PRESS RELEASE
For Immediate Release

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# TRICO BANCSHARES ANNOUNCES QUARTERLY RESULTS

CHICO, CA – (July 27, 2020) – TriCo Bancshares (NASDAQ: TCBK) (the "Company"), parent company of Tri Counties Bank, today announced net income of $7,430,000 for the quarter ended June 30, 2020, compared to $16,121,000 during the trailing quarter ended March 31, 2020 and $23,061,000 during the quarter ended June 30, 2019. Diluted earnings per share were $0.25 for the second quarter of 2020, compared to $0.53 for the first quarter of 2020 and $0.75 for the second quarter of 2019.

## Financial Highlights

Performance highlights and other developments for the Company as of or for the three months ended June 30, 2020 included the following:

- For the three and six months ended June 30, 2020, the Company's return on average assets was 0.43% and 0.70%, respectively, and the return on average equity was 3.39% and 5.06%, respectively.
- As of June 30, 2020, the Company reported total loans, total assets and total deposits of $4.80 billion, $7.36 billion and $6.25 billion, respectively.
- The loan to deposit ratio was 76.84% as of June 30, 2020, as compared to 81.05% at March 31, 2020 and 76.82% at June 30, 2019.
- The Company originated and funded 2,908 loans totaling $436.7 million under the Payment Protection Program (PPP).
- For the current quarter, net interest margin was 4.10% on a tax equivalent basis as compared to 4.50% in the quarter ended June 30, 2019, and a decrease of 24 basis points from the 4.34% in the trailing quarter.
- Non-interest bearing deposits as a percentage of total deposits were 39.81% at June 30, 2020, as compared to 34.86% at March 31, 2020 and 33.33% at June 30, 2019.
- The average rate of interest paid on deposits, including non-interest-bearing deposits, decreased to 0.12% for the second quarter of 2020 as compared with 0.19% for the trailing quarter, and also decreased by ten basis points from the average rate paid of 0.22% during the same quarter of the prior year.
- Non-performing assets to total assets were 0.31% at June 30, 2020, as compared to 0.31% as of March 31, 2020, and 0.35% at June 30, 2019.
- Credit provision expense for loans and debt securities was $22.1 million during the quarter ended June 30, 2020, as compared to provision expense of $8.0 million during the trailing quarter ended March 31, 2020, and $0.5 million for the three month period ended June 30, 2019.
- Gain on sale of loans for the three and six months ended June 30, 2020 totaled $1,736,000 and $2,627,000, as compared to $891,00 and $987,000 for the equivalent periods ended June 30, 2019, respectively.
- The efficiency ratio was 59.89% for the second quarter of 2020, as compared to 59.75% in the trailing quarter and 60.07% in the same quarter of the 2019 year.

President and CEO, Rick Smith commented, "While these unprecedented times have created challenges for our customers and the communities we serve, we are hopeful that their actions and those of our civic leaders will lessen the long-term economic and social impacts that would otherwise result. In the midst of these challenges, the Bank continues to be proactive in our approach to ensuring our financial strength and ability to meet the needs and expectations of our customers, shareholders and employees. More specifically, given the outlook of unemployment data, we believe that it was prudent to increase our loan loss reserves despite the overall positive credit quality characteristics that our loan portfolio has demonstrated in the first half of the year. In addition, while the habits of our customers have impacted certain revenues, such as those associated with interchange fees, we are benefiting from other revenue opportunities including but not limited to those associated with the origination and sale of home mortgages."

*Financial results reported in this document are preliminary. Final financial results and other disclosures will be reported in our Quarterly Report on Form 10-Q for the period ended June 30, 2020, and may differ materially from the results and disclosures in this document due to, among other things, the completion of final review procedures, the occurrence of subsequent events, or the discovery of additional information.*

**Summary Results**

For the three and six months ended June 30, 2020 the Company's return on average assets was 0.43% and 0.70%, respectively, and the return on average equity was 3.39% and 5.06%, respectively. For the three and six months ended June 30, 2019, the Company's return on average assets was 1.45% and 1.43%, respectively, and the return on average equity was 10.68% and 10.71%, respectively.

The following is a summary of the components of the Company's operating results and performance ratios for the periods indicated:

| (dollars and shares in thousands) | Three months ended June 30, 2020 | Three months ended March 31, 2020 | $ Change | % Change |
|---|---|---|---|---|
| Net interest income | $ 64,659 | $ 63,192 | $ 1,467 | 2.3 % |
| Provision for loan losses | (22,089) | (8,000) | (14,089) | 176.1 % |
| Noninterest income | 11,657 | 11,820 | (163) | (1.4)% |
| Noninterest expense | (45,705) | (44,819) | (886) | 2.0 % |
| Provision for income taxes | (1,092) | (6,072) | 4,980 | (82.0)% |
| Net income | $ 7,430 | $ 16,121 | $ (8,691) | (53.9)% |
| Diluted earnings per share | $ 0.25 | $ 0.53 | $ (0.28) | (52.8)% |
| Dividends per share | $ 0.22 | $ 0.22 | $ — | 0.0 % |
| Average common shares | 29,754 | 30,395 | (641) | (2.1)% |
| Average diluted common shares | 29,883 | 30,523 | (640) | (2.1)% |
| Return on average total assets | 0.43 % | 1.00 % | | |
| Return on average equity | 3.39 % | 7.14 % | | |
| Efficiency ratio | 59.89 % | 59.75 % | | |

| (dollars and shares in thousands) | Three months ended June 30, 2020 | Three months ended June 30, 2019 | $ Change | % Change |
|---|---|---|---|---|
| Net interest income | $ 64,659 | $ 64,315 | $ 344 | 0.5 % |
| Provision for loan losses | (22,089) | (537) | (21,552) | 4,013.4 % |
| Noninterest income | 11,657 | 13,423 | (1,766) | (13.2)% |
| Noninterest expense | (45,705) | (46,697) | 992 | (2.1)% |
| Provision for income taxes | (1,092) | (7,443) | 6,351 | (85.3)% |
| Net income | $ 7,430 | $ 23,061 | $ (15,631) | (67.8)% |
| Diluted earnings per share | $ 0.25 | $ 0.75 | $ (0.50) | (66.7)% |
| Dividends per share | $ 0.22 | $ 0.19 | $ 0.03 | 15.8 % |
| Average common shares | 29,754 | 30,458 | (704) | (2.3)% |
| Average diluted common shares | 29,883 | 30,643 | (760) | (2.5)% |
| Return on average total assets | 0.43 % | 1.45 % | | |
| Return on average equity | 3.39 % | 10.68 % | | |
| Efficiency ratio | 59.89 % | 60.07 % | | |

| (dollars and shares in thousands) | Six months ended June 30, 2020 | Six months ended June 30, 2019 | $ Change | % Change |
|---|---|---|---|---|
| Net interest income | $ 127,851 | $ 128,185 | $ (334) | (0.3)% |
| (Provision for) reversal of loan losses | (30,088) | 1,063 | (31,151) | — % |
| Noninterest income | 23,477 | 25,226 | (1,749) | (6.9)% |
| Noninterest expense | (90,525) | (92,149) | 1,624 | (1.8)% |
| Provision for income taxes | (7,164) | (16,538) | 9,374 | (56.7)% |
| Net income | $ 23,551 | $ 45,787 | $ 40,066 | (48.6)% |
| Diluted earnings per share | $ 0.78 | $ 1.49 | $ (0.71) | 27.8 % |
| Dividends per share | $ 0.44 | $ 0.38 | $ 0.06 | 17.6 % |
| Average common shares | 30,074 | 30,441 | (367) | (1.2)% |
| Average diluted common shares | 30,203 | 30,650 | (447) | (1.5)% |
| Return on average total assets | 0.70 % | 1.43 % | | |
| Return on average equity | 5.06 % | 10.71 % | | |
| Efficiency ratio | 59.82 % | 60.07 % | | |

**SBA Paycheck Protection Program**

In March 2020 the SBA Paycheck Protection Program ("PPP") was created to help small businesses keep workers employed during the COVID-19 crisis. As a Small Business Administration (SBA) Preferred Lender, the Company was able to provide PPP loans to small business customers. During the quarter ended June 30, 2020, the Company originated more than 2,900 loans under the PPP program, with a total balance outstanding of $423,431,000 as of quarter end. In connection with the origination of these loans, the Company earned approximately $15,680,000 in loan fees that will be amortized over the two-year term of the loans, offset by deferred loan costs of approximately $756,000. During the three and six months ended June 30, 2020, interest and fee income recognized from PPP loans totaled $2,356,000, which was inclusive of $1,626,000 in net deferred fee accretion.

