only payments at prime plus 1 to 2 percent through March 1985. Beginning March 15, 1985, quarterly principal payments of $78,125 plus interest; balance due December 31, 1992. The agreement requires the Bank to maintain a net worth to total assets ratio of at least .07 to 1 and restricts payments of cash dividends or distribution of the Company's assets to its shareholders.	**2,500**	—
10% mortgage payable in monthly installments of $4,000, including interest, through December 1, 2003, collateralized by a first deed of trust on certain Bank premises.	**389**	395
Capital lease obligation on premises; effective interest rate of 12%; payable monthly in varying amounts through December 1, 2009.	**586**	586
	$5,772	$3,613

The aggregate maturities of long-term debt, excluding the capital lease obligation, are as follows:

	(in thousands)
1985	$ 573
1986	597
1987	624
1988	1,637
1989	473
1990 and after	1,282

Annual principal payments under the 9½% convertible subordinated capital notes are subject to the maintenance of certain capitalization levels and prior consent of the Bank's regulatory authorities under the laws of the California Financial Code and Federal Deposit Insurance Act. During 1984, approval for payment of the 1984 installment of principal on the 9½% convertible subordinated capital notes was received and such payment for $221,000 was made. The principal balance was further reduced during 1984 as a result of the settlement of a loan and conversions of notes into shares of common stock.

Future minimum annual lease payments under the capital lease obligation are as follows:

	(in thousands)
1985	$ 74
1986	75
1987	75
1988	76
1989	77
1990 and after	1,730
Net minimum lease payments	2,107
Less amount representing interest	1,521
Present value of net minimum lease payments	$ 586

Note G—Other Operating Expenses:

The components of other operating expenses are as follows:

	Year Ended December 31,		
	1984	1983	1982
	(in thousands)		
Equipment and data processing	**$ 804**	$ 687	$ 631
Occupancy	**494**	425	374
Advertising	**82**	62	242
Stationery and supplies	**211**	170	281
Postage	**143**	143	147
Net other real estate expense, (income)	**448**	93	(229)
Other	**1,549**	1,508	1,310
	$3,731	$3,088	$2,756

Note H—Retirement Plans:

In 1984 the Company terminated its defined benefit pension plan effective June 1984. At the date of termination, there was no unfunded vested benefits of the participants.

During 1984 the Company created a discretionary employee stock ownership plan and a discretionary profit-sharing plan. Substantially all the employees with at least one year's service as of the end of the calendar year end participate in both the discretionary employee stock ownership plan and the discretionary profit-sharing plan. Contributions are made to each plan at the discretion of the Board of Directors. A contribution

to the discretionary employee stock ownership plan of $96,000 was approved by the Board of Directors in 1984. No contributions were approved to the discretionary profit-sharing plan in 1984.

Note I—Stock Option Plan:

The Company has an incentive stock option plan which provides for the granting of options to key employees, entitling them to purchase shares of the Company's common stock at fair market value on the date the option is granted. The options are exercisable no later than five years from the date of grant and are non-transferable. No charges to income are made in connection with this plan. All options expire June 30, 1985.

Stock option transactions were as follows:

	Shares Available for Grant	Options Outstanding		
		Shares	Price Per Share	Total
Balance January 1, 1982	4,175	24,543	$6.44-$13.16	$245,285
Options exercised in 1982	—	(11,550)	6.44	(74,285)
Options terminated in 1982	722	(722)	13.16	(9,500)
Balance December 31, 1982, 1983 and 1984	4,897	12,271*	$13.16	$161,500

*All exercisable at December 31, 1984.

Note J—Restrictions on Subsidiary Bank Dividends:

The Bank is subject to legal limitations on the amount of dividends that can be paid without the prior approval of the Superintendent of Banks. The limitation for a given year equals the Bank's net profit (as defined) for the current year combined with the retained net profit from the two preceding years. As of December 31, 1984, the Bank's retained net profits available for distribution without the approval of the State Superintendent of Banks was $1,086,000. The Bank's net restricted assets as of December 31, 1984 were $9,404,000.

The Federal Deposit Insurance Corporation requested the Bank not to pay further dividends except those required to meet obligations under the Term Loan Agreement, without prior written permission, if the Bank's capital and reserves to assets ratio is less than 7.5% before or after the dividend. At December 31, 1984, this ratio was 6.8%.

Note K—Related Party Transactions:

Certain directors and officers and companies with which they are associated were customers of, and had banking transactions with, the Bank in the ordinary course of business. It is the Bank's policy that all loans and commitments to lend to officers and directors be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other borrowers. Such loans are summarized as follows:

	1984	1983
Loans outstanding January 1	**$2,206,000**	$1,474,000
Loan proceeds disbursed	**1,472,000**	3,372,000
Loan repayments	**(1,649,000)**	(2,640,000)
Loans outstanding December 31	**$2,029,000**	$2,206,000

Note L—Commitments and Contingencies:

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities that are not presented in the accompanying financial statements. The commitments and contingent liabilities include various guarantees, commitments to extend credit, and standby letters of credit. At December 31, 1984, undisbursed commercial and real estate loans amounted to $6,703,000 and $1,215,000. Standby letters of credit and guarantees totaled $1,690,000 at December 31, 1984. The Bank does not anticipate any material losses as a result of the commitments and contingent liabilities.

