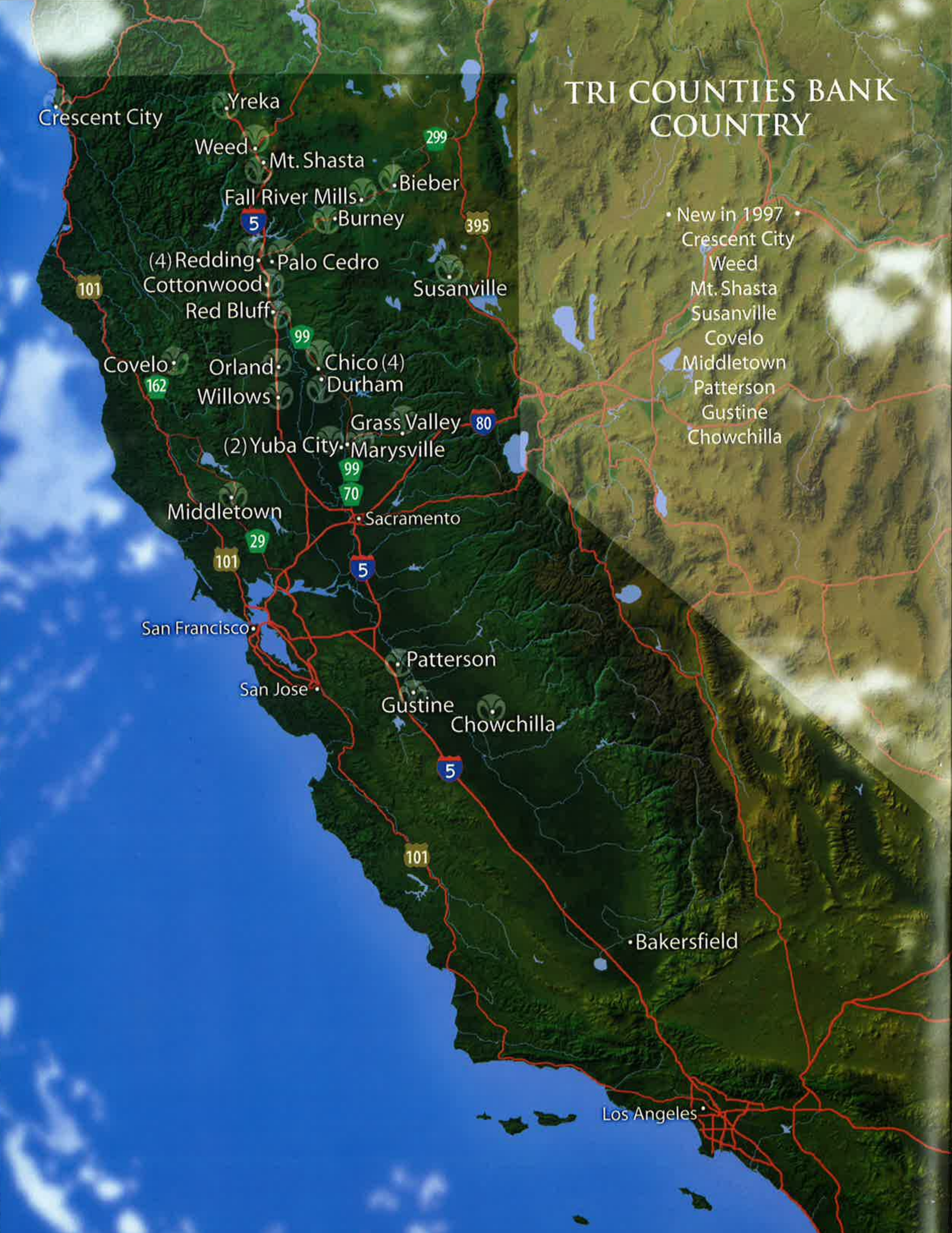
TriCo Bancshares
1997 Annual Report


TRI COUNTIES BANK COUNTRY
• New in 1997 •
Crescent City
Weed
Mt. Shasta
Susanville
Covelo
Middletown
Patterson
Gustine
Chowchilla
Crescent City
Yreka
Weed
Mt. Shasta
Bieber
Fall River Mills
Burney
(4) Redding
Palo Cedro
Cottonwood
Susanville
Red Bluff
Covelo
Orland
Chico (4)
Willows
Durham
Grass Valley
(2) Yuba City
Marysville
Middletown
Sacramento
San Francisco
Patterson
San Jose
Gustine
Chowchilla
Bakersfield
Los Angeles
299
395
5
101
99
162
80
70
29

TriCo Bancshares

In 1975 with $1 million in capital, a group of business people, farmers and professionals chartered Tri Counties Bank in Chico, California. Six years later TriCo Bancshares, a holding company, was formed with the Bank as its sole subsidiary. At year end 1997, the Company had capital totaling $65.1 million.

The Bank has grown from the original branch in Chico to twenty-four traditional branches, seven in-store branches and two loan production offices in seventeen Northern California counties from the San Joaquin Valley to the Oregon border.

Throughout the years of expansion, Tri Counties Bank has remained committed to customer oriented, retail banking by developing banking products and utilizing current technology to meet customer needs and desires. During this evolution of product and technology, Tri Counties Bank has maintained its most outstanding feature: old-fashioned, personal customer service. Customers are always welcome in our branches and greeted by a courteous, friendly and professional staff.

The Bank provides customer convenience through traditional and in-store branches with extended hours. Also, customers can perform most common banking functions through the 24-hour telephone banking system. Personalized service is available seven days a week from customer service representatives in the Bank's Telephone Banking Center. Banking via the Internet is coming in 1998. Retail banking services include: home equity loans and lines of credit tailored to match customer needs; checking accounts with added value; the Check Card, which allows the customer to access checking account funds worldwide wherever Visa is accepted and at ATMs; a variety of savings options; mutual funds and annuity products through INVEST; and Visa and MasterCard credit cards that earn free travel.

The Bank's business customers are primarily small to medium-sized enterprises and agribusinesses within the Bank's service area. Business customers can rely on a personal business banker who acts as a guide to financial services and expediter of business loans. Business banking services include: loans, lines of credit and Small Business Administration loans; Merchant card services, which allows the customer's business to accept credit, debit and ATM card payments; electronic banking products, which enable customers to initiate a wide variety of banking functions from a PC or touch-tone phone; business check services; business savings and investments; and business retirement products.

Tri Counties Bank relies substantially on local promotional activity; personal contacts by its officers, directors, and employees; extended hours; personalized service and its reputation in the communities it serves to compete with other financial institutions.

Tri Counties Bank

NASDAQ SYMBOL:
TCBK

WEB SITE:
http://www.tcbk.com

FIVE YEAR SELECTED FINANCIAL DATA

(in thousands, except share data)

	1997	1996	1995	1994	1993[5]
STATEMENT OF OPERATIONS DATA:[1]					
Interest income	**$ 59,877**	$ 49,148	$ 46,011	$ 43,240	$ 40,947
Interest expense	**23,935**	19,179	17,988	15,680	13,996
Net interest income	**35,942**	29,969	28,023	27,560	26,951
Provision for loan losses	**3,000**	777	335	316	1,858
Net interest income after provision for loan losses	**32,942**	29,192	27,688	27,244	25,093
Noninterest income	**9,566**	6,636	5,933	5,025	6,726
Noninterest expense	**32,932**	23,485	21,661	22,058	20,225
Income before income taxes	**9,576**	12,343	11,960	10,211	11,594
Provision for income taxes	**3,707**	5,037	4,915	4,350	4,779
Net income	**$ 5,869**	$ 7,306	$ 7,045	$ 5,861	$ 6,815
SHARE DATA:[2]					
Diluted earnings per share	**$1.21**	$1.56	$ 1.46	$ 1.18	$ 1.42
Cash dividend paid per share	**0.64**	0.59	0.37	0.32	0.31
Common shareholders' equity at year end	**13.97**	13.10	11.92	10.10	10.05
BALANCE SHEET DATA at year end:[3]					
Total loans, gross	**$448,967**	$439,218	$318,766	$307,103	$305,902
Total assets	**826,165**	694,859	603,554	593,834	575,897
Total deposits	**724,094**	595,621	516,193	491,172	515,999
Total shareholders' equity	**65,124**	60,777	53,213	48,231	47,068
SELECTED FINANCIAL RATIOS:					
Return on average assets	**0.75 %**	1.18 %	1.22 %	.99 %	1.25 %
Return on average common shareholders' equity	**9.34 %**	13.03 %	13.95 %	12.42 %	15.81 %
Total risk-based capital ratio	**11.90 %**	13.58 %	15.17 %	14.65 %	14.02 %
Net interest margin[4]	**5.16 %**	5.37 %	5.36 %	5.18 %	5.49 %
Allowance for loan losses to total loans outstanding at end of year	**1.44 %**	1.39 %	1.75 %	1.83 %	1.95 %

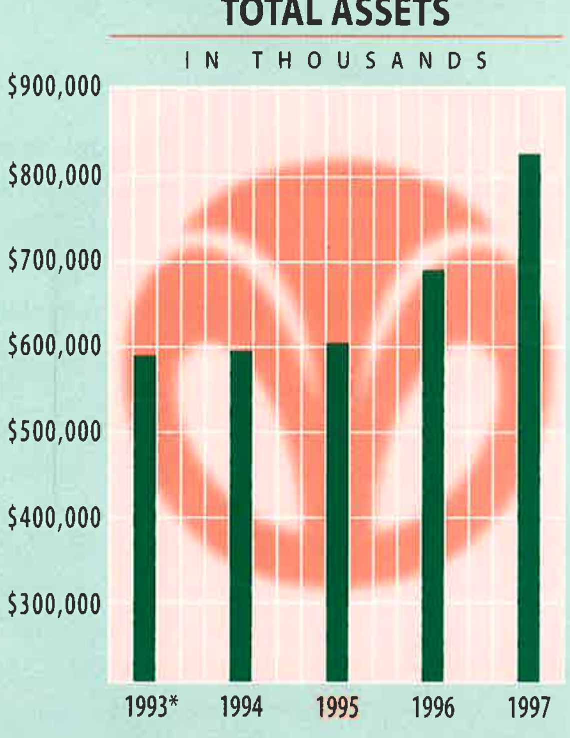
[1] Tax-exempt securities are presented on an actual yield basis.

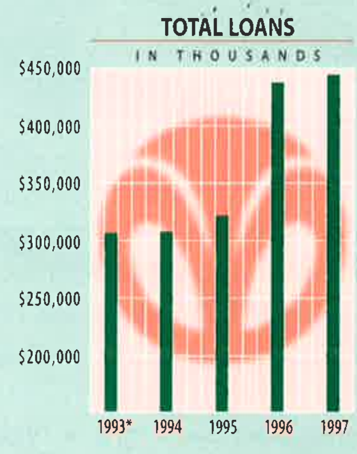
[2] Retroactively adjusted to reflect 5-for-4 stock split effected in 1995 and the 12% stock dividend declared in 1993.

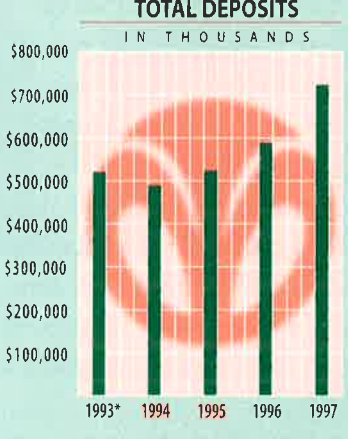
[3] The 1996 data reflects changes due to the purchase of Sutter Buttes Savings Bank. See Note S of the Consolidated Financial Statements.

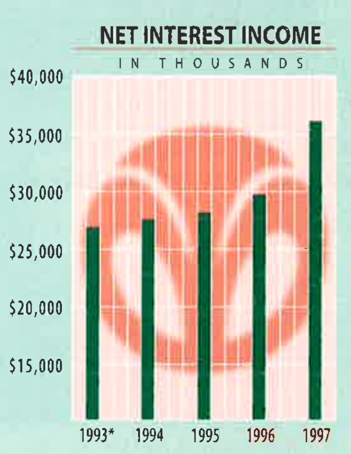
[4] Calculated on a tax equivalent basis.

[5] Restated on an historical basis to reflect the July 21, 1994 acquisition of Country National Bank on a pooling-of-interests basis.









* Restated on an historical basis to reflect the July 21, 1994 acquisition of Country National Bank on a pooling-of-interests basis.

PRESIDENT'S MESSAGE

Our Direction is positive. Our Goals are defined. Our Growth continues. Our Effort is focused on continual improvement. Our Achievement: Tri Counties Bank is the largest regional community bank in the Sacramento Valley.

