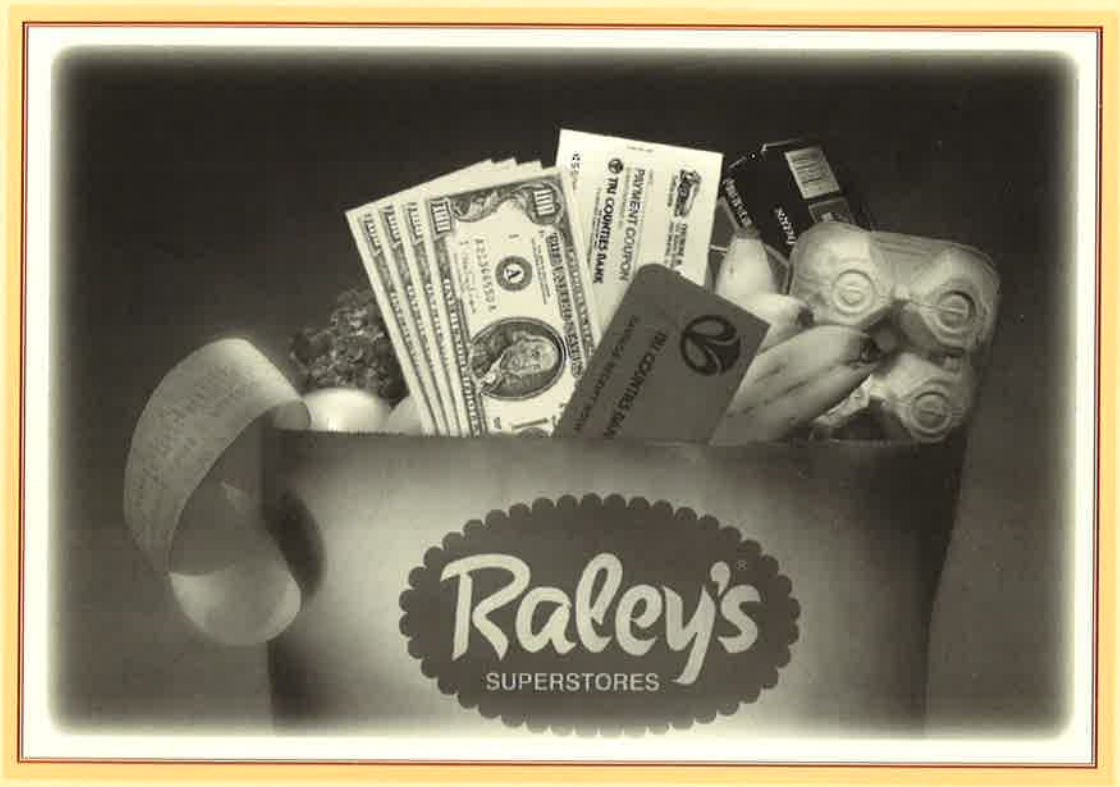
TRICO BANCSHARES

1993 ANNUAL REPORT



TRICO BANCSHARES

TriCo Bancshares (the "Company") is a bank holding company incorporated at the direction of the Board of Directors of Tri Counties Bank (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, Shasta, Siskiyou and Sutter, as well as portions of Tehama, Lassen and Yuba. It opened its first banking office in Chico, California, in 1975, followed by branch offices in Willows, Durham and Orland, California. A second branch office in Chico 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, adding six additional offices in the communities of Bieber, Burney, Cottonwood, Fall River Mills, Palo Cedro and Redding, California. In 1987, the Bank acquired certain assets of the Wells Fargo Bank branch office in Yreka, California, thereby extending its service area into Siskiyou County. In 1988, the Bank opened a third Chico branch office in the new Chico Mall, a regional shopping center. In 1990, the Bank opened a branch office in Yuba City, the first to serve Sutter and Yuba Counties.

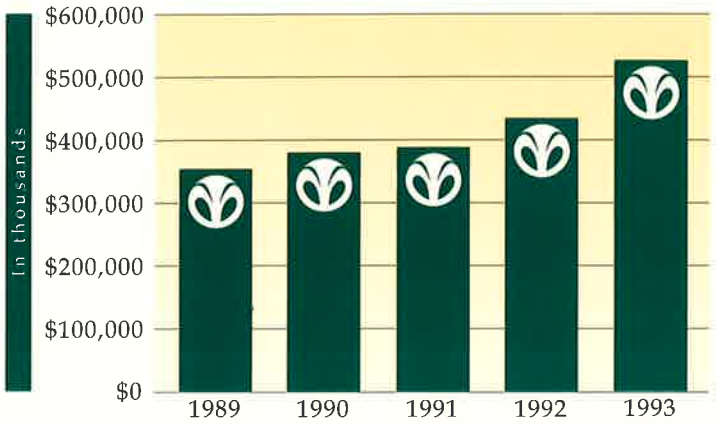
The Bank's operating policy since its inception has emphasized retail banking. Most of the Bank's customers are retail customers and small to medium-sized businesses. The Bank emphasizes serving the needs of local businesses, farmers and ranchers, retired individuals and wage earners.

The majority of the Bank's loans are direct loans made to individuals and businesses in the area. Most of the Bank's deposits are attracted from individuals and business-related sources within the Bank's service area. 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.

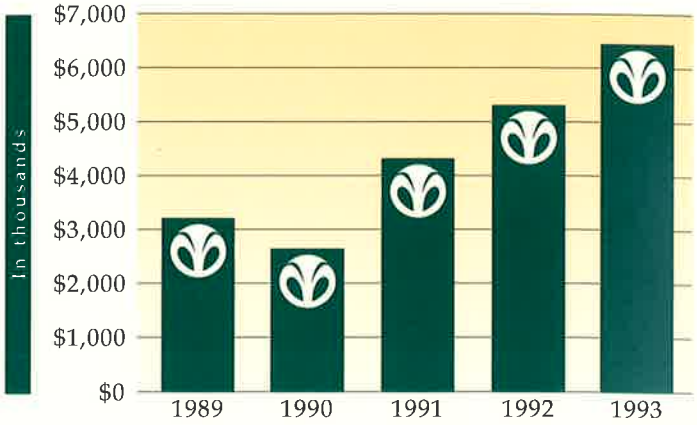
MARKET MAKERS FOR TRICO BANCSHARES COMMON STOCK

Sutro & Co. Incorporated P.O. Box 1688 Big Bear Lake, CA 92315-1688 Troy Norlander (800) 288-2811 (909) 866-8966	Hoefer & Arnett Incorporated 100 Pine Street, Suite 470 San Francisco, CA 94111 Marc Arnett/Curtis Heinz (800) 346-5544 (415) 362-7111	Van Kasper & Company 600 California St. Suite 1700 San Franciso, CA 94108-2704 Richard Hennig (800) 652-1747 (415) 954-0646	Kidder, Peabody & Co. 1610 Arden Way, Suite 200 Sacramento, CA 95815-4005 Sam Statler (800) 678-6783 (916) 648-7241	Piper Jaffray, Inc. 222 South Ninth Street Minneapolis, MN 55402 Jeff Adamson (800) 328-7488 (612) 342-6200

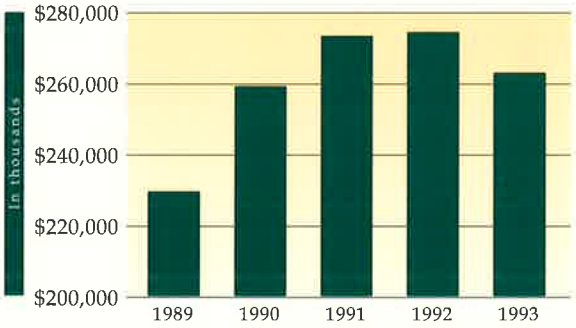
TOTAL ASSETS



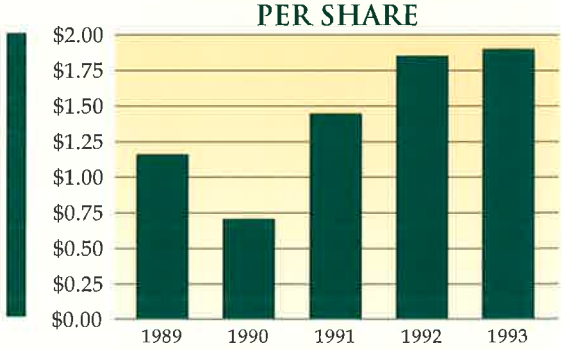
NET INCOME



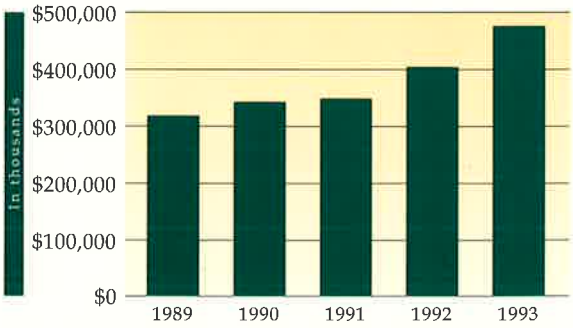
TOTAL LOANS



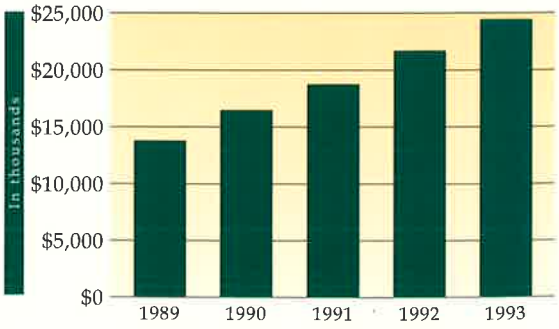
PRIMARY EARNINGS PER SHARE



TOTAL DEPOSITS



NET INTEREST INCOME

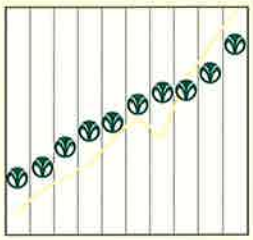


FIVE YEAR SELECTED FINANCIAL DATA
(in thousands, except share data)

	1993	1992	1991	1990	1989
Statement of Operations Data:[1]					
Interest income	**$ 36,516**	$ 35,429	$ 34,961	$ 35,811	$ 30,142
Interest expense	**12,308**	13,584	16,140	19,160	16,515
Net interest income	**24,208**	21,845	18,821	16,651	13,627
Provision for loan losses	**1,759**	1,895	1,200	2,450	1,000
Net interest income after provision for loan losses	**22,449**	19,950	17,621	14,201	12,627
Noninterest income	**5,898**	4,649	4,300	3,505	2,787
Noninterest expense	**17,559**	15,768	14,824	13,850	10,583
Income before income taxes	**10,788**	8,831	7,097	3,856	4,831
Provision for income taxes	**4,449**	3,640	2,772	1,291	1,676
Net income	**$ 6,339**	$ 5,191	$ 4,325	$ 2,565	$ 3,155
Share Data:[2]					
Earnings per share:					
Primary	**$ 1.89**	$ 1.84	$ 1.43	$ .69	$ 1.15
Fully diluted	**1.87**	1.84	1.43	.69	1.15
Cash dividend paid per share	**.39**	.35	.30	.28	.21
Common shareholders' equity at year end	**12.62**	10.59	9.11	7.89	7.44
Balance Sheet Data:					
Total loans, gross	**$262,858**	$274,562	$272,828	$258,881	$230,016
Total assets	**516,286**	434,452	384,482	376,244	354,688
Total deposits	**462,132**	399,205	348,427	341,468	321,680
Total shareholders' equity	**41,768**	31,415	30,410	27,334	26,243
Selected Financial Ratios:					
Return on average assets	**1.30%**	1.23%	1.19%	.70%	1.01%
Return on average common shareholders' equity	**16.83%**	20.70%	16.51%	8.78%	17.20%
Leverage ratio[3]	**8.09%**	7.23%	7.91%	7.25%	–
Total risk-based capital ratio	**14.27%**	11.91%	11.52%	10.70%	–
Net interest margin[4]	**5.48%**	5.76%	5.96%	5.38%	5.23%
Reserve for loan losses to total loans outstanding at end of year	**2.01%**	1.50%	1.27%	1.20%	1.01%

[1] Tax-exempt securities are presented on an actual yield basis.
[2] Retroactively adjusted to reflect the 12%, 15%, 15% and 20% stock dividends declared in 1993, 1992, 1991, and 1989, respectively.
[3] Tier I capital divided by total ending assets.
[4] Calculated on a tax equivalent basis.

PRESIDENT'S MESSAGE



TriCo Bancshares achieved record earnings of $6,339,000 and record assets of $516,286,000 during 1993. Our wholly-owned subsidiary, Tri Counties Bank, showed excellent performance by every measure when compared with other banks of its size nationally. We believe it to be well-positioned for continued growth.

TriCo has entered into a merger agreement with Country National Bank, Redding, California, a $59,600,000 one-office community bank. Country's assets, customer base and shareholder base will enhance our market presence in Redding, and give the Bank a 12.8% (third place) market share in Shasta County.

Branch offices will be opened early in 1994 inside four Raley's stores, a leading Northern California chain of supermarket/drug centers. Supermarket branches provide a low cost avenue for expanding the Bank's service area. These types of branches have been successfully operated in other areas of the United States, but are relatively new to California.

TriCo Bancshares Common Stock became listed on the NASDAQ National Market on April 19, 1993 under the symbol TCBK. Current trading activity is listed daily in The Wall Street Journal and in the financial sections of leading newspapers. We feel this listing has greatly increased the stock's liquidity.

In March 1993, 529,000 shares of TriCo Bancshares Common Stock were sold in a public offering at $16.00 per share, adding approximately $7,700,000 to capital. A portion of this was used on December 1, 1993 to redeem all 16,900 shares of Series "C" Preferred Stock which was paying a 10% annual cash dividend.

Tri Counties Bank greatly values its broad retail customer base. The stability of the core customers enhances the Bank's ability to grow and serve its local communities. Promotional efforts in 1994 will be aimed at attracting the checking, savings, credit card and loan accounts of those who have not yet formed a permanent banking relationship.

Tri Counties Bank continues its commitment to the Community Reinvestment Act. The Bank is a charter member of the California Community Reinvestment Corporation, a pool of California lenders participating in redevelopment of low to moderate income areas.

1993 was a record year of growth in both profits and assets. At the same time, the Bank continues to exceed all regulatory definitions of a "well-capitalized" bank. With the expansion plans outlined above, your Directors and Management anticipate continued growth in 1994.

We thank you for your confidence and support.

Sincerely,

Robert H. Steveson

Robert H. Steveson
President & Chief Executive Officer

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders
of TriCo Bancshares and Subsidiary:

We have audited the accompanying consolidated balance sheets of TriCo Bancshares (a California corporation) and Subsidiary as of December 31, 1993 and 1992, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 1993. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TriCo Bancshares and Subsidiary as of December 31, 1993 and 1992, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1993 in conformity with generally accepted accounting principles.