The Bank has available unused lines of credit totaling $7,000,000 for Federal Funds transactions.

The Bank is a defendant in legal actions arising from normal business activities. Management believes that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the Bank's financial position.

During 1983, the Board of Directors of the Bank negotiated a stipulation and consent to the issuance of an order to change certain banking practices which, as of December 31, 1984, requires the Bank to achieve and maintain a ratio of adjusted capital and reserves to total adjusted assets of not less than 7.5% and to maintain a reserve for loan losses of not less than 1% of the Bank's total loans.

At December 31, 1984, minimum commitments under non-cancellable leases with initial or remaining terms of one year or more are as follows:

1985	$224,000
1986	152,000
1987	12,000
1988	8,000
1989	4,000
Later years	257,000
	$657,000

Rent expense under operating leases was $332,000, $272,000 and $264,000 in 1984, 1983 and 1982.

Note M—TriCo Bancshares Financial Statements:

TriCo Bancshares (Parent Only) Balance Sheets

December 31, 1984 and 1983

Assets	1984	1983
	(in thousands)	
Cash	$ 1	$ 39
Investment in Tri Counties Bank	10,492	7,525
Other assets	16	22
Income tax benefit	182	—
Total Assets	**$10,691**	$ 7,586

Liabilities and Shareholders' Equity	1984	1983
Liabilities:		
Note payable	$ 2,500	—
Accrued interest	14	—
Shareholders' equity:		
Common stock, no par value authorized 20,000,000 shares; issued and outstanding 745,730 and 738,064	6,674	$ 6,037
Retained earnings	1,503	1,549
Total shareholders' equity	8,177	7,586
Total Liabilities and Shareholders' Equity	**$10,691**	$ 7,586

Statements of Income	1984	1983	1982
		(in thousands)	
Interest expense on long-term debt	$ 297	$ —	$ —
Administration expense	63	85	6
Loss before equity in net income of Tri Counties Bank	360	85	6
Equity in net income of Tri Counties Bank	642	629	224
Provision (credit) for income taxes	(194)	—	—
Net Income	$ 476	$ 544	$ 218

Statements of Changes in Financial Position	1984	1983	1982
		(in thousands)	
Resources used:			
In operations:			
Net income	$ 476	$ 544	$218
Items not requiring (providing) funds—			
Equity in net income of Tri Counties Bank	(642)	(629)	(224)
Provision for deferred taxes	(182)	—	—
Amortization of organizational costs	6	6	3
Resources used in operations	(342)	(79)	(3)
Other:			
Long-term debt incurred	2,500	—	—
Contributed capital to subsidiaries	(2,500)	—	—
	(342)	(79)	(3)
Equity transactions:			
Dividend from Tri Counties Bank	303	—	100
Exercise of stock options	—	—	74
Retirement of common stock	—	(23)	—
Net effect of stock dividends	(11)	—	—
	$ (50)	$(102)	$171
Resources provided:			
Increase (decrease) in assets			
Cash	$ (38)	$(102)	$141
Other, net	(12)	—	30
	$ (50)	$(102)	$171

Note N—Subsequent Event:

In 1985, the Board of Directors declared a 5% stock dividend to stockholders of record as of January 15, 1985. To record this dividend, a transfer from retained earnings to common stock will be made in the amount of $11.36 for each share to be issued in payment thereof.

COMMON STOCK INFORMATION

Market Information. The Common Stock of TriCo Bancshares (the "Company") is not listed on any exchange nor is it listed with NASDAQ. There is only a limited trading market in the Company's Common Stock. The Company is not aware of any securities dealer which makes a market in the Common Stock of the Company. The following table summarizes those trades of which the Company has knowledge setting forth the approximate high ask and low bid prices for the periods indicated. The prices indicated below may not necessarily represent actual transactions.

	Prices of the Company's Common Stock (1)		Approximate Trading Volume (in shares)
Quarter Ended:	High	Low	
March 31, 1983	$15.42	$13.15	2,503
June 30, 1983	$15.42	$11.79	1,544
September 30, 1983	$12.70	$10.86	807
December 31, 1983	$13.61	$10.86	3,404
March 31, 1984	$12.70	$10.86	1,583
June 30, 1984	$12.70	$10.56	2,174
September 30, 1984	$ 9.98	$ 9.07	5,602
December 31, 1984	$11.79	$ 9.74	1,740

(1) As estimated by the Company, based upon trades of which the Company was aware, adjusted to reflect the 5% stock dividends paid in each of 1984 and 1985. The Company is not aware of the price of some of the trades included in the Approximate Trading Volume column.

Holders. As of December 31, 1984, there were approximately 1,570 holders of record of the Company's Common Stock (the only outstanding equity security of the Company).

Dividends. The Company has paid no cash dividends to date and does not expect to pay any in the foreseeable future. On February 28, 1985 and March 19, 1984 the Company paid 5% stock dividends to its shareholders. The shareholders of the Company are entitled to receive cash dividends when and as declared by its Board of Directors, out of funds legally available therefor, subject to the restrictions set forth in the California General Corporation Law (the "Corporation Law") and an agreement to which the Company is a party.