The Company's assets grew 19% in 1997 to reach $826,165,000 at year end. Your Company has more than doubled in size since 1991. The principal reason for the large 1997 asset growth was the purchase of deposits and facilities of nine branch offices from Wells Fargo Bank on February 21. This one-time only opportunity enabled us to: strengthen market share in our core marketing region and extend "Tri Counties Bank Country" into the northern San Joaquin Valley. The branches were in rural and small urban communities much like the ones we have already proven we can serve well.

DIRECTION
GOALS
GROWTH
EFFORT
ACHIEVEMENT

Growth came at some cost. Earnings for 1997 were $5,869,000 compared to $7,306,000 for the previous year. Costs related directly to the branch purchase, continuing operations of the purchased branches and indirect costs incurred in support of the branches were higher than expected. Additionally, loan production for customers at the new branches was significantly lower than expected which resulted in funds received for the deposit liabilities being invested in government securities which have lower yields than loans.

Your Board of Directors, themselves all substantial shareholders, realize that progress is sometimes painful. While earnings in 1997 were lower than anticipated many positive actions took place. Tri Counties Bank now has 127,000 customer accounts. Retention of those accounts is important. We believe superior customer service is one key towards that end. During 1997 we installed computer systems that enable employees to provide better service to their customers with more efficiency. New deposit and loan products were introduced. Mutual fund and annuity products were widely accepted by our customers. Banking on the Internet via our web site is coming early in 1998.

We designed and built a new 30,000 square foot administration building. This building enables us to consolidate administrative and branch support functions from four separate locations. Move in was finished in January 1998 and already we have realized improved communications and teamwork. The infrastructure is in place to support future growth.

Most importantly, development of a new management team has been underway for several years. In 1997 the Board of Directors made a number of promotions in recognition of individuals who have stepped forward to lead the Bank. Ray Rios, Information Systems Manager, Bonnie Ramsay, Loan Center Manager, and Judy Mason, Operations Center Manager were all promoted to Vice Presidents. Ruth Irvine, Human Resource Manager, was promoted to Senior Vice President. Richard O'Sullivan and Rick Smith were named Executive Vice Presidents.

Your Board of Directors and all members of the Tri Counties Bank team join me in thanking you for your confidence in our efforts on your behalf.

Sincerely,

Robert H. Steveson

Robert H. Steveson
President & Chief Executive Officer

NEW ADMINISTRATIVE HEADQUARTERS FOR
TRICO BANCSHARES & TRI COUNTIES BANK
· 63 CONSTITUTION DRIVE, CHICO ·

PROMOTIONS

Ray Rios
Vice President,
Information Systems

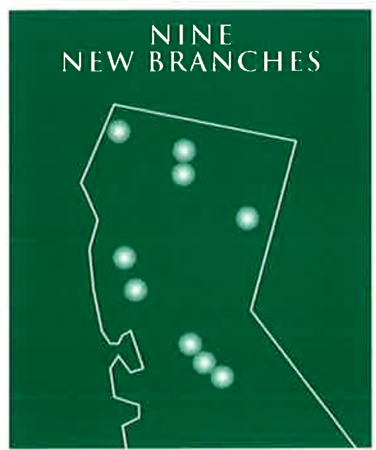
Bonnie Ramsay
Vice President,
Loan Center Manager

Judy Mason
Vice President,
Operations Manager

Ruth Irvine
Senior Vice President,
Personnel Manager

Richard O'Sullivan
Executive Vice
President,
Customer Sales
and Service

Rick Smith,
Executive Vice
President,
Employee Support
and Control



BOARD OF DIRECTORS

Alex A. Vereschagin, Jr.

Chairman of the Board
Secretary-Treasurer, Plaza Farms
and General Partner,
Vereschagin Co.,
Orland

Brian D. Leidig

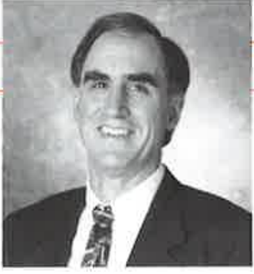
President,
Parlay Investments, Inc.
Real Estate Investment and
Development Company,
Redding

Everett B. Beich

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

Wendell J. Lundberg

Owner,
Wehah Farms
Rice and Grain Operations,
Richvale

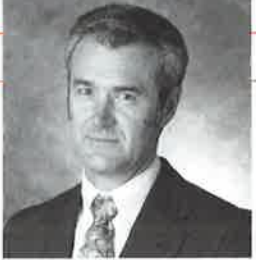


Douglas F. Hignell

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

Donald E. Murphy

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



William J. Casey

Health Care Consultant,
Chico

Rodney W. Peterson

President,
Peterson Farming, Inc.
Durham

Craig S. Compton

President, AVAG, Inc.
Aerial Application Business,
Richvale

Robert H. Steveson

President and
Chief Executive Officer,
Tri Counties Bank and
TriCo Bancshares,
Chico

Richard C. Guiton

President and General Manager,
Guiton's Pool Center, Inc.
Redding

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	December 31, 1997	1996
Assets		
Cash and due from banks	**$ 48,476**	$ 52,231
Repurchase agreements	**15,000**	—
Cash and Cash Equivalents	**$63,476**	$52,231
Securities held-to-maturity (approximate fair value $88,950 and $103,488), respectively	**90,764**	104,713
Securities available-for-sale	**175,753**	65,316
Loans:		
Commercial	**165,813**	176,868
Consumer	**87,950**	75,498
Real estate mortgages	**160,954**	160,575
Real estate construction	**34,250**	26,348
	448,967	439,289
Less: Allowance for loan losses	**6,459**	6,097
Net loans	**442,508**	433,192
Premises and equipment, net	**18,901**	14,717
Investment in real estate properties	**856**	1,173
Other real estate owned	**2,230**	1,389
Accrued interest receivable	**5,701**	4,572
Deferred income taxes	**4,132**	4,267
Intangible assets	**8,902**	1,036
Other assets	**12,942**	12,253
Total assets	**$ 826,165**	$ 694,859
Liabilities and Shareholders' Equity		
Deposits:		
Noninterest-bearing demand	**$ 122,069**	$ 100,879
Interest-bearing demand	**130,958**	97,178
Savings	**216,402**	172,789
Time certificates, $100,000 and over	**48,907**	32,889
Other time certificates	**205,758**	191,886
Total deposits	**724,094**	595,621
Federal funds purchased	**15,300**	4,900
Accrued interest payable	**4,039**	3,047
Other liabilities	**6,168**	6,233
Long-term debt and other borrowings	**11,440**	24,281
Total liabilities	**761,041**	634,082
Commitments and contingencies (Note H)		
Shareholders' equity:		
Common stock, no par value: Authorized 20,000,000 shares; issued and outstanding 4,662,649 and 4,641,223 shares, respectively	**48,161**	47,652
Retained earnings	**16,956**	14,076
Unrealized gain/(loss) on securities available-for-sale, net	**7**	(951)
Total shareholders' equity	**65,124**	60,777
Total liabilities and shareholders' equity	**$ 826,165**	$ 694,859

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except earnings per share)

	Years Ended December 31,		
	1997	1996	1995
Interest income:			
Interest and fees on loans	**$ 44,903**	$ 38,227	$ 33,776
Interest on investment securities–taxable	**13,791**	10,409	11,706
Interest on investment securities–tax exempt	**630**	120	158
Interest on federal funds sold	**553**	392	371
Total interest income	**59,877**	49,148	46,011
Interest expense:			
Interest on interest-bearing demand deposits	**2,781**	2,226	2,000
Interest on savings	**6,400**	5,032	5,167
Interest on time certificates of deposit	**11,481**	8,820	8,736
Interest on time certificates of deposit, $100,000 and over	**2,020**	1,123	328
Interest on short-term borrowing	**537**	359	526
Interest on long-term debt	**716**	1,619	1,231
Total interest expense	**23,935**	19,179	17,988
Net interest income	**35,942**	29,969	28,023
Provision for loan losses	**3,000**	777	335
Net interest income after provision for loan losses	**32,942**	29,192	27,688
Noninterest income:			
Service charges and fees	**6,745**	4,924	4,163
Other income	**2,821**	1,712	1,770
Total noninterest income	**9,566**	6,636	5,933
Noninterest expenses:			
Salaries and related expenses	**15,671**	11,989	10,787
Other, net	**17,261**	11,496	10,874
Total noninterest expenses	**32,932**	23,485	21,661
Net income before income taxes	**9,576**	12,343	11,960
Income taxes	**3,707**	5,037	4,915
Net income	**$ 5,869**	$ 7,306	$ 7,045
Preferred stock dividends	**—**	—	245
Net income available to common shareholders	**$ 5,869**	$ 7,306	$ 6,800
Basic earnings per common share	**$ 1.26**	$ 1.62	$ 1.53
Diluted earnings per common share	**$ 1.21**	$ 1.56	$ 1.46

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 1997, 1996 and 1995
(in thousands, except share amounts)

	Series B Preferred Stock		Common Stock				
	Number of Shares	Amount	Number of Shares	Amount	Retained Earnings	Unrealized Gain/(Loss) on Securities, Net	Total
Balance, December 31, 1994	8,000	$3,899	3,513,707	$43,552	$4,488	$(3,708)	$48,231
Redemption of Preferred Stock	(8,000)	(3,899)	—	—	(101)	—	(4,000)
Exercise of Common Stock options	—	—	72,694	554	—	—	554
5-for-4 Common Stock split	—	—	878,427	—	—	—	—
Series B Preferred Stock cash dividends	—	—	—	—	(245)	—	(245)
Common Stock cash dividends	—	—	—	—	(1,639)	—	(1,639)
Change in unrealized holding loss on securities	—	—	—	—	—	3,058	3,058
Stock option amortization	—	—	—	209	—	—	209
Net income	—	—	—	—	7,045	—	7,045
Balance, December 31, 1995	—	—	4,464,828	44,315	9,548	(650)	53,213
Issuance of Common Stock	—	—	102,868	2,134	—	—	2,134
Exercise of Common Stock options	—	—	89,950	1,157	—	—	1,157
Repurchase of Common Stock	—	—	(16,423)	(163)	(132)	—	(295)
Common Stock cash dividends	—	—	—	—	(2,646)	—	(2,646)
Change in unrealized loss on securities	—	—	—	—	—	(301)	(301)
Stock option amortization	—	—	—	209	—	—	209
Net income	—	—	—	—	7,306	—	7,306
Balance, December 31, 1996	—	—	4,641,223	47,652	14,076	(951)	60,777
Exercise of Common Stock options	—	—	22,526	332	—	—	332
Repurchase of Common Stock	—	—	(1,100)	(11)	(19)	—	(30)
Common Stock cash dividends	—	—	—	—	(2,970)	—	(2,970)
Change in unrealized gain/(loss) on securities	—	—	—	—	—	958	958
Stock option amortization	—	—	—	188	—	—	188
Net income	—	—	—	—	5,869	—	5,869
Balance, December 31, 1997	—	$ —	4,662,649	$48,161	$16,956	$ 7	$65,124