Arthur Andersen & Co.

San Francisco, California
January 21, 1994

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	December 31, 1993	1992
ASSETS		
Cash and due from banks	**$ 28,836**	$ 24,587
Federal funds sold	**5,100**	—
Cash and cash equivalents	**33,936**	24,587
Securities held-to-maturity (approximate market value $109,128 and $69,063)	**108,766**	68,023
Securities available-for-sale, net of valuation allowance of $0 and $260 (approximate market value $90,595 and $49,765)	**90,138**	49,037
Loans:		
Commercial	**133,323**	143,158
Consumer	**53,361**	44,704
Real estate mortgages	**67,650**	71,306
Real estate construction	**8,524**	15,394
	262,858	274,562
Less: Allowance for loan losses	**5,279**	4,111
Net loans	**257,579**	270,451
Premises and equipment, net	**10,395**	9,134
Investment in real estate properties	**1,172**	1,240
Other real estate owned	**2,822**	1,312
Accrued interest receivable	**3,350**	4,091
Deferred income taxes	**2,321**	1,629
Other assets	**5,807**	4,948
Total assets	**$516,286**	$434,452
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing demand	**$ 81,761**	$ 72,375
Interest-bearing demand	**105,477**	99,560
Savings	**148,174**	177,596
Time certificates, $100,000 and over	**315**	839
Other time certificates	**126,405**	48,835
Total deposits	**462,132**	399,205
Accrued interest payable	**1,521**	826
Other liabilities	**3,721**	1,979
Debt guarantee for Employee Stock Ownership Plan	**—**	120
Long-term debt	**7,144**	907
Total liabilities	**474,518**	403,037
Commitments and contingencies (Note N)		
Shareholders' equity:		
Preferred stock, no par value: Authorized 1,000,000 shares;		
Series B, issued and outstanding 8,000 shares	**3,899**	3,899
Series C, issued and outstanding 0 and 16,900 shares, respectively	**—**	2,187
Common stock, no par value: Authorized 20,000,000 shares;		
issued and outstanding 3,000,134 and 2,134,976 shares, respectively	**39,159**	25,343
Retained earnings	**(1,290)**	106
Debt guarantee for Employee Stock Ownership Plan	**—**	(120)
Total shareholders' equity	**41,768**	31,415
Total liabilities and shareholders' equity	**$516,286**	$434,452

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except earnings per share)

	Years Ended December 31,		
	1993	1992	1991
Interest income:			
Interest and fees on loans	**$27,763**	$29,259	$30,952
Interest on investment securities—taxable	**8,488**	6,043	3,010
Interest on investment securities—tax exempt	**29**	76	721
Interest on federal funds sold	**236**	51	278
Total interest income	**36,516**	35,429	34,961
Interest expense:			
Interest on interest-bearing demand deposits	**2,848**	3,115	4,627
Interest on savings	**4,697**	6,743	2,494
Interest on time certificates of deposit	**3,741**	3,445	8,561
Interest on time certificates of deposit, $100,000 and over	**32**	108	319
Interest on short-term borrowing	**739**	65	20
Interest on long-term debt	**251**	108	119
Total interest expense	**12,308**	13,584	16,140
Net interest income	**24,208**	21,845	18,821
Provision for loan losses	**1,759**	1,895	1,200
Net interest income after provision for loan losses	**22,449**	19,950	17,621
Noninterest income:			
Service charges and fees	**3,159**	3,019	2,807
Other income	**1,318**	1,263	1,454
Securities gains, net	**1,421**	367	39
Total noninterest income	**5,898**	4,649	4,300
Noninterest expenses:			
Salaries and related expenses	**7,905**	7,382	7,192
Other, net	**9,654**	8,386	7,632
Total noninterest expenses	**17,559**	15,768	14,824
Net income before income taxes	**10,788**	8,831	7,097
Income taxes	**4,449**	3,640	2,772
Net income	**$ 6,339**	$ 5,191	$ 4,325
Preferred stock dividends	**630**	797	944
Net income available to common shareholders	**$ 5,709**	$ 4,394	$ 3,381
Primary earnings per common share	**$ 1.89**	$ 1.84	$ 1.43
Fully diluted earnings per common share	**$ 1.87**	$ 1.84	$ 1.43

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 1993, 1992 and 1991
(in thousands, except share amounts)

	Series A Preferred Stock		Series B Preferred Stock		Series C Preferred Stock		Common Stock		Retained Earnings (Deficit)	Debt Guarantee for ESOP	Total
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount			
Balance, December 31, 1990	26,724	$2,544	8,000	$3,899	16,900	$2,187	1,599,047	$18,145	$ 919	$ (360)	$27,334
15% Common Stock Dividend declared	—	—	—	—	—	—	239,230	3,108	(3,108)	—	—
Common Stock issued	—	—	—	—	—	—	18,840	297	—	—	297
Series A Preferred Stock cash dividends	—	—	—	—	—	—	—	—	(295)	—	(295)
Series B Preferred Stock cash dividends	—	—	—	—	—	—	—	—	(420)	—	(420)
Series C Preferred Stock cash dividends	—	—	—	—	—	—	—	—	(229)	—	(229)
Common Stock cash dividends	—	—	—	—	—	—	—	—	(722)	—	(722)
Net income	—	—	—	—	—	—	—	—	4,325	—	4,325
Reduction of ESOP debt	—	—	—	—	—	—	—	—	—	120	120
Balance, December 31, 1991	26,724	2,544	8,000	3,899	16,900	2,187	1,857,117	21,550	470	(240)	30,410
Redemption of Preferred Stock	(26,724)	(2,544)	—	—	—	—	—	—	(129)	—	(2,673)
15% Common Stock Dividend declared	—	—	—	—	—	—	277,859	3,793	(3,793)	—	—
Series A Preferred Stock cash dividends	—	—	—	—	—	—	—	—	(148)	—	(148)
Series B Preferred Stock cash dividends	—	—	—	—	—	—	—	—	(420)	—	(420)
Series C Preferred Stock cash dividends	—	—	—	—	—	—	—	—	(229)	—	(229)
Common Stock cash dividends	—	—	—	—	—	—	—	—	(836)	—	(836)
Net income	—	—	—	—	—	—	—	—	5,191	—	5,191
Reduction of ESOP debt	—	—	—	—	—	—	—	—	—	120	120
Balance, December 31, 1992	—	—	8,000	3,899	16,900	2,187	2,134,976	25,343	106	(120)	31,415
Redemption of Preferred Stock	—	—	—	—	(16,900)	(2,187)	—	—	(95)	—	(2,282)
Common Stock issued	—	—	—	—	—	—	529,000	7,734	—	—	7,734
12% Common Stock Dividend declared	—	—	—	—	—	—	319,848	5,917	(5,917)	—	—
Exercise of Common Stock options	—	—	—	—	—	—	16,310	165	—	—	165
Series B Preferred Stock cash dividends	—	—	—	—	—	—	—	—	(420)	—	(420)
Series C Preferred Stock cash dividends	—	—	—	—	—	—	—	—	(210)	—	(210)
Common Stock cash dividends	—	—	—	—	—	—	—	—	(1,093)	—	(1,093)
Net income	—	—	—	—	—	—	—	—	6,339	—	6,339
Reduction of ESOP debt	—	—	—	—	—	—	—	—	—	120	120
Balance, December 31, 1993	—	$ —	8,000	$3,899	—	$ —	3,000,134	$39,159	$(1,290)	$ —	$41,768

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years ended December 31,		
	1993	1992	1991
Operating activities:			
Net income	**$ 6,339**	$ 5,191	$ 4,325
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	**1,759**	1,895	1,200
Provision for losses on other real estate owned	**632**	—	—
Provision for real estate losses	**10**	460	135
Depreciation and amortization	**948**	983	1,124
Accretion of investment security discounts	**1,643**	1,253	129
Deferred income taxes	**1,070**	(202)	(389)
Investment security (gains) losses (net)	**(1,453)**	(367)	(39)
(Gain) loss on sale of investments in real estate properties (net)	**(17)**	(30)	(285)
Origination of loans held for sale	**51,907**	49,009	21,665
Proceeds from loan sales	**(50,888)**	(47,170)	(18,411)
Common Stock issued as compensation	**—**	—	297
(Increase) decrease in interest receivable	**741**	(815)	488
Increase (decrease) in interest payable	**(695)**	(1,492)	(1,682)
(Increase) decrease in other assets and liabilities	**507**	(1,994)	276
Net cash provided by operating activities	**12,503**	6,721	8,833
Investing activities:			
Proceeds from maturities of securities	**62,284**	42,764	12,540
Proceeds from sales of securities	**182,092**	87,470	38,436
Purchases of securities	**(326,410)**	(182,156)	(60,917)
Net (increase) decrease in loans	**7,452**	(4,816)	(18,044)
Purchases of premises and equipment	**(1,705)**	(974)	(197)
Proceeds from sale of real estate properties	**105**	1,928	1,951
Purchases and additions to real estate properties	**(30)**	(1,158)	(977)
Net cash used by investing activities	**(76,212)**	(56,942)	(27,208)
Financing activities:			
Net increase (decrease) in deposits	**62,927**	50,778	6,959
Borrowings under long-term debt agreements	**52,005**	—	—
Payments of principal on long-term debt agreements	**(45,768)**	—	—
Redemption of Preferred Stock	**(2,282)**	(2,673)	—
Cash dividends — Preferred	**(630)**	(797)	(944)
Cash dividends — Common	**(1,093)**	(836)	(722)
Sale of Common Stock	**7,899**	—	—
Net cash provided by financing activities	**73,058**	46,472	5,293
Increase (decrease) in cash and cash equivalents	**9,349**	(3,749)	(13,082)
Cash and cash equivalents at beginning of year	**24,587**	28,336	41,418
Cash and cash equivalents at end of year	**$33,936**	$24,587	$28,336
Supplemental information			
Cash paid for taxes	**$ 4,885**	$ 4,207	$ 3,593
Cash paid for interest expense	**$11,613**	$15,076	$17,822
Non-cash debt guarantee for ESOP	**$ (120)**	$ (120)	$ (120)
Non-cash assets acquired through foreclosure	**$ 2,642**	$ —	$ —
Non-cash transfers of OREO to fixed assets	**$ 504**	$ —	$ —

See Notes to Consolidated Financial Statements

NOTE A - GENERAL SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of TriCo Bancshares (the "Company") conform to generally accepted accounting principles and general practices within the banking industry. The following are descriptions of the more significant accounting and reporting policies.

Principles of Consolidation

The consolidated financial statements include the accounts of 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.

Securities

In 1992 the Company divided its securities portfolio into two classifications: Securities Held-to-Maturity and Securities Available-for-Sale. Securities in the available-for-sale classification are valued at the lower of aggregate cost or market, through the use of a valuation allowance. Decreases in market value below cost result in unrealized losses being charged to current period income. Cost is adjusted for the accretion of discounts and amortization of premiums using the interest method. Amortization and accretion are recognized as adjustments to interest income.

Securities held-to-maturity are carried at cost, adjusted for the accretion of discounts and amortization of premiums using the interest method. Amortization and accretion are recognized as adjustments to interest income. Because the Company has the intention and ability to hold these securities to maturity, it does not provide a valuation allowance for the excess of carrying value over market value.

Loans

Loans are reported at the principal amount outstanding, net of unearned income and the allowance for loan losses. Interest on loans is calculated by using the simple interest method on the daily balance of the principal amount outstanding.

Loan origination and commitment fees and certain direct loan origination costs are deferred, and the net amount is amortized as an adjustment of the related loan's yield over the estimated life of the loan.

Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. Accrual of interest on loans is generally discontinued either when reasonable doubt exists as to the full, timely collection of interest or principal or when a loan becomes contractually past due by 90 days or more with respect to interest or principal. When loans are 90 days past due, but in Management's judgment are well secured and in the process of collection, they are not classified as nonaccrual. When a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed. Income on such loans is then recognized only to the extent that cash is received and where the future collection of principal is probable. Interest accruals are resumed on such loans only when they are brought fully current with respect to interest and principal and when, in the judgment of Management, the loans are estimated to be fully collectible as to both principal and interest.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when Management believes that the collectibility of the principal is unlikely or, with respect to consumer installment loans, according to an established delinquency schedule. The allowance is an amount that Management believes will be adequate to absorb losses inherent in existing loans, leases and commitments to extend credit, based on evaluations of the collectibility and prior loss experience of loans, leases and commitments to extend credit. The evaluations take into consideration such factors as changes in the nature and size of the portfolio, overall portfolio quality, loan concentrations, specific problem loans, commitments, and current and anticipated economic conditions that may affect the borrower's ability to pay.

NOTE A - (CONTINUED)

Mortgage Operations

The Company sold substantially all of its long term residential mortgage loans originated during 1993, 1992 and 1991 for cash proceeds equal to the fair value of the loans. These loans were originated through Bank branches and not obtained from mortgage brokers. Servicing rights were retained on all of the loans sold, for which the Company receives a servicing fee. Because the amounts are not significant, the Company does not capitalize excess servicing fees, which represent the present value of the spread between the face rate of the loan and the rate paid to the investor net of the amount required to cover the cost of servicing the loan plus a profit margin given the expected life of the loans. Gain or loss on the sale of loans represents the difference between the cash proceeds received and the carrying value of the loans sold. The carrying value is the original value of the loan adjusted for loan origination fees and costs. At December 31, 1993, mortgage loans held for sale totaled $1.6 million. The Company had entered into commitments to sell all of these loans at year end. At December 31, 1993 and 1992, the Company serviced real estate mortgage loans for others of $104 million and $86 million, respectively. At December 31, 1993, the Bank had commitments to sell real estate mortgage loans of $404,600 to the Federal Home Loan Mortgage Corporation (Freddie Mac).

Premises and Equipment

Premises and equipment, including those acquired under capital lease, are stated at cost less accumulated depreciation and amortization. Depreciation and amortization expenses are computed using the straight-line method over the estimated useful lives of the related assets or lease terms. Asset lives range from 3-10 years for furniture and equipment and 15-30 years for land improvements and buildings.

Investment in Real Estate Properties

Investment in real estate properties is stated at the lower of cost or market and consists of properties either acquired directly or transferred from other real estate owned 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 properties account are periodically evaluated. Any decline in value below the carrying amount of a property is included in other expenses. Income and expenses on the investment in real estate properties are included in other expenses.

Other Real Estate Owned

Real estate acquired by foreclosure is carried at the lower of the recorded investment in the property or its fair value. Prior to foreclosure, the value of the underlying loan is written down to the fair value of the real estate to be acquired by a charge to the allowance for loan losses, when necessary. Any subsequent write-downs are recorded as a valuation allowance with a charge to the income statment. Expenses of such properties, net of related income, and gains and losses on their disposition are included in other expenses.

Income Taxes

Deferred income taxes are provided for temporary differences between items of income or expense reported in the consolidated financial statements and those reported for income tax purposes.