**COVID Deferrals**

Following the passage of the CARES Act legislation, the "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus" was issued by federal bank regulators, which offers temporary relief from troubled debt restructuring accounting for loan payment deferrals for certain customers whose businesses are experiencing economic hardship due to Coronavirus. The Company is closely monitoring the effects of the pandemic on our loan and deposit customers. Our management team continues to be focused on assessing the risks in our loan portfolio and working with our customers to mitigate where possible, the risk of potential losses. The Company implemented loan programs to allow certain consumers and businesses impacted by the pandemic to defer loan principal and interest payments.

The following is a summary of COVID related loan customer modifications as of June 30, 2020:

| | | | Modification Type | | Deferral Term | | |
|---|---|---|---|---|---|---|---|
| (dollars in thousands) | Balance of Modified Loans | % of Total Category of Loans | Interest Only Deferral | Principal and Interest Deferral | 90 Days | 180 Days | Other |
| Commercial real estate: | | | | | | | |
| CRE non-owner occupied | $213,394 | 13.4 % | 10.1 % | 89.9 % | 46.7 % | 53.1 % | 0.2 % |
| CRE owner occupied | 37,816 | 6.5 % | 18.3 % | 81.7 % | 17.4 % | 82.7 % | — % |
| Multifamily | 13,776 | 2.4 % | — % | 100.0 % | 46.0 % | 54.0 % | — % |
| Farmland | 2,102 | 1.4 % | 26.1 % | 73.9 % | — % | 100.0 % | — % |
| Total commercial real estate | 267,088 | 9.2 % | 10.9 % | 89.2 % | 42.1 % | 57.7 % | 0.2 % |
| Consumer: | | | | | | | |
| SFR 1-4 1st lien | 34,742 | 6.9 % | 1.3 % | 98.7 % | 97.1 % | 2.9 % | — % |
| SFR HELOCs and junior liens | 8,275 | 2.3 % | 76.1 % | 23.9 % | 93.3 % | 6.7 % | — % |
| Other | 4,629 | 5.7 % | — % | 100.0 % | 100.0 % | — % | — % |
| Total consumer loans | 47,646 | 5.0 % | 14.2 % | 85.8 % | 96.7 % | 3.3 % | — % |
| Commercial and industrial | 19,831 | 3.1 % | 24.5 % | 75.5 % | 23.8 % | 75.9 % | 0.3 % |
| Construction | 6,349 | 2.3 % | — % | 100.0 % | 100.0 % | — % | — % |
| Agriculture production | — | — % | — % | — % | — % | — % | — % |
| Leases | — | — % | — % | — % | — % | — % | — % |
| Total modifications | $340,915 | 7.1 % | 11.9 % | 88.1 % | 49.8 % | 50.1 % | 0.2 % |

Management has evaluated its COVID relief modifications to various industries which may have an increased level of risk exposure as a result of the economic conditions brought about by the pandemic. As of June 30, 2020 those modifications included the following:

| (dollars in thousands) | Total Loan Balances Outstanding | Balance of Modified Loans | % of Total Segment of Loans | % of Total COVID Loan Modifications |
|---|---|---|---|---|
| Hotel, recreation and leisure | $ 225,604 | $ 105,920 | 47.0 % | 31.1 % |
| Healthcare | 65,261 | 6,169 | 9.5 % | 1.8 % |
| Retail | 74,174 | 678 | 0.9 % | 0.2 % |
| Restaurants, bars and catering | 55,551 | 9,771 | 17.6 % | 2.9 % |
| Gas stations | 47,383 | — | — % | — % |
| Trucking and transportation | 32,828 | 759 | 2.3 % | 0.2 % |
| Grocery and beverage stores | 24,852 | 222 | 0.9 % | 0.1 % |
| Personal and professional services | 19,146 | 501 | 2.6 % | 0.2 % |
| Nursing and residential care facilities | 19,882 | — | — % | — % |
| Education | 13,674 | 971 | 7.1 % | 0.3 % |
| Childcare | 2,452 | — | — % | — % |
| Total | $ 580,807 | $ 124,991 | n/a | 36.7 % |

**Balance Sheet**

Total loans outstanding grew to $4.80 billion as of June 30, 2020, an increase of 17.0% over the same quarter of the prior year, and an annualized increase of 38.6% over the trailing quarter. Investments outstanding declined to $1.35 billion as of June 30, 2020, a decrease of 8.2% annualized over the trailing quarter as the result of prepayments and maturities. Average earning assets to total average assets continued to increase slightly to 90.6% at June 30, 2020, as compared to 90.4% and 90.3% at March 31, 2020, and June 30, 2019 respectively. The Company's loan to deposit ratio was 76.8% at June 30, 2020, as compared to 81.1% and 76.8% at March 31, 2020, and June 30, 2019 respectively.

Total shareholders' equity increased by $19,260,000 during the quarter ended June 30, 2020 primarily as a result of an improvement in unrealized gains (losses), net of tax, on investment securities totaling $25,751,000 and net income of $7,430,000, partially offset by $8,009,000 in common stock repurchases. As a result, the Company's book value was $29.76 per share at June 30, 2020 as compared to $28.91 and $28.71 at March 31, 2020, and June 30, 2019, respectively. The Company's tangible book value per share, calculated by subtracting goodwill and other intangible assets from total shareholders' equity and dividing that sum by total shares outstanding, was $21.64 per share at June 30, 2020 as compared to $20.76 and $20.60 at March 31, 2020, and June 30, 2019, respectively.

**Trailing Quarter Balance Sheet Change**

| Ending balances ($'s in thousands) | As of June 30, 2020 | As of March 31, 2020 | $ Change | Annualized % Change |
|---|---|---|---|---|
| Total assets | $ 7,360,071 | $ 6,474,309 | $ 885,762 | 54.7 % |
| Total loans | 4,801,405 | 4,379,062 | 422,343 | 38.6 % |
| Total loans, excluding PPP | 4,377,974 | 4,379,062 | (1,088) | (0.1)% |
| Total investments | 1,353,728 | 1,382,026 | (28,298) | (8.2)% |
| Total deposits | $ 6,248,258 | $ 5,402,698 | $ 845,560 | 62.6 % |

Loan growth of $422,343,000 or 38.6% on an annualized basis during the second quarter of 2020 was primarily attributed to the PPP program, as total loan balances, excluding PPP, were effectively unchanged during the quarter ended June 30, 2020. Growth of deposit balances during the second quarter of 2020 were $845,560,000 or 62.6% annualized. Expansion of Federal stimulus programs and the delay of 2019 income tax payments likely attributed to the significant deposit growth during the quarter.

**Average Trailing Quarter Balance Sheet Change**

| Qtrly avg balances ($'s in thousands) | As of June 30, 2020 | As of March 31, 2020 | $ Change | Annualized % Change |
|---|---|---|---|---|
| Total assets | $ 7,027,735 | $ 6,506,587 | $ 521,148 | 32.0 % |
| Total loans | 4,656,050 | 4,329,357 | 326,693 | 30.2 % |
| Total loans, excluding PPP | 4,363,481 | 4,329,357 | 34,124 | 3.2 % |
| Total investments | 1,371,733 | 1,354,664 | 17,069 | 5.0 % |
| Total deposits | $ 5,937,294 | $ 5,395,933 | $ 541,361 | 40.1 % |

The growth in average loans of $326,693,000, or 30.2% on an annualized basis, during the second quarter of 2020 was well above the annual year over year growth rate of 17.0%, but below the annualized quarterly growth of 38.6%. Despite the significant volume of PPP loans originated during the second quarter, the Company was also able to generate core loan growth with the average balance of non-PPP loans by increasing by $34,124,000 or an annualized growth of 3.2%, during the period.

**Year Over Year Balance Sheet Change**

| Ending balances ($'s in thousands) | As of June 30, 2020 | As of June 30, 2019 | $ Change | % Change |
|---|---|---|---|---|
| Total assets | $ 7,360,071 | $ 6,395,172 | $ 964,899 | 15.1 % |
| Total loans | 4,801,405 | 4,103,687 | 697,718 | 17.0 % |
| Total loans, excluding PPP | 4,377,974 | 4,103,687 | 274,287 | 6.7 % |
| Total investments | 1,353,728 | 1,566,720 | (212,992) | (13.6)% |
| Total deposits | $ 6,248,258 | $ 5,342,173 | $ 906,085 | 17.0 % |

As discussed above, the PPP program has generated significant increases in volume during the second quarter ended June 30, 2020 for loan and deposit balances. Excess deposit proceeds have been temporarily allocated to cash and due from banks, which increased to $705,852,000 at June 30, 2020 from $175,582,000 as of June 20, 2019. Investment securities declined to $1,353,728,000, a change of $212,992,000 or 13.6% from $1,566,720,000, due to the accelerated rate of prepayment or maturity of these debt instruments during the period, and the Company's desire to migrate a greater percentage of its earning assets to loans. Total loans as a percentage of earning assets were 75.4% as of June 30, 2020, an increase of 4.2% over the June 30, 2019 ratio of 71.2%.