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Years ended December 31, 1997	1996	1995
Operating activities:			
Net income	**$ 5,869**	$ 7,306	$ 7,045
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	**3,000**	777	335
Provision for losses on other real estate owned	**169**	202	99
Provision for premises impairment and lease loss	**300**	—	—
Depreciation and amortization	**2,438**	1,809	1,600
Amortization of intangible assets	**1,342**	34	—
(Accretion) amortization of investment security (discounts) premiums, net	**(273)**	28	117
Deferred income taxes	**(601)**	(930)	(134)
Investment security losses, net	**(18)**	—	10
(Gain) loss on sale of loans	**(260)**	3	(56)
(Gain) loss on sale of other real estate owned, net	**11**	(5)	(78)
Amortization of stock options	**188**	209	209
Change in assets and liabilities net of effects from purchase of Sutter Buttes (1996 only):			
(Increase) decrease in interest receivable	**(1,129)**	344	139
Increase (decrease) in interest payable	**992**	(495)	1,402
(Increase) decrease in other assets and liabilities	**(10,078)**	(6,273)	(876)
Net cash provided by operating activities	**1,950**	3,009	9,812
Investing activities:			
Proceeds from maturities of securities held-to-maturity	**14,116**	19,179	19,516
Purchases of securities held-to-maturity	**—**	(5,516)	(2,740)
Proceeds from maturities of securities available-for-sale	**35,604**	24,353	12,427
Proceeds from sales of securities available-for-sale	**29,033**	—	6,993
Purchases of securities available-for-sale	**(173,327)**	(13,704)	(5,638)
Net increase in loans	**(13,915)**	(62,104)	(12,360)
Purchases of premises and equipment	**(5,968)**	(2,526)	(1,335)
Proceeds from sale of other real estate owned	**838**	673	1,862
Purchase of Sutter Buttes net of cash acquired	**—**	(997)	—
Net cash provided (used) by investing activities	**(113,907)**	(40,642)	18,725
Financing activities:			
Net increase in deposits	**128,473**	23,486	25,021
Net increase in federal funds borrowed	**10,400**	4,900	—
Borrowings (payments) under repurchase agreements	**—**	—	(30,457)
Borrowings under long-term debt agreements	**—**	—	9,828
Payments of principal on long-term debt agreements	**(12,841)**	(2,011)	(2,035)
Redemption of Preferred Stock	**—**	—	(4,000)
Repurchase of Common Stock	**(30)**	(295)	—
Cash dividends — Preferred	**—**	—	(245)
Cash dividends — Common	**(2,970)**	(2,646)	(1,639)
Issuance of Common Stock	**170**	1,157	554
Net cash provided (used) by financing activities	**123,202**	24,591	(2,973)
Increase (decrease) in cash and cash equivalents	**11,245**	(13,042)	25,564
Cash and cash equivalents at beginning of year	**52,231**	65,273	39,709
Cash and cash equivalents at end of year	**$ 63,476**	$ 52,231	$ 65,273
Supplemental information:			
Cash paid for taxes	**$ 3,907**	$ 5,727	$ 5,240
Cash paid for interest expense	**$ 22,943**	$ 19,908	$ 16,586
Non-cash assets acquired through foreclosure	**$ 1,859**	$ 1,628	$ 390

Supplemental schedule of non-cash investing and financing activities:

On October 16, 1996, the Company purchased all of the capital stock of Sutter Buttes Savings Bank in exchange for cash of approximately $2,036,000 and approximately 102,900 shares of the Company's stock. Based on the average value of the Company's stock for the ten days preceding the transaction, the total purchase price was approximately $4,171,000. In conjunction with the acquisition, liabilities were assumed as follows:

	(in thousands)
Fair value of assets acquired	$64,931
Cash and stock paid for capital stock	(4,171)
Liabilities assumed	$60,760

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 in consolidation.

Nature of Operations

The Company operates twenty four branch offices, seven in-store branches and two loan production offices in the California counties of Butte, Del Norte, Glenn, Kern, Lake, Lassen, Madera, Mendocino, Merced, Nevada, Sacramento, Shasta, Siskiyou, Stanislaus, Sutter, Tehama and Yuba. The Company's operating policy since its inception has emphasized retail banking. Most of the Company's customers are retail customers and small to medium sized businesses.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Securities

The Company classifies its debt and marketable equity securities into one of three categories: trading, available-for-sale or held-to-maturity. Trading securities are bought and held principally for the purpose of selling in the near term. Held-to-maturity securities are those securities which the Company has the ability and intent to hold until maturity. All other securities not included in trading or held-to-maturity are classified as available-for-sale. In 1997 and 1996 the Company did not have any securities classified as trading.

Available-for-sale securities are recorded at fair value. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts. Unrealized gains and losses, net of the related tax effect, on available-for-sale securities are reported as a separate component of shareholders' equity until realized.

Premiums and discounts are amortized or accreted over the life of the related investment security as an adjustment to yield using the effective interest method. Dividend and interest income are recognized when earned. Realized gains and losses for securities are included in earnings and are derived using the specific identification method for determining the cost of securities sold.

Loans

Loans are reported at the principal amount outstanding, net of unearned income and the allowance for loan losses.

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 may not be 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 probable losses inherent in existing loans, leases and commitments to extend credit, based on evaluations of the collectibility, impairment 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.

The Company defines a loan as impaired when it is probable the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement.

Note A–General Summary of Significant Accounting Policies *(continued)*

Certain impaired loans are measured based on the present value of expected future cash flows discounted at the loan's original effective interest rate. As a practical expedient, impairment may be measured based on the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through a valuation allowance.

Mortgage Operations

The Company sold substantially all of its conforming long term residential mortgage loans originated during 1997, 1996 and 1995 for cash proceeds equal to the fair value of the loans. Statement of Financial Accounting Standards No. 122, Accounting for Mortgage Servicing Rights (SFAS 122), requires the recognition of originated mortgage servicing rights as assets by allocating the total costs incurred between the loan and the servicing right based on their relative fair values. Historically, the cost of the originated servicing rights was not recognized as an asset and was charged to earnings when the related loan was sold.

The cost of mortgage servicing rights is amortized in proportion to, and over the period of, estimated net servicing revenues. SFAS 122 requires the Company to assess capitalized mortgage servicing rights for impairment based upon the fair value of those rights at each reporting date. For purposes of measuring impairment, the rights are stratified based upon the product type, term and interest rates. Fair value is determined by discounting estimated net future cash flows from mortgage servicing activities using discount rates that approximate current market rates and estimated prepayment rates, among other assumptions. The amount of impairment recognized is the amount by which the capitalized mortgage servicing rights for a stratum exceeds their fair value. Impairment, if any, is recognized through a valuation allowance for each individual stratum.

The Company adopted SFAS 122 on January 1, 1996. The overall impact of adopting this Statement on the Company's 1996 financial statements was not material. At December 31, 1997, the Company had no mortgage loans held for sale. At December 31, 1997 and 1996, the Company serviced real estate mortgage loans for others of $147 million and $148 million, respectively.

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 15-43 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 value 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 market 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 less estimated disposition costs. Prior to foreclosure, the value of the underlying loan is written down to the fair value of the real estate to be acquired less estimated disposition costs 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 other expenses in the income statement. Expenses related to such properties, net of related income, and gains and losses on their disposition, are included in other expenses.

Identifiable Intangible Assets

Identifiable intangible assets are included in other assets and are amortized using an accelerated method over a period of ten years.

Income Taxes

The Company's accounting for income taxes is based on an asset and liability approach. The Company recognizes the amount of taxes payable or refundable for the current year, and deferred tax assets and liabilities for the future tax consequences that have been recognized in its financial statements or tax returns. The measurement of tax assets and liabilities is based on the provisions of enacted tax laws.

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 A–General Summary of Significant Accounting Policies *(continued)*

Stock-Based Compensation

The Company uses the intrinsic value method to account for its stock option plans (in accordance with the provisions of Accounting Principles Board Opinion No. 25). Under this method, compensation expense is recognized for awards of options to purchase shares of common stock to employees under compensatory plans only if the fair market value of the stock at the option grant date (or other measurement date, if later) is greater than the amount the employee must pay to acquire the stock. Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123) permits companies to continue using the intrinsic value method or to adopt a fair value based method to account for stock option plans. The fair value based method results in recognizing as expense over the vesting period the fair value of all stock-based awards on the date of grant. The Company has elected to continue to use the intrinsic value method and the pro forma disclosures required by SFAS 123 are included in Note J.

Reclassifications

Certain amounts previously reported in the 1996 and 1995 financial statements have been reclassified to conform to the 1997 presentation.

Note B–Restricted Cash Balances

Reserves (in the form of deposits with the Federal Reserve Bank) of $500,000 and $8,345,000 were maintained to satisfy Federal regulatory requirements at December 31, 1997 and December 31, 1996. These reserves are included in cash and due from banks in the accompanying balance sheet.

Note C–Investment Securities

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

	December 31, 1997			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Esimated Fair Value
	(in thousands)			
Securities Held-to-Maturity				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 21,805	$ 179	$ (16)	$ 21,968
Obligations of states and political subdivisions	530	1	—	531
Mortgage-backed securities	68,429	281	(2,259)	66,451
Totals	$90,764	$ 461	$(2,275)	$88,950
Securities Available-for-Sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 100,886	$ 263	$ —	$101,149
Obligations of states and political subdivisions	13,218	582	(1)	13,799
Mortgage-backed securities	36,557	56	(429)	36,184
Short-term corporate obligations	19,960	—	—	19,960
Other securities	4,661	—	—	4,661
Totals	$175,282	$ 901	$ (430)	$175,753

	December 31, 1996			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Esimated Fair Value
	(in thousands)			
Securities Held-to-Maturity				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 22,792	$ 223	$ (33)	$ 22,982
Obligations of states and political subdivisions	719	—	(5)	714
Mortgage-backed securities	81,202	349	(1,759)	79,792
Totals	$104,713	$ 572	$(1,797)	$103,488
Securities Available-for-Sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 30,219	$ 101	$ (9)	$ 30,311
Obligations of states and political subdivisions	1,453	27	—	1,480
Mortgage-backed securities	30,260	93	(1,203)	29,150
Other securities	4,375	—	—	4,375
Totals	$ 66,307	$ 221	$ (1,212)	$ 65,316

Note C–Investment Securities *(continued)*

The amortized cost and estimated fair value of debt securities at December 31, 1997 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 Fair Value
	(in thousands)	
Securities Held-to-Maturity		
Due in one year	$ 3,000	$ 2,984
Due after one year through five years	23,089	23,259
Due after five years through ten years	8,652	8,708
Due after ten years	56,023	53,999
Totals	$ 90,764	$ 88,950
Securities Available-for-Sale		
Due in one year	$ 56,729	$ 56,787
Due after one year through five years	65,818	66,047
Due after five years through ten years	7,149	7,142
Due after ten years	40,925	41,116
	170,612	171,092
Other Securities	4,661	4,661
Totals	$175,282	$175,753

Proceeds from sales of securities available for sale:

For the Year	Gross Proceeds	Gross Gains	Gross Losses
	(in thousands)		
1997	$29,033	$ 19	$ 1
1996	$ 0	$ 0	$ 0
1995	$ 6,993	$ 40	$ 50

Investment securities with an aggregate carrying value of $109,967,000 and $75,125,000 at December 31, 1997 and 1996, respectively, were pledged as collateral for specific borrowings, lines of credit and local agency deposits.

Note D–Allowance for Loan Losses

Activity in the allowance for loan losses was as follows:

	Years Ended December 31, 1997	1996	1995
	(in thousands)		
Balance, beginning of year	**$6,097**	$5,580	$5,608
Balance acquired from Sutter Buttes	**—**	623	—
Provision for loan losses	**3,000**	777	335
Loans charged off	**(2,840)**	(1,192)	(581)
Recoveries of loans previously charged off	**202**	309	218
Balance, end of year	**$6,459**	$6,097	$5,580

Loans classified as nonaccrual amounted to approximately $4,721,000, $9,044,000, and $2,213,000 at December 31, 1997, 1996 and 1995, respectively. These nonaccrual loans were classified as impaired and are included in the recorded balance in impaired loans for the respective years shown below. If interest on those loans had been accrued, such income would have been approximately $460,000, $902,000, and $166,000 in 1997, 1996 and 1995, respectively.

As of December 31, the Company's recorded investment in impaired loans and the related valuation allowance were as follows:

	1997 Recorded Investment	Valuation Allowance
Impaired loans -		
Valuation allowance required	$ 1,476	$162
No valuation allowance required	11,739	—
Total impaired loans	$13,215	$162

	1996 Recorded Investment	Valuation Allowance
Impaired loans -		
Valuation allowance required	$ 2,525	$605
No valuation allowance required	13,829	—
Total impaired loans	$16,354	$605

This valuation allowance is included in the allowance for loan losses shown above for the respective year.

The average recorded investment in impaired loans was $14,784,000, $10,720,000 and $3,579,000 for the years ended December 31, 1997, 1996 and 1995 respectively. The Company recognized interest income on impaired loans of $1,118,000, $729,000 and $345,000 for the years ended December 31, 1997, 1996 and 1995, respectively.

Note E–Premises and Equipment

Premises and equipment were comprised of:

	December 31, 1997	1996
	(in thousands)	
Premises	**$13,973**	$11,227
Furniture and equipment	**12,912**	11,036
	26,885	22,263
Less: Accumulated depreciation and amortization	**(11,836)**	(10,369)
	15,049	11,894
Land and land improvements	**3,852**	2,823
	$18,901	$14,717

Note E–Premises and Equipment *(continued)*

Depreciation and amortization of premises and equipment amounted to $2,100,000, $1,497,000, and $1,344,000 in 1997, 1996 and 1995, respectively. In 1997, the Company provided $300,000 for the impairment of certain properties and leaseholds which it vacated and is in the process of disposing.