Effective January 1, 1993, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 109, Accounting for Income Taxes. The impact of the change was immaterial.

The Company files a consolidated Federal income tax return with its subsidiaries. The provisions for Federal income taxes of the Company and its subsidiaries are recorded on the basis of filing separate income tax returns; making appropriate adjustments arising out of the consolidated Federal income tax return regulations.

Earnings Per Common Share

Earnings per common share are computed based on the weighted average number of shares of common stock and common stock equivalents outstanding. The weighted average number of shares used in the computation of primary earnings per common share were: 3,028,298 for 1993, 2,391,173 for 1992, 2,369,894 for 1991, as adjusted for stock dividends. The weighted average number of shares used in the computation of fully diluted earnings per common share were 3,058,460 for 1993.

Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and Federal funds sold.

NOTE B - RESTRICTED CASH BALANCES

Reserves (in the form of deposits with the Federal Reserve Bank) of $7,653,000 and $5,609,000 were maintained to satisfy Federal regulatory requirements at December 31, 1993 and December 31, 1992. These reserves are included in cash and due from banks in the accompanying balance sheet.

NOTE C - INVESTMENT SECURITIES

The amortized cost and estimated market values of investments in debt securities are summarized in the following tables:

	December 31, 1993			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
	(in thousands)			
Securities Held-to-Maturity				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 16,314	$ 441	$ (22)	$ 16,733
Obligations of states and political subdivisions	275	4	—	279
Mortgage-backed securities	90,869	91	(152)	90,808
Other securities	1,308	—	—	1,308
Totals	$108,766	$ 536	$ (174)	$109,128
Securities Available-for-Sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 51,235	$ 420	$ (6)	$ 51,649
Mortgage-backed securities	38,903	267	(224)	38,946
Totals	$ 90,138	$ 687	$ (230)	$ 90,595

	December 31, 1992			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
	(in thousands)			
Securities Held-to-Maturity				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$55,560	$ 908	$ (79)	$56,389
Obligations of states and political subdivisions	561	6	—	567
Mortgage-backed securities	11,578	208	(3)	11,783
Other securities	324	—	—	324
Totals	$68,023	$ 1,122	$ (82)	$69,063
Securities Available-for-Sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$47,450	$ 721	$ (9)	$48,162
Mortgage-backed securities	917	16	—	933
Other securities	930	—	—	930
Less valuation allowance	(260)	—	—	(260)
Totals	$49,037	$ 737	$ (9)	$49,765

NOTE C - (CONTINUED)

The amortized cost and estimated market value of debt securities at December 31, 1993 and 1992 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Market Value
December 31, 1993	(in thousands)	
Securities Held-to-Maturity		
Due in one year	$2,650	$2,647
Due after one year through five years	97,636	98,033
Due after five years through ten years	7,172	7,140
	107,458	107,820
Other securities	1,308	1,308
Totals	$108,766	$109,128
Securities Available-for-Sale		
Due in one year	$29,811	$30,202
Due after one year through five years	52,369	52,443
Due after five years through ten years	7,958	7,950
Totals	$90,138	$90,595

	Amortized Cost	Estimated Market Value
December 31, 1992	(in thousands)	
Securities Held-to-Maturity		
Due in one year	$16,765	$16,937
Due after one year through five years	49,939	50,774
Due after five years through ten years	995	1,028
	67,699	68,739
Other securities	324	324
Totals	$68,023	$69,063
Securities Available-for-Sale		
Due in one year	$14,015	$14,032
Due after one year through five years	31,358	31,969
Due after five years through ten years	2,994	3,094
	48,367	49,095
Other securities	930	930
Less valuation allowance	(260)	(260)
Totals	$49,037	$49,765

Proceeds from sales of investments in debt securities:

For the Year	Gross Proceeds	Gross Gains	Gross Losses
		(in thousands)	
1993	$182,092	$1,984	$ 531
1992	$ 87,470	$ 789	$ 162

Investment securities with an aggregate carrying value of $5,142,000 and $3,121,000 at December 31, 1993 and 1992, respectively, were pledged as collateral for public deposits as required by law.

NOTE D - ALLOWANCE FOR LOAN LOSSES

Transactions in the allowance for loan losses were as follows:

	Years Ended December 31, 1993	1992	1991
		(in thousands)	
Balance, beginning of year	$ 4,111	$ 3,459	$ 3,102
Provision charged to operations	1,759	1,895	1,200
Loans charged off	(1,157)	(1,400)	(1,278)
Recoveries of loans previously charged off	566	157	435
Balance, end of year	$ 5,279	$ 4,111	$ 3,459

Loans classified as nonaccrual amounted to approximately $1,450,000, $517,271 and $1,279,000 at December 31, 1993, 1992 and 1991, respectively. If interest on those loans had been accrued, such income would have been approximately $21,908, $67,116 and $122,000 in 1993, 1992 and 1991, respectively.

NOTE E - PREMISES AND EQUIPMENT

Premises and equipment are comprised of:

	December 31, 1993	1992
	(in thousands)	
Premises (including $831,000 acquired under capital lease)	$ 8,130	$ 7,577
Furniture and equipment (including $186,000 acquired under capital leases)	6,736	5,817
	14,866	13,394
Less: Accumulated depreciation and amortization	(6,645)	(6,116)
	8,221	7,278
Land and land improvements	2,174	1,856
	$10,395	$ 9,134

Depreciation and amortization of premises and equipment amounted to $948,000, $983,000 and $1,124,000 in 1993, 1992 and 1991, respectively.

NOTE F - LONG-TERM DEBT

Long-term debt is as follows:

	December 31, 1993	1992
	(in thousands)	
FHLB loan, fixed rate of 5.84% payable on November 6, 2000	**$1,500**	$ –
FHLB loan, effective rate of 4.07% payable on April 28, 1998	**5,000**	
Capital lease obligations on equipment, effective rate of 8.8% payable monthly through August 7, 1995	**65**	323
Capital lease obligation on premises, effective rate of 13% payable monthly in varying amounts through December 1, 2009.	**579**	584
Total long-term debt	**$7,144**	$ 907

The Bank also had a collateralized line of credit at the Federal Home Loan Bank of $8,594,000 available, $6,500,000 of the line has been used, which left a remaining balance of $2,094,000 at December 31, 1993.

NOTE G - COMMITMENTS AND CONTINGENCIES (SEE ALSO NOTE P)

At December 31, 1993, future minimum commitments under noncancellable capital and operating leases with initial or remaining terms of one year or more are as follows:

	Capital Leases	Operating Leases
	(in thousands)	
1994	$ 127	$ 599
1995	106	510
1996	83	360
1997	84	222
1998	85	222
Thereafter	1,002	2,578
Future minimum lease payments	1,487	$ 4,491
Less amount representing interest	843	
Present value of future lease payments	$ 644	

Rent expense under operating leases was $493,196 in 1993, $556,000 in 1992, and $544,000 in 1991.

In 1993, the Bank entered into a license agreement to rent space in four supermarkets. These are twenty year agreements with five year renewals. The total license fee for the first five years will be $512,000.

The Bank has available unused lines of credit totaling $18,000,000 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.

NOTE H - PREFERRED STOCK

At December 31, 1993 the Company had one series of cumulative nonvoting preferred stock outstanding. This preferred stock carries a redemption date after which time the Company, at its option, may redeem all or part of the series upon the payment of the redemption value plus accrued and unpaid dividends. The following table summarizes the issue.

Series	Dividend Rate	Shares	Redemption Date	Per Share Liquidation Value
B	10.5%	8,000	Aug. 1, 1995	$500

Series C preferred stock with 16,900 shares outstanding and a redemption value of $2,187,000 was redeemed on December 1, 1993.

NOTE I - DIVIDEND RESTRICTIONS

The Bank paid to the Company cash dividends in the aggregate amounts of $500,600, $4,122,000 and $1,698,000 in 1993, 1992 and 1991. The Bank is regulated by the Federal Deposit Insurance Corporation (FDIC) and the California State Banking Department. California banking laws limit dividends to the lesser of (1) retained earnings or (2) net income for the last three fiscal years, less cash distributions paid during such period. Under this regulation, at December 31, 1993, the Bank may pay dividends of $9,800,000.

NOTE J - STOCK OPTIONS

In 1993, the Company adopted the TriCo Bancshares 1993 Nonqualified Stock Option Plan ('93 Plan) covering key employees and directors. Under the '93 Plan 293,000 shares were reserved for issuance. The option price was established at $11.00 per share. Options for the '93 Plan vest over a six year period and unexercised options expire on the tenth anniversary of the grant date.

The Company also has outstanding options under two plans approved in 1989. Options under these plans vest 20% annually and terminate 10 years from the date of the grant.

Stock option activity is summarized in the following table:

	Number of Shares	Option Price Per Share		
Outstanding at December 31, 1992	158,313	$10.43	to	$10.43
Grants	283,000	11.00	to	11.00
Adjustments for stock dividends	52,122	9.29	to	9.83
Options exercised	(16,310)	9.29	to	11.00
Outstanding at December 31, 1993	477,125	$ 9.29	to	$ 9.83

NOTE K - OTHER OPERATING EXPENSES AND INCOME

The components of other operating expenses are as follows:

	Years Ended December 31, 1993	1992	1991
		(in thousands)	
Equipment and data processing	**$ 1,536**	$ 1,337	$ 1,459
Occupancy	**1,315**	1,270	1,171
Advertising	**515**	336	495
Net other real estate owned expense	**830**	79	7
Net (gains) losses on investment in real estate	**153**	697	(31)
Professional fees	**784**	502	552
Assessments	**963**	847	709
Postage	**362**	372	320
Other	**3,196**	2,946	2,950
Total other operating expenses	**$ 9,654**	$ 8,386	$ 7,632

Commissions on sales of annuities and mutual funds in the amounts of $927,057, $706,000 and $593,000 for the years 1993, 1992 and 1991 are included in service charges and fees income.

NOTE L - INCOME TAXES

Effective January 1, 1993, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 109, Accounting for Income Taxes. The impact of this change was immaterial. Prior year results have not been restated to reflect this change.

The current and deferred components of the income tax provision were comprised of:

	Years Ended December 31, 1993	1992	1991
		(in thousands)	
Current:			
Federal	**$ 4,153**	$ 2,852	$ 2,290
State	**1,366**	990	871
Total current	**5,519**	3,842	3,161
Deferred:			
Federal	**(786)**	(153)	(400)
State	**(284)**	(49)	11
Total deferred	**(1,070)**	(202)	(389)
Total income taxes	**$ 4,449**	$ 3,640	$ 2,772

Deferred income taxes arise from differences in the timing of recognition of revenues, expenses, and tax credits for tax and financial reporting purposes. The tax effects of the principal items affecting deferred taxes for the years ended December 31, 1993, 1992 and 1991 were;

	Years Ended December 31, 1993	1992	1991
		(in thousands)	
Increase (decrease) deferred income taxes:			
Provision for loan losses	**$ (564)**	$ (274)	$ (160)
Provision for loss on other real estate	**(284)**	(4)	(7)
Amortization of core deposits	**–**	–	(35)
Use of accelerated depreciation methods for tax purposes	**191**	(39)	(11)
Leases	**47**	(16)	–
Leveraged leases	**–**	–	(95)
Real estate limited partnership	**–**	(116)	–
Retirement compensation	**(206)**	(126)	(104)
Loss on investment in real estate	**(9)**	(88)	(96)
Deferred loan fees	**239**	489	(13)
Securities accretion	**(54)**	–	–
Other differences	**(430)**	(28)	132
Total deferred income tax provision	**$ (1,070)**	$ (202)	$ (389)

NOTE L - (CONTINUED)

The provisions for income taxes applicable to income before taxes for the years ended December 31, 1993, 1992 and 1991 differ from amounts computed by applying the statutory Federal income tax rates to income before taxes.

The effective tax rate and the statutory federal income tax rate are reconciled as follows:

	Years Ended December 31,		
	1993	1992	1991
Federal statutory income tax rate	**34.0%**	34.0%	34.0%
State income taxes, net of federal tax benefit	**7.3**	7.0	8.2
Tax-exempt interest on municipal obligations	**(.1)**	(.3)	(3.4)
Other	**–**	.5	.3
Effective Tax Rate	**41.2%**	41.2%	39.1%

The components of the net deferred tax asset of the Company as of December 31, were as follows:

	1993
	(in thousands)
Deferred Tax Assets:	
Loan losses	**$ 1,572**
Deferred compensation	**780**
OREO write downs	**332**
Capital leases	**112**
Securities accretion	**107**
Loss on investment in real estate	**227**
Other	**567**
Total deferred tax assets	**3,697**
Deferred Tax Liabilities:	
Depreciation	**(601)**
Deferred loan fees	**(460)**
Other	**(315)**
Total deferred tax liability	**(1,376)**
Net deferred tax asset	**$ 2,321**

NOTE M - RETIREMENT PLANS

Substantially all employees with at least one year of service are covered by a discretionary employee stock ownership plan. Contributions are made to the plan at the discretion of the Board of Directors. Contributions to the plan of $359,000 in 1993, $359,000 in 1992 and $222,000 in 1991 are included in salary expense.

The Company has a supplemental retirement plan for directors and a supplemental executive retirement plan covering key executives. These plans are nonqualified defined benefit plans and are unsecured and unfunded. The Company has purchased insurance on the lives of the participants and intends to use the cash values of these policies ($2,678,000 and $1,925,000 at December 31, 1993 and 1992, respectively) to pay the retirement obligations.

The following table sets forth the plans' status:

	December 31,		
	1993	1992	1991
	(in thousands)		
Actuarial present value of benefit obligations:			
Vested benefit obligation	**$ (1,893)**	$ (1,596)	$ (1,128)
Accumulated benefit obligation	**(1,893)**	(1,596)	(1,128)
Projected benefit obligation for service rendered to date	**(2,167)**	(1,886)	(1,231)
Plan assets at fair value	**$ –**	$ –	$ –
Projected benefit obligation in excess of plan assets	**$ (2,167)**	$ (1,886)	$ (1,231)
Unrecognized net loss from past experience different from that assumed and effects of changes in assumptions	**392**	482	78
Prior service cost not yet recognized in net periodic pension cost	**128**	100	17
Unrecognized net obligation at transition	**518**	426	461
Accrued pension cost included in other liabilities	**$ (1,129)**	$ (878)	$ (675)
Net pension cost included the following components:			
Service cost-benefits earned during the period	**$ 100**	$ 83	$ 61
Interest cost on projected benefit obligation	**134**	118	91
Net amortization and deferral	**58**	47	35
Net periodic pension cost	**$ 292**	$ 248	$ 187

NOTE M - (CONTINUED)

The net periodic pension cost was determined using a discount rate assumption of 7.0% for 1993, 7.75% for 1992, and 8.0% for 1991. The rates of increase in compensation used were 0% to 5%.