## Net Interest Income and Net Interest Margin

The following is a summary of the components of net interest income for the periods indicated:

| | Three months ended | | | |
|---|---|---|---|---|
| | June 30, | March 31, | | |
| (dollars in thousands) | 2020 | 2020 | $ Change | % Change |
| Interest income | $ 67,148 | $ 66,517 | $ 631 | 0.9 % |
| Interest expense | (2,489) | (3,325) | 836 | (25.1)% |
| Fully tax-equivalent adjustment (FTE) [(1)] | 286 | 271 | 15 | 5.5 % |
| Net interest income (FTE) | $ 64,945 | $ 63,463 | $ 1,482 | 2.3 % |
| Net interest margin (FTE) | 4.10 % | 4.34 % | | |
| | | | | |
| Acquired loans discount accretion, net: | | | | |
| Amount (included in interest income) | $ 2,587 | $ 1,748 | $ 839 | 48.0 % |
| Effect on average loan yield | 0.24 % | 0.16 % | | |
| Effect on net interest margin (FTE) | 0.16 % | 0.12 % | | |
| Net interest margin less effect of acquired loan discount accretion | 3.94 % | 4.22 % | | |
| PPP loans yield: | | | | |
| Amount (included in interest income) | $ 2,356 | — % | $ 2,356 | n/m |
| Effect on net interest margin (FTE) | (0.04)% | — % | | |
| Net interest margin less effect of PPP loan yield | 4.14 % | — % | | |

| | Three months ended June 30, | | | |
|---|---|---|---|---|
| (dollars in thousands) | 2020 | 2019 | $ Change | % Change |
| Interest income | $ 67,148 | $ 68,180 | $ (1,032) | (1.5)% |
| Interest expense | (2,489) | (3,865) | 1,376 | (35.6)% |
| Fully tax-equivalent adjustment (FTE) [(1)] | 286 | 298 | (12) | (4.0)% |
| Net interest income (FTE) | $ 64,945 | $ 64,613 | $ 332 | 0.5 % |
| Net interest margin (FTE) | 4.10 % | 4.50 % | | |
| | | | | |
| Acquired loans discount accretion, net: | | | | |
| Amount (included in interest income) | $ 2,587 | $ 1,904 | $ 683 | 35.9 % |
| Effect on average loan yield | 0.24 % | 0.19 % | | |
| Effect on net interest margin (FTE) | 0.16 % | 0.13 % | | |
| Net interest margin less effect of acquired loan discount accretion | 3.94 % | 4.37 % | | |

| | Six months ended June 30, | | | |
|---|---|---|---|---|
| (dollars in thousands) | 2020 | 2019 | $ Change | % Change |
| Interest income | $ 133,665 | $ 135,637 | $ (1,972) | (1.5)% |
| Interest expense | (5,814) | (7,452) | 1,638 | (22.0)% |
| Fully tax-equivalent adjustment (FTE) [(1)] | 557 | 619 | (62) | (10.0)% |
| Net interest income (FTE) | $ 128,408 | $ 128,804 | $ (396) | (0.3)% |
| Net interest margin (FTE) | 4.22 % | 4.51 % | | |
| | | | | |
| Acquired loans discount accretion, net: | | | | |
| Amount (included in interest income) | $ 4,335 | $ 3,559 | $ 776 | 21.8 % |
| Effect on average loan yield | 0.20 % | 0.17 % | | |
| Effect on net interest margin (FTE) | 0.14 % | 0.12 % | | |
| Net interest margin less effect of acquired loan discount accretion | 4.08 % | 4.39 % | | |
| PPP loans yield: | | | | |
| Amount (included in interest income) | $2,356 | — | $ 2,356 | n/m |
| Effect on net interest margin (FTE) | (0.03)% | — | | |
| Net interest margin less effect of PPP loan yield | 4.25 % | — | | |

(1) Information is presented on a fully tax-equivalent (FTE) basis. The Company believes the use of this non-generally accepted accounting principles (non-GAAP) measure provides additional clarity in assessing its results, and the presentation of these measures on a FTE basis is a common practice within the banking industry.

Loans may be acquired at a premium or discount to par value, in which case, the premium is amortized (subtracted from) or accreted (added to) interest income over the remaining life of the loan. Generally, as time goes on, the effects of loan discount accretion and loan premium amortization decrease as the purchased loans mature or pay off early. Upon the early pay off of a loan, any remaining (unaccreted) discount or (unamortized) premium is immediately taken into interest income; and as loan payoffs may vary significantly from quarter to quarter, so may the impact of discount accretion and premium amortization on interest income. As a result of the uncertain economic environment and corresponding rate volatility, the prepayment rate of portfolio loans, inclusive of those acquired at a premium or discount, increased during the second quarter of 2020. During the three months ended June 30, 2020, March 31, 2020, December 31, 2019, and September 30, 2019, purchased loan discount accretion was $2,587,000, $1,748,000, $2,218,000, and $2,360,000, respectively. Net accretion for the quarter ended March 31, 2019 was reduced by $259,000 from the early repayment of loans purchased at a premium several years ago.

The following table shows the components of net interest income and net interest margin on a fully tax-equivalent (FTE) basis for the quarterly periods indicated:

ANALYSIS OF CHANGE IN NET INTEREST MARGIN ON EARNING ASSETS
(unaudited, dollars in thousands)

| | Three months ended June 30, 2020 | | | Three months ended March 31, 2020 | | | Three months ended June 30, 2019 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Average Balance | Income/ Expense | Yield/ Rate | Average Balance | Income/ Expense | Yield/ Rate | Average Balance | Income/ Expense | Yield/ Rate |
| Assets | | | | | | | | | |
| Loans, excluding PPP | $ 4,363,481 | $ 56,053 | 5.17 % | $ 4,329,357 | $ 56,258 | 5.23 % | $ 4,044,044 | $ 55,492 | 5.50 % |
| PPP loans | 292,569 | 2,356 | 3.24 % | — | — | — % | — | — | — % |
| Investments-taxable | 1,251,873 | 7,689 | 2.47 % | 1,235,672 | 8,572 | 2.79 % | 1,432,550 | 10,762 | 3.01 % |
| Investments-nontaxable (1) | 119,860 | 1,238 | 4.15 % | 118,992 | 1,175 | 3.97 % | 140,562 | 1,358 | 3.88 % |
| Total investments | 1,371,733 | 8,927 | 2.62 % | 1,354,664 | 9,747 | 2.89 % | 1,573,112 | 12,120 | 3.09 % |
| Cash at Federal Reserve and other banks | 338,082 | 98 | 0.12 % | 199,729 | 783 | 1.58 % | 147,810 | 866 | 2.35 % |
| Total earning assets | 6,365,865 | 67,434 | 4.26 % | 5,883,750 | 66,788 | 4.57 % | 5,764,966 | 68,478 | 4.76 % |
| Other assets, net | 661,870 | | | 622,837 | | | 620,923 | | |
| Total assets | $ 7,027,735 | | | $ 6,506,587 | | | $ 6,385,889 | | |
| Liabilities and shareholders' equity | | | | | | | | | |
| Interest-bearing demand deposits | $ 1,293,007 | 64 | 0.02 % | $ 1,245,896 | 169 | 0.05 % | $ 1,276,388 | $ 289 | 0.09 % |
| Savings deposits | 1,968,374 | 644 | 0.13 % | 1,864,967 | 1,062 | 0.23 % | 1,888,234 | 1,306 | 0.28 % |
| Time deposits | 409,242 | 1,105 | 1.09 % | 430,064 | 1,320 | 1.23 % | 441,116 | 1,404 | 1.28 % |
| Total interest-bearing deposits | 3,670,623 | 1,813 | 0.20 % | 3,540,927 | 2,551 | 0.29 % | 3,605,738 | 2,999 | 0.33 % |
| Other borrowings | 26,313 | 4 | 0.06 % | 22,790 | 5 | 0.09 % | 17,963 | 37 | 0.83 % |
| Junior subordinated debt | 57,372 | 672 | 4.71 % | 57,272 | 769 | 5.40 % | 57,222 | 829 | 5.81 % |
| Total interest-bearing liabilities | 3,754,308 | 2,489 | 0.27 % | 3,620,989 | 3,325 | 0.37 % | 3,680,923 | 3,865 | 0.42 % |
| Noninterest-bearing deposits | 2,266,671 | | | 1,855,006 | | | 1,765,141 | | |
| Other liabilities | 126,351 | | | 121,959 | | | 73,541 | | |
| Shareholders' equity | 880,405 | | | 908,633 | | | 866,284 | | |
| Total liabilities and shareholders' equity | $ 7,027,735 | | | $ 6,506,587 | | | $ 6,385,889 | | |
| Net interest rate spread (1) (2) | | | 3.99 % | | | 4.20 % | | | 4.34 % |
| Net interest income and margin (1) (3) | | $ 64,945 | 4.10 % | | $ 63,463 | 4.34 % | | $ 64,613 | 4.50 % |