Note F–Time Deposits

At December 31, 1997, the scheduled maturities of time deposits were as follows (in thousands):

	Scheduled Maturities
1998	$239,305
1999	7,438
2000	7,081
2001	600
2002 and thereafter	241
Total	$254,665

Note G–Long-Term Debt and Other Borrowings

Long-term debt is as follows:

	December 31,	
	1997	1996
	(in thousands)	
FHLB loan, fixed rate of 5.53% payable on March 21, 1997	—	$3,000
FHLB loan, effective rate of 5.13% payable on April 28, 1998	**$5,000**	5,000
FHLB loan, fixed rate of 5.62% payable on February 4, 1999	**400**	400
FHLB loan, fixed rate of 6.14% payable on March 21, 1999	**3,000**	3,000
FHLB loan, fixed rate of 5.84% payable on November 6, 2000	**1,500**	1,500
FHLB loan, fixed rate of 5.90% payable on January 16, 2001	**1,000**	1,000
FHLB repurchase agreements, fixed rate of 5.85% payable on July 17, 1997	—	9,828
Capital lease obligation on premises, effective rate of 13% payable monthly in varying amounts through December 1, 2009	**540**	553
Total long-term debt	**$11,440**	$24,281

The Company maintains a collateralized line of credit with the Federal Home Loan Bank of San Francisco. Based on the FHLB stock requirements at December 31, 1997, this line provided for maximum borrowings of $78,335,000 of which $10,900,000 was outstanding, leaving $67,435,000 available. The maximum month-end outstanding balances of short term reverse repurchase agreements in 1997 and 1996 were $16,300,000 and $0, respectively. The Company has available unused lines of credit totaling $49,700,000 for Federal funds transactions.

Note H–Commitments and Contingencies (See also Note O)

At December 31, 1997, future minimum commitments under non-cancelable capital and operating leases with initial or remaining terms of one year or more are as follows:

	Capital Leases	Operating Leases
	(in thousands)	
1998	$ 85	$ 843
1999	86	644
2000	87	357
2001	88	238
2002	89	221
Thereafter	652	1,988
Future minimum lease payments	1,087	$4,291
Less amount representing interest	547	
Present value of future lease payments	$ 540	

Rent expense under operating leases was $1,059,000 in 1997, $799,000 in 1996, and $887,000 in 1995.

The Company 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 Company's financial position.

Note I–Dividend Restrictions

The Bank paid to the Company cash dividends in the aggregate amounts of $3,000,000, $4,800,000, and $3,200,000 in 1997, 1996 and 1995, respectively. The Bank is regulated by the Federal Deposit Insurance Corporation (FDIC) and the State of California Department of Financial Institutions. California banking laws limit the Bank's ability to pay 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, 1997, the Bank may pay dividends of $9,695,000.

Note J–Stock Options

In May 1995, the Company adopted the TriCo Bancshares 1995 Incentive Stock Option Plan ('95 Plan) covering key employees. Under the '95 Plan 187,500 shares as adjusted for the September 1995 5-for-4 stock split were reserved for issuance. The option price cannot be less than the fair market value of the Common Stock at the date of grant. Options for the '95 Plan expire on the tenth anniversary of the grant date.

The Company also has outstanding options under one plan approved in 1993 and two plans approved in 1989. Options under the 1993 plan were granted at an exercise price less than the fair market value of the common stock and vest over a six year period. Options under the 1989 plan vest 20% annually. Unexercised options for the 1993 and 1989 plans terminate 10 years from the date of the grant.

Note J–Stock Options *(continued)*

Stock option activity is summarized in the following table:

	Number of Shares*	Option Price Per Share	Weighted Average Exercise Price	Weighted Average Fair Value of Grants
Outstanding at				
December 31, 1994	560,274	$ 7.43 to $ 7.86	$ 7.72	
Options granted	31,250	7.86 to 13.20	$10.81	$ 5.07
Options exercised	(72,694)	7.43 to 7.86	$ 7.60	
Outstanding at				
December 31, 1995	518,830	7.43 to 13.20	$ 7.93	
Options granted	20,000	18.38 to 18.38	$18.38	$ 5.35
Options exercised	(89,950)	7.43 to 7.86	$ 7.63	
Options forfeited	(23,030)	7.86 to 7.86	$ 7.86	
Outstanding at				
December 31, 1996	425,850	7.43 to 18.38	$ 8.48	
Options granted	56,000	21.25 to 27.38	$26.28	$ 8.39
Options exercised	(22,526)	7.43 to 7.86	$ 7.55	
Options forfeited	(12,600)	7.86 to 7.86	$ 7.86	
Outstanding at				
December 31, 1997	446,724	7.43 to 27.38	$ 8.48	

*1995 activity is adjusted for the 5-for-4 Common Stock split effected September 22, 1995

Of the stock options outstanding as of December 31, 1997, options on 327,376 were exercisable at a weighted average price of $8.79.

The Company has stock options outstanding under the four option plans described above. The Company accounts for these plans under APB Opinion No. 25, under which no compensation cost has been recognized except for the options granted under the 1993 plan. The Company recognized expense of $188,000, $209,000 and $209,000 for the 1993 Plan options in 1997, 1996 and 1995 respectively. Had compensation cost for these plans been determined in accordance SFAS 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

	1997	1996	1995
Net income			
As reported	**$5,869**	$7,306	$7,045
Pro forma	**$5,829**	$7,285	$7,037
Basic earnings per share			
As reported	**$1.26**	$1.62	$1.54
Pro forma	**$1.25**	$1.61	$1.53
Diluted earnings per share			
As reported	**$1.21**	$1.56	$1.46
Pro forma	**$1.21**	$1.55	$1.46

However, because the Statement 123 method of accounting has not been applied to options granted prior to January 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 1997, 1996, and 1995, respectively: risk-free interest rates of 6.06, 6.76, and 5.92 percent; expected dividend yields of 2.46, 3.48, and 2.46 percent; expected lives of 6, 6, and 6 years; expected volatility of 30.49, 30.22, and 31.38 percent, respectively.

Note K–Other Noninterest Expenses and Income

The components of other noninterest expenses were as follows:

	Years Ended December 31 1997	1996	1995
	(in thousands)		
Equipment and data processing	**$ 3,390**	$ 2,483	$ 2,508
Occupancy	**2,214**	1,682	1,573
Intangible amortization	**1,342**	34	—
Professional fees	**998**	901	593
Telecommunications	**922**	653	361
Advertising	**753**	713	563
Postage	**535**	436	405
Provision for premises impairment and lease loss	**300**	—	—
Net other real estate owned expense	**277**	261	201
Assessments	**155**	80	727
Other	**6,375**	4,253	3,943
Total other operating expenses	**$17,261**	$11,496	$10,874

Commissions on sales of annuities and mutual funds in the amounts of $1,963,000, $1,255,000, and $900,000 for the years 1997, 1996 and 1995 are included in other income.

Note L–Income Taxes

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

	Years Ended December 31, 1997	1996	1995
	(in thousands)		
Current Tax Provision:			
Federal	**$ 3,360**	$ 4,439	$ 3,640
State	**948**	1,528	1,409
Total current	**4,308**	5,967	5,049
Deferred Tax Benefit:			
Federal	**(614)**	(769)	(36)
State	**13**	(161)	(98)
Total deferred	**(601)**	(930)	(134)
Total income taxes	**$ 3,707**	$ 5,037	$ 4,915

Taxes recorded directly to shareholders' equity are not included in the preceding table. These taxes (benefits) relating to changes in the unrealized gains and losses on available-for-sale investment securities amounting to $736,000 in 1997 and ($231,000) in 1996, and benefits related to employee stock

Note L–Income Taxes *(continued)*

options of $148,000 in 1997 and $233,000 in 1996 were recorded directly to shareholders' equity.

The provisions for income taxes applicable to income before taxes for the years ended December 31, 1997, 1996, and 1995 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,		
	1997	1996	1995
Federal statutory income tax rate	**34.0%**	34.2%	34.2%
State income taxes, net of federal tax benefit	**6.4**	7.4	7.4
Tax-exempt interest on municipal obligations	**(1.9)**	(.3)	(.4)
Other	**—**	(.5)	(.1)
Effective Tax Rate	**38.5%**	40.8%	41.1%

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

	1997	1996
	(in thousands)	
Deferred Tax Assets:		
Loan losses	**$ 2,333**	$ 2,050
Unrealized loss on securities	**—**	731
Deferred compensation	**1,960**	1,693
OREO write downs	**227**	244
Loss on investment in real estate	**360**	232
Intangible amortization	**291**	—
Other	**245**	586
Total deferred tax assets	**5,416**	5,536
Deferred Tax Liabilities:		
Depreciation	**(828)**	(798)
Capital leases	**(92)**	(86)
Securities accretion	**(364)**	(385)
Total deferred tax liability	**(1,284)**	(1,269)
Net deferred tax asset	**$ 4,132**	$ 4,267

Note M–Retirement Plans

Substantially all employees with at least one year of service are covered by a discretionary employee stock ownership plan (ESOP). Contributions are made to the plan at the discretion of the Board of Directors. Country National Bank, acquired by the Company in 1994, had an ESOP which was merged into the Company's plan in 1995. Contributions to the plan(s) totaling $828,000 in 1997, $500,000 in 1996, and $432,000 in 1995 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 non-qualified 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 ($5,870,000 and $5,163,000 at December 31, 1997 and 1996, respectively) to pay the retirement obligations.

The following table sets forth the plans' status:

	December 31,	
	1997	1996
	(in thousands)	
Actuarial present value of benefit obligations:		
Vested benefit obligation	**$(3,213)**	$(3,113)
Accumulated benefit obligation	**(3,463)**	(3,289)
Projected benefit obligation for service rendered to date	**(3,693)**	(3,704)
Plan assets at fair value	**$ —**	$ —
Projected benefit obligation in excess of plan assets	**$(3,693)**	$(3,704)
Unrecognized net loss from past experience different from that assumed and effects of changes in assumptions	**252**	1,296
Prior service cost not yet recognized in net periodic pension cost	**103**	113
Unrecognized net obligation at transition	**979**	287
Accrued pension cost included in other liabilities	**$(2,359)**	$(2,008)

	Years Ended December 31,		
	1997	1996	1995
	(in thousands)		
Net pension cost included the following components:			
Service cost-benefits earned during the period	**$120**	$135	$100
Interest cost on projected benefit obligation	**262**	204	159
Net amortization and deferral	**113**	72	46
Net periodic pension cost	**$495**	$411	$305

The net periodic pension cost was determined using a discount rate assumption of 7.0% for 1997, 7.0% for 1996 and 7.0% for 1995. The rates of increase in compensation used in each year 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, 1997 and 1996 the cash values exceeded the recorded liabilities.

Note N - Earnings per Share

The Company adopted SFAS No. 128, Earnings per Share (SFAS 128), effective December 15, 1997. SFAS 128 replaces primary and fully diluted earnings per share with basic and diluted earnings per share calculations. Basic earnings per share is computed by dividing net income, less dividends on preferred stock, by the weighted average common shares outstanding. Diluted earnings per share is computed by dividing net income, less dividends on preferred stock, by the weighted average common shares outstanding including the dilutive effects of potential common shares (e.g. stock options). Diluted earnings per share calculations result in the same primary earnings per share previously reported by the Company. The Company's basic and diluted earnings per share are as follows (in thousands except per share data):

	Year Ended December 31, 1997		
	Income	Weighted Average Shares	Per-Share Amount
Basic Earnings per Share Net income available to common shareholders	$5,869	4,652,059	$1.26
Common stock options outstanding	—	178,615	—
Diluted Earnings per Share Net income available to common shareholders	$5,869	4,830,674	$1.21

	Year Ended December 31, 1996		
	Income	Weighted Average Shares	Per-Share Amount
Basic Earnings per Share Net income available to common shareholders	$7,306	4,513,157	$1.62
Common stock options outstanding	—	176,594	—
Diluted Earnings per Share Net income available to common shareholders	$7,306	4,689,751	$1.56

	Year Ended December 31, 1995		
	Income	Weighted Average Shares	Per-Share Amount
Net income	$7,045	—	—
Less: Preferred stock dividends	(245)	—	—
Basic Earnings per Share Net income available to common shareholders	$6,800	4,430,092	$1.53
Common stock options outstanding	—	226,801	—
Diluted Earnings per Share Net income available to common shareholders	$6,800	4,656,893	$1.46

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 1997.

Balance December 31, 1996	Advances/ New Loans	Payments	Balance December 31, 1997
(in thousands)			
$7,922	884	2,179	$6,627

Note P–Financial Instruments With Off-Balance Sheet Risk

The Company 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 Company has in particular classes of financial instruments.