Pursuant to the terms of a Term Loan Agreement between the Company and First Interstate Bank of California in the amount of $2,500,000, the Company is restricted in its ability to pay cash dividends to its shareholders. See Note F to Notes to Consolidated Financial Statements.

The Corporation Law provides that a corporation may make a distribution to its shareholders if the corporation's retained earnings equal at least the amount of the proposed distribution. The Corporation Law further provides that, if sufficient retained earnings are not available for the proposed distribution, a corporation may nevertheless make a distribution to its shareholders if immediately after giving effect to such dividend the corporation meets the following two conditions: (i) the corporation's assets equal at least 1¼ times its liabilities, and (ii) either the corporation's current assets equal at least its current liabilities or, if the average of the corporation's earnings before taxes on income and before interest expense for the two preceding fiscal years was less than the average of the corporation's interest expense for such fiscal years, the corporation's current assets equal at least 1¼ times its current liabilities.

The Company, as sole shareholder of Tri Counties Bank (the "Bank"), is entitled to dividends when and as declared by the Bank's Board of Directors, out of funds legally available therefor, subject to the powers of the Federal Deposit Insurance Corporation (the "FDIC") and the restrictions set forth in the California Financial Code (the "Financial Code") and the Term Loan Agreement. The Financial Code provides that a bank may not make any distributions to its shareholders in excess of the lesser of: (i) the bank's retained earnings, or (ii) the bank's net income for its last three fiscal years, less the amount of any distributions made by the bank to its shareholders during such period. However, a bank may, with the prior approval of the California Superintendent of Banks (the "Superintendent"), make a distribution to its shareholders of up to the amount of its net income for its last fiscal year. If the Superintendent determines that the shareholders' equity of a bank is inadequate or that a distribution by the bank to its shareholders would be unsafe or unsound, the Superintendent may order a bank to refrain from making a proposed distribution. The FDIC has advised the Bank that it should not pay any dividends to the Company except those required to meet obligations under the Term Loan Agreement, if the Bank's capital to assets ratio is less than 7.5% before or after the dividend payment, unless the Bank has obtained the FDIC's prior written consent. See Note J to Notes to Consolidated Financial Statements. As of January 31, 1985, the capital to assets ratio of the Bank was 6.97%. The FDIC may also order a bank to refrain from making a proposed distribution when, in its opinion, the payment of such would be an unsafe or unsound practice. The Bank paid cash dividends in the aggregate amount of $302,500 to the Company in 1984. The Term Loan Agreement restricts the dividends that the Bank may pay to the Company.

The Federal Reserve Act limits the loans and advances that the Bank may make to its affiliates. For purposes of such Act, the Company is an affiliate of the Bank. The Bank may not make any loans, extensions of credit or advances to the Company if the aggregate amount of such loans, extensions of credit, advances and any repurchase agreements and investments exceeds 10% of the capital stock and surplus of the Bank. Any such permitted loan or advance by the Bank must be secured by collateral of a type and value set forth in the Federal Reserve Act.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

As the Company has not commenced any business operations independent of the Bank, its only subsidiary, the following discussion pertains primarily to the activities of the Bank.

(A) Results of Operations.

The following is a summary of operations for the five years ended December 31, 1984 and management's discussion and analysis of the significant changes in income and expense accounts presented therein for the most recent two years—each as compared with its respective prior period. This information should be read in conjunction with the financial statements and notes related thereto appearing elsewhere in this Annual Report.

	Year Ended December 31, (in thousands, except share amounts)				
Interest income:	**1984**	1983(1)	1982(1)	1981(1)	1980(1)
Interest and fees on loans	**$13,505**	$11,945	$11,349	$ 9,720	$3,443
Interest on investment securities	**1,983**	1,288	1,032	1,169	643
Interest on time deposits and federal funds sold	**187**	211	53	101	140
Total interest income	**15,675**	13,444	12,434	10,990	4,226
Interest expense:					
Interest on deposits	**8,335**	6,673	6,269	5,399	2,137
Interest on short-term borrowings	**56**	15	87	182	26
Interest on long-term debt	**656**	351	419	312	—
Total interest expense	**9,047**	7,039	6,775	5,893	2,163
Net interest income	**6,628**	6,405	5,659	5,097	2,063
Less provision for loan losses	**750**	983	860	530	61
Net interest income after provision for loan losses	**5,878**	5,422	4,799	4,567	2,002
Other income:					
Gain on security transactions	**70**	143	268	89	67
Service charges and other	**1,529**	1,465	1,120	967	302
Total other income	**1,599**	1,608	1,388	1,056	369
Other expenses:					
Salaries and employee benefits	**3,449**	3,246	3,133	2,430	1,054
Other operating expenses	**3,731**	3,088	2,756	2,498	1,052
Total other expenses	**7,180**	6,334	5,889	4,928	2,106
Income before provision for income taxes	**297**	696	298	695	265
Provision (credit) for income taxes	**(179)**	152	80	160	54
Net income	**$ 476**	$ 544	$ 218	$ 535	$ 211

	1984	1983	1982	1981	1980
Earnings per share	**$.60**	$.73	$.30	$.75	$.38

Selected Balance Sheet Information	December 31, (in thousands)				
	1984	1983(1)	1982(1)	1981(1)	1980(1)
Total assets	**$152,508**	$122,165	$106,116	$96,713	$45,788
Long-term obligations	**5,772**	3,613	4,014	4,862	586

(1) Certain reclassifications have been made in the 1983, 1982, 1981 and 1980 summary of operations to conform to classifications in 1984.