(1) Fully taxable equivalent (FTE). All yields and rates are calculated using specific day counts for the period and year as applicable.
(2) Net interest spread is the average yield earned on interest-earning assets minus the average rate paid on interest-bearing liabilities.
(3) Net interest margin is computed by calculating the difference between interest income and interest expense, divided by the average balance of interest-earning assets.

Net interest income (FTE) during the three months ended June 30, 2020 increased $1,482,000 or 2.3% to $64,945,000 compared to $63,463,000 during the three months ended March 31, 2020. Over the same period net interest margin declined 24 basis points to 4.10% as compared to 4.34% in the trailing quarter. The decline in net interest income (FTE) was due primarily to a decline in yield on interest earning assets, which was 4.26% for the quarter ended June 30, 2020, which represents a decrease of 31 basis points over the trailing quarter and a decrease of 50 basis points over the same quarter in the prior year. The index utilized in a significant portion of the Company's variable rate loans, Wall Street Journal Prime, remained unchanged during the quarter ended June 30, 2020 but decreased by 150 basis points during the prior quarter to 3.25% at March 31, 2020, continuing the downward trend as compared to 4.75% at December 31, 2019 and 5.50% at June 30, 2019.

As compared to the same quarter in the prior year, average loan yields, excluding PPP, decreased 33 basis points from 5.50% during the three months ended June 30, 2019 to 5.17% during the three months ended June 30, 2020. Of the 33 basis point decrease in yields on loans during the comparable three month period ended June 30, 2020 and 2019, 34 basis points was attributable to decreases in market rates while 1 basis point was gained from the accretion of purchased loan discounts.

The decline in interest expense is primarily attributed to the reduction in the cost of interest bearing liabilities, which decreased by 10 basis points as of June 30, 2020 to 0.27% from 0.37% at March 31, 2020, as a direct result of the aforementioned declining interest rate environment.

ANALYSIS OF CHANGE IN NET INTEREST MARGIN ON EARNING ASSETS
(unaudited, dollars in thousands)

| | Six months ended June 30, 2020 | | | Six months ended June 30, 2019 | | |
|---|---|---|---|---|---|---|
| | Average Balance | Income/ Expense | Yield/ Rate | Average Balance | Income/ Expense | Yield/ Rate |
| Assets | | | | | | |
| Loans, excluding PPP | $ 4,346,419 | $ 112,311 | 5.20 % | $ 4,033,954 | $ 109,889 | 5.49 % |
| PPP loans | 146,285 | 2,356 | 3.24 % | — | — | — % |
| Investments-taxable | 1,235,672 | 16,261 | 2.65 % | 1,428,951 | 21,677 | 3.06 % |
| Investments-nontaxable [1] | 118,992 | 2,413 | 4.08 % | 141,397 | 2,753 | 3.93 % |
| Total investments | 1,354,664 | 18,674 | 2.77 % | 1,570,348 | 24,430 | 3.14 % |
| Cash at Federal Reserve and other banks | 266,752 | 881 | 0.66 % | 158,164 | 1,937 | 2.47 % |
| Total earning assets | 6,114,120 | 134,222 | 4.41 % | 5,762,466 | 136,256 | 4.77 % |
| Other assets, net | 653,006 | | | 643,592 | | |
| Total assets | $ 6,767,126 | | | $ 6,406,058 | | |
| Liabilities and shareholders' equity | | | | | | |
| Interest-bearing demand deposits | $ 1,269,452 | 233 | 0.04 % | $ 1,274,882 | 576 | 0.09 % |
| Savings deposits | 1,918,918 | 1,706 | 0.18 % | 1,907,677 | 2,439 | 0.26 % |
| Time deposits | 419,638 | 2,425 | 1.16 % | 441,447 | 2,703 | 1.23 % |
| Total interest-bearing deposits | 3,608,008 | 4,364 | 0.24 % | 3,624,006 | 5,718 | 0.32 % |
| Other borrowings | 24,552 | 9 | 0.07 % | 16,736 | 50 | 0.60 % |
| Junior subordinated debt | 57,324 | 1,441 | 5.06 % | 57,086 | 1,684 | 5.95 % |
| Total interest-bearing liabilities | 3,689,884 | 5,814 | 0.32 % | 3,697,828 | 7,452 | 0.41 % |
| Noninterest-bearing deposits | 2,059,242 | | | 1,754,973 | | |
| Other liabilities | 123,481 | | | 98,570 | | |
| Shareholders' equity | 894,519 | | | 854,687 | | |
| Total liabilities and shareholders' equity | $ 6,767,126 | | | $ 6,406,058 | | |
| Net interest rate spread [1] [2] | | | 4.09 % | | | 4.36 % |
| Net interest income and margin [1] [3] | | $ 128,408 | 4.22 % | | $ 128,804 | 4.51 % |

(1) Fully taxable equivalent (FTE). All yields and rates are calculated using specific day counts for the period and year as applicable.
(2) Net interest spread is the average yield earned on interest-earning assets minus the average rate paid on interest-bearing liabilities.
(3) Net interest margin is computed by calculating the difference between interest income and interest expense, divided by the average balance of interest-earning assets.

**Interest Rates and Loan Portfolio Composition**

During 2020, declines in several market interest rates, including many rates that serve as reference indices for variable rate loans declined markedly from previous levels. As of March 31, 2020 the Company's loan portfolio consisted of approximately $4,420,000,000 in outstanding principal with a weighted average coupon rate of 4.80%. As of June 30, 2020 the Company's loan portfolio consisted of approximately $4,854,000,000 in outstanding principal balances with weighted average coupon rate of 4.37%, inclusive of the PPP program loans. Excluding these loans, the Company's loan portfolio has approximately $4,417,000,000 outstanding with a weighted average coupon rate of 4.70% as of June 30, 2020. Included in this June 30, 2020 loan total exclusive of PPP loans, are variable rate loans totaling $2,984,000,000 of which 86.5% or $2,582,000,000 were at their floor rate. The remaining variable rate loans totaling $402,000,000, which carried a weighted average coupon rate of 5.13% as of June 30, 2020, are subject to further rate adjustment. If those remaining variable rate loans were to collectively, through future rate adjustments, be reduced to their respective floors, they would have a weighted average coupon rate of approximately 4.37% which would result in the reduction of the weighted average coupon rate of the total loan portfolio, exclusive of PPP loans, from 4.70% to approximately 4.61%.

**Asset Quality and Credit Loss Provisioning**

The Company adopted CECL on January 1, 2020. During the three months ended June 30, 2020, the Company recorded a provision for credit losses of $22,089,000, as compared to provision expense of $8,000,000 for the trailing quarter, and $537,000 during the same period in 2019.

The net increase in allowance for credit losses (ACL) as of quarter ended June 30, 2020 totaled $21,828,000. More specifically, the changes in loan volume and changes in credit quality associated with levels of classified, past due and non-performing loans, resulted in the need for a provision for credit losses of $2,685,000. However, the majority of the increase in ACL reflects potential future credit deterioration. Specifically, portfolio-wide qualitative indicators such as the outlook for changes in California Unemployment and Gross Domestic Product (GDP), resulted in a $19,143,000 increase in credit reserves on loans as of June 30, 2020. The Company utilizes a forecast period of approximately eight quarters and obtains the forecast data from publicly available sources as of the balance sheet date. This forecast data continues to rapidly evolve and included significant shifts in the magnitude of changes for both the unemployment and GDP factors leading up to the balance sheet date. Management noted that the majority of economic forecasts, as of the end of the current quarter, utilized in the ACL calculation have shown a migration in the estimated timing of recovery from late 2020 as the end of the first quarter to mid-2021 or beyond.