The Company'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 Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Note P–Financial Instruments With Off-Balance Sheet Risk *(continued)*

	Contractual Amount December 31, 1997	1996
	(in thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit:		
Commercial loans	**$52,579**	$37,923
Consumer loans	**78,785**	61,113
Real estate mortgage loans	**667**	428
Real estate construction loans	**11,985**	18,415
Standby letters of credit	**1,789**	1,112

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 Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company 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 Company 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

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

Note R–Disclosure of Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practical to estimate that value. Cash and due from banks, accrued interest receivable and payable, and short-term borrowings are considered short-term instruments. For these short-term instruments, their carrying amount approximates their fair value.

Securities

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

Loans

The fair value of variable rate loans is the current carrying 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. The allowance for loan losses is a reasonable estimate of the valuation allowance needed to adjust computed fair values for credit quality of certain loans in the portfolio.

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. These values do not consider the estimated fair value of the Company's core deposit intangible, which is a significant unrecognized asset of the Company. The fair value of time deposits and debt is based on the discounted value of contractual cash flows.

Commitments to Extend Credit and Standby Letters of Credit

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

Note R–Disclosure of Fair Value of Financial Instruments *(continued)*

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

	December 31, 1997	
	Carrying Amount	Fair Value
Financial assets:	(in thousands)	
Cash and short-term investments	$ 63,476	$ 63,476
Securities:		
Held-to-maturity	90,764	88,950
Available-for-sale	175,753	175,753
Loans, net	442,508	446,439
Accrued interest receivable	5,701	5,701
Financial liabilities:		
Deposits	724,094	724,188
Federal Funds purchased	15,300	15,300
Accrued interest payable	4,039	4,039
Other liabilities	6,168	6,168
Long-term borrowings	11,440	11,524

	December 31, 1996	
	Carrying Amount	Fair Value
Financial assets:	(in thousands)	
Cash and short-term investments	$ 52,231	$ 52,231
Securities:		
Held-to-maturity	104,713	103,488
Available-for-sale	65,316	65,316
Loans, net	433,192	434,250
Accrued interest receivable	4,572	4,572
Financial liabilities:		
Deposits	595,621	595,696
Accrued interest payable	3,047	3,047
Other liabilities	6,233	6,233
Long-term borrowings	24,281	24,403

Note S–Acquisitions

On February 21, 1997, the Bank purchased and assumed substantially all of the deposit liabilities of nine branches from Wells Fargo Bank, N.A, San Francisco. In connection with the acquisition of such deposit liabilities and related cash balances, The Bank also acquired certain other assets of the branches, including real estate (four branches), furniture and fixtures and a relatively insignificant amount of loans which were secured by deposit accounts. All assets constituting plant and equipment or other physical property will continue to be used in the banking business. Wells Fargo Bank retained all other revenue producing assets which had originated from these branches.

A summary of the deposit liabilities and limited assets acquired by The Bank is shown below. These assets and liabilities were recorded in the respective captions in the Company's consolidated balance sheet on the acquisition date.

Total deposits (liabilities) acquired	$150,090,000
Less assets acquired	
Furniture and fixtures	214,000
Land and premises	585,000
Loans	183,000
Total assets acquired	982,000
Less premium paid for deposits	9,108,000
Net cash received by Tri Counties Bank for the deposits acquired	$140,000,000

On October 16, 1996, the Company acquired all of the capital stock of Sutter Buttes Savings Bank (Sutter Buttes) in exchange for cash of approximately $2,036,000 and approximately 102,900 shares of the Company's stock. Based on the average value of the Company's stock for the ten days preceding the transaction, the total purchase price was approximately $4,171,000. The transaction was accounted for as a purchase, with the excess of the purchase price over the fair value of Sutter Buttes' net assets being assigned to core deposit intangible assets. Results of operations of Sutter Buttes are included in the consolidated financial statements subsequent to October 16, 1996. Sutter Buttes was merged into the Bank concurrent with the acquisition.

Pro forma operating results of the Company, assuming the Sutter Buttes acquisition had been made as of January 1, 1995 is as follows:

UNAUDITED PRO FORMA COMBINED FINANCIAL DATA
(in thousands, except per share data)

	Year ended December 31,	
	1996	1995
Summary of Income:		
Net interest income	$ 31,503	$ 29,458
Provision for loan losses	997	334
Noninterest income	6,924	6,422
Noninterest expense	25,466	23,394
Net income	7,056	7,290
Net income available to common shareholders	$ 7,056	$ 7,045
Per Common Share:		
Basic earnings per common share	$1.54	$1.54
Diluted earnings per common share	$1.48	$1.48
Selected Balance Sheet Data:		
Investment securities	$170,029	$194,897
Loans	439,289	376,906
Assets	694,771	667,137
Deposits	595,621	573,599
Equity	$ 60,689	$ 55,480

Note T–TriCo Bancshares Financial Statements

TriCo Bancshares (Parent Only) Balance Sheets

Assets	December 31, **1997**	1996
	(in thousands)	
Cash	**$ 82**	$ 517
Investment in Tri Counties Bank	**64,510**	60,171
Other assets	**608**	460
Total assets	**$65,200**	$61,148
Liabilities and shareholders' equity		
Total liabilities	**$ 76**	$ 371
Shareholders' equity:		
Common stock, no par value: Authorized 20,000,000 shares; issued and outstanding 4,662,649 and 4,641,223 shares, respectively	**48,161**	47,652
Retained earnings	**16,956**	14,076
Unrealized gain (loss) on securities available-for-sale, net	**7**	(951)
Total shareholders' equity	**65,124**	60,777
Total liabilities and shareholders' equity	**$65,200**	$61,148

Statements of Income

	Years Ended December 31, **1997**	1996	1995
	(in thousands)		
Interest income	**$ —**	$ —	$ —
Administration expense	**321**	296	282
Loss before equity in net income of Tri Counties Bank	**(321)**	(296)	(282)
Equity in net income of Tri Counties Bank:			
Distributed	**3,000**	4,800	3,200
Undistributed	**3,031**	2,654	4,010
Income tax credits	**159**	148	117
Net income	**$5,869**	$7,306	$ 7,045

Statements of Cash Flows

	Years ended December 31, **1997**	1996	1995
	(in thousands)		
Operating activities:			
Net income	**$5,869**	$7,306	$7,045
Adjustments to reconcile net income to net cash provided by (used for) operating activities:			
Undistributed equity in Tri Counties Bank	**(3,031)**	(2,654)	(4,010)
Deferred income taxes	**(148)**	(157)	(117)
Increase (decrease) in other operating assets and liabilities	**(295)**	279	19
Net cash provided by operating activities	**2,395**	4,774	2,937
Investing activities:			
Capital contributed to Tri Counties Bank	**—**	(4,741)	—
Net cash used for investing activities	**—**	(4,741)	—
Financing activities:			
Issuance of common stock	**170**	3,291	554
Repurchase of common stock	**(30)**	(295)	—
Redemption of preferred stock	**—**	—	(4,000)
Cash dividends — preferred	**—**	—	(245)
Cash dividends — common	**(2,970)**	(2,646)	(1,639)
Net cash provided by (used for) financing activities	**(2,830)**	350	(5,330)
Increase (decrease) in cash and cash equivalents	**(435)**	383	(2,393)
Cash and cash equivalents at beginning of year	**517**	134	2,527
Cash and cash equivalents at end of year	**$ 82**	$ 517	$ 134

Note U–Regulatory Matters

The Company is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital to risk-weighted assets, and of Tier I capital to average assets. Management believes, as of December 31, 1997, that the Company meets all capital adequacy requirements to which it is subject.

As of December 31, 1997, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual capital amounts and ratios are also presented in the following table:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 1997:						
Total Capital (to Risk Weighted Assets):						
Consolidated	$62,673	11.90%	≥$42,132	≥8.0%	≥$52,665	≥10.0%
Tri Counties Bank	$62,059	11.80%	≥$42,083	≥8.0%	≥$52,604	≥10.0%
Tier I Capital (to Risk Weighted Assets):						
Consolidated	$56,215	10.67%	≥$21,066	≥4.0%	≥$31,599	≥ 6.0%
Tri Counties Bank	$55,601	10.57%	≥$21,042	≥4.0%	≥$31,563	≥ 6.0%
Tier I Capital (to Average Assets):						
Tri Counties Bank	$55,601	6.94%	≥$21,042	≥4.0%	≥$26,302	≥ 5.0%
As of December 31, 1996:						
Total Capital (to Risk Weighted Assets):						
Consolidated	$66,690	13.58%	≥$39,280	≥8.0%	≥$49,100	≥10.0%
Tri Counties Bank	$66,084	13.47%	≥$39,244	≥8.0%	≥$49,055	≥10.0%
Tier I Capital (to Risk Weighted Assets):						
Consolidated	$60,593	12.34%	≥$19,640	≥4.0%	≥$29,460	≥ 6.0%
Tri Counties Bank	$59,987	12.23%	≥$19,622	≥4.0%	≥$29,433	≥ 6.0%
Tier I Capital (to Average Assets):						
Tri Counties Bank	$59,987	8.91%	≥$26,930	≥4.0%	≥$33,663	≥ 5.0%

Note V–Summary of Quarterly Results of Operations (unaudited)

The following table sets forth the results of operations for the four quarters of 1997 and 1996 and is unaudited; however, in the opinion of management, it reflects all adjustments (which include only normal recurring adjustments) necessary to present fairly the summarized results for such periods.

	1997 Quarters Ended			
	December 31,	September 30,	June 30,	March 31,
	(Dollars in thousands, except per share data)			
Interest income	$15,742	$15,597	$14,873	$13,993
Interest expense	6,101	6,127	6,099	5,608
Net interest income	9,641	9,470	8,774	8,385
Provision for loan losses	800	1,000	600	600
Net interest income after provision for loan losses	8,841	8,470	8,174	7,785
Noninterest income	2,584	2,477	2,408	2,097
Noninterest expense	8,620	8,200	8,820	7,292
Income before income taxes	2,805	2,747	1,762	2,590
Taxable-equivalent adjustment	100	98	95	35
Income tax expense	1,093	1,035	588	991
Net income	$ 1,612	$ 1,614	$ 1,079	$ 1,564
Net income applicable to common stock	$ 1,612	$ 1,614	$ 1,079	$ 1,564
Per common share:				
Net income (diluted)	$ 0.33	$ 0.33	$ 0.22	$ 0.32
Dividends	$ 0.16	$ 0.16	$ 0.16	$ 0.16

	1996 Quarters Ended			
	December 31,	September 30,	June 30,	March 31,
	(Dollars in thousands, except per share data)			
Interest income	$13,276	$12,584	$11,744	$11,629
Interest expense	5,290	4,856	4,498	4,535
Net interest income	7,986	7,728	7,246	7,094
Provision for loan losses	150	537	50	40
Net interest income after provision for loan losses	7,836	7,191	7,196	7,054
Noninterest income	1,845	1,745	1,580	1,466
Noninterest expense	6,339	5,817	5,824	5,505
Income before income taxes	3,342	3,119	2,952	3,015
Taxable-equivalent adjustment	17	22	22	24
Income tax expense	1,288	1,276	1,226	1,247
Net income	$ 2,037	$ 1,821	$ 1,704	$ 1,744
Net income applicable to common stock	$ 2,037	$ 1,821	$ 1,704	$ 1,744
Per common share:				
Net income (diluted)	$ 0.43	$ 0.39	$ 0.37	$ 0.38
Dividends	$ 0.16	$ 0.16	$ 0.13	$ 0.13

REPORT OF INDEPENDENT PUBLIC ACCOUNTANT

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, 1997 and 1996, 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, 1997. These financial statements are the responsibility of the Corporation'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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of TriCo Bancshares and Subsidiary as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

Arthur Andersen LLP

San Francisco, California
January 23, 1998

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.

The following table summarizes the Common Stock high and low trading prices and volume of shares traded by quarter as reported by NASDAQ.

Quarter Ended:[1]	Prices of the Company's Common Stock High	Low	Approximate Trading Volume (in shares)
March 31, 1996	$ 18.50	$ 15.75	579,810
June 30, 1996	18.75	16.88	266,608
September 30, 1996	22.25	17.00	478,820
December 31, 1996	22.50	19.50	365,032
March 31, 1997	27.00	21.25	323,607
June 30, 1997	28.75	22.14	344,839
September 30, 1997	29.25	24.25	223,892
December 31, 1997	34.00	25.63	225,956

[1] Quarterly trading activity has been compiled from NASDAQ trading reports.

Holders

As of December 31, 1997, there were approximately 1,925 holders of record of the Company's Common Stock.

Dividends

The Company has paid quarterly dividends since March 1990. In 1997 the Company paid quarterly dividends of $0.16 per share for all four quarters. For each of the first two quarters of 1996, the Company paid dividends of $0.13 per share. A quarterly dividend of $0.16 per share was paid in the third and fourth quarters of 1996. 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"). The Corporation Law provides that a corporation may make a distribution to its shareholders if the corporationís 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 dividends totaling $3,000,000 to the Company in 1997. As of December 31, 1997 and subject to the limitations and restrictions under applicable law, the Bank had funds available for dividends in the amount of $9,695,000.