The Company has an Executive Deferred Compensation Plan which allows directors and key executives designated by the Board of Directors of the Company to defer a portion of their compensation. The Company has purchased insurance on the lives of the participants and intends to use the cash values of these policies to pay the compensation obligations. At December 31, 1993 and 1992 the cash values exceeded the recorded liabilities.

NOTE N - EMPLOYEE STOCK OWNERSHIP PLAN

The TriCo Bancshares Employee Stock Ownership Plan (ESOP) is a noncontributory plan established to acquire shares of the Company's common stock for the benefit of all eligible employees.

During 1989, the ESOP arranged financing of $600,000 with a bank. The loan was to be repaid over a five-year period with interest at 90% of prime. The obligation of this plan to repay these borrowings was guaranteed by the Company. Current financial reporting practice requires this contingent liability to be recorded as debt with a corresponding charge to shareholders' equity. The Bank has made contributions to the ESOP sufficient to pay the interest and principal on the loan. The final payment on this loan was made in 1993.

NOTE O - RELATED PARTY TRANSACTIONS

Certain directors, officers, and companies with which they are associated, were customers of, and had banking transactions with the Company or its Subsidiary in the ordinary course of business. It is the Company'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 of the Bank.

The following table summarizes the activity in these loans for 1993.

Balance December 31, 1992	Advances/ New Loans	Payments	Loans Sold	Balance December 31, 1993
		(in thousands)		
$ 10,721	$ 3,652	$ 7,380	$ 1,225	$ 5,768

NOTE P - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit written is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on balance-sheet instruments.

	Contractual Amount	
	1993	1992
	(in thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit:		
Commercial loans	**$14,306**	$26,007
Real estate loans	**17,826**	16,336
Other	**16,022**	10,853
Standby letters of credit	**804**	3,322

NOTE P - (CONTINUED)

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates of one year or less or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank upon extension of credit is based on Management's credit evaluation of the customer. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. Most standby letters of credit are issued for one year or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral requirements vary, but in general follow the requirements for other loan facilities.

NOTE Q - CONCENTRATION OF CREDIT RISK

Tri Counties Bank grants agribusiness, commercial and residential loans to customers located throughout the northern Sacramento Valley and northern mountain regions of California. The Bank has a diversified loan portfolio within the business segments located in this geographical area.

NOTE R - DISCLOSURE OF FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash & Short Term Investments

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Securities

For all securities , fair values are based on quoted market prices or dealer quotes. See footnote C for further analysis.

Loan Receivables

For homogeneous categories of loans, such as some fixed or variable rate mortgages, fair value is estimated using the quoted market prices for similar loans, adjusted for differences in loan characteristics. The fair value of variable loans is the current value. These loans are regularly adjusted to market rates. The fair value of other types of fixed rate loans is estimated by discounting the future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings for the same remaining maturities. Fair value for nonaccrual loans is reported at carrying value and is included in the net loan total. Since the allowance for loan losses exceeds any potential adjustment for nonaccrual valuation no further valuation adjustment has been made.

Accrued Interest Receivable

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Deposit Liabilities and Long Term Debt

The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of time deposits and debt is based on the discounted value of contractual cash flows.

Other Liabilities

Other liabilities represent short-term instruments. The carrying amount is a reasonable estimate of fair value.

Commitments to Extend Credit and Standby Letters of Credit

The fair value of letters of credit and standby letters of credit is not significant.

Accrued Interest Payable

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

The estimated fair values of the Company's financial instruments are as follows:

NOTE R - (CONTINUED)

	December 31, 1993	
	Carrying Amount	Fair Value
Financial assets:	(In thousands)	
Cash and short-term investments	$ 28,836	$ 28,836
Securities:		
Held-to-maturity	108,766	109,128
Available-for-sale	90,138	90,595
Loan receivables, net	257,579	264,493
Accrued interest receivable	3,350	3,350
Financial liabilities:		
Deposits	462,132	461,851
Other liabilities	3,721	3,721
Accrued interest payable	1,521	1,521
Long term borrowing	7,144	7,044

	December 31, 1992	
	Carrying Amount	Fair Value
Financial assets:	(In thousands)	
Cash and short-term investments	$ 24,587	$ 24,587
Securities:		
Held-to-maturity	68,023	69,063
Available-for-sale	49,037	49,765
Loan receivables, net	270,451	275,023
Accrued interest receivable	4,091	4,091
Financial liabilities:		
Deposits	399,205	399,598
Other liabilities	1,979	1,979
Accrued interest payable	826	826

NOTE S - PENDING ACQUISITIONS (UNAUDITED)

On November 12, 1993, the Company entered into a Reorganization Agreement and Plan of Merger whereby it would acquire Country National Bank (CNB) of Redding, California. The acquisition would occur through the merger of Country National Bank into the Company's subsidiary, Tri Counties Bank. In the merger, CNB shareholders not exercising dissenter's rights of appraisal would receive 1.21 shares of TriCo Bancshares Common Stock for each share of CNB Common Stock held. The acquisition is subject to certain conditions, including the approval by CNB shareholders and by all applicable regulatory agencies. It is a condition to the merger that it qualify as a pooling of interests for accounting and financial reporting purposes.

Unaudited Pro Forma Combined Selected Financial Data[1]

	Years ended December 31,		
	1993	1992	1991
	(in thousands, except per share data)		
Total assets at year end	**$576,035**	$492,542	$439,496
Net loans at year end	**299,929**	312,720	312,241
Deposits at year end	**515,999**	451,346	398,479
Total common shareholders' equity at year end	**42,512**	29,802	25,535
Total interest income	**40,947**	40,272	40,451
Net interest income	**26,951**	24,672	21,463
Net income	**$ 6,815**	$ 6,000	$ 4,821
Per share data:			
Primary earnings	**$ 1.76**	$ 1.81	$ 1.36
Common shareholders' equity	**12.21**	10.37	8.95

[1]Pooling of interest basis.

NOTE T - FUTURE FINANCIAL ACCOUNTING STANDARDS

In May 1993, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan. The statement requires that impaired loans that are within the scope of this statement be measured based on the present value of expected cash flows discounted at the loan's effective interest rate, or alternatively, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. The Company plans on adopting this statement no later than January 1, 1995. Based on the Company's current financial position the Company does not expect that the adoption of the accounting prescribed by this statement will have a material impact on its financial position or results of operations.

In May 1993, the FASB issued Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities. This statement requires that investments in debt and equity securities be classified as "held-to-maturity," "trading securities" or "available-for-sale." It requires that investments classified as held to maturity be separated at amortized cost, that investments classified as trading securities be reported at fair value with unrealized gains and losses included in earnings and that investments classified as available-for-sale be

NOTE T - (CONTINUED)

reported at fair value with unrealized gains and losses, net of related tax, if any, reported as a separate component of stockholders' equity. This statement requires implementation by the Company for the first quarter of 1994, and specifically precludes retroactive application to prior years' financial statements. Had this standard been implemented at December 31, 1993, the Company would have recognized an unrealized gain of $269,630 in shareholders' equity.

In November 1992, the FASB issued Statement of Financial Accounting Standards No. 112, Accounting for Post Employment Benefits, with an effective date of January 1, 1994. This statement is not expected to materially impact the financial condition or results of operations of the Company.

NOTE U - TRICO BANCSHARES FINANCIAL STATEMENTS

TriCo Bancshares (Parent Only) Balance Sheets

	December 31,	
Assets	**1993**	1992
	(in thousands)	
Cash	**$ 4,533**	$ 132
Investment in Tri Counties Bank	**37,381**	31,426
Other assets	**93**	11
Total assets	**$ 42,007**	$ 31,569
Liabilities and shareholders' equity		
Liabilities:		
ESOP debt guarantee	**$ —**	$ 120
Other liabilities	**239**	34
Total liabilities	**239**	154
Shareholders' equity:		
Preferred stock, no par value:		
Authorized 1,000,000 shares;		
Series B, issued and outstanding 8,000 shares	**3,899**	3,899
Series C, issued and outstanding 0 and 16,900 shares, respectively	**—**	2,187
Common stock, no par value:		
Authorized 20,000,000 shares; issued and outstanding 3,000,134 and 2,134,976 shares, respectively	**39,159**	25,343
Retained earnings (deficit)	**(1,290)**	106
ESOP debt guarantee	**—**	(120)
Total shareholders' equity	**41,768**	31,415
Total liabilities and shareholders' equity	**$ 42,007**	$ 31,569

Statements of Income

	Years Ended December 31,		
	1993	1992	1991
	(in thousands)		
Interest income	**$ —**	$ 7	$ 26
Administration expense	**199**	150	136
Loss before equity in net income of Tri Counties Bank	**(199)**	(143)	(110)
Equity in net income of Tri Counties Bank:			
Distributed	**501**	4,122	1,698
Undistributed	**5,955**	1,153	2,692
Income tax credits	**82**	59	45
Net income	**$6,339**	$5,191	$4,325

Statements of Cash Flows

	Years ended December 31,		
	1993	1992	1991
	(in thousands)		
Operating activities:			
Net income	**$ 6,339**	$ 5,191	$ 4,325
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed equity in Tri Counties Bank	**(5,955)**	(1,153)	(2,692)
Deferred income taxes	**(82)**	(11)	(1)
Increase (decrease) in other operating assets and liabilities	**205**	40	(4)
Net cash provided by operating activities	**507**	4,067	1,628
Investing activities:			
Principal collected on loan	**—**	264	20
Capital contributed to Tri Counties Bank	**—**	—	(297)
Net cash (used for) provided by investing activities	**—**	264	(277)
Financing activities:			
Issuance of common stock	**7,899**	—	297
Redemption of preferred stock	**(2,282)**	(2,673)	—
Cash dividends — preferred	**(630)**	(797)	(944)
Cash dividends — common	**(1,093)**	(836)	(722)
Net cash provided by (used for) financing activities	**3,894**	(4,306)	(1,369)
Increase (decrease) in cash and cash equivalents	**4,401**	25	(18)
Cash and cash equivalents at beginning of year	**132**	107	125
Cash and cash equivalents at end of year	**$ 4,533**	$ 132	$ 107

COMMON STOCK INFORMATION

Market Information. The Common Stock of the Company trades on the NASDAQ National Market under the symbol "TCBK." The shares were first listed in the NASDAQ Stock Market in April 1993. Prior to the NASDAQ listing, Sutro & Co. Incorporated and Hoefer & Arnett Incorporated were the market makers in the stock. These two companies continue to be the primary market makers through the NASDAQ network.

The following table summarizes the high ask and low bid quotations for the Common Stock for the quarters ended March 31, 1992 through March 31, 1993 as provided by Hoefer & Arnett Incorporated and Sutro & Co. Incorporated. The stock prices for the quarters beginning after March 31, 1993, reflect the actual high and low trades as reported by NASDAQ. All quotations have been adjusted to reflect a 15% stock dividend paid on April 15, 1992 and a 12% stock dividend paid July 15, 1993.

	Prices of the Company's Common Stock		Approximate Trading Volume
Quarter Ended:[1,2]	High (Ask)	Low (Bid)	(in shares)
March 31, 1992	$ 11.64	$ 8.35	54,916
June 30, 1992	12.95	9.82	54,073
September 30, 1992	13.84	12.05	70,423
December 31, 1992	14.29	12.95	57,839
March 31, 1993	16.07	14.29	43,059
June 30, 1993	18.38	16.52	35,038
September 30, 1993	21.00	17.50	26,149
December 31, 1993	23.50	18.75	60,028

[1] As estimated by the Company, based upon trades of which the Company was aware. The Company is not aware of the price of some of the trades included in the Approximate Trading Volume.

[2] Adjusted to reflect the 15% stock dividend paid on April 15, 1992 to holders on record March 20, 1992, and the 12% stock dividend paid on July 15, 1993 to holders on record June 30, 1993.

Holders. As of December 31, 1993, there were approximately 1,509 holders of record of the Company's Common Stock.

Dividends. The Company has paid quarterly dividends since March 1990. The quarterly payment has been $.10 per Common Share on the then outstanding shares. In addition to the cash dividends, the Company has periodically paid stock dividends. In 1993, 1992 and 1991 the Company paid stock dividends of 12%, 15% and 15% respectively. (Cash dividend amounts are not adjusted for the effect of the stock dividends.) The holders of Common Stock of the Company are entitled to receive cash dividends when and as declared by the 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 the dividend rights of the holders of the Series B Preferred Stock.

The Certificate of Determination of Preferences of the Series B Preferred Stock prohibits the payment of dividends to the holders of Common Stock if the Company is not current in its payments of dividends to the Preferred Stock shareholders. At December 31, 1993 the Company was current in its payment of preferred dividends. 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 Company, as sole shareholder of the Bank, is entitled to dividends when and as declared by the Bank's Board of Directors, out of funds legally available therefore, 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"). The Financial Code provides that a bank may not make any distributions in excess of the lessor of: (i) the bank's retained earnings, or (ii) the bank's net income for the 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 greater of (A) the bank's retained earnings, (B) the bank's net income for its last fiscal year, or (C) the bank's net income for its current 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 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 to the Company in the aggregate amount of $500,600 in 1993. As of December 31, 1993 and subject to the limitations and restrictions under applicable law, the Bank had funds available for dividends in the amount of $9,800,000.

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.

As TriCo Bancshares (the "Company") has not commenced any business operations independent of Tri Counties Bank (the "Bank"), the following discussion pertains primarily to the Bank. Average balances, including such balances used in calculating certain financial ratios, are generally comprised of average daily balances for the Company. Unless otherwise stated, interest income and net interest income are presented on a tax equivalent basis.

Overview

In April 1993, the Company successfully completed a public offering of 529,000 shares of its Common Stock at $16 per share. Additional capital of approximately $7,700,000 net of expenses was realized from the offering. This additional capital provided management with the flexibility to pursue several growth strategies for the Bank while maintaining a well capitalized position. The first growth strategy capitalized on the success from 1992 when the Bank attracted new customers and deposits by paying premium rates on its savings accounts. In 1993 the Bank promoted a 4% seven month certificate of deposit from July through October. This product was priced approximately 50 basis points over those offered by local independent banks and 150 basis points over rates paid by the major banks. During the period of this promotion the seven month certificates of deposit increased $54 million and total deposits increased $44 million.

The second strategy focused on looking for potential acquisitions which would increase the Bank's penetration in its market area. On November 12, 1993 the Company announced that it had entered into a Reorganization Agreement and Plan of Merger whereby it would acquire Country National Bank of Redding, California. The acquisition would occur through the merger of Country National Bank into Tri Counties Bank. Based on June 30, 1992 deposit data, after the merger the Bank would have a 12.8% market share in Shasta County. It would be the largest regional bank and the third largest bank overall in the County. Management anticipates, subject to regulators' approval, that the merger should be consummated during the second quarter of 1994.