Loans past due 30 days or more decreased by $12,071,000 during the quarter ended June 30, 2020 to $16,622,000, as compared to $28,693,000 at March 31, 2020. The decrease in past due balances was driven primarily by a single loan in excess of $13,000,000 that was 60 days past due as of March 31, 2020 but was brought current during the current quarter. Total non-performing loans were $20,730,000 at June 30, 2020 and $17,955,000 at March 31, 2020 and have remained generally consistent with the $16,864,000 and $20,585,000 as of December 31, 2019 and June 30, 2019, respectively. Immediately following the quarter ended June 30, 2020, two non-accrual loans totaling $2,024,000 were paid in full including approximately $160,000 in past due interest and fees.

There were no additions and two sales of other real estate owned during the three month period ended June 30, 2020. The sold properties generated $217,000 in proceeds and had a carrying value of $201,000. As of June 30, 2020, other real estate owned consisted of three properties with a carrying value of $1,922,000.

Allocation of Loan Loss Reserves by Loan Type

| | As of June 30, 2020 | | As of March 31, 2020 | |
|---|---|---|---|---|
| (dollars in thousands) | Amount | % of Loans Outstanding | Amount | % of Loans Outstanding |
| Commercial real estate: | | | | |
| CRE - Non Owner Occupied | $ 26,091 | 1.63 % | $ 18,034 | 1.10 % |
| CRE - Owner Occupied | 8,710 | 1.50 % | 5,366 | 0.99 % |
| Multifamily | 8,581 | 1.49 % | 5,140 | 0.92 % |
| Farmland | 1,468 | 0.97 % | 713 | 0.50 % |
| Total commercial real estate loans | 44,850 | 1.54 % | 29,253 | 1.01 % |
| Consumer: | | | | |
| SFR 1-4 1st Liens | 8,015 | 1.58 % | 5,650 | 1.18 % |
| SFR HELOCs and Junior Liens | 12,108 | 3.38 % | 11,196 | 3.08 % |
| Other | 3,042 | 3.73 % | 2,746 | 3.33 % |
| Total consumer loans | 23,165 | 2.45 % | 19,592 | 2.05 % |
| | | | | |
| Commercial and Industrial | 4,018 | 0.63 % | 3,867 | 1.46 % |
| Construction | 6,775 | 2.43 % | 4,595 | 0.65 % |
| Agricultural Production | 919 | 2.59 % | 593 | 2.51 % |
| Leases | 12 | 0.68 % | 11 | 1.90 % |
| Allowance for credit losses | 79,739 | 1.66 % | 57,911 | 1.32 % |
| Reserve for unfunded loan commitments | 3,000 | | 2,845 | |
| Total allowance for credit losses | $ 82,739 | 1.72 % | $ 60,756 | 1.39 % |

As of June 30, 2020, total loans includes PPP loans which are fully guaranteed and therefore would not require any loss reserve allocation. In the table above, PPP loans are included in the segment "Commercial and Industrial" which is the primary driver of the allowance as a percentage of loans outstanding decreasing from 1.46% to 0.63% during the quarter. Excluding PPP loans from the ratio of the allowance for credit losses (ACL) to total loans results in a reserve ratio of approximately 1.82%. In addition to the allowance for credit losses above, the Company has acquired various performing loans whose fair value as of the acquisition date was determined to be less than the principal balance owed on those loans. This difference represents the collective discount of credit, interest rate and liquidity measurements which is expected to be amortized over the life of the loans. As of June 30, 2020, the unamortized discount associated with acquired loans totaled $28,692,000 and if aggregated with the ACL would collectively represent 2.24% of total gross loans and 2.47% total loans less PPP loans.

**Non-interest Income**

The following table presents the key components of non-interest income for the current and trailing quarterly periods indicated:

| | Three months ended | | | |
|---|---|---|---|---|
| (dollars in thousands) | June 30, 2020 | March 31, 2020 | $ Change | % Change |
| ATM and interchange fees | $ 5,165 | $ 5,111 | $ 54 | 1.1 % |
| Service charges on deposit accounts | 3,046 | 4,046 | (1,000) | (24.7)% |
| Other service fees | 734 | 758 | (24) | (3.2)% |
| Mortgage banking service fees | 459 | 469 | (10) | (2.1)% |
| Change in value of mortgage servicing rights | (1,236) | (1,258) | 22 | (1.7)% |
| Total service charges and fees | 8,168 | 9,126 | (958) | (10.5)% |
| Increase in cash value of life insurance | 710 | 720 | (10) | (1.4)% |
| Asset management and commission income | 661 | 916 | (255) | (27.8)% |
| Gain on sale of loans | 1,736 | 891 | 845 | 94.8 % |
| Lease brokerage income | 127 | 193 | (66) | (34.2)% |
| Sale of customer checks | 88 | 124 | (36) | (29.0)% |
| Gain on sale of investment securities | — | — | — | n/a |
| Gain on marketable equity securities | 25 | 47 | (22) | (46.8)% |
| Other | 142 | (197) | 339 | (172.1)% |
| Total other non-interest income | 3,489 | 2,694 | 795 | 29.5 % |
| Total non-interest income | $ 11,657 | $ 11,820 | $ (163) | (1.4)% |

Non-interest income decreased $163,000 or 1.4% to $11,657,000 during the three months ended June 30, 2020 compared to $11,820,000 during the trailing quarter March 31, 2020. Declines on deposit account activity and related fee income was notable during the quarter, totaling $1,000,000 during the three months ended June 30, 2020 to $3,046,000, as compared to $4,046,000 at March 31, 2020. This was directly related to the COVID-19 pandemic and depressed levels of e-commerce activity during the quarter. Conversely, mortgage loan origination volume demand increased notably during the period ended June 30, 2020 as a result of the low interest rate environment, leading to an additional $845,000 gain on sale of loans over the trailing quarter.

The following table presents the key components of non-interest income for the periods indicated:

| | Three months ended June 30, | | | |
|---|---|---|---|---|
| (dollars in thousands) | 2020 | 2019 | $ Change | % Change |
| ATM and interchange fees | $ 5,165 | $ 5,404 | $ (239) | (4.4)% |
| Service charges on deposit accounts | 3,046 | 4,182 | (1,136) | (27.2)% |
| Other service fees | 734 | 619 | 115 | 18.6 % |
| Mortgage banking service fees | 459 | 475 | (16) | (3.4)% |
| Change in value of mortgage servicing rights | (1,236) | (552) | (684) | 123.9 % |
| Total service charges and fees | 8,168 | 10,128 | (1,960) | (19.4)% |
| Increase in cash value of life insurance | 710 | 746 | (36) | (4.8)% |
| Asset management and commission income | 661 | 739 | (78) | (10.6)% |
| Gain on sale of loans | 1,736 | 575 | 1,161 | 201.9 % |
| Lease brokerage income | 127 | 239 | (112) | (46.9)% |
| Sale of customer checks | 88 | 135 | (47) | (34.8)% |
| Gain on sale of investment securities | — | 42 | (42) | — % |
| Gain on marketable equity securities | 25 | — | 25 | — % |
| Other | 142 | 819 | (677) | (82.7)% |
| Total other non-interest income | 3,489 | 3,295 | 194 | 5.9 % |
| Total non-interest income | $ 11,657 | $ 13,423 | $ (1,766) | (13.2)% |

In addition to the discussion above within the non-interest income for the three months ended June 30, 2020 and trailing March 31, 2020, a decline in the value of mortgage servicing rights was significant for the most recent quarter end. This is consistent with the low rate environment an increase in the mortgage refinance index and changes in other fair value assumptions. Specifically, accelerated prepayment speeds resulting from decreases in the 15 and 30 year mortgage rates, continued to be the largest contributor to the decline in fair value of the mortgage servicing asset which decreased to $1,236,000 during the quarter, representing an additional $684,000 decline over the same period ended 2019.