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. Except within the "overview" section, interest income and net interest income are presented on a tax equivalent basis.

In addition to the historical information contained herein, this Annual Report contains certain forward-looking statements. The reader of this Annual Report should understand that all such forward-looking statements are subject to various uncertainties and risks that could affect their outcome. The Company's actual results could differ materially from those suggested by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, variances in the actual versus projected growth in assets, return on assets, loan losses, expenses, rates charged on loans and earned on securities investments, rates paid on deposits, competition effects, fee and other noninterest income earned as well as other factors. This entire Annual Report should be read to put such forward-looking statements in context and to gain a more complete understanding of the uncertainties and risks involved in the Company's business.

Overview

Often in the path of progress there is some regression along the way. Operating results for the Company in 1997 reflect such a setback. The February 1997 acquisition of the deposits and facilities of nine Northern California branches from Wells Fargo Bank, N.A. (sometimes referred to as "Wells") added approximately $150,090,000 in deposits and set the stage for expansion of the Bank's marketing area. However, the direct and indirect operating expenses related to servicing the new branches were higher than expected and loan growth in these branches was lower than expected. As a result, earnings for 1997 were lower than in 1996. Management believes that the major issues of integrating the new branches and support departments had been resolved by the end of 1997. Consequently, Management believes the Bank is positioned to realize growth in earnings and returns for shareholders in 1998.

The Company had earnings of $5,869,000 for the year ended December 31, 1997 versus $7,306,000 for 1996. Diluted earnings per share for the same years were $1.21 and $1.56, respectively.

Both the acquisition of Sutter Buttes Savings Bank (sometimes referred to as "Sutter Buttes") in October 1996 and the branch purchase from Wells Fargo Bank contributed to increased operating revenues for 1997. Net interest income for 1997 was $35,942,000 which was an increase of $5,973,000 (19.9%) over 1996. The interest income component of net interest income was up 21.8% or $10,729,000. Interest and fees on loans was up $6,676,000 to $44,903,000 as average loans outstanding increased $79,567,000 to $448,117,000. Interest income on investment securities and Federal Funds sold increased $4,053,000 (37.1%) to $14,974,000 mostly due to higher average balances. Interest expense was up $4,756,000 or 24.8%. This increase was due to higher average balances of interest bearing liabilities as the average rate paid on them declined 9 basis points. The net interest margin was 5.16% in 1997 versus 5.37% in 1996.

The Bank significantly increased its provision for loan losses in 1997 as net loans charged off totaled $2,638,000 versus $883,000 in the prior year. The provision for 1997 was $3,000,000 compared to $777,000 in 1996. At year end 1997 and 1996 the allowance for loan losses as a percent of gross loans were 1.44% and 1.39%, respectively.

Noninterest income is comprised of "service charges and fees" and "other income". Service charge and fee income increased 37.0% or $1,821,000 in 1997 versus year ago results. Both higher account volumes and higher fee rates contributed to the increase in this category. Other income was up 64.8% from $1,712,000 in 1996 to $2,821,000 in 1997. Overall, noninterest income increased $2,930,000 or 44.2% for the year.

Noninterest expenses increased $9,447,000 or 40.2% in 1997 versus 1996. Conversion costs and direct operating expenses for the nine acquired branches accounted for $3,233,000 of the increase. Another $177,000 was attributable to operating costs of the one branch retained from Sutter Buttes. Amortization of goodwill relating to both the Sutter Buttes Saving Bank and the nine branch acquisition added $1,308,000 to expenses for the year. Thus, 50% of the increased expenses were directly attributable to the acquisitions.

Salary and benefit expenses not directly related to the acquired branches were up $1,848,000 (15.4%). The higher salary expense reflects costs for additional employees in support departments, loan officers and normal salary increases. Other expenses exclusive of the direct costs related to the acquired branches increased 28.8% or $3,310,000. Costs relating servicing the new branches for items such as armored car service, courier service, ATM networks, credit card servicing, deposit accounts and telecommunications were up significantly in 1997.

Assets of the Company totaled $826,165,000 at December 31, 1997 which was an increase of $131,306,000 from 1996 ending balances.

For 1997, the Company realized a return on assets of 0.75% and a return on shareholders' equity of 9.34% versus 1.18% and 13.03% in 1996. The Company ended 1997 with a Tier 1 capital ratio of 10.7% and a total risk-based capital ratio of 11.9%.

Management's continuing goal for the Bank is to deliver a full array of competitive products to its customers while maintaining the personalized customer service of a community bank. We believe this strategy will provide continued growth and the ability to achieve above average returns for our shareholders.

(A) Results of Operations

	Years Ended December 31,				
	1997	1996	1995	1994	1993[1]
	(in thousands, except earnings per share amounts)				
Interest income:					
Interest and fees on loans	**$ 44,903**	$ 38,227	$ 33,776	$ 30,641	$ 31,795
Interest on investment securities—taxable	**13,791**	10,409	11,706	12,247	8,585
Interest on investment securities—tax exempt[2]	**958**	207	272	401	426
Interest on federal funds sold	**553**	392	371	123	329
Total interest income	**60,205**	49,235	46,125	43,412	41,135
Interest expense:					
Interest on deposits	**22,682**	17,201	16,231	13,902	13,006
Interest on short-term borrowing	**537**	359	526	719	739
Interest on long-term debt	**716**	1,619	1,231	1,059	251
Total interest expense	**23,935**	19,179	17,988	15,680	13,996
Net interest income	**36,270**	30,056	28,137	27,732	27,139
Provision for loan losses	**3,000**	777	335	316	1,858
Net interest income after provision for loan losses	**33,270**	29,279	27,802	27,416	25,281
Noninterest income:					
Service charges, fees and other	**9,548**	6,636	5,943	5,048	5,304
Investment securities gains (losses), net	**18**	—	(10)	(23)	1,421
Total noninterest income	**9,566**	6,636	5,933	5,025	6,725
Noninterest expenses:					
Salaries and employee benefits	**15,671**	11,989	10,787	10,550	9,072
Other, net	**17,261**	11,496	10,874	11,508	11,152
Total noninterest expenses	**32,932**	23,485	21,661	22,058	20,224
Net income before income taxes	**9,904**	12,430	12,074	10,383	11,782
Income taxes	**3,707**	5,037	4,915	4,350	4,779
Tax equivalent adjustment[2]	**328**	87	114	172	188
Net income	**$ 5,869**	$ 7,306	$ 7,045	$ 5,861	$ 6,815
Basic earnings per common share[3]	**$ 1.26**	$ 1.62	$ 1.54	$ 1.24	$ 1.51
Diluted earnings per common share[3]	**$ 1.21**	$ 1.56	$ 1.46	$ 1.18	$ 1.42

Selected Balance Sheet Information					
Total Assets	**$826,165**	$694,859	$603,554	$593,834	$575,897
Long-term Debt	**11,440**	24,281	26,292	18,499	7,144
Preferred Stock	—	—	—	3,899	3,899

[1] Restated on a historical basis to reflect the July 21, 1994 acquisition of Country National Bank on a pooling-of-interests basis.
[2] Interest on tax-free securities is reported on a tax equivalent basis of 1.52 for 1997, 1.72 for 1996, 1.72 for 1995, 1.75 for 1994, and 1.79 for 1993.
[3] Restated on a historical basis to reflect the 5-for-4 stock split effected September 22, 1995.

(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.

Net interest income for 1997 totaled $36,270,000 which was up 20.7% ($6,214,000) over the prior year. Average outstanding loan balances of $448,117,000 for 1997 reflected a 21.6% increase over 1996 balances. This increase contributed an additional $8,253,000 to interest income and was the major factor in the improvement in net interest income. The average yield received on loans fell 35 basis points to 10.02% which offset interest income by $1,577,000. The reduction of the loan yields was due to increased market competition and also in part to the acquisition of Sutter Buttes Savings Bank in October of 1996. A high percentage of Sutter Buttes' loans were mortgage loans with fixed interest rates averaging less than 8%. Average balances of investment securities increased $61,483,000 (33.6%) due primarily to the investment of net proceeds received in the Wells branch acquisition. The higher volume of securities resulted in an increase in interest income of $3,800,000.

Interest expense increased $4,756,000 (24.8%) in 1997 over 1996. Higher volumes in all interest bearing deposit categories as a result of the purchase of certain deposits from Wells Fargo Bank accounted for the increase. Interest expense on time deposits was up $3,424,000 due to an increase in average balances of $64,519,000 in 1997. Average rates paid on interest bearing liabilities in 1997 were down 9 basis point to 3.96% which had a small favorable effect on interest expense. Net interest margin for 1997 was 5.16% versus 5.37% in 1996.

Net interest income for 1996 totaled $30,056,000 which was up 6.8% ($1,919,000) over the prior year. Average outstanding loan balances of $368,550,000 for 1996 reflected a 19.5% increase over 1995 balances. This increase contributed an additional $6,578,000 to interest income and was the major factor in the improvement in net interest income. The average yield received on loans fell 58 basis points to 10.37% which offset interest income by $2,127,000. The reduction of the loan yields was due to increased market competition and also in part to the acquisition of Sutter Buttes Savings Bank in October of 1996. Average balances of investment securities decreased $26,983,000 (12.8%) as these funds were deployed into loans. The lower volume of securities resulted in a decrease in interest income of $1,546,000.

Interest expense increased $1,191,000 (6.6%) in 1996 over 1995. Higher volumes in all interest bearing liability categories except savings accounts and long term debt accounted for the increase. Interest expense on time deposits was up $1,230,000 due to higher average balances of $22,390,000 in 1996. Average rates paid on interest bearing liabilities in 1996 were down only 1 basis point to 4.05% which had a small favorable effect on interest expense. Net interest margin for 1996 was 5.37% versus 5.36% in 1995.

Table One, Analysis of 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 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 Net Interest Margin on Earning Assets

Assets	1997 Average Balance[1]	1997 Income	1997 Yield/ Rate	1996 Average Balance[1]	1996 Income	1996 Yield/ Rate	1995 Average Balance[1]	1995 Income	1995 Yield/ Rate
				(dollars in thousands)					
Earning assets:									
Loans[2,3]	**$448,117**	**$44,903**	**10.02%**	$368,550	$38,227	10.37%	$308,473	$33,776	10.95%
Securities - taxable	**233,389**	**13,791**	**5.91%**	180,836	10,409	5.76%	207,163	11,706	5.65%
Securities - nontaxable[4]	**11,316**	**958**	**8.47%**	2,386	207	8.68%	3,042	272	8.93%
Federal funds sold	**9,956**	**553**	**5.55%**	7,405	392	5.29%	6,702	371	5.54%
Total earning assets	**702,778**	**60,205**	**8.57%**	559,177	49,235	8.80%	525,380	46,125	8.78%
Cash and due from banks	**36,671**			31,867			29,150		
Premises and equipment	**16,838**			14,068			13,206		
Other assets, net	**33,413**			23,046			19,537		
Less: Unrealized loss on securities	**(1,203)**			(1,841)			(3,156)		
Less: Allowance for loan losses	**(6,185)**			(5,597)			(5,636)		
Total assets	**$782,312**			$620,720			$578,481		
Liabilities and shareholders' equity									
Interest-bearing demand deposits	**$122,390**	**2,781**	**2.27%**	$ 89,278	2,226	2.49%	$ 81,408	2,000	2.46%
Savings deposits	**208,232**	**6,400**	**3.07%**	163,637	5,032	3.08%	166,637	5,167	3.10%
Time deposits	**251,874**	**13,501**	**5.36%**	187,355	9,943	5.31%	164,965	9,064	5.49%
Federal funds purchased	**4,144**	**235**	**5.67%**	6,485	359	5.54%	1,953	120	6.14%
Repurchase agreements	**5,331**	**302**	**5.66%**	9,828	603	6.14%	6,696	406	6.06%
Long-term debt	**12,096**	**716**	**5.92%**	17,434	1,016	5.83%	21,416	1,231	5.75%
Total interest-bearing liabilities	**604,067**	**23,935**	**3.96%**	474,017	19,179	4.05%	443,075	17,988	4.06%
Noninterest-bearing deposits	**105,198**			79,843			76,184		
Other liabilities	**10,204**			10,776			8,196		
Shareholders' equity	**62,843**			56,084			51,026		
Total liabilities and shareholders' equity	**$782,312**			$620,720			$578,481		
Net interest rate spread[5]			**4.61%**			4.75%			4.72%
Net interest income/net interest margin[6]		**$36,270**	**5.16%**		$30,056	5.37%		$28,137	5.36%