The third growth strategy focused on developing relationships with operators of supermarkets for the purpose of building Tri Counties Bank financial service centers in their supermarkets. The Bank signed contracts to open four supermarket branches in 1994 with Raley's, a large operator of supermarkets and drug centers based in West Sacramento, California. The first of these branches will open in Red Bluff in March, Yuba City in April and two branches in Redding in May and June. These sites will offer full banking services and will provide banking hours seven days a week. The supermarket branches provide a lower cost alternative to expansion in both new and existing market areas as start up costs for this type of a branch are about one-fifth the cost of a stand-alone branch. While these branches are budgeted to begin returning a profit after fifteen months of operation, the start up costs will impact earnings in 1994 and on an ongoing basis during the period of expansion. At this time, Management anticipates the bank will open about twenty of these branches in the next four to five years.

During 1993, the assets of the Company grew $81,834,000 or 18.8%. As loan demand remained soft due to economic conditions, the growth in earning assets was all in the securities portfolio. Yields earned from securities investments are significantly lower than yields on loans. However, lower overhead costs relating to management of the investment portfolio help to even out the relative profitability.

Net income for 1993 increased $1,148,000 or 22% to $6,339,000. Net income available to Common shareholders increased $1,315,000 or 30% to $5,709,000, however, earnings per share did not increase significantly due to the additional shares outstanding. In 1992 net income increased $866,000 or 20% to $5,191,000 and net income available to Common shareholders increased $1,013,000 or 30% to $4,394,000. While the percentage gains for the two years are almost identical, the components of the operating results were somewhat different. In 1993, increased volume of earning assets more than offset the decreases in interest rates resulting in higher interest income. At the same time, interest expense decreased as lower rates offset increases in interest-bearing liabilities resulting in an increase in net interest income for 1993 of $2,329,000. Noninterest income in 1993 increased $1,249,000 most of which was due to gains on the sale of securities. Increases in noninterest expenses of $1,791,000 more than offset the gains in noninterest income. Thus, pretax income increased $1,957,000 over 1992.

Interest income was almost flat in 1992 versus 1991 as the declining rates mostly offset increased volumes. However, interest expense decreased $2,556,000 as lower rates significantly offset increased volumes. This resulted in an increase of $2,728,000 in net interest income for 1992 . Noninterest income increased $349,000 while noninterest expenses increased $944,000. The pretax earnings for 1992 increased $1,734,000 over 1991. Part of the increase in earnings available to common shareholders is the result of the retirement of the Company's Series C Preferred Stock in December 1993 and its Series A Preferred Stock in July 1992. Dividends that had been paid on these issues are now available to common shareholders.

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

(A) Results of Operations

Primary earnings per share for 1993 were $1.89 versus $1.84 in 1992. Primary earnings per common share were diluted due to the 529,000 shares issued in the offering. Fully diluted earnings per share are now required to be reported due to the combined effect of the 1989 and 1993 officers and directors stock option plans.

At year end the Company had a total risk based capital ratio of 14.3%, a tier 1 capital ratio of 13.0% and a leverage ratio of 8.1%. These ratios exceeded the FDIC capital requirements for qualification as a well capitalized financial institution.

The following is a summary of operations for the five years ended December 31, 1993 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.

	Years Ended December 31,				
	1993	1992[1]	1991[1]	1990[1]	1989[1]
	(in thousands, except earnings per share amounts)				
Interest income:					
Interest and fees on loans	**$ 27,763**	$ 29,259	$ 30,952	$ 30,721	$ 25,106
Interest on investment securities—taxable	**8,488**	6,043	3,010	3,269	3,277
Interest on investment securities—tax exempt[2]	**52**	133	1,074	1,966	1,631
Interest on federal funds sold	**236**	51	278	502	664
Total interest income	**36,539**	35,486	35,314	36,458	30,678
Interest expense:					
Interest on deposits	**11,318**	13,411	16,001	18,994	15,960
Interest on short-term borrowing	**739**	65	20	67	397
Interest on long-term debt	**251**	108	119	99	158
Total interest expense	**12,308**	13,584	16,140	19,160	16,515
Net interest income	**24,231**	21,902	19,174	17,298	14,163
Provision for loan losses	**1,759**	1,895	1,200	2,450	1,000
Net interest income after provision for loan losses	**22,472**	20,007	17,974	14,848	13,163
Noninterest income:					
Service charges, fees and other	**4,477**	4,282	4,261	3,639	2,973
Investment securities gains (losses), net	**1,421**	367	39	(134)	(186)
Total other income	**5,898**	4,649	4,300	3,505	2,787
Noninterest expenses:					
Salaries and employee benefits	**7,905**	7,382	7,192	6,144	5,739
Other, net	**9,654**	8,386	7,632	7,706	4,844
Total other expenses	**17,559**	15,768	14,824	13,850	10,583
Net income before income taxes	**10,811**	8,888	7,450	4,503	5,367
Income taxes	**4,449**	3,640	2,772	1,291	1,676
Tax equivalent adjustment[2]	**23**	57	353	647	536
Net income	**$ 6,339**	$ 5,191	$ 4,325	$ 2,565	$ 3,155
Primary earnings per common share	**$ 1.89**	$ 1.84	$ 1.43	$ .69	$ 1.15
Selected Balance Sheet Information					
Total Assets	**$516,286**	$434,452	$384,482	$376,244	$354,688
Long-term Debt	**7,144**	907	1,027	1,130	586
Preferred Stock	**3,899**	6,086	8,630	8,630	8,630

[1]Certain reclassifications have been made in the 1992, 1991, 1990 and 1989 summary of operations to conform to classifications in 1993.
[2]Interest on tax-free securities is reported on a tax equivalent basis of 1.79 for 1993, 1.76 for 1992, 1.49 for 1991, 1990, and 1989.

(A) Results of Operations (Continued)

Net Interest Income/Net Interest Margin

Net interest income represents the excess of interest and fees earned on interest-earning assets (loans, securities and federal funds sold) over the interest paid on deposits and borrowed funds. Net interest margin is net interest income expressed as a percentage of average earning assets.

The net interest income for 1993 of $24,231,000 was an increase of $2,329,000 (10.6%) over 1992. Interest income increased as the growth in investment securities offset the lower yields for both loans and securities as well as the lower average loan balances. The net interest income in 1993 was also enhanced by the decreasing rates paid on deposits which were offset in part by the deposit growth. Even though net interest income increased, net interest margin achieved in 1993 decreased 28 basis points to 5.48%. The net interest margin reflected a 106 basis point decline in yields received on earning assets which was offset by a 90 basis point decrease in the rates paid on deposits. The fourth quarter saw the net interest margin decrease another 16 basis points to 5.32%. Because loan demand was down, the growth in 1993 assets was in investment securities which annually have lower yields than loans. As long as loan demand remains soft, the net interest margin will probably reflect some further deterioration.

For 1992 net interest income was $21,902,000, which represented a $2,728,000 (14.2%) increase over 1991. In the same period the net interest margin reflected a 20 basis point decrease from 5.96% to 5.76%. Net interest income increased as growth in securities and loans offset the decrease in average yields for 1992. Conversely, the increase in deposits in 1992 was greatly offset by the decrease in average yields paid on deposits in 1992 as compared to 1991. Thus, the Company's net interest margin reflected a decrease as most of the growth in assets was in securities which generally have lower yields than loans. The decrease in deposit rates in 1992 did not offset lower investment yields.

Interest income in 1993 increased $1,053,000 or 3% over 1992. Growth in the securities portfolio from an average balance of $103,836,000 in 1992 to $162,126,000 in 1993 was offset in part by a small decrease in loan volume. The increase in interest income normally resulting from increased assets was offset substantially by a decline in interest rates.

Interest income for 1992 was slightly greater ($172,000) than for 1991 even though lower interest rates prevailed throughout the year. Average interest rates earned on assets decreased 165 basis points from those earned in 1991. This decline reflected the full year effects of rate changes which had taken place in 1991 as well as further declines in 1992. Real estate loan fee income increased $328,000 (53%) due to the increased volume of mortgage refinancing. The increase in average investment securities from $52,525,000 in 1991 to $103,836,000 in 1992 accounted for a $3,990,000 increase in interest income. Average loans outstanding also increased and contributed $1,295,000 of additional revenue.

Interest rates paid on deposits continued to decline in 1993. Average rates paid on time certificates and savings accounts decreased 114 and 105 basis points, respectively. The lower rates were offset in part by an increase in deposits upon which interest was paid. The net result was an overall decrease of $1,276,000 in the interest for the year. Part of the new volume ($680,000) of interest expense was attributable to repurchase agreements which the Bank used during the year. Funds from the repurchase agreements were used to purchase investment securities which had yields approximately 200 basis points over those paid against the repurchase agreements. The repurchase agreements had maximum terms of six months and the Bank had maximum borrowings of $45,500,000. Risk exposure to the Bank was considered to be minimal as interest rates were generally forecast to be steady to falling. The investment securities were purchased into the available-for-sale portfolio and were available for liquidity purposes should the need have arisen.

The weighted average interest rate paid on interest bearing liabilities during 1992 decreased 176 basis points from the prior year. Total interest paid in 1992 decreased $2,556,000. Time deposit interest decreased $5,327,000 (60%) which was reflective of the lower rates and a change in volume as customers moved funds into regular savings. Interest paid on savings increased $4,249,000 due to increased volume.

Interest expense decreased $3,020,000 or 15.8% in 1991. Lower interest rates accounted for most of this decrease. The largest decrease occurred in the interest paid on time deposits as a result of the lowering by the Company of the rates paid on such deposits compared to local competitors. For part of the year, Management purposely lowered rates paid on those deposits below rates paid by local competition. This tactic resulted in money moving from the Bank which allowed Management to reduce the assets of the Bank.

(A) Results of Operations (Continued)

Table One, Analysis of Change in Net Interest Margin on Earning Assets, and Table Two, Analysis of Volume and Rate Changes on Net Interest Income and Expenses are provided to enable the reader to understand the components and past trends of the Bank's interest income and expenses. Table One provides an analysis of change in net interest margin on earning assets setting forth average assets, liabilities and shareholders' equity; interest income earned and interest expense paid and average rates earned and paid; and the net interest margin on earning assets. Table Two presents an analysis of volume and rate change on net interest income and expense.

Table One: Analysis of Change in Net Interest Margin on Earning Assets

	1993			1992			1991		
Assets	**Average Balance[1]**	**Income**	**Yield/ Rate**	Average Balance[1]	Income	Yield/ Rate	Average Balance[1]	Income	Yield/ Rate
				(dollars in thousands)					
Earning assets:									
Loans[2,3]	**$271,289**	**$27,763**	**10.23 %**	$275,178	$29,259	10.63 %	$264,130	$30,952	11.72 %
Securities - taxable	**161,658**	**8,488**	**5.25 %**	102,745	6,043	5.89 %	40,906	3,010	7.36 %
Securities - nontaxable[4]	**468**	**52**	**11.11 %**	1,091	133	12.19 %	11,619	1,074	9.24 %
Federal funds sold	**8,643**	**236**	**2.73 %**	1,496	51	3.41 %	5,110	278	5.44 %
Total earning assets	**442,058**	**36,539**	**8.27 %**	380,510	35,486	9.33 %	321,765	35,314	10.98 %
Cash and due from banks	**25,828**			22,054			20,440		
Premises and equipment	**9,917**			9,193			9,711		
Other assets, net	**13,311**			13,754			13,534		
Less: Allowance for loan losses	**(5,040)**			(3,591)			(3,404)		
Total assets	**$486,074**			$421,920			$362,046		
Liabilities and shareholders' equity									
Interest-bearing demand deposits	**$103,915**	**2,848**	**2.74 %**	$ 91,853	3,115	3.39 %	$ 93,210	4,627	4.96 %
Savings deposits	**148,745**	**4,697**	**3.16 %**	160,048	6,743	4.21 %	46,301	2,494	5.39 %
Time deposits	**95,287**	**3,773**	**3.96 %**	69,601	3,553	5.10 %	130,076	8,880	6.83 %
Federal funds purchased	**1,760**	**59**	**3.35 %**	1,638	65	3.97 %	389	20	5.14 %
Repurchase Agreement	**20,104**	**680**	**3.38 %**	—	—	—	—	—	—
Long-term debt	**4,440**	**251**	**5.65 %**	968	108	11.16 %	1,077	119	11.05 %
Total interest-bearing liabilities	**374,251**	**12,308**	**3.29 %**	324,108	13,584	4.19 %	271,053	16,140	5.95 %
Noninterest-bearing deposits	**66,436**			61,880			56,719		
Other liabilities	**5,928**			7,342			5,167		
Shareholders' equity	**39,459**			28,590			29,107		
Total liabilities and shareholders' equity	**$486,074**			$421,920			$362,046		
Net interest rate spread[5]			**4.98 %**			5.14 %			5.03 %
Net interest income/net interest margin[6]		**$24,231**	**5.48 %**		$21,902	5.76 %		$19,174	5.96 %

[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 $1,642,000 in 1993, $1,697,000 in 1992 and $1,335,000 in 1991.
[4] Interest income is stated on a tax equivalent basis of 1.79 for 1993, 1.76 for 1992 and 1.49 for 1991.
[5] Net interest rate spread represents the average yield earned on interest-earning assets less the average rate paid on interest-bearing liabilities.
[6] Net interest margin is computed by dividing net interest income by total average earning assets.

(A) Results of Operations (Continued)

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

	1993 over 1992			1992 over 1991		
	Volume	Yield/ Rate [4]	Total	Volume	Yield/ Rate [4]	Total
	(dollars in thousands)					
Increase (decrease) in interest income:						
Loans[1,2]	$ (398)	$(1,098)	$(1,496)	$ 1,295	$(2,988)	$(1,693)
Investment securities[3]	3,024	(660)	2,364	3,990	(1,898)	2,092
Federal funds sold	195	(10)	185	(197)	(30)	(227)
Total	2,821	(1,768)	1,053	5,088	(4,916)	172
Increase (decrease) in interest expense:						
Demand deposits (interest-bearing)	331	(598)	(267)	(67)	(1,445)	(1,512)
Savings deposits	(357)	(1,689)	(2,046)	6,127	(1,878)	4,249
Time deposits	1,017	(797)	220	(4,128)	(1,199)	(5,327)
Federal funds purchased	4	(10)	(6)	64	(19)	45
Repurchase Agreement	680	—	680	—	—	—
Long-term borrowings	196	(53)	143	(12)	1	(11)
Total	1,871	(3,147)	(1,276)	1,984	(4,540)	(2,556)
Increase (decrease) in net interest income	$ 950	$ 1,379	$ 2,329	$ 3,104	$ (376)	$ 2,728

[1] Nonaccrual loans are included.
[2] Interest income on loans includes fees on loans of $1,642,000 in 1993, $1,697,000 in 1992, and $1,335,000 in 1991.
[3] Interest income is stated on a tax equivalent basis of 1.79 for 1993, 1.76 for 1992 and 1.49 for 1991.
[4] The rate/volume variance has been included in the rate variance.