The following table presents the key components of non-interest income for the current and prior year six-month periods indicated:

| | Six months ended June 30, | | | |
|---|---|---|---|---|
| (dollars in thousands) | 2020 | 2019 | $ Change | % Change |
| ATM and interchange fees | $ 10,276 | $ 9,985 | $ 291 | 2.9 % |
| Service charges on deposit accounts | 7,092 | 8,062 | (970) | (12.0)% |
| Other service fees | 1,492 | 1,390 | 102 | 7.3 % |
| Mortgage banking service fees | 928 | 958 | (30) | (3.1)% |
| Change in value of mortgage servicing rights | (2,494) | (1,197) | (1,297) | 108.4 % |
| Total service charges and fees | 17,294 | 19,198 | (1,904) | (9.9)% |
| Increase in cash value of life insurance | 1,430 | 1,521 | (91) | (6.0)% |
| Asset management and commission income | 1,577 | 1,381 | 196 | 14.2 % |
| Gain on sale of loans | 2,627 | 987 | 1,640 | 166.2 % |
| Lease brokerage income | 320 | 459 | (139) | (30.3)% |
| Sale of customer checks | 212 | 275 | (63) | (22.9)% |
| Gain on marketable equity securities | 72 | 78 | (6) | (7.7)% |
| Other | (55) | 1,327 | (1,382) | (104.1)% |
| Total other non-interest income | 6,183 | 6,028 | 155 | 2.6 % |
| Total non-interest income | $ 23,477 | $ 25,226 | $ (1,749) | (6.9)% |

Non-interest income decreased $1,749,000 or 6.9% to $23,477,000 during the six months ended June 30, 2020 compared to $25,226,000 during the comparable six month period in 2019. Non-interest income for the six months ended June 30, 2020 as compared to the same period in 2019 was negatively impacted by changes in the fair value of the Company's mortgage servicing assets, as noted above, which contributed to a $1,297,000 decline. Other non-interest income declined by $1,382,000, partially from decreases in the fair value of assets used to fund acquired deferred compensation plans totaling $514,000 for the six months ended June 30, 2020 as compared to the same period 2019, as well as from an absence of one-time death benefits totaling $728,000 realized during the six months ended June 30, 2019. The declines noted above were partially offset by gains from the sale of mortgage loans, which resulted from increased volume, and contributed $1,640,000 to the overall increase in non-interest income during the six months ended June 30, 2020.

**Non-interest Expense**

The following table presents the key components of non-interest expense for the current and trailing quarterly periods indicated:

| | Three Months Ended | | | |
|---|---|---|---|---|
| (dollars in thousands) | June 30, 2020 | March 31, 2020 | $ Change | % Change |
| Base salaries, net of deferred loan origination costs | $ 17,277 | $ 17,623 | $ (346) | (2.0)% |
| Incentive compensation | 2,395 | 3,101 | (706) | (22.8)% |
| Benefits and other compensation costs | 7,383 | 6,548 | 835 | 12.8 % |
| Total salaries and benefits expense | 27,055 | 27,272 | (217) | (0.8)% |
| Occupancy | 3,398 | 3,875 | (477) | (12.3)% |
| Data processing and software | 3,657 | 3,367 | 290 | 8.6 % |
| Equipment | 1,350 | 1,512 | (162) | (10.7)% |
| Intangible amortization | 1,431 | 1,431 | — | — % |
| Advertising | 531 | 665 | (134) | (20.2)% |
| ATM and POS network charges | 1,210 | 1,373 | (163) | (11.9)% |
| Professional fees | 741 | 703 | 38 | 5.4 % |
| Telecommunications | 639 | 725 | (86) | (11.9)% |
| Regulatory assessments and insurance | 360 | 95 | 265 | 278.9 % |
| Postage | 283 | 290 | (7) | (2.4)% |
| Operational losses | 184 | 221 | (37) | (16.7)% |
| Courier service | 337 | 331 | 6 | 1.8 % |
| Gain on sale of foreclosed assets | (16) | (41) | 25 | (61)% |
| Loss on disposal of fixed assets | 15 | — | 15 | n/m |
| Other miscellaneous expense | 4,530 | 3,000 | 1,530 | 51.0 % |
| Total other non-interest expense | 18,650 | 17,547 | 1,103 | 6.3 % |
| Total non-interest expense | $ 45,705 | $ 44,819 | $ 886 | 2.0 % |
| Average full-time equivalent staff | 1,157 | 1,165 | (8) | (0.7)% |

Non-interest expense for the quarter ended June 30, 2020 increased $886,000 or 2.0% to $45,705,000 as compared to $44,819,000 during the trailing quarter ended March 31, 2020. The increase in other miscellaneous expenses was led by an increase in indirect loan documentation and administrative costs incurred in conjunction with the PPP loan program, totaling $1,479,000 during the quarter ended June 30, 2020.

The following table presents the key components of non-interest expense for the current and prior year quarterly periods indicated:

| | Three months ended June 30, | | | |
|---|---|---|---|---|
| (dollars in thousands) | 2020 | 2019 | $ Change | % Change |
| Base salaries, net of deferred loan origination costs | $ 17,277 | $ 17,211 | $ 66 | 0.4 % |
| Incentive compensation | 2,395 | 3,706 | (1,311) | (35.4)% |
| Benefits and other compensation costs | 7,383 | 5,802 | 1,581 | 27.2 % |
| Total salaries and benefits expense | 27,055 | 26,719 | 336 | 1.3 % |
| Occupancy | 3,398 | 3,738 | (340) | (9.1)% |
| Data processing and software | 3,657 | 3,354 | 303 | 9.0 % |
| Equipment | 1,350 | 1,752 | (402) | (22.9)% |
| Intangible amortization | 1,431 | 1,431 | — | — % |
| Advertising | 531 | 1,533 | (1,002) | (65.4)% |
| ATM and POS network charges | 1,210 | 1,270 | (60) | (4.7)% |
| Professional fees | 741 | 1,057 | (316) | (29.9)% |
| Telecommunications | 639 | 773 | (134) | (17.3)% |
| Regulatory assessments and insurance | 360 | 490 | (130) | (26.5)% |
| Postage | 283 | 315 | (32) | (10.2)% |
| Operational losses | 184 | 226 | (42) | (18.6)% |
| Courier service | 337 | 412 | (75) | (18.2)% |
| Gain on sale of foreclosed assets | (16) | (99) | 83 | (83.8)% |
| Loss on disposal of fixed assets | 15 | 42 | (27) | (64.3)% |
| Other miscellaneous expense | 4,530 | 3,684 | 846 | 23.0 % |
| Total other non-interest expense | 18,650 | 19,978 | (1,328) | (6.6)% |
| Total non-interest expense | $ 45,705 | $ 46,697 | $ (992) | (2.1)% |
| Average full-time equivalent staff | 1,124 | 1,138 | (14) | (1.2)% |

Non-interest expense decreased by $992,000 or 2.1% to $45,705,000 during the three months ended June 30, 2020 as compared to $46,697,000 for the three months ended June 30, 2019. Salary and benefit expense increased modestly by $336,000 or 1.3% to $27,055,000 during the three months ended June 30, 2020 as compared to $26,719,000 for the same period in 2019. This increase was attributed to increases in benefits and other compensations costs, partially offset by decreases in incentive compensation. Miscellaneous expenses also increased during the period by $846,000 or 23.0% to $4,530,000 as a result of the additional non-payroll related indirect lending costs incurred with the PPP program discussed above. Reductions in advertising expense totaled $1,002,000 or 65.4%, to $531,000 during the three months ended June 30, 2020 as compared to $1,533,000 for the same period in 2019. Additional decreases in expenditures for the quarter ended June 30, 2020 totaling $340,000, $402,000 and $316,000 were realized within occupancy, equipment and professional fees, respectively.

| | Six months ended June 30, | | | |
|---|---|---|---|---|
| (dollars in thousands) | 2020 | 2019 | $ Change | % Change |
| Base salaries, net of deferred loan origination costs | $ 34,900 | $ 33,968 | $ 932 | 2.7 % |
| Incentive compensation | 5,496 | 6,273 | (777) | (12.4)% |
| Benefits and other compensation costs | 13,931 | 11,606 | 2,325 | 20.0 % |
| Total salaries and benefits expense | 54,327 | 51,847 | 2,480 | 4.8 % |
| Occupancy | 7,273 | 7,512 | (239) | (3.2)% |
| Data processing and software | 7,024 | 6,703 | 321 | 4.8 % |
| Equipment | 2,862 | 3,619 | (757) | (20.9)% |
| Intangible amortization | 2,862 | 2,862 | — | — % |
| Advertising | 1,196 | 2,864 | (1,668) | (58.2)% |
| ATM and POS network charges | 2,583 | 2,593 | (10) | (0.4)% |
| Professional fees | 1,444 | 1,896 | (452) | (23.8)% |
| Telecommunications | 1,364 | 1,570 | (206) | (13.1)% |
| Regulatory assessments and insurance | 455 | 1,001 | (546) | (54.5)% |
| Postage | 573 | 625 | (52) | (8.3)% |
| Operational losses | 405 | 451 | (46) | (10.2)% |
| Courier service | 668 | 682 | (14) | (2.1)% |
| Gain on sale of foreclosed assets | (57) | (198) | 141 | (71.2)% |
| Loss on disposal of fixed assets | 15 | 66 | (51) | (77.3)% |
| Other miscellaneous expense | 7,531 | 8,056 | (525) | (6.5)% |
| Total other non-interest expense | 36,198 | 40,302 | (4,104) | (10.2)% |
| Total non-interest expense | $ 90,525 | $ 92,149 | $ (1,624) | (1.8)% |
| Average full-time equivalent staff | 1,124 | 1,138 | (14) | (1.2)% |