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 $2,058,000 in 1997, $1,926,000 in 1996, and $1,676,000 in 1995.
4 Interest income is stated on a tax equivalent basis of 1.52 in 1997, 1.72 in 1996, and 1.72 for 1995.
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

	1997 over 1996			1996 over 1995		
	Volume	**Yield/ Rate[4]**	**Total**	Volume	Yield/ Rate[4]	Total
			(dollars in thousands)			
Increase (decrease) in interest income:						
Loans[1,2]	**$ 8,253**	**$ (1,577)**	**$ 6,676**	$ 6,578	$ (2,127)	$ 4,451
Investment securities[3]	**3,800**	**333**	**4,133**	(1,546)	184	(1,362)
Federal funds sold	**135**	**26**	**161**	39	(18)	21
Total	**12,188**	**(1,218)**	**10,970**	5,071	(1,961)	3,110
Increase (decrease) in interest expense:						
Demand deposits (interest-bearing)	**826**	**(271)**	**555**	193	33	226
Savings deposits	**1,371**	**(3)**	**1,368**	(93)	(42)	(135)
Time deposits	**3,424**	**134**	**3,558**	1,230	(351)	879
Federal funds purchased	**(130)**	**6**	**(124)**	278	(39)	239
Repurchase agreements	**(276)**	**(25)**	**(301)**	190	7	197
Long-term borrowings	**(311)**	**11**	**(300)**	(229)	14	(215)
Total	**4,904**	**(148)**	**4,756**	1,569	(378)	1,191
Increase (decrease) in net interest income	**$ 7,284**	**$ (1,070)**	**$ 6,214**	$ 3,502	$ (1,583)	$ 1,919

[1] Nonaccrual loans are included.
[2] Interest income on loans includes fees on loans of $2,058,000 in 1997, $1,926,000 in 1996 and $1,676,000 in 1995.
[3] Interest income is stated on a tax equivalent basis of 1.52 in 1997, 1.72 in 1996 and 1.72 for 1995.
[4] The rate/volume variance has been included in the rate variance.

Provision for Loan Losses

The 1997 provision for loan losses of $3,000,000 was a significant increase over the 1996 provision of $777,000. Net loan charge-offs for 1997 increased to $2,638,000 from $883,000 in 1996. Consumer installment loans which include credit cards accounted for $591,000 of the increase while commercial, financial and agricultural loans accounted for $1,166,000 of the increase. Early in 1997 the Bank adopted a more aggressive grading procedure for loans. This process resulted in a higher number of loans being classified and charged off. There also was an increase in bankruptcy filings which adversely affected the consumer loan and credit card portfolios. The 1997 charge-offs represented 0.59% of average loans outstanding versus 0.24% the prior year. Nonperforming loans were 1.17% of total loans at year end versus 2.06% in 1996. The allowance for loan losses to nonperforming loans was 123% versus 67% at the end of 1996. (See balance sheet analysis "Allowance for Loan Losses" for further discussion.)

The 1996 provision for loan losses of $777,000 was a significant increase over the 1995 provision of $335,000. Net loan charge-offs for 1996 increased to $883,000 from $363,000 in 1995. Consumer installment loans which include credit cards accounted for all of the increase. In late 1996 management implemented new credit review procedures and contracted with outside credit collection agencies to help improve the credit card portfolio performance. The 1996 charge-offs represented 0.24% of average loans outstanding versus 0.12% the prior year. Nonperforming loans were 2.06% of total loans at year end versus 0.76% in 1995. The allowance for loan losses to nonperforming loans was 67% versus 226% at the end of 1995.

Service Charges and Fees and Other Income

For 1997 service charge and fee income was up 37.0% to $6,745,000 over 1996 results. The growth came from higher account volumes primarily due to the purchase of certain Wells deposit accounts and some selective fee increases. Other income was up 64.8% to $2,821,000 over 1996 results. Within this category commissions on the sale of annuities and mutual funds increased $708,000 or 56.4%, and gain on sale of loans increased to $260,000 versus a loss of $3,000 in 1996.

For 1996 service charge and fee income was up 18.3% to $4,924,000 over 1995 results. The growth came from higher account volumes and some selective fee increases. Other income reflected a small decrease overall on a year over year basis. However, within this category commissions on the sale of annuities and mutual funds increased $355,000 or 39.5%. This favorable change was offset by decreases in non-recurring items from 1995 levels.

Securities Transactions

For 1997 the Bank realized net gains of $18,000 on the sale of securities with market values of $29,033,000. The Bank purchased $173,327,000 of securities with proceeds from the sale of securities noted above, proceeds from maturities of securities totaling $49,720,000, and cash received in conjunction with the purchase of certain Wells deposits.

No securities were sold in 1996. The Bank was able to fund loan growth through the maturities of investment securities and growth in deposits.

Salaries and Benefits

Salary and benefit expenses increased 30.7% or $3,682,000 in 1997. Base salaries increased $3,208,000 (40.5%) primarily due to the purchase of nine Wells branches and their associated staff. Other components of salaries and benefits which increased significantly included; overtime, $174,000; retirement plans, $275,000; and payroll taxes, $250,000. Management and employee incentive expense decreased $281,000. Approximately 50% of the total salary increase was directly related to the conversion and ongoing operations of the purchased branches. There was additional staffing in loan production offices and support functions plus normal salary increases which also contributed to the increased costs.

Salary and benefit expenses were up $1,202,000 or 11.2% from the 1995 levels to total $11,989,000 in 1996. Increases in staffing levels for the Bakersfield and Sacramento loan offices, the Grass Valley in-store branch, nine months of staffing for the Chico in-store branch and the addition of staff from the Sutter Buttes Savings Bank acquisition as well as normal salary progression contributed to the increase. Components of salaries and benefits which increased significantly included; Base salary and wages, $536,000; commissions on annuities and mutual funds, $75,000; retirement plans, $193,000; and deferred income plan, $208,000.

Other Expenses

Other expenses increased $5,765,000 (50.1%) in 1997. Of this amount $1,240,000 (21.5%) was directly related to the ongoing operations and $1,308,000 (22.7%) was for amortization of goodwill for the acquired branches. Another $326,000 (5.7%) were one time conversion costs for the nine branches. The following analysis excludes costs directly incurred by the new branches. Much of the cost was incurred to support the new branches. Occupancy and equipment costs increased $713,000 (19.5%), most of which was related to depreciation of equipment. Charges for ATM network and transactions increased $194,000 (77.0%) as a result of more terminals and increased volumes. Courier services were up $218,000 (76.0%) as the new branches are located in a large geographic area. Telecommunications increased $199,000 (30.5%). Loan origination fees waived for home equity loans increased $150,000 (220.6%) as a result of increased volume. The Bank also expensed $300,000 for declines in the value of certain bank premises which were vacated in connection with the Bank's decision to move its administrative offices and one branch office to new facilities.

For 1996 other expenses increased $622,000 or 5.7%. Costs relating to customer deposit services, ATM networks, credit card servicing, and telecommunications were up $698,000 or 46.4%. These costs reflect higher volumes related to the products, new computer networks and business locations. Provision for OREO valuation allowance, advertising and promotional expenses also had significant increases. There were also one time costs related to the Sutter Buttes acquisition. A 1996 decrease in FDIC insurance of $647,000 or 94.6% helped offset the higher operating costs.

Provision for Taxes

The effective tax rate on income was 38.5%, 40.8%, and 41.1% and in 1997, 1996, and 1995. The effective tax rate was greater than the federal statutory tax rate due to state tax expense of $961,000, $1,367,000, and $1,311,000 in these years. Tax-free income of $630,000, $120,000 and $158,000 from investment securities in these years helped to reduce the effective tax rate.

Return on Average Assets and Equity

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

	1997	1996	1995
Return on total assets	**0.75%**	1.18%	1.22%
Return on shareholders' equity	**9.34%**	13.03%	13.81%
Return on common shareholders' equity	**9.34%**	13.03%	13.95%
Shareholders' equity to total assets	**8.04%**	9.03%	8.82%
Common shareholders' dividend payout ratio	**50.61%**	36.22%	24.10%

Return on assets decreased in 1997 to 0.75% from the 1.18% achieved in 1996. The lower return was the result of decreased earnings applied to higher average assets of $161,592,000 in 1997. For 1996 return on assets reflected a slight decrease from 1.22% in 1995 to 1.18%. Net income increased at a lower rate than average assets in 1996, causing the decrease.

Return on shareholders' equity fell to 9.34% in 1997 from 13.03% in 1996. The lower ROE resulted from average capital increasing 12.1% while net income decreased 19.7%. The return on shareholder's equity decreased to 13.03% in 1996 versus the 13.81% return achieved in 1995. The lower ROE resulted from average capital increasing 9.9% while net income increased 3.7%.

(A) Results of Operations *(continued)*

Since all of the Company's preferred shares have been redeemed, the return on shareholders' equity and the return on common shareholders' equity for 1997 and 1996 are the same. In 1995 the difference between the return on common shareholders' equity and return on shareholders' equity had been narrowing. This change was due to the reduction of the amounts paid for preferred stock dividends. In August of 1995, the Company had redeemed its Series B Preferred Stock. The annual dividend requirement for this issue was $420,000.

In 1997, the average shareholders' equity to average asset ratio decreased to 8.04% from 9.03%. The 1997 change reflected the increase in assets as a result of the Wells branch acquisition which out-weighed the increase in shareholders' equity. The shareholders' average equity to average assets ratio for 1996 increased to 9.03% from 8.82% for 1995.

The dividend payout ratio increased to 50.6% in 1997 from 36.2% in 1996. The common dividends paid totaled $2,970,000 up from $2,646,000. The Company is well capitalized and so the higher dividend payout does not affect operations. In 1995, dividends paid to common shareholders totaled $1,639,000. The resulting common shareholders' dividend payout ratio of 36.2% in 1996 was 12.1% higher than the payout for 1995.

(B) Balance Sheet Analysis

Loans

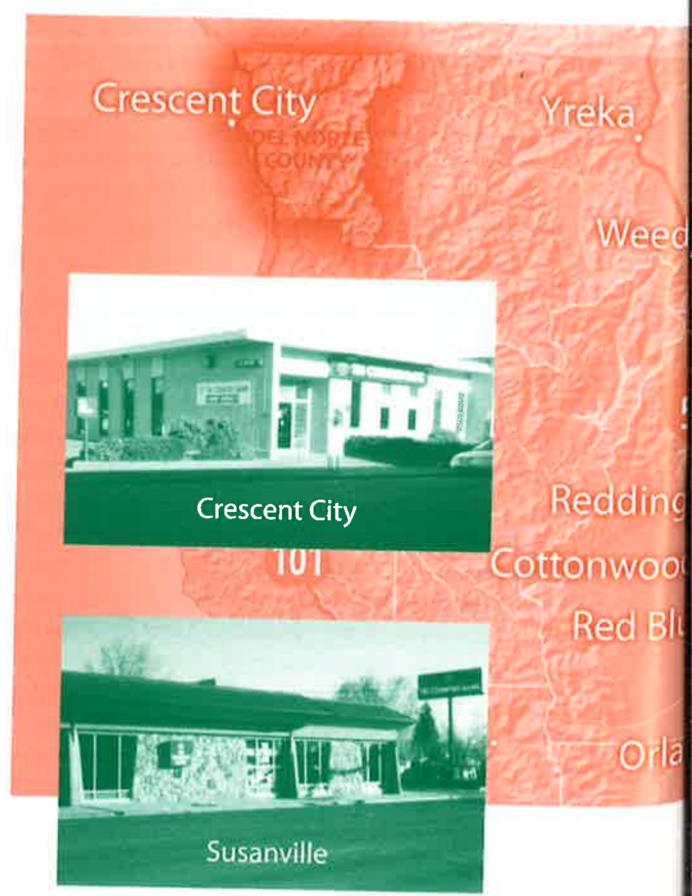
The Bank concentrates its lending activities in four principal areas: commercial loans (including agricultural loans); consumer loans; real estate mortgage loans (residential and commercial loans and mortgage loans originated for sale); and real estate construction loans. At December 31, 1997, these four categories accounted for approximately 37%, 20%, 36%, and 7% of the Bank's loan portfolio, respectively, as compared to 40%, 17%, 37% and 6%, at December 31, 1996. The shift in the percentages was primarily due to increased real estate construction and home equity lending, and a decrease in commercial and agricultural loans. The interest rates charged for the loans made by the Bank vary with the degree of risk, the size and maturity of the loans, the borrower's relationship with the Bank and prevailing money market rates indicative of the Bank's cost of funds.