(A) Results of Operations (Continued)

Provision for Loan Losses

In 1993 the Bank provided $1,759,000 for possible loan losses. This amount was $136,000 less than provided in 1992. However, net charge-offs decreased from $1,243,000 in 1992 to $591,000 in 1993, due primarily to an increase in recoveries of $409,000. This resulted in a net increase of $1,168,000 in the allowance for loan losses. Management believed that the level of the provision and resulting allowance was appropriate given the continuing economic weakness in Northern California.

During 1992 the Bank provided $1,895,000 for possible loan losses. This amount netted with the loans charged off ($1,400,000) and recoveries of loans previously charged off ($157,000) resulted in an increase of $652,000 to the allowance for loan losses. While loans charged off for 1992 were only $122,000 more than in 1991, Management believed it was prudent to increase the provision as economic conditions in the Bank's service area remained relatively weak throughout 1992.

Service Charges and Fees and Other Income

Modest growth occurred in both service charges and fees and other income categories in 1993. Commissions on the sales of annuities and mutual funds have come to represent a major portion of the other income. These revenues have grown from $593,000 and $706,000 in 1991 and 1992, respectively, to $927,000 in 1993. The Bank has implemented a program to train and license many of its front line employees to sell these products. The increase in these revenues in 1993 was offset in part by decreases in: gains on sales of mortgage loans; the sale of leased equipment in 1992; and other miscellaneous income. In 1992 service charge income increased 5.5% ($122,000). There was no one significant change as the increase was due mostly to increased volume.

Securities Transactions

In years prior to 1992 as the Bank grew, loan demand absorbed the increase in funds available for deployment in earning assets. Since then, the securities portfolio has absorbed most of the growth. At December 31, 1991 the securities portfolio approximated 19% of the earning assets. In December 1992 this had grown to 30% and at the end of 1993 it stood at 43%.

Beginning in 1992, the declining interest rates provided Management with the opportunity to reposition the investment securities portfolio. Management also realized that it would need to designate some portion of the portfolio to use in managing the Bank's liquidity and interest rate sensitivity. As discussed in Note A of the financial statements, the portfolio was divided into two categories: Securities Held-to-Maturity and Securities Available-for-Sale. The securities available-for-sale are subject to revaluation at the lower of cost or market. Under this accounting principle, unrealized losses are charged to current period income. In 1993 the securities available-for-sale portfolio had a market value in excess of book value, so no valuation allowance was recorded. The Bank realized net gains of $1,421,000 on the sale of securities. In 1992 gross gains on the sale of securities were $627,000. An unrealized loss of $260,000 was charged against these gains resulting in a net gain of $367,000.

The Bank does not maintain a trading account in the securities market, but it does elect, for liquidity purposes, to sell certain securities when it is to its advantage during periods of declining interest rates or to adjust the composition of the securities portfolio. The declining interest rates in 1991 and 1992 provided an opportunity for the Bank to dispose of some long term securities and to reposition its securities portfolio. At the beginning of 1991 the Bank's security portfolio had an average maturity date of August 2001 (11 years 8 months). By the end of 1991 the average maturity date was April of 1996 (4 years 4 months). At December 31, 1992 the average maturity date was April 1995 (2 years 4 months).

The continuing decline of interest rates in 1993 presented Management with an on-going challenge to maintain an acceptable yield on its investment securities while maintaining reasonable interest rate risk. Management elected to make greater use of Collateralized Mortgage Obligations (CMOs) which pay higher rates of interest than equivalent maturity U.S. Treasuries or Agencies and to slightly extend the average expected maturity of the portfolio. At December 31, 1993 the securities portfolio had an average expected maturity date of November 1995 (2 years 11 months).

Salaries and Benefits

Salary and benefits expense increased $523,000 (7.1%) in 1993. This increase resulted from normal salary progression and eighteen new positions which were added during the fourth quarter to support supermarket banking and branch operations. Salary and benefits expense had a modest growth of 2.6% in 1992. The average full time equivalent employees (FTE) decreased five employees during 1992.

(A) Results of Operations (Continued)

Other Expenses

During 1993 other expenses increased $1,268,000 or 15.1% over the 1992 level. Over 57.7% ($732,000) of this increase was related to OREO properties. Because of decreasing values and lower activity levels in the sales of real estate properties, the Bank provided $716,000 for its OREO valuation allowance. This was an increase of $681,000 over the 1992 provision. Expenses related to holding OREO properties increased $51,000 (81%). Some of the other expense categories which had significant increases were: legal fees incurred in collecting loans, $122,000 (41%); FDIC insurance and State assessments, $93,000 (11%) due to increased deposit volumes; advertising expenses, $129,000 (38%) due to increased advertising levels; rental expense on equipment, $96,000 (38%) mostly attributable to the lease on an upgrade of computer equipment; and a reduction in deferred costs on loan originations of $286,000 (53%) due to reduced loan origination volumes and a change in the costing method for loan originations. These increases were offset in part by a net decrease in other operating expenses.

Recurring type operating expenses included in other expenses reflected a 2.5% increase in 1992. Within these expenses certain categories of expense had some large fluctuations. Advertising was used in the first half of the year to promote savings accounts, but was not used extensively in the second half of 1992. This expense decreased $153,000 (31%). Directors' fees decreased by $189,000 which was the amount of the 1991 stock award program. Other accounts which had large decreases were: loss on sale of fixed assets, $92,000 and office supplies, $47,000. FDIC insurance and State assessment increases of $138,000 (19.5%) were the result of increased deposits and higher rates. Consulting fees, which increased $124,000 from $9,000, were mostly incurred for a project to select new banking software. OREO expense and provision for losses increased $72,000. An increase in postage expense of $57,000 (18%) was the result of increased volume.

The other expense category includes noninterest income and expenses (excluding gains or losses from securities) from the Bank's real estate development subsidiary. No unusual expenses were incurred by this subsidiary in 1993. A valuation allowance of $460,000 was recorded in the subsidiary in 1992. This valuation allowance adjusted the cost basis of certain properties held by the subsidiary to the then current market value.

Provision for Taxes

The effective tax rate on income was 41.2% in both 1993 and 1992. The effective tax rate was greater than the federal statutory tax rate due to state tax expense of $1,190,000 in 1993 and $941,000 in 1992. Tax-free income of $29,000 and $81,000 from investment securities in these two years helped to offset the federal tax rate. At 1993 year end, the Bank held only $275,000 of tax exempt securities. There is no intention to increase these holdings at this time. Therefore, the effective tax rate can be expected to be at or near the combined Federal and California statutory rates in 1994.

Return on Average Assets and Equity

The following sets forth certain ratios for the Company for the last three years (using average balance sheet data):

	1993	1992	1991
Return on assets	**1.30%**	1.23%	1.19%
Return on shareholders' equity	**16.06%**	18.16%	14.86%
Return on common shareholders' equity	**16.83%**	18.66%	16.51%
Shareholders' equity to assets	**8.12%**	6.78%	8.04%
Common shareholders' equity to assets	**6.98%**	5.03%	5.66%
Common shareholders' dividend payout ratio	**19.15%**	19.03%	21.35%

Return on assets of 1.30% in 1993 reflected a 5.7% increase from 1992. This was accomplished as net income increased 22.1% while average assets increased 15.2%. In 1992, return on assets reflected a modest increase to 1.23% from 1.19% in 1991. The 20.0% earnings increase achieved in 1992 was offset by a 16.5% growth in assets.

Return on shareholders' equity for 1993 decreased from 18.16% in 1992 to 16.06%. Even though net income increased substantially, the weighting of the $7.7 million of additional capital raised in April 1993 resulted in a reduced return. In 1992, the return on shareholders' equity increased from 14.86% in 1991 to 18.16%. The improved performance measured by this ratio was due to increased earnings and the July 1st redemption of the Series A Preferred Stock.

(A) Results of Operations (Continued)

As with the return on total shareholders' equity, the return on Common shareholders' equity also decreased in 1993. It was 16.83% versus 18.66% in 1992. It did not fall as much in relative percentage as it benefited from the full year effect of the 1992 redemption of the Series A Preferred Stock and the December 1993 redemption of the Series C Preferred Stock. In 1992 the return on Common shareholders' equity increased from 16.51% in 1991 to 18.66%. The higher earnings and the reduction in dividends paid on the Series A Preferred Stock redeemed resulted in the higher return in 1992.

The total shareholders' equity to assets ratio increased to 8.12% from 6.78% in 1992. This increase was reflective of the $7.7 million of new capital and the net income offset by the redemption of the Series C Preferred stock, the growth in assets and dividends paid. In 1992 total shareholders' equity to assets ratio decreased to 6.78% from 8.04% as a result of the redemption of the Series A Preferred Stock and the growth in assets offset by the increased earnings.

The Common shareholders' equity to assets ratio was impacted by the same factors as the total equity ratio resulting in an increase in the ratio to 6.98% from 5.64% in 1992. In the prior year this ratio had a slight decrease from 5.66% in 1991. It was impacted by the growth in assets offset by the increased earnings and the reduction of dividends paid to Series A Preferred shareholders.

Common shareholders' payout ratio increased slightly to 19.15% in 1993. Even though the quarterly dividends paid on Common shares remained at $.10 per share, the total dividends paid increased $257,000 (30.7%) as a result of the additional shares issued and the 12% stock dividend. This percentage increase was greater than the 29.9% increase in earnings available to Common shareholders. The reduction in the Common shareholders' payout ratio from 21.35% in 1991 to 19.03% in 1992 reflected the increased earnings available for the Common shareholders after the 15% stock dividend issued in April 1992.

(B) Balance Sheet Analysis

Loans

The Company concentrates its lending activities in four principal areas: commercial loans including financial and agricultural loans, consumer loans, real estate mortgage loans (residential and commercial loans and mortgage loans originated for sale), and real estate construction loans. At December 31, 1993, these four categories accounted for approximately 51%, 20%, 26% and 3%, respectively, of the Company's loan portfolio. The interest rates charged for the loans made by the Company vary with the degree of risk, the size and maturity of the loans, the borrower's relationship with the Company, and prevailing money market rates indicative of the Company's cost of funds.

The majority of the Company's loans are direct loans made to individuals, farmers, and local businesses. The Company relies substantially on local promotional activity, personal contacts by bank officers, directors and employees to compete with other financial institutions. The Company makes loans to borrowers whose applications include a sound purpose, a viable repayment source and a plan of repayment established at inception and generally backed by a secondary source of repayment.

Loan demand was somewhat soft in 1993 as average loan balances decreased 1.4% from 1992 levels. The 1993 year end loan balances of $262,858,000 were down 4.3%. At December 31, 1993, the loan to deposit ratio was 56.9% versus 68.8% on December 31, 1992. Management does not anticipate commercial loan demand will significantly pick up in 1994. Some consumer loan promotions are planned with the introduction of the new supermarket branches.

Average loan balances for 1992 were up 4.2% over 1991. However, the year end loan balances of $274,562,000 were only .6% higher. Economic conditions and rigorous underwriting standards contributed to that result. At year end 1992, the loan-to- deposit ratio was 68.8% versus 78.3% at December 31, 1991.

In 1993 the Bank installed a new software system which resulted in some changes in the loan classifications. The prior year classifications were not restated in the following table. But in general there was not a significant change in the loan mix. Over the five year period real estate construction loans have decreased as the result of economic conditions and de-emphasis of this loan type by the Bank. By year end, consumer installment and real estate construction loans were 16.3% and 5.6% of loans outstanding versus 17.9% and 7.5% in 1991.

Management does not foresee any significant changes occurring in the loan mix in the coming year.

(B) Balance Sheet Analysis (Continued)

Loan Portfolio Composite

	December 31,				
	1993	1992	1991	1990	1989
	(dollars in thousands)				
Commercial, financial and agricultural	**$133,323**	$143,158	$140,725	$134,623	$119,860
Consumer installment	**53,361**	44,704	48,930	46,486	37,748
Real estate mortgage	**67,650**	71,306	62,831	55,197	55,933
Real estate construction	**8,524**	15,394	20,342	22,575	11,144
Banker's acceptances and commercial paper	**—**	—	—	—	5,331
Total loans	**$262,858**	$274,562	$272,828	$258,881	$230,016

Nonaccrual, Past Due and Restructured Loans

Nonperforming loans totaled $1,576,000 at December 31, 1993. This was a 25.9% decrease from the prior year end. However, nonperforming assets were $4,398,000 which was a 27.9% increase. Properties which were taken into OREO and several in-substance foreclosure properties accounted for the increase in nonperforming assets . The weak economy contributed to the increase in OREO as commercial properties have been difficult to sell and have been remaining in OREO for longer periods than in the past. Nonperforming loans as a percentage of total loans ended 1993 at .55% which was the lowest level in four years. The Bank's loan administration has been very aggressive in its collection and follow up on delinquent loans.

Nonperforming loans at December 31, 1992 had decreased 6.2% to a total of $2,128,000 from December 31, 1991. Nonperforming assets had increased to $3,440,000 or approximately $450,000 over 1991 levels. There was a 59.6% decrease in nonaccrual loans for the year ended December 31, 1992, due mostly to one large credit which became current in 1992. This was partially offset by other increases. The higher level of loans past due 90 days or more was reflective of slower payments due to weaker economic conditions. OREO also increased to $1,312,000 at year end 1992 compared to $725,000 at the end of 1991.

Commercial, real estate 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 (unless in Management's opinion the loan is well secured and in the process of collection), the full and timely collection of additional interest or principal becomes uncertain, the loan is classified as doubtful by internal auditors or bank regulatory agencies, a portion of the principal balance has been charged off, or the Company takes possession of the collateral. The reclassification of loans as nonaccrual does not necessarily reflect Management's judgment as to whether they are collectible.

Interest income is not accrued on loans where Management has determined that the borrowers will be unable to meet contractual principal and/or interest obligations, unless the loan is well secured and in process of collection. When a loan is placed on nonaccrual, any previously accrued but unpaid interest has been reversed. Thereafter, all payments received are applied to principal and no interest income is recognized until Management expects collection in full of principal and interest and the loan becomes contractually current. Interest income on nonaccrual loans which would have been recognized during the year ended December 31, 1993, if all such loans had been current in accordance with their original terms, totaled $21,908. Interest income actually recognized on these loans in 1993 was $59,805.

With respect to the Company's policy of placing loans 90 days or more past due on nonaccrual status unless the loan is well secured and in the process of collection, a loan is considered to be in the process of collection if, based on a probable specific event, it is expected that the loan will be repaid or brought current. Generally, this collection period would not exceed 30 days. Loans that are deemed in-substance foreclosures, or where the collateral has been repossessed, are classified as OREO, or, if the collateral is personal property, the loan is classified as other assets on the Company's financial statements. A secured loan would be treated by the Company as an in-substance foreclosure, i.e., as if assets had been received in satisfaction of the loan, when, among other criteria, little or no equity exists in the collateral securing the loan and it is considered doubtful that the borrower will be able to rebuild equity or repay the loan. In such situations, the secured loan is reclassified on the balance sheet at the lesser of the fair value of the underlying collateral less estimated selling costs or the recorded amount of the loan.