Non-interest expense decreased by $1,624,000 or 1.8% to $90,525,000 during the six months ended June 30, 2020 as compared to $92,149,000 for the same period in 2019. Reductions in advertising expenses totaling $1,668,000 or 58.2% to $1,196,000 provided a benefit to the bottom line, as did declines in miscellaneous expenses totaling $525,000 or 6.5% attributed primarily to reduced travel and training expenses as a result of state-wide shelter-in-place restrictions which were partially offset by the loan documentation and administrative costs associated with PPP lending activity.

## Provision for Income Taxes

The Company’s effective tax rate was 23.3% for the six months ended June 30, 2020, as compared to 27.4% for the year ended December 31, 2019. The reduction in effective tax rate was made possible through the provisions of the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) which provided the Company with an opportunity to file amended tax returns and generate proposed refunds of approximately $805,000. Other differences between the Company's effective tax rate and applicable federal and state statutory rates are due to the proportion of non-taxable revenue and low income housing tax credits as compared to the levels of pre-tax earnings.

## About TriCo Bancshares

Established in 1975, Tri Counties Bank is a wholly-owned subsidiary of TriCo Bancshares (NASDAQ: TCBK) headquartered in Chico, California, providing a unique brand of customer Service with Solutions available in traditional stand-alone and in-store bank branches in communities throughout Northern and Central California. Tri Counties Bank provides an extensive and competitive breadth of consumer, small business and commercial banking financial services, along with convenient around-the-clock ATM, online and mobile banking access. Brokerage services are provided by the Bank’s investment services through affiliation with Raymond James Financial Services, Inc. Visit www.TriCountiesBank.com to learn more.

**Forward-Looking Statement**

The statements contained herein that are not historical facts are forward-looking statements based on management's current expectations and beliefs concerning future developments and their potential effects on the Company. Such statements involve inherent risks and uncertainties, many of which are difficult to predict and are generally beyond our control. There can be no assurance that future developments affecting us will be the same as those anticipated by management. We caution readers that a number of important factors could cause actual results to differ materially from those expressed in, or implied or projected by, such forward-looking statements. These risks and uncertainties include, but are not limited to, the following: the strength of the United States economy in general and the strength of the local economies in which we conduct operations; the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System; inflation, interest rate, market and monetary fluctuations; the impact of changes in financial services policies, laws and regulations; technological changes; weather, natural disasters and other catastrophic events that may or may not be caused by climate change and their effects on economic and business environments in which the Company operates; the adverse impact on the U.S. economy, including the markets in which we operate, of the novel coronavirus, which caused the Coronavirus disease 2019 ("COVID-19") global pandemic, and the impact of a slowing U.S. economy and increased unemployment on the performance of our loan portfolio, the market value of our investment securities, the availability of sources of funding and the demand for our products; the costs or effects of mergers, acquisitions or dispositions we may make; the future operating or financial performance of the Company, including our outlook for future growth, changes in the level of our nonperforming assets and charge-offs; the appropriateness of the allowance for credit losses including the timing and effects of the implementation of the current expected credit losses model; any deterioration in values of California real estate, both residential and commercial; the effect of changes in accounting standards and practices; possible other-than-temporary impairment of securities held by us; changes in consumer spending, borrowing and savings habits; our ability to attract deposits and other sources of liquidity; changes in the financial performance and/or condition of our borrowers; our noninterest expense and the efficiency ratio; competition and innovation with respect to financial products and services by banks, financial institutions and non-traditional providers including retail businesses and technology companies; the challenges of integrating and retaining key employees; the costs and effects of litigation and of unexpected or adverse outcomes in such litigation; a failure in or breach of our operational or security systems or infrastructure, or those of our third-party vendors or other service providers, including as a result of cyber-attacks and the cost to defend against such attacks; the effect of a fall in stock market prices on our brokerage and wealth management businesses; and our ability to manage the risks involved in the foregoing. Additional factors that could cause results to differ materially from those described above can be found in our Annual Report on Form 10-K for the year ended December 31, 2019, which is on file with the Securities and Exchange Commission (the "SEC") and available in the "Investor Relations" section of our website, *https://www.tcbk.com/investor-relations* and in other documents we file with the SEC. Annualized, pro forma, projections and estimates are not forecasts and may not reflect actual results.

**TRICO BANCSHARES—CONDENSED CONSOLIDATED FINANCIAL DATA**
(Unaudited. Dollars in thousands, except share data)

| | Three months ended | | | | |
|---|---|---|---|---|---|
| | June 30, 2020 | March 31, 2020 | December 31, 2019 | September 30, 2019 | June 30, 2019 |
| **Revenue and Expense Data** | | | | | |
| Interest income | $ 67,148 | $ 66,517 | $ 67,918 | $ 68,889 | $ 68,180 |
| Interest expense | 2,489 | 3,325 | 3,722 | 4,201 | 3,865 |
| Net interest income | 64,659 | 63,192 | 64,196 | 64,688 | 64,315 |
| Provision for (benefit from) credit losses | 22,089 | 8,000 | (298) | (329) | 537 |
| Noninterest income: | | | | | |
| Service charges and fees | 8,168 | 9,126 | 10,629 | 10,590 | 10,128 |
| Gain on sale of investment securities | — | — | 3 | 107 | — |
| Other income | 3,489 | 2,694 | 3,554 | 3,411 | 3,295 |
| Total noninterest income | 11,657 | 11,820 | 14,186 | 14,108 | 13,423 |
| Noninterest expense: | | | | | |
| Salaries and benefits | 27,055 | 27,272 | 27,319 | 26,899 | 26,719 |
| Occupancy and equipment | 4,748 | 5,387 | 5,394 | 5,390 | 5,490 |
| Data processing and network | 4,867 | 4,740 | 4,914 | 4,754 | 4,624 |
| Other noninterest expense | 9,035 | 7,420 | 9,337 | 9,301 | 9,864 |
| Total noninterest expense | 45,705 | 44,819 | 46,964 | 46,344 | 46,697 |
| Total income before taxes | 8,522 | 22,193 | 31,716 | 32,781 | 30,504 |
| Provision for (benefit from) income taxes | 1,092 | 6,072 | 8,826 | 9,386 | 7,443 |
| Net income | $ 7,430 | $ 16,121 | $ 22,890 | $ 23,395 | $ 23,061 |
| **Share Data** | | | | | |
| Basic earnings per share | $ 0.25 | $ 0.53 | $ 0.75 | $ 0.77 | $ 0.76 |
| Diluted earnings per share | $ 0.25 | $ 0.53 | $ 0.75 | $ 0.76 | $ 0.75 |
| Dividends per share | $ 0.22 | $ 0.22 | $ 0.22 | $ 0.22 | $ 0.19 |
| Book value per common share | $ 29.76 | $ 28.91 | $ 29.70 | $ 29.39 | $ 28.71 |
| Tangible book value per common share (1) | $ 21.64 | $ 20.76 | $ 21.69 | $ 21.33 | $ 20.60 |
| Shares outstanding | 29,759,209 | 29,973,516 | 30,523,824 | 30,512,187 | 30,502,757 |
| Weighted average shares | 29,753,699 | 30,394,904 | 30,520,490 | 30,509,057 | 30,458,427 |
| Weighted average diluted shares | 29,883,193 | 30,522,842 | 30,650,071 | 30,629,027 | 30,642,518 |
| **Credit Quality** | | | | | |
| Allowance for credit losses to gross loans | 1.66 % | 1.32 % | 0.71 % | 0.75 % | 0.80 % |
| Loans past due 30 days or more | $ 16,622 | $ 28,693 | $ 9,024 | $ 8,089 | $ 14,580 |
| Total nonperforming loans | $ 20,730 | $ 17,955 | $ 16,864 | $ 18,565 | $ 20,585 |
| Total nonperforming assets | $ 22,652 | $ 20,184 | $ 19,405 | $ 20,111 | $ 22,133 |
| Loans charged-off | $ 491 | $ 510 | $ 1,098 | $ 1,522 | $ 293 |
| Loans recovered | $ 230 | $ 892 | $ 475 | $ 520 | $ 560 |
| **Selected Financial Ratios** | | | | | |
| Return on average total assets | 0.43 % | 1.00 % | 1.40 % | 1.44 % | 1.45 % |
| Return on average equity | 3.39 % | 7.14 % | 10.03 % | 10.42 % | 10.68 % |
| Average yield on loans, excluding PPP | 5.17 % | 5.23 % | 5.33 % | 5.46 % | 5.50 % |
| Average yield on interest-earning assets | 4.26 % | 4.57 % | 4.65 % | 4.72 % | 4.76 % |
| Average rate on interest-bearing deposits | 0.20 % | 0.29 % | 0.33 % | 0.34 % | 0.33 % |
| Average cost of total deposits | 0.12 % | 0.19 % | 0.22 % | 0.23 % | 0.22 % |
| Average rate on borrowings & subordinated debt | 3.25 % | 3.89 % | 3.96 % | 3.50 % | 4.62 % |
| Average rate on interest-bearing liabilities | 0.27 % | 0.37 % | 0.41 % | 0.45 % | 0.42 % |
| Net interest margin (fully tax-equivalent) | 4.10 % | 4.34 % | 4.39 % | 4.44 % | 4.50 % |
| Loans to deposits | 76.84 % | 81.05 % | 80.26 % | 78.98 % | 76.82 % |
| Efficiency ratio | 59.89 % | 59.75 % | 59.92 % | 58.82 % | 60.07 % |
| **Supplemental Loan Interest Income Data** | | | | | |
| Discount accretion on acquired loans | $ 2,587 | $ 1,748 | $ 2,218 | $ 2,360 | $ 1,904 |
| All other loan interest income | $ 53,466 | $ 54,510 | $ 54,644 | $ 54,639 | $ 53,587 |
| Total loan interest income | $ 56,053 | $ 56,258 | $ 56,862 | $ 56,999 | $ 55,491 |