Net Interest Income

The major component of income, net interest income, continued to increase in 1984. This was offset by increased operations' expenses resulting in net income of $476,000, a decrease of $68,000 from net income in 1983. Net income in 1983 was $544,000, a substantial increase of $326,000 from net income of $218,000 in 1982.

Net interest income is the most significant contributor to the Bank's earnings. Net interest income represents the excess of interest and fees earned on interest-earning assets (loans, investment securities and federal funds sold) over the interest paid on deposits and borrowed funds. The increase in net interest income to $6,628,000 in 1984 from $6,405,000 in 1983 reflects a combination of improvement in volume and interest rates of interest-earning assets offset by a corresponding increase in the volume and interest rates of interest-bearing liabilities.

The following tables analyze the changes in net interest income for 1983 and 1984. The first table provides an analysis of change in net yield on earning assets setting forth average assets, liabilities and shareholders' equity; interest income earned and interest expense paid; average rates earned and paid; and the net interest margin. The second table presents an analysis of volume and rate changes on net interest income and expense.

Table One: Analysis of Change in Net Yield in Earning Assets

	1984			1983		
Assets	**Average Balance (1)**	**Income/ Expense**	**Yield/ Rate**	Average Balance (1)	Income/ Expense	Yield/ Rate
			(amounts in thousands)			
Earning assets:						
Loans (2) (3)	**$85,285**	**$13,505**	**15.84%**	$ 78,797	$11,945	15.16%
Federal funds sold	**1,665**	**187**	**11.23%**	2,421	211	8.72%
Investment securities	**19,975**	**1,983**	**9.93%**	13,137	1,288	9.80%
Total earning assets	**106,925**	**15,675**	**14.66%**	94,355	13,444	14.25%
Cash and due from banks	**8,209**			8,727		
Premises and equipment	**6,481**			6,286		
Other assets	**12,608**			11,244		
Less: Allowance for loan losses	**(795)**			(507)		
Total	**$133,428**			$120,105		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Demand deposits (interest-bearing)	**$ 36,511**	**3,039**	**8.32%**	$ 36,079	2,937	8.14%
Savings deposits	**11,351**	**637**	**5.61%**	13,629	744	5.45%
Time deposits	**43,964**	**4,659**	**10.60%**	33,552	2,992	8.92%
Federal funds purchased	**487**	**56**	**11.50%**	164	15	9.13%
Long-term debt and mortgages	**5,695**	**656**	**11.52%**	3,890	351	9.02%
Total interest-bearing liabilities	**98,008**	**9,047**	**9.23%**	87,314	7,039	8.06%
Demand deposits	**25,550**			24,692		
Other liabilities	**1,887**			1,405		
Shareholders' equity	**7,882**			6,694		
Total	**$133,327**			$120,105		
Net interest income		**$ 6,628**			$ 6,405	
Net interest margin			**5.43%**			6.19%
Net yield on earning assets (4)			**6.20%**			**6.79%**

(1) Average balances are computed principally on the basis of daily balances.
(2) Nonaccrual loans are included.
(3) Interest income on loans includes fees on loans of $994,000 in 1984 and $655,000 in 1983.
(4) Net yield on interest-earning assets is computed by dividing net interest earnings by total interest-earning assets. Net interest earnings is the difference between the total interest earned and the total interest paid.

Table Two: Analysis of Volume and Rate Changes on Net Interest Income and Expense

	1984 over 1983			1983 over 1982		
	Volume	Yield/ Rate	Total	Volume	Yield/ Rate	Total
			(amounts in thousands)			
Increase (decrease) in interest income:						
Loans (1)	$1,028	$ 532	$1,560	$1,649	$(1,053)	$ 596
Investment securities	679	16	695	332	(76)	256
Federal funds sold	(85)	61	(24)	173	(15)	158
Total	1,622	609	2,231	2,154	(1,144)	1,010
Increase (decrease) in interest expense:						
Demand deposits (interest-bearing)	36	66	102	2,497	152	2,649
Savings deposits	(128)	21	(107)	(316)	24	(292)
Time deposits	1,104	563	1,667	(455)	(1,498)	(1,953)
Short-term borrowings	37	4	41	(47)	(25)	(72)
Long-term borrowings	208	97	305	(36)	(32)	(68)
Total	1,257	751	2,008	1,643	(1,379)	264
Increase (decrease) in net interest income	$ 365	$(142)	$ 223	$ 511	$ 235	$ 746

(1) Nonaccrual loans are included.

Interest Income

Interest income for 1984 increased 17% from 1983 due to increased income from loans and securities. The major increase resulted from the continued growth in the amount of earning assets. Average earning assets increased 13% during 1984 following an increase of 20% in 1983. Average rates earned on earning assets also increased 3% in 1984 following a decrease of 10% for the prior year.

The Bank experienced continued growth in its loan portfolio, an increase of 15% in 1984 and 11% in 1983. This increased volume resulted in a gain of $1,028,000 in interest income while increased interest rates resulted in additional interest income of $532,000, for a total increase in interest income from loans of $1,560,000 in 1984. The increased interest income from the growth in the loan portfolio in 1983 was partially offset by reduced interest rates resulting in an increase in interest income from loans of $596,000 from 1982.