(B) Balance Sheet Analysis (Continued)

Management considers both the adequacy of the collateral and the other resources of the borrower in determining the steps to be taken to collect nonaccrual loans. Alternatives that are considered are foreclosure, collecting on guarantees, restructuring the loan or collection lawsuits.

The following table sets forth the amount of the Company's nonperforming assets as of the dates indicated.

	December 31,				
	1993	1992	1991	1990	1989
	(dollars in thousands)				
Nonaccrual loans	**$ 1,450**	$ 517	$ 1,279	$ 437	$ 403
Accruing loans past due 90 days or more	**126**	1,611	989	881	352
Restructured loans (in compliance with modified terms)	**—**	—	—	243	285
Total nonperforming loans	**1,576**	2,128	2,268	1,561	1,040
Other real estate owned	**2,822**	1,312	725	10	380
Total nonperforming assets	**$ 4,398**	$ 3,440	$ 2,993	$ 1,571	$ 1,420
Nonincome producing investments in real estate held by Bank's real estate development subsidiary	**$ 1,172**	$ 1,240	$ 1,735	$ 2,872	$ 4,150
Nonperforming loans to total loans	**.55%**	.78%	.83%	.60%	.45%
Allowance for loan losses to nonperforming loans	**335%**	193%	153%	199%	218%
Nonperforming assets to total assets	**.85%**	.79%	.78%	.42%	.40%
Allowance for loan losses to nonperforming assets	**120%**	120%	116%	197%	160%

Allowance for Loan Losses Activity

In determining the adequacy of the loan loss allowance, Management relies primarily on its 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. Based on the current economic conditions and difficulty in disposing of OREO properties, Management increased the allowance for loan losses to 2.0% of outstanding loans at December 31, 1993. It is anticipated the Bank will continue to provide for loan losses at this level until economic conditions improve.

Management believes that the $5,279,000 allowance for loan losses at December 31, 1993 is adequate to absorb known risks in the Bank's loan portfolio. No assurance can be given, however, that adverse economic conditions or other circumstances will not result in increased losses in the portfolio.

The primary risk elements considered by Management with respect to installment and residential real estate loans is lack of timely payment and the value of the collateral. The primary risk elements considered by Management with respect to its credit card portfolio are general economic conditions, timeliness of payments and the potential for fraud and over limit credit draws. The primary risk elements considered by Management with respect to real estate construction loans are the financial condition of borrowers, fluctuations in real estate values in the Company's market areas, fluctuations in interest rates, timeliness of payments, the availability of conventional financing, the demand for housing in the Company's market areas, and general economic conditions. The primary risk elements with respect to commercial loans are the financial condition of the borrower, general economic conditions in the Company's market area, the sufficiency of collateral, the timeliness of payment, and with respect to adjustable rate loans, interest rate fluctuations.

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

(B) Balance Sheet Analysis (Continued)

	December 31,				
	1993	1992	1991	1990	1989
	(dollars in thousands)				
Balance, beginning of year	**$ 4,111**	$ 3,459	$ 3,102	$ 2,267	$ 1,891
Provision charged to operations	**1,759**	1,895	1,200	2,450	1,000
Loans charged off:					
Commercial, financial and agricultural	**(580)**	(705)	(832)	(1,483)	(546)
Consumer installment	**(577)**	(695)	(446)	(242)	(248)
Real estate mortgage	**–**	–	–	–	–
Total loans charged-off	**(1,157)**	(1,400)	(1,278)	(1,725)	(794)
Recoveries:					
Commercial, financial and agricultural	**360**	106	367	62	122
Consumer installment	**206**	51	68	48	48
Total recoveries	**566**	157	435	110	170
Net loans charged-off	**(591)**	(1,243)	(843)	(1,615)	(624)
Balance, year end	**$ 5,279**	$ 4,111	$ 3,459	$ 3,102	$ 2,267
Average total loans	**$271,289**	$275,178	$264,130	$253,546	$202,946
Ratios:					
Net charge-offs during period to average loans outstanding during period	**.22%**	.45%	.32%	.64%	.31%
Provision for loan losses to average loans outstanding	**.65%**	.69%	.45%	.97%	.49%
Allowance to loans at year end[1]	**2.01%**	1.50%	1.27%	1.20%	1.01%

[1]Banker's acceptances and commercial paper are not included.

As part of its loan review process, Management has developed pools of reserves based on specific identified problem loans and historical loss data. The following table summarizes the allocation of the allowance for loan losses at December 31, 1993.

	December 31, 1993 (dollars in thousands)	
Balance at End of Period Applicable to:	Amount	Percent of loans in each category to total loans
Commercial, financial and agricultural	$ 1,816	50.7%
Real Estate – construction	–	3.3%
Real Estate – mortgage	191	25.7%
Installment loans to individuals	385	20.3%
Unallocated	2,887	N/A
	$ 5,279	100%

Investment in Real Estate Properties

At December 31, 1993, $1,172,000 of property was held by a subsidiary of the Bank for the purposes of development. This was down $68,000 from the prior year end amount as the result of the sale of one property ($105,000) and some minor additional development costs.

The December 31, 1992, balance of $1,240,000 reflected sales and cost basis adjustments of $2,214,000 offset by acquisition and development costs of $392,000 during the year.

Other Real Estate Owned

The December 31, 1993 balance of Other Real Estate Owned (OREO) was $2,822,000 versus $1,312,000 in 1992. The 1993 OREO balance includes insubstance foreclosures of $881,000. Properties foreclosed in 1993 and remaining in the Bank's possession at year end were valued at $1,237,000 net of a valuation allowance of $338,000. OREO properties are mainly commercial properties located in the Bank's service area. Management anticipates some problems in selling these properties due to current economic conditions. OREO had increased $587,000 in 1992.

Deposits

Total deposits grew $62.9 million or 15.8% in 1993. Deposits were up in all major categories with the exception of savings accounts. During the period of July through October the Bank promoted a 4% seven month certificate of deposit. This product was priced approximately 50 basis points over those offered by local independent banks and 150 basis points over rates paid by the major banks. During the period of this promotion the seven month certificates of deposit increased $54 million and total deposits increased $44 million. In 1993, rates paid on time certificates were brought more into line with local market rates. This resulted in some funds moving out of savings and into the time certificates as well as attracting new funds into the CDs. This was a change from the strategy employed in 1992.

In 1992, total deposits grew 14.6%. The strategy to pay an interest rate on savings accounts that was higher than was being paid by local competitors worked well in the first six months of 1992. Deposits grew by $51,100,000 in that period. At year end, savings accounts were up 140.9% and time deposits were down 56.1% from December 31, 1991 levels.

(B) Balance Sheet Analysis (Continued)

After July 1992 when all rates paid on interest-bearing accounts were brought more in line with local market rates, the growth in deposits stopped.

Accrued Interest Payable

At December 31, 1993, accrued interest payable had increased $695,000 to $1,521,000. The increase was mostly due to the growth in time certificates of deposit and was offset in part by lower interest rates and lower balances in savings accounts. Interest on savings accounts is paid at the end of the quarter whereas interest on time certificates is not paid until maturity.

At December 31, 1992, accrued interest payable had decreased $1,492,000 or 64.4% from the balance of $2,318,000 at December 31, 1991. This reduction was due to the lower interest rates and the change in deposit mix.

Long-Term Debt

During 1993 the Bank incurred long-term debt in the amount of $6,500,000 with terms varying from five to seven years. The Bank also retired a capital lease with a remaining obligation of $161,000.

No new long-term debt was added in 1992 so the decrease in balances was reflective of normal payments.

Equity

The Company and the Bank are subject to the minimum capital requirements of the Federal Reserve Board and the FDIC. Effective December 31, 1990, the Federal Reserve Board guidelines implemented new risk-based capital ratio requirements. These guidelines provide a measure of capital adequacy and are intended to reflect the degree of risk associated with both on and off balance sheet items, including residential loans sold with recourse, legally binding loan commitments and standby letters of credit. Under these regulations, financial institutions are required to maintain capital to support activities which in the past did not require capital. A financial institution's risk-based capital ratio is calculated by dividing its qualifying capital by its risk-weighted assets.

Qualifying capital is divided into two tiers. Core capital (Tier 1) consists generally of Common shareholders' equity, cumulative (up to 25% of capital) and non-cumulative perpetual preferred stock and minority interest in equity capital accounts of consolidated subsidiaries. Supplementary capital (Tier 2) consists of , among other things, allowance for possible loan and lease losses up to 1.25% of risk-weighted assets, cumulative (not qualifying as Tier 1) and limited life preferred stock, mandatory convertible securities and subordinated debt. Tier 2 capital qualifies as a part of total capital up to a maximum of 100% of Tier 1 capital. Amounts in excess of these limits may be issued but are not included in the calculation of the risk-based capital ratio. As of December 31, 1992, the Company and the Bank must generally have a minimum ratio of qualifying total capital to risk-weighted assets of 8%, of which 4% of qualifying total capital must be in the form of Tier 1 capital.

In addition, the regulators have promulgated capital leverage guidelines designed to supplement the risk-based capital guidelines. Banks and bank holding companies must maintain a minimum ratio of Tier 1 capital to adjusted total assets of 3% for the highest rated organizations, with all other banks and holding companies required to maintain an additional cushion of at least 100 to 200 basis points above the 3% minimum. As of December 31, 1993, the Company's Tier 1 capital was 8.1% of adjusted total assets. At December 31, 1992, this ratio was 7.2% of adjusted total assets.

The following table indicates the amounts of regulatory capital of the Company.

	Tier 1	Total Risked-Based	Leverage
	(dollars in thousands)		
December 31, 1993			
Company's %	13.0 %	14.3 %	8.1 %
Regulatory minimum %	4.0	8.0	4.0
Company's capital $	$ 41,768	$ 45,777	$ 41,768
Regulatory minimum $	12,830	25,660	20,651
Computed excess	$ 28,938	$ 20,117	$ 21,117
December 31, 1992			
Company's %	10.7 %	11.9 %	7.2 %
Regulatory minimum %	4.0	8.0	4.0
Company's capital $	$ 31,415	$ 35,098	$ 31,415
Regulatory minimum $	11,785	23,570	17,378
Computed excess	$ 19,630	$ 11,528	$ 14,037

Management believes that the capital is adequate to support anticipated growth, meet the cash dividend requirements of the Company and meet the future risk-based capital requirements of the Bank and the Company.

(B) Balance Sheet Analysis (Continued)

Liquidity and Interest Rate Sensitivity

Liquidity refers to the Company's ability to provide funds at an acceptable cost to meet loan demand and deposit withdrawals, as well as contingency plans to meet unanticipated funding needs or loss of funding sources. These objectives can be met from either the asset or liability side of the balance sheet. Asset liquidity sources consist of the repayments and maturities of loans, selling of loans, short-term money market investments, maturities of securities and sales of securities from the available-for sale portfolio. These activities are generally summarized as investing activities in Consolidated Statement of Cash Flows. Cash provided from these sources totaled approximately $251,828,000 in 1993.

Liquidity is generated from liabilities through deposit growth and short-term borrowings. These activities are included under financing activities in the cash flow statement. Cash provided from deposit growth totaled $62,927,000 in 1993. The Company also had lines of credit totaling $18,000,000. While these sources are expected to continue to provide significant amounts of funds in the future, their mix, as well as the possible use of other sources, will depend on future economic and market conditions.

Liquidity is also provided through the results of operating activities. Net cash of $12,503,000 was provided through these activities in 1993. This was an increase of $5,782,000 from 1992.

To enhance the Bank's ability to manage liquidity, in 1992 the investment portfolio was divided into two parts: Securities Held-to-Maturity and Securities Available-for-Sale. At the end of 1992 the available-for-sale portfolio contained securities with a book value of $49,037,000 (41.9% of total portfolio.) At the end of 1993 this portion of the securities portfolio totaled $90,138,000 (45.3%). This increase mostly reflected the growth in the overall securities portfolio while Management held the ratio fairly constant. These securities plus cash and due from banks in excess of reserve requirements and federal funds sold totaled $116,421,000 which was 22.6% of total assets at year end. These amounts were up from $68,015,000 and 15.7% at the end of 1992.

The overall liquidity of the Bank is enhanced by the sizable core deposits which provide a relatively stable funding base. The maturity distribution of certificates of deposit in denominations of $100,000 or more 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. The amounts held in these accounts have declined significantly in the past two years.

Certificates of Deposit in Denominations of $100,000 or More

	Amounts as of December 31,		
	1993	1992	1991
	(in thousands)		
Time remaining until maturity:			
Less than 3 months	**$ 115**	$ 432	$ 1,787
3 months to 6 months	**100**	207	937
6 months to 12 months	**–**	100	300
More than 12 months	**100**	100	200
Total	**$ 315**	$ 839	$ 3,224

Loan demand also affects the Bank's liquidity position. The following tables present the maturities and sensitivity to changes in interest rates of performing loans at December 31, 1993 and December 31, 1992. Variable rate loans comprised 59.4% of the Bank's loan portfolio at December 31, 1993 and 58.0% at December 31, 1992. In 1993 the Bank installed new computer software which resulted in reclassifications of some of the loan categories. Most notably there were substantial reclassifications between the consumer and real estate mortgage categories in both fixed and variable rate loans. These changes are not reflected in the 1992 loan maturity tables.