The majority of the Bank's loans are direct loans made to individuals, farmers and local businesses. The Bank relies substantially on local promotional activity, personal contacts by bank officers, directors and employees to compete with other financial institutions. The Bank 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.

At December 31, 1997 loans totaled $448,967,000 which was a 2.20% increase over the balances at the end of 1996. Demand for real estate construction and home equity loans continued to improve in 1997 as economic conditions remained favorable. Additions to the loan staff and improved calling programs also helped generate new customers. With the acquisition of the nine Wells branches completed in February 1997, Management believes the Bank has the financing to aggressively pursue opportunities to further increase its loan production in 1998. Management anticipates that loan growth in 1998 will focus on the commercial and consumer elements of the portfolio. The average loan to deposit ratio in 1997 was 65.2% as compared to 70.8% in 1996, due primarily to the Wells branch acquisition.

At December 31, 1996 loans totaled $439,289,000 which was a 37.8% increase over the balances at the end of 1995. Internal growth accounted for about half of the increase and the Sutter Buttes acquisition added $60,815,000. Loan demand improved in 1996 as economic conditions rebounded from the slow growth of the prior several years. The average loan to deposit ratio in 1996 was 70.8% as compared to 63.1% in 1995.

NEW BRANCH PROFILE



Loan Portfolio Composite

	December 31, 1997	1996	1995	1994	1993
	(dollars in thousands)				
Commercial, financial and agricultural	**$165,813**	$176,868	$152,173	$153,957	$140,750
Consumer installment	**87,950**	75,498	64,445	58,471	55,654
Real estate mortgage	**160,954**	160,575	81,888	76,673	88,887
Real estate construction	**34,250**	26,348	20,260	18,002	20,611
Total loans	**$448,967**	$439,289	$318,766	$307,103	$305,902

Nonaccrual, Past Due and Restructured Loans

Nonperforming assets at December 31, 1997 totaled $7,479,000 which was a 28.5% decrease from year end 1996. The OREO component increased from $1,389,000 at year end 1996 to $2,230,000 at year end 1997. However, this increase was offset by a substantial decrease in nonperforming loans from $9,064,000 at year end 1996 to $5,249,000 at year end 1997. The decrease in nonperforming loans was due in part to the improved financial condition of certain borrowers and the impact of new monitoring procedures put into place at the end of 1996 in an effort to improve the timeliness of payments and collections and actively manage the level of nonperforming loans. The nonperforming loans at December 31, 1997 consisted of numerous loans including 12 loans over $100,000. The largest nonperforming loan balance to any one borrower was approximately $600,000. At December 31, 1997, the ratio of nonperforming loans to total loans was 1.17% as compared to 2.06% at year end 1996. Classifications of nonperforming loans as a percent of the total at the end of 1997 were as follows: secured by real estate, 79%; loans to farmers, 9%; commercial loans, 6%; and consumer loans, 6%.

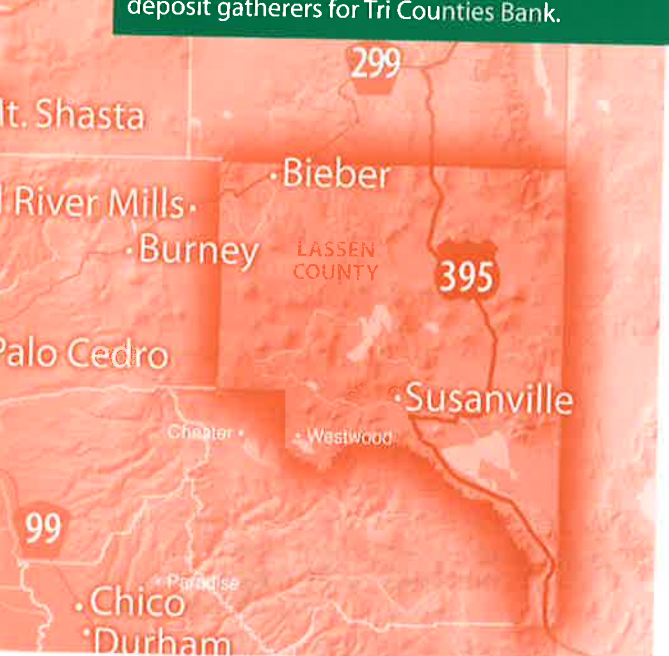
During 1996 nonperforming assets increased $7,389,000 to a total of $10,453,000 at December 31, 1996. Nonaccrual loans accounted for most of the change. Commercial loans secured by nonfarm nonresidential real estate increased $3,686,000 to a total of $4,350,000. Loans to one borrower accounted for $2,322,000 of that total. There were several loans totaling about $1,000,000 in the process of being renewed which were more than 90 days past due. The increase in nonperforming loans was also due in part to more stringent policies for removing poorly performing loans from nonaccrual status and to change in the local economy. The ratio of nonperforming loans to total loans at December 31, 1996 was 2.06% versus .76% at the end of 1995. Classifications of nonperforming loans as a percent of the total at the end of 1996 were as follows: secured by real estate, 79%; loans to farmers, 1%; commercial loans, 18%; and consumer loans, 2%.

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, the full and timely collection of additional interest or principal becomes uncertain, the loan is classified as doubtful by internal credit review or bank regulatory agencies, a portion of the principal balance has been charged off, or the Bank 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 is reversed. Income on such loans is then recognized only to the extent that cash is received and where the future collection on 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.

Interest income on nonaccrual loans which would have been recognized during the year ended December 31, 1997, if all such loans had been current in accordance with their original terms, totaled $519,000. Interest income actually recognized on these loans in 1997 was $354,000.

The new Crescent City and Susanville offices extend the reach of our large Redding office. The growing, thriving communities they serve...one on the Northern California coast, the other in the Sierra Nevadas...are large enough to be strong deposit gatherers for Tri Counties Bank.



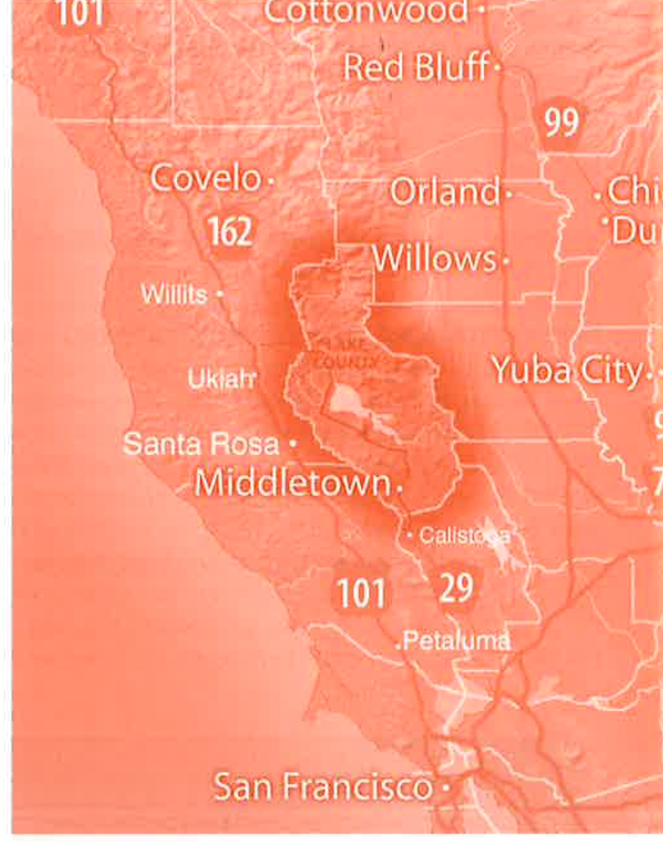
(B) Balance Sheet Analysis *(continued)*

The Bank's policy is to place loans 90 days or more past due on nonaccrual status. In some instances when a loan is 90 days past due Management does not place it on nonaccrual status because 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 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.

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 Bank's nonperforming assets as of the dates indicated.

	December 31,				
	1997	1996	1995	1994	1993
	(dollars in thousands)				
Nonaccrual loans	**$ 4,721**	$ 9,044	$ 2,213	$ 1,122	$ 1,595
Accruing loans past due 90 days or more	**528**	20	220	24	126
Total nonperforming loans	**5,249**	9,064	2,433	1,146	1,721
Other real estate owned	**2,230**	1,389	631	2,124	3,624
Total nonperforming assets	**$ 7,479**	$10,453	$ 3,064	$ 3,270	$ 5,345
Nonincome producing investments in real estate held by Bank's real estate development subsidiary	**$ 856**	$ 1,173	$ 1,173	$ 1,173	$ 1,172
Nonperforming loans to total loans	**1.17%**	2.06%	.76%	.37%	.56%
Allowance for loan losses to nonperforming loans	**123%**	67%	229%	489%	347%
Nonperforming assets to total assets	**.91%**	1.50%	.51%	.55%	.93%
Allowance for loan losses to nonperforming assets	**86%**	58%	182%	171%	112%



Allowance for Loan Losses Activity

In determining the adequacy of the allowance for loan losses, Management relies primarily on its review of the loan portfolio both to ascertain whether there are probable losses to be recorded 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. At December 31, 1997 the allowance for loan losses to total loans was 1.44% versus 1.39% at the end of 1996. The allowance for loan losses to total loans at December 31, 1996 was 1.39% versus 1.75% at the end of 1995. This decline was a result of loan growth and the addition of the Sutter Buttes loans in 1996 resulted in a change in the mix of loans outstanding at the end of the year versus year end 1995. The types of mortgage loans Sutter Buttes held in its portfolio generally required a lower allowance for loan losses.

The primary risk elements considered by Management with respect to installment and residential real estate loans is

NEW BRANCH PROFILE

The new Middletown office is located between Clear Lake and the Napa Valley in a retirement and recreational area.

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 by Management with respect to real estate construction loans are the financial condition of borrowers, fluctuations in real estate values in the Bank's market areas, fluctuations in interest rates, timeliness of payments, the availability of conventional financing, the demand for housing in the Bank'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 Bank's market area, the sufficiency of collateral, the timeliness of payment and, with respect to adjustable rate loans, interest rate fluctuations.

Based on the current conditions of the loan portfolio, Management believes that the $6,459,000 allowance for loan losses at December 31, 1997 is adequate to absorb probable losses inherent 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 following table summarizes, for the years indicated, the activity in the allowance for loan losses:

	December 31,				
	1997	1996	1995	1994	1993
	(dollars in thousands)				
Balance, beginning of year	$6,097	$ 5,580	$ 5,608	$ 5,973	$ 4,798
Provision charged to operations	3,000	777	335	316	1,858
Loans charged off:					
Commercial, financial and agricultural	(1,289)	(283)	(149)	(338)	(653)
Consumer installment	(1,551)	(909)	(432)	(712)	(622)
Real estate mortgage	—	—	—	—	—
Total loans charged-off	(2,840)	(1,192)	(581)	(1,050)	(1,275)
Recoveries:					
Commercial, financial and agricultural	85	243	98	205	380
Consumer installment	117	66	120	164	212
Total recoveries	202	309	218	369	592
Net loans charged-off	(2,638)	(883)	(363)	(681)	(683)
Balance added through acquisition	—	623	—	—	—
Balance, year end	$ 6,459	$ 6,097	$ 5,580	$ 5,608	$ 5,973
Average total loans	$448,117	$368,550	$308,473	$303,497	$314,691
Ratios:					
Net charge-offs during period to average loans outstanding during period	.59%	.24%	.12%	.22%	.22%
Provision for loan losses to average loans outstanding	.67%	.21%	.11%	.10%	.59%
Allowance to loans at year end	1.44%	1.39%	1.75%	1.83%	1.95%

(B) Balance Sheet Analysis *(continued)*

As part of its loan review process, Management has allocated the overall allowance based on specific identified problem loans and historical loss data. The following tables summarize the allocation of the allowance for loan losses at December 31, 1997 and 1996.

	December 31, 1997 (dollars in thousands)	
Balance at End of Period Applicable to:	Amount	Percent of loans in each category to total loans
Commercial, financial and agricultural	$2,157	36.93%
Real estate construction	59	7.63%
Real estate mortgage	2,266	35.85%
Consumer installment	1,977	19.59%
	$6,459	100.0%

	December 31, 1996 (dollars in thousands)	
Balance at End of Period Applicable to:	Amount	Percent of loans in each category to total loans
Commercial, financial and agricultural	$ 2,457	40.3%
Real estate construction	366	6.0%
Real estate mortgage	2,231	36.6%
Consumer installment	1,043	17.1%
	$ 6,097	100.0%

Investment in Real Estate Properties