Interest income from federal funds sold decreased in 1984 from 1983 due to a decline in the amount of federal funds sold offset partially by increased rates.

The Bank continued to increase its average holdings of investment securities during 1984 providing increased income from securities and improved liquidity. Proceeds from the capital contribution of $2,500,000 from the Company to the Bank were invested in United States Treasury Bills. See "Long-Term Debt". Investment in tax-free municipal bonds increased $4,880,000 toward the end of 1984 resulting in higher tax equivalent yields. The average tax equivalent yield on investments increased to 11.72% at December 31, 1984, from 10.31% at December 31, 1983.

Fees on loans increased 52% in 1984, following an increase of 30% in 1983. Commercial and real estate loan fees provided the major portion of the increase.

Interest Expense

Interest expense in 1984 increased to $9,047,000 from $7,039,000 in 1983. This resulted primarily from an increase in the amount of interest bearing liabilities and higher interest rates.

Total deposits increased 22% in 1984 primarily due to the increase in time deposits. The Bank offered highly competitive rates on time deposits during the second half of 1984. Interest on time deposits increased to $4,659,000 in 1984 from $2,992,000 in 1983. $1,104,000 of the increase resulted from an increase in time deposits, while $563,000 was due to rate increases.

Average savings deposits decreased 17% in 1984 following a decrease of 43% in 1983. Management believes most of these deposits have shifted to money market deposit accounts with higher interest rates.

Interest expense on long-term borrowing increased primarily due to the $2,500,000 term loan agreement entered into by the Company. This was offset slightly by reduced interest expense on the 9½% convertible subordinated capital notes due to a principal payment in 1984 of $208,000 and the conversion of such notes to common stock of the Company. In 1984, $126,000 of capital notes were converted to common stock compared to $128,000 in 1983. See Note F to Notes to Consolidated Financial Statements.

Average federal funds purchased increased by $323,000 in 1984. The Bank purchased federal funds in the first part of 1984, as a result of a slight decrease in average deposits during that period.

Provision for Loan Losses

The provision for loan losses decreased 24% in 1984, following an increase of 14% in 1983. Management expects the provision to decrease in 1985 due to a decrease of 27% in the volume of non-performing loans in 1984.

Net Yield on Earning Assets

The net yield on earning assets declined to 6.20% in 1984 from 6.79% in 1983. The change resulted primarily from the increased rate differential; that is, interest on interest-bearing liabilities increased more than interest on interest-earning assets.

Other Income

Income from service charges increased to $1,468,000 in 1984, from $1,313,000 in 1983 and from $1,120,000 in 1982. The increased revenue demonstrates the willingness of the Bank's depositors to accept a price which recovers a greater percentage of the costs associated with providing services for their accounts.

Securities Transactions

Net gains from security transactions were $70,000 in 1984 compared to $143,000 in 1983. The Bank does not actively trade in the securities market but does elect to sell certain securities when it is to its advantage during periods of declining interest rates.

Other Expenses

Salaries and benefits increased 6% in 1984, primarily due to annual salary adjustments and increased insurance costs.

Other operating expenses increased in 1984, primarily due to increased expense on other real estate owned. Net real estate expense increased to $448,000 in 1984 from $93,000 in 1983. Loss on real estate sold totalled $58,000 in 1984 compared to a gain on real estate sold of $110,000 in 1983, due to declining property values. In addition to loss on properties sold, the allowance for losses on other real estate held was increased to $246,000 in 1984 from $76,000 in 1983.

Other legal, administrative, and data processing expenses increased 9% during 1984. Other expenses as well as salary and benefit expenses increased in part due to inflation. Data processing converted to a new system to allow for growth and expanded capabilities.

Provision (Credit) for Income Taxes

The effective tax rate on income (including securities transactions) was (60.2)% in 1984. Two factors caused this credit, investment tax credits of $172,000 and a reduction of income taxes previously provided and no longer required. In 1983, the effective tax rate was less than the statutory tax rate, principally due to investment tax credits of $155,000. See Note E to Notes to Consolidated Financial Statements for additional information.

Return on Assets and Equity

The following sets forth certain ratios for the Company for the last two years.

	1984	1983
Return on assets	**.31%**	.44%
Return on shareholders' equity	**5.82%**	7.17%
Shareholders' equity to assets	**5.36%**	6.21%

Return on assets and equity decreased in 1984 due to an increase of $30,343,000 in assets and reduced net income of $68,000. In 1983, the returns on assets and equity were affected primarily by the $326,000 increase in income.

Reclassifications

Certain reclassifications have been made in the 1983 and 1982 consolidated financial statements to conform to classifications used in 1984.

(B) BALANCE SHEET ANALYSIS.

Loans

Total average loans increased 8% in 1984, following an increase of 16% in 1983. The mix of loans also changed. Consumer installment loans continued to increase to 32% of the total loans in 1984 as compared to 27% in 1983. Real estate mortgage loans remained unchanged at 21%. Commercial loans, including leases, decreased to 39% of total loans in 1984 compared to 45% in 1983.