Loan Maturities - December 31, 1993

	Within One Year	After One But Within 5 Years	After 5 Years	Total
	(in thousands)			
Loans with predetermined interest rates:				
Commercial, financial and agricultural	$ 4,143	$ 14,183	$ 25,374	$ 43,700
Consumer installment	3,293	6,177	7,414	16,884
Real estate mortgage	1,912	9,310	33,902	45,124
Real estate construction	950	–	–	950
	10,298	29,670	66,690	106,658
Loans with floating interest rates:				
Commercial, financial and agricultural	37,986	16,655	34,982	89,623
Consumer installment	8,403	418	27,656	36,477
Real estate mortgage	2,415	2,332	17,779	22,526
Real estate construction	7,574	–	–	7,574
	56,378	19,405	80,417	156,200
Total loans	$ 66,676	$ 49,075	$147,107	$262,858

(B) Balance Sheet Analysis (Continued)

Loan Maturities - December 31, 1992

	Within One Year	After One But Within 5 Years	After 5 Years	Total
	(in thousands)			
Loans with predetermined interest rates:				
Commercial, financial and agricultural	$ 2,349	$ 16,571	$ 28,160	$ 47,080
Consumer installment	7,345	10,001	26,828	44,174
Real estate mortgage	154	918	22,516	23,588
Real estate construction	308	234	—	542
	10,156	27,724	77,504	115,384
Loans with floating interest rates:				
Commercial, financial and agricultural	27,509	15,677	52,892	96,078
Consumer installment	205	163	162	530
Real estate mortgage	4	1,753	45,960	47,717
Real estate construction	13,603	1,077	173	14,853
	41,321	18,670	99,187	159,178
Total loans	$ 51,477	$ 46,394	$176,691	$274,562

Interest rate sensitivity is a function of the repricing characteristics of the Company's portfolio of assets and liabilities. These repricing characteristics are the time frames within which the interest-bearing assets and liabilities are subject to change in interest rates either at replacement, repricing or maturity. Interest rate sensitivity management focuses on the maturity of assets and liabilities and their repricing during periods of changes in market interest rates. Interest rate sensitivity is measured as the difference between the volumes of assets and liabilities in the Company's current portfolio that are subject to repricing at various time horizons. The differences are known as interest sensitivity gaps. The following repricing tables present the Bank's interest rate sensitivity position at December 31, 1993 and 1992:

Interest Rate Sensitivity - December 31, 1993

	Repricing within: 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years
	(dollars in thousands)				
Interest-earning assets:					
Securities	$ 12,413	$ 20,470	$ 27,631	$137,082	$ 1,308
Fed funds sold	5,100	—	—	—	—
Loans	132,467	7,990	13,641	32,523	76,237
Total interest-earning assets	$ 149,980	$ 28,460	$ 41,272	$169,605	$ 77,545
Interest-bearing liabilities					
Transaction deposits	$ 250,534	$ —	$ —	$ —	$ —
Time	47,796	72,628	5,395	3,877	—
Long-term borrowings	5,012	12	24	1,574	522
Total interest-bearing liabilities	$ 303,342	$ 72,640	$ 5,419	$ 5,451	$ 522
Interest sensitivity gap	$(153,362)	$ (44,180)	$ 35,853	$164,154	$ 77,023
Cumulative sensitivity gap	(153,362)	(197,542)	(161,689)	2,465	79,488
As a percentage of earning assets:					
Interest sensitivity gap	(32.85%)	(9.46%)	7.68%	35.16%	16.50%
Cumulative sensitivity gap	(32.85%)	(42.31%)	(34.63%)	.53%	17.03%

Interest Rate Sensitivity - December 31, 1992

	Repricing within: 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years
	(dollars in thousands)				
Interest-earning assets:					
Securities	$ 15,013	$ 2,069	$ 13,697	$ 81,298	$ 5,243
Loans	152,181	5,831	12,984	36,035	67,531
Total interest-earning assets	$ 167,194	$ 7,900	$ 26,681	$ 117,333	$ 72,774
Interest-bearing liabilities					
Transaction deposits	$ 277,156	$ —	$ —	$ —	$ —
Time	21,706	14,008	9,174	4,786	—
Total interest-bearing liabilities	$ 298,862	$ 14,008	$ 9,174	$ 4,786	$ —
Interest sensitivity gap	$(131,668)	$ (6,108)	$ 17,507	$ 112,547	$ 72,774
Cumulative sensitivity gap	(131,668)	(137,776)	(120,269)	(7,722)	65,052
As a percentage of earning assets:					
Interest sensitivity gap	(33.60%)	(1.56%)	4.47%	28.72%	18.57%
Cumulative sensitivity gap	(33.60%)	(35.16%)	(30.69%)	(1.97%)	16.60%

(B) Balance Sheet Analysis (Continued)

The maturity distribution and yields of the investment portfolios is presented in the following tables:

Securities Maturities and Weighted Average Yields - December 31, 1993

	Within One Year		After One Year but Through Five Years		After Five Years but Through Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Securities Held-to-Maturity				(dollars in thousands)						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ —	—	$ 16,314	5.92%	$ —	—	$ —	—	$ 16,314	5.92%
Obligations of states and political subdivisions	125	5.80 %	150	5.90%	—	—	—	—	275	5.85%
Mortgage-backed securities	2,525	4.26 %	81,172	5.62%	7,172	6.02 %	—	—	90,869	5.61%
Other securities	—	—	—	—	—	—	1,308	—	1,308	—
Total securities held-to-maturity	$ 2,650	4.33 %	$ 97,636	5.67%	$ 7,172	6.02 %	$ 1,308	—	$108,766	5.66%
Securities Available-for-Sale										
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 26,037	4.69 %	$ 25,198	4.80%	$ —	—	$ —	—	$ 51,235	4.74%
Obligations of states and political subdivisions	—	—	—	—	—	—	—	—	—	—
Mortgage-backed securities	3,774	4.32 %	27,171	5.36%	7,958	5.69 %	—	—	38,903	5.33%
Other securities	—	—	—	—	—	—	—	—	—	—
Total securities available-for-sale	$ 29,811	4.64 %	$ 52,369	5.09%	$ 7,958	5.69 %	$ —	—	$ 90,138	5.00%
Total all securities	$ 32,461	4.62 %	$150,005	5.47%	$ 15,130	5.84 %	$ 1,308	—	$198,904	5.36%

Securities Maturities and Weighted Average Yields - December 31, 1992

	Within One Year		After One Year but Through Five Years		After Five Years but Through Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Securities Held-to-Maturity				(dollars in thousands)						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 16,479	5.40 %	$ 39,081	5.73%	$ —	—	$ —	—	$ 55,560	5.63%
Obligations of states and political subdivisions	286	6.69 %	275	5.85%	—	—	—	—	561	6.28%
Mortgage-backed securities	—	—	10,583	6.14%	995	7.13 %	—	—	11,578	6.23%
Other securities	—	—	—	—	—	—	324	—	324	—
Total securities held-to-maturity	$ 16,765	5.42 %	$ 49,939	5.82%	$ 995	7.13 %	$ 324	—	$ 68,023	5.71%
Securities Available-for-Sale										
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 14,014	3.85 %	$ 31,359	5.94%	$ 2,077	6.93 %	$ —	—	$ 47,450	5.36%
Obligations of states and political subdivisions	—	—	—	—	—	—	—	—	—	—
Mortgage-backed securities	—	—	—	—	917	5.47 %	—	—	917	5.47%
Other securities	—	—	—	—	—	—	930	5.25 %	930	5.25%
Total securities available-for-sale	$ 14,014	3.85 %	$ 31,359	5.94%	$ 2,994	6.48 %	$ 930	5.25 %	$ 49,297	5.36%
Total all securities	$ 30,779	4.70 %	$ 81,298	5.86%	$ 3,989	6.64 %	$ 1,254	3.89 %	$117,320	5.57%
Less valuation allowance on securities available-for-sale									(260)	
Total									$117,060	

(B) Balance Sheet Analysis (Continued)

The principal cash requirements of the Company are dividends on Preferred Stock and Common Stock when declared. The Company is dependent upon the payment of cash dividends by the Bank to service its commitments. The Company expects that the cash dividends paid by the Bank to the Company will be sufficient to meet this payment schedule.

Off-Balance Sheet Items

During 1993 the Bank entered into several agreements which increased its off-balance sheet commitments. The most significant was the four license agreements signed with Raley's markets for the new supermarket branches. These license agreements will increase noninterest expenses about $100,000 per year. (See footnote G for the terms.) Additionally, the upgrade of the Bank's central computer was financed through a new three year operating lease which paid off an existing capital lease. Neither of these transactions will severely impact operating results.

As of December 31, 1993 commitments to extend credit were the sole source of financial instruments with off-balance sheet risk. The Bank has not entered into any contracts for financial derivative instruments such as futures, swaps, options etc. Loan commitments decreased to $48,958,000 from $56,518,000 at December 31, 1992. This is an indicator of softening loan demand and represents 18.5% of the total loans outstanding at year end versus 20.6% a year ago.

Disclosure of Fair Value

The Financial Accounting Standards Board (FASB) issued the Statement of Financial Accounting Standards Number 107, Disclosures about Fair Value of Financial Statements which became effective December 15, 1992. It requires the disclosure of fair value of most financial instruments, whether recognized or not recognized in the financial statements. The intent of presenting the fair values of financial instruments is to depict the market's assessment of the present value of net future cash flows discounted to reflect both current interest rates and the market's assessment of the risk that the cash flows will not occur.

In determining fair values, the Company used the following assumptions: for cash, short-term investments, accrued interest receivable, short-term borrowings and accrued interest payable the carrying amount is a reasonable estimate of fair value. All of these instruments are short-term in nature. Securities are reflected at quoted market values. Loans and deposits have a long-term time horizon which required more complex calculations for fair value determination. Loans are grouped into homogeneous categories and broken down between fixed and variable rate instruments. Loans with a variable rate, which reprice immediately, are valued at carrying value. In 1992 quoted market values were used for the fair value estimate of real estate mortgage loans. In 1993 real estate mortgage loans were considered the same as other fixed rate instruments. Their fair value is estimated by discounting the future cash flows using current rates. Credit risk and repricing risk factors are included in the current rates. Fair value for nonaccrual loans is reported at carrying value and is included in the net loan total. Since the allowance for loan losses exceeds any potential adjustment for nonaccrual valuation no further valuation adjustment has been made.

Demand deposits, savings and certain money market accounts are short-term in nature so the carrying value equals the fair value. For deposits that extend over a period in excess of four months, the fair value is estimated by discounting the future cash payments using the rates currently offered for deposits of similar remaining maturities.

At 1993 year end, the fair values calculated on the Company's assets are 1.6% above the carrying values versus 1.5% in 1992. This increase is in the securities and loan categories. Since the Company does not generally sell loans other than real estate mortgages, and the market value of the securities available-for-sale exceeds book value by $362,000, these higher fair values will probably not have a significant effect on future operations.

BOARD OF DIRECTORS

Standing, from left:

Craig S. Compton
President, AVAG, Inc.
Aerial Application Business, Richvale

William J. Casey
Health Care Consultant, Chico

Rodney W. Peterson
President, Peterson Farming, Inc.
Durham

Alex A. Vereschagin, Jr.
Chairman of the Board
Secretary-Treasurer, Plaza Farms
Orange Growers and Packers, Orland

DeWayne E. Caviness, M.D.
Physician and Surgeon, Chico

Seated, from left:

Everett B. Beich
Vice Chairman of the Board
Owner, Beich Company
Real Estate Investments
and Development, Chico

Fred W. Hignell, III
Secretary of the Board
Principal Partner,
Hignell & Hignell, Inc.
Investment and Development Company,
Chico

Wendell J. Lundberg
Owner, Wehah Farms
Rice and Grain Operations, Richvale

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

Brian D. Leidig
President, Parlay Investments, Inc.
Real Estate Investment and Development
Company, Redding

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

Sankey M. Hall, Jr.
Retired Businessman
Colonel, U.S. Air Force Reserve (Retired),
Chico

TRICO BANCSHARES - EXECUTIVE OFFICERS

Robert H. Steveson	President & Chief Executive Officer
Joan Jones	Executive Vice President
Robert Stanberry	Vice President & Chief Financial Officer
Fred W. Hignell, III	Secretary

TRI COUNTIES BANK - ADMINISTRATION

Robert H. Steveson	President & Chief Executive Officer
Joan Jones	Executive Vice President & Chief Administrative Officer
Carroll Taresh	Executive Vice President & Chief Operating Officer
Dan Herbert	Senior Vice President Branch Banking
Glyn Bythell	Senior Vice President & Loan Administrator
George Barstow	Senior Vice President Lending
Lawrence Sparks	Vice President of Loan Quality
Ruth Irvine	Vice President & Personnel Manager
Kathy Allan	Vice President & Manager Special Assets
Jeannette Kessler	Compliance Officer
Debra Howell	Vice President Loan Administration
Kathleen Richardson	Executive Secretary
Robert Stanberry	Vice President & Chief Financial Officer
Linda Flowerdew	Vice President - Operations
Faye Mitchell	Training Officer

TRI COUNTIES BANK- DEPARTMENT MANAGERS

Richard Smith	Vice President Supermarket Banking
Ray Rios	Manager, Technical Services
Erika Bender	Manager, Real Estate Department
Fred Bryant	Vice President & Chief Auditor Audit Department
Ron Bee	Manager, INVEST
Elizabeth Waybright	Manager, Loan Center
Beverly K. Larsen	Manager, Purchasing & Printing Department
Vickie Gibson	Manager, VISA/MasterCard Department
Judy Mason	Manager, Operations Center

TRI COUNTIES BANK - LENDING SPECIALISTS

David Raven	Vice President & Loan Specialist/Chico
Ed Richter	Vice President & Loan Specialist/Willows
Chandler Church	Vice President & Area Manager/Yuba City

TRI COUNTIES BANK BRANCH LOCATIONS/MANAGERS

Park Plaza Branch
780 Mangrove Avenue
P.O. Box 2207
Chico, California 95927
(916) 898-0400
Richard O'Sullivan
Vice President & Manager

Pillsbury Branch
2171 Pillsbury Road
P.O. Box 1130
Chico, California 95927
(916) 898-0470
Ty Thresher
Vice President & Manager

Chico Mall Branch
1950 E. 20th St.- Suite 725
Chico, California 95928
(916) 898-0370

Durham Branch
9411 Midway
P.O. Box 190
Durham, California 95938
(916) 898-0430
Walt Bender
Manager

Orland Branch
100 East Walker Street
P.O. Box 188
Orland, California 95963
(916) 865-5524
Gary DuQuette
Manager

Willows Branch
210 North Tehama Street
P.O. Box 1158
Willows, California 95988
(916) 934-2191
Ray Block
Manager

Cottonwood Branch
3349 Main Street
P.O. Box 410
Cottonwood, California 96022
(916) 347-3751
Bonnie Coleman
Manager

Bieber Branch
Bridge & Market Streets
P.O. Box 217
Bieber, California 96009
(916) 294-5211

Palo Cedro Branch
9125 Deschutes Road
P.O. Box 144
Palo Cedro, California 96073
(916) 547-4494
Julie Jones
Manager

Redding Branch
1810 Market Street
P.O. Box 994788
Redding, California 96099
(916) 244-4700
Nolan C. Hawkins
Manager

Burney Branch
37093 Main Street
Burney, California 96013
(916) 335-2215
Vi Nelson
Manager

Fall River Mills Branch
43308 State Highway 299E
P.O. Box 758
Fall River Mills, California 96028
(916) 336-6291
Suzanne Shoemaker
Manager

Yreka Branch
165 S. Broadway
P.O. Box 98
Yreka, California 96097
(916) 842-2761
Roger Fellows
Manager

Yuba City Branch
1441 Colusa Avenue
P.O. Box 1501
Yuba City, CA 95992
(916) 671-5563
Craig Hendy
Vice President & Manager

Administration Office
15 Independence Circle
Chico, California 95926
(916) 898-0300

Loan Administration
40 Philadelphia Drive
Chico, California 95926
(916) 898-0320

Branch Administration
110 Independence Circle
Chico, California 95926
(916) 898-0480

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, 1993, 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, 15 Independence Circle, Chico, CA 95926.**

5 NEW LOCATIONS IN 1994

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TRI COUNTIES BANK COUNTRY

TRICO BANCSHARES
15 Independence Circle
Chico, California 95926
(916) 898-0300
FAX (916) 898-0310