(1) Tangible book value per share is calculated by subtracting goodwill and other intangible assets from total shareholders' equity and dividing that result by the shares outstanding at the end of the period. Management believes that tangible book value per common share is meaningful because it is a measure that the Company and investors commonly use to assess shareholder value.

## TRICO BANCSHARES—CONDENSED CONSOLIDATED FINANCIAL DATA
(Unaudited. Dollars in thousands)

| Balance Sheet Data | June 30, 2020 | March 31, 2020 | December 31, 2019 | September 30, 2019 | June 30, 2019 |
|---|---|---|---|---|---|
| Cash and due from banks | $ 705,852 | $ 185,466 | $ 276,507 | $ 259,047 | $ 175,582 |
| Securities, available for sale, net | 999,313 | 1,005,006 | 953,098 | 987,054 | 1,136,946 |
| Securities, held to maturity, net | 337,165 | 359,770 | 375,606 | 393,449 | 412,524 |
| Restricted equity securities | 17,250 | 17,250 | 17,250 | 17,250 | 17,250 |
| Loans held for sale | 8,352 | 2,695 | 5,265 | 7,604 | 5,875 |
| Loans: | | | | | |
| Commercial loans | 667,263 | 285,830 | 283,707 | 278,458 | 276,045 |
| Consumer loans | 416,490 | 428,313 | 445,542 | 442,539 | 434,388 |
| Real estate mortgage loans | 3,437,960 | 3,422,440 | 3,328,290 | 3,247,156 | 3,178,730 |
| Real estate construction loans | 279,692 | 242,479 | 249,827 | 214,195 | 214,524 |
| Total loans, gross | 4,801,405 | 4,379,062 | 4,307,366 | 4,182,348 | 4,103,687 |
| Allowance for credit losses | (79,739) | (57,911) | (30,616) | (31,537) | (32,868) |
| Total loans, net | 4,721,666 | 4,321,151 | 4,276,750 | 4,150,811 | 4,070,819 |
| Premises and equipment | 85,292 | 86,304 | 87,086 | 87,424 | 88,534 |
| Cash value of life insurance | 119,254 | 118,543 | 117,823 | 117,088 | 116,606 |
| Accrued interest receivable | 20,337 | 18,575 | 18,897 | 18,205 | 20,990 |
| Goodwill | 220,872 | 220,872 | 220,872 | 220,872 | 220,972 |
| Other intangible assets | 20,694 | 22,126 | 23,557 | 24,988 | 26,418 |
| Operating leases, right-of-use | 29,842 | 30,221 | 27,879 | 28,957 | 30,030 |
| Other assets | 74,182 | 86,330 | 70,591 | 72,134 | 72,626 |
| Total assets | $ 7,360,071 | $ 6,474,309 | $ 6,471,181 | $ 6,384,883 | $ 6,395,172 |
| Deposits: | | | | | |
| Noninterest-bearing demand deposits | $ 2,487,120 | $ 1,883,143 | $ 1,832,665 | $ 1,777,357 | $ 1,780,339 |
| Interest-bearing demand deposits | 1,318,951 | 1,243,192 | 1,242,274 | 1,222,955 | 1,263,635 |
| Savings deposits | 2,043,593 | 1,857,684 | 1,851,549 | 1,843,873 | 1,856,749 |
| Time certificates | 398,594 | 418,679 | 440,506 | 451,222 | 441,450 |
| Total deposits | 6,248,258 | 5,402,698 | 5,366,994 | 5,295,407 | 5,342,173 |
| Accrued interest payable | 1,734 | 1,986 | 2,407 | 2,847 | 2,665 |
| Operating lease liability | 29,743 | 30,007 | 27,540 | 28,494 | 29,434 |
| Other liabilities | 98,684 | 96,560 | 91,984 | 87,867 | 74,590 |
| Other borrowings | 38,544 | 19,309 | 18,454 | 16,423 | 13,292 |
| Junior subordinated debt | 57,422 | 57,323 | 57,232 | 57,180 | 57,132 |
| Total liabilities | 6,474,385 | 5,607,883 | 5,564,611 | 5,488,218 | 5,519,286 |
| Common stock | 530,422 | 534,623 | 543,998 | 543,415 | 542,939 |
| Retained earnings | 354,645 | 356,935 | 367,794 | 351,751 | 335,145 |
| Accum. other comprehensive income (loss) | 619 | (25,132) | (5,222) | 1,499 | (2,198) |
| Total shareholders' equity | $ 885,686 | $ 866,426 | $ 906,570 | $ 896,665 | $ 875,886 |
| **Quarterly Average Balance Data** | | | | | |
| Average loans | $ 4,363,481 | $ 4,329,357 | $ 4,231,347 | $ 4,142,602 | $ 4,044,044 |
| Average interest-earning assets | $ 6,365,865 | $ 5,883,750 | $ 5,823,795 | $ 5,810,248 | $ 5,764,966 |
| Average total assets | $ 7,027,735 | $ 6,506,587 | $ 6,482,832 | $ 6,452,470 | $ 6,385,889 |
| Average deposits | $ 5,937,294 | $ 5,395,933 | $ 5,385,190 | $ 5,327,235 | $ 5,370,879 |
| Average borrowings and subordinated debt | $ 83,685 | $ 80,062 | $ 77,452 | $ 130,506 | $ 75,185 |
| Average total equity | $ 880,405 | $ 908,633 | $ 905,585 | $ 890,667 | $ 866,284 |
| **Capital Ratio Data** | | | | | |
| Total risk based capital ratio | 15.1 % | 15.1 % | 15.1 % | 15.2 % | 14.9 % |
| Tier 1 capital ratio | 13.9 % | 13.9 % | 14.4 % | 14.5 % | 14.2 % |
| Tier 1 common equity ratio | 12.8 % | 12.8 % | 13.3 % | 13.4 % | 13.0 % |
| Tier 1 leverage ratio | 10.3 % | 11.2 % | 11.6 % | 11.3 % | 11.1 % |
| Tangible capital ratio (1) | 9.1 % | 10.0 % | 10.6 % | 10.6 % | 10.2 % |

(1) Tangible capital ratio is calculated by subtracting goodwill and other intangible assets from total shareholders' equity and total assets and then dividing the adjusted assets by the adjusted equity. Management believes that the tangible capital ratio is meaningful because it is a measure that the Company and investors commonly use to assess capital adequacy.

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