The composition of the loan portfolio at the end of the last three years is reflected in the following table:

Loan Portfolio Composite

	December 31,		
	1984	1983	1982
	(in thousands)		
Commercial, financial and agricultural	**$36,003**	$34,386	$33,805
Consumer installment	**29,178**	21,974	19,021
Real estate mortgage	**20,007**	17,141	15,215
Real estate construction	**3,753**	4,618	4,214
Lease financing	**2,989**	1,812	—
Total loans	**$91,930**	$79,931	$72,255

Nonaccrual, Past Due and Restructured Loans

The following table sets forth the nonaccrual loans, loans carried on an accrual basis but past due more than 90 days, and loans, the terms of which have been restructured, as of December 31, 1984 and 1983:

	December 31,	
	1984	1983
	(in thousands)	
Nonaccrual loans	**$1,515**	$2,625
Past due loans (90 days or more)	**1,475**	1,326
Restructured loans	**—**	164
Total	**$2,990**	$4,115

Nonperforming loans decreased by 27% during 1984. Management believes that the decrease is the result of a more aggressive collection policy and lower interest rates. Commercial, real estate (other than 1-4 single family dwellings), and consumer loans are reviewed on an individual basis for reclassification to nonaccrual status when any one of the following occurs: the loan becomes 90 days past due as to interest or principal, the full and timely collection of additional interest or principal becomes uncertain, the loan is classified doubtful by internal auditors or bank regulatory agencies, or a portion of the principal balance has been charged off. Approximately $315,000 of additional interest income would have been recorded if loans classified as non-accrual had been current in 1984; approximately $84,000 of interest income is included in 1984 from loans classified as non-accrual. The reclassification of loans as nonperforming does not necessarily reflect management's judgement as to collectibility.

Allowance for Loan Losses Activity

The Bank has agreed with the FDIC to maintain a minimum of one percent of loans as an allowance for loan loss. One percent has been determined by management to be adequate in relation to the risk of future losses inherent in the loan portfolio. In determining the adequacy of the loan loss allowance, management relies primarily on its ongoing review of the loan portfolio, both to ascertain whether there are probable losses to be written off and to assess the loan portfolio in the aggregate. Problem loans are examined on an individual basis to determine estimated probable loss. In addition, management considers current and projected loan mix and loan volumes, historical net loan loss experience for each loan category, and current and anticipated economic conditions affecting each loan category. The determination also takes into consideration the judgements of independent auditors and bank regulatory agencies that review the loan portfolio as a part of the regular bank examination process.

The Bank's total charge-offs decreased by 32% to $917,000 in 1984 from $1,354,000 in 1983. The higher charge-offs in 1983 resulted from several large loans that were in deteriorating condition at December 31, 1982. Total charge-offs in 1985 are expected to continue to decrease, primarily in commercial loans; real estate and consumer loan charge-offs are expected to remain the same.

The following table summarizes, for the years indicated, the activity in the allowance for loan losses:

Allowance for Loan Losses Activity Year Ended December 31,	1984	1983
	(in thousands)	
Balance, beginning of year	$ 801	$ 1,092
Provision charged to operations	750	983
Loans charged off:		
Commercial, financial and agricultural	(517)	(1,012)
Consumer installment	(379)	(237)
Real estate mortgage	(20)	(105)
Real estate construction	—	—
Total loans charged off	(916)	(1,354)
Recoveries:		
Commercial, financial, and agricultural	265	35
Consumer installment	45	18
Real estate mortgage	—	27
Real estate construction	—	—
Total recoveries	310	80
Net loans charged off	(606)	(1,274)
Balance, end of year	945	801
Average total loans	$85,285	$78,797
Ratios:		
Net charge-offs during period to average loans outstanding during period	.71%	1.62%
Provision for loan losses to average loans outstanding	.88%	1.25%
Allowance to loans at year-end	1.03%	1.00%

Loans Held For Sale

At December 31, 1984, the Bank was committed to sell approximately $4,407,000 in conventional real estate mortgage loans to the Federal Home Loan Mortgage Corporation to provide increased liquidity. The sale was completed in 1985. The Bank sells most of its single family residential loans to the Federal Home Loan Mortgage Corporation.

Investment in Real Estate

In 1984, $8,037,000 of property was acquired or transferred from other real estate to a subsidiary of the Bank for the purposes of development or to be held as income-earning assets, pending receipt of necessary approvals from the State Banking Department.

Deposits

Deposit accounts increased to $132,800,000 in 1984 from $108,588,000 in 1983, the major gain in time deposits. As deregulation has progressed, the Bank has offered a wider variety of time deposits at competitive market rates of interest; time deposits increased 73% in 1984.

The amount of money market deposit accounts stabilized in 1984. Authorized in December 1982, this popular instrument grew rapidly in 1983, creating a shift from time deposits to money market deposits.

Accrued Interest Payable and Other Liabilities

Accrued interest payable increased $872,000 in 1984, primarily due to the increased volume and increased interest rates on deposits.

Long-Term Debt

In February 1984, the Company executed a $2,500,000 Term Loan Agreement secured by 100% of the outstanding common stock of the Bank. The Company contributed the proceeds of the loan to the Bank, which invested it in U.S. Treasury securities. See Note F to Notes to Consolidated Financial Statements for additional information.

Liquidity

Liquidity relates to the Company and the Bank's ability to generate adequate cash to meet their respective needs. The principal cash requirements of the Bank are to cover downward fluctuations in its deposit accounts and unexpected loan demand.

Another indication of potential demand on the Bank's liquidity is the maturity distribution of certificates of deposit in denominations of $100,000 or more which is set forth in the following table. These deposits are generally more rate sensitive than other deposits and therefore more likely to be withdrawn to obtain higher yields elsewhere if available.

Certificates of Deposit in Denominations of $100,000 or More— Time remaining until maturity:	Amount as of December 31, 1984	1983
	(in thousands)	
Less than three months	$ 9,380	$7,034
3 months to 6 months	4,233	1,210
6 months to 12 months	1,111	1,256
More than 12 months	201	221
Total	$14,925	$9,721

Management believes that the Bank's investment portfolio, together with the Bank's lines of credit with other institutions and the surplus funds due to increased deposits, is sufficiently liquid to cover potential fluctuations in deposit accounts and loan demand. The Bank has maintained a quality portfolio and has selected maturities to provide a proper balance of liquidity and attractive yields. The maturity distribution of the portfolio is presented in the following tables:

Investment Securities Maturities—December 31, 1984

	Within One Year	After One but within 5 Years	After 5 but within 10 Years	After 10 Years	Total
	(amounts in thousands)				
U.S. Treasury and other U.S. Government agencies and corporations	$4,490	$7,260	$4,055	$1,317	$17,122
State and political subdivisions	—	10	4,078	1,100	5,188
Total book value	$4,490	$7,270	$8,133	$2,417	$22,310
Average Yield (1)	9.97%	10.35%	12.87%	14.80%	11.72%

Investment Securities Maturities—December 31, 1983

	Within One Year	After One but within 5 Years	After 5 but within 10 Years	After 10 Years	Total
	(amounts in thousands)				
U.S. Treasury and other U.S. Government agencies and corporations	$1,436	$10,604	$6,064	—	$18,104
State and political subdivisions	40	10	258	—	308
Total book value	$1,476	$10,614	$6,322	—	$18,412
Average Yield (1)	9.54%	10.22%	10.65%	—	10.31%

Information pertaining to certain of the tax-free securities held December 31, 1984 follows:

	Book Value	Market Value	Basis	Yield (1)	Rating (2)
	(amounts in thousands)				
Contra Costa Multifamily	$1,000	$ 992	9.25	17.15	AAA
Redevelopment Agency of the City of Newark	1,000	995	13.00	16.17	A1
State of Ohio Hospital Improvement Bonds	1,248	1,250	8.75	17.15	AAA
	$3,248	$3,237			

(1) Yields are computed on a tax equivalent basis.
(2) Standard and Poor

Loan demands also affect the Bank's liquidity position. The following tables present the maturities and sensitivity to changes in interest rates of commercial and real estate construction loans at December 31, 1984 and 1983:

Loan Maturities—December 31, 1984

	Within One Year	After One but within 5 Years	After 5 Years	Total
	(amounts in thousands)			
Commercial loans	$19,867	$6,432	$7,198	$33,497
Real estate construction loans	3,623	130	—	3,753
Total	$23,490	$6,562	$7,198	$37,250
Loans with predetermined interest rates		$4,107	$ 764	
Loans tied to Bank's base commercial loan rate		2,455	6,434	
Total		$6,562	$7,198	

Loan Maturities—December 31, 1983

	Within One year	After One but within 5 Years	After 5 Years	Total
	(amounts in thousands)			
Commercial loans	$19,870	$5,313	$5,119	$30,302
Real estate construction loans	4,618	—	—	4,618
Total	$24,488	$5,313	$5,119	$34,920
Loans with predetermined interest rates		$2,384	$ 897	
Loans tied to Bank's base commercial loan rate		2,929	4,222	
Total		$5,313	$5,119	

The principal cash requirements of the Company are servicing the Term Loan Agreement of $2,500,000 and payment of certain operating expenses consisting primarily of administrative, legal and accounting fees. The Company is dependent upon the payment of cash dividends by the Bank to service its commitments.

Commencing March 1985, the Company will be making partial principal repayments on the term loan. The Company expects that the cash dividends paid by the Bank to the Company will be sufficient to meet this repayment schedule. See "Common Stock Information-Dividends" and Note J to Notes to Consolidated Financial Statements.

BUSINESS DISCUSSION

The Company is a bank holding company incorporated at the direction of the Board of Directors of the Bank on October 13, 1981. Pursuant to a corporate reorganization on September 7, 1982, the shareholders of the Bank became shareholders of the Company, and the Bank became the wholly-owned subsidiary of the Company. The Bank currently is the only subsidiary of the Company and the Company has not yet commenced any business operations independent of the Bank.

The Bank engages in the general commercial banking business in the California Counties of Butte, Glenn and Shasta, as well as in portions of Tehama and Lassen Counties. It opened its first banking office in Chico, California in 1975, followed by branch offices in Willows, Durham and Orland, California and a second branch office in Chico which opened in 1980. In 1981, the Bank acquired the assets of Shasta County Bank through a merger of that bank with and into the Bank and thereby acquired six additional branch offices located in the communities of Bieber, Burney, Cottonwood, Fall River Mills, Palo Cedro and Redding, California.

The Bank's operating policy since its inception has emphasized retail banking. Most of the Bank's customers are retail customers and small to medium size businesses. The business of the Bank emphasizes serving the need of local businesses, farmers and ranchers, retired individuals and wage earners. The majority of the Bank's loans are direct loans made to individuals and businesses in the area, and most of the Bank's deposits are attracted from individuals and business-related sources. The Bank relies substantially on local promotional activity, personal contacts by its officers, directors, employees and shareholders, extended hours, personalized service and its reputation in the communities it serves to compete with other financial institutions.

TriCo Bancshares—Executive Officers

Robert H. Steveson	President & Chief Executive Officer
D.V. Carter	Executive Vice President—Finance (Chief Financial Officer)
Joan Jones	Vice President
Fred W. Hignell, III	Secretary

Administration—Tri Counties Bank

Robert H. Steveson	President & Chief Executive Officer
D.V. Carter	Executive Vice President
Joan Jones	Senior Vice President & Cashier
James Mabry	Senior Vice President & Loan Administrator
Lawrence Sparks	Vice President & Loan Supervisor
David Raven	Vice President
Janet K. Hannis	Assistant Vice President & Sales Administrator
Ruth Irvine	Assistant Vice President Personnel
Kathleen Pisani	Executive Secretary
Fred Drake	Auditor
Fred Bryant	Compliance Officer & Credit Supervisor

Form 10-K

The Company will provide to any interested party, without charge, a copy of the Company's Annual Report on Form 10-K for the year ended December 31, 1984, as filed with the Securities and Exchange Commission, including the financial statements and schedules thereto. The report may be obtained by written request to: Corporate Secretary, TriCo Bancshares, P.O. Box 2207, Chico, CA 95927.

Managers—Tri Counties Bank

Park Plaza Branch/Chico
Ty Thresher
Manager

Pillsbury Branch/Chico
Jim Burnell
Manager

Durham Branch
Dan Herbert
Manager

Orland Branch
Erika Bender
Manager

Willows Branch
Carroll Taresh
Vice President
Manager

Redding Branch
James Cowee
Manager

Bieber Branch
Stella Griner
Facility Manager

Fall River Branch
Charles Parrott
Manager

Cottonwood Branch
John Barker
Manager

Palo Cedro Branch
Julie Jones
Facility Manager

Burney Branch
Robert Jones
Manager

Department Managers—Tri Counties Bank

Data Processing
Chico
Larry Hall
Vice President
Manager

SBA Department
Redding
Debbie Norris
Manager

Real Estate Department
Redding
Ron Bee
Manager

Purchasing Department
Chico
Beverly London
Manager

Locations

Administrative Office
& Park Plaza Branch
780 Mangrove Avenue
P.O. Box 2207
Chico, CA 95927
(916) 345-5151

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

The Midway
P.O. Box 190
Durham, CA 95938
(916) 343-3735

100 E. Walker Street
P.O. Box 188
Orland, CA 95963
(916) 865-5524

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

3751 Deschutes Road
Palo Cedro, CA 96073
(916) 547-4494

3349 Main Street
Cottonwood, CA 96022
(916) 347-3751

1810 Market Street
Redding, CA 96001
(916) 244-4700

1275 Main Street
Burney, CA 96013
(916) 335-2215

Highway 299 East
Fall River, CA 96028
(916) 336-6291

Bridge & Market Streets
Bieber, CA 96009
(916) 294-5211

Tri Counties Bank
Member FDIC

Printing: Tri Counties Bank

TRICO BANCSHARES

Sale of 11% Series A Preferred Stock

and

14.25% Subordinated Capital Notes

Date of Sale: May 1, 1985 to July 31, 1985

TOTAL FUNDS PROVIDED

26,724 Shares of 11% Series A Preferred Stock at $100 per Share	$2,672,400.00
1,572 Subordinated Capital Notes at $800 per Note	1,257,600.00
Total Funds Provided	$3,930,000.00

TOTAL FUNDS DISBURSED

Payment to First Interstate Bank Reduce Principal on Term Loan: Agreement from $2,343,750.00 to $438,199.96	$1,905,550.04
Payment on Interest	35,867.96
Contribution to TriCounties Bank	1,800,000.00
Payment of Public Offering Costs (Legal, accounting and publishing)	188,582.00
Total Funds Disbursed	$3,930,000.00

ERRATA

Selected information in the 1984 TriCo Bancshares Annual Report did not give retroactive application to the Company's 1985 and 1984 - 5% stock dividends. The following information presents this information as previously reported and as adjusted to give retroactive application of the Company's 1985 and 1984 - 5% stock dividends.

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	1984	1983	1982
Net income per share as reported	$.60	$.73	$.30
Net income per share as adjusted	.57	.66	.28

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Income Per Share

"The weighted average number of shares used in the computation of net income per share were 791,847, 748,245 and 718,769 for 1984, 1983, and 1982." The weighted average number of shares for 1984, 1983 and 1982 should be 830,691, 823,948 and 792,443 which have been retroactively adjusted for the Company's January 1985 and February 1984 - 5% stock dividends.

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	1984	1983	1982	1981	1980
Earnings per share as reported	$.60	$.73	$.30	$.75	$.38
Earnings per share as adjusted	.57	.66	.28	.68	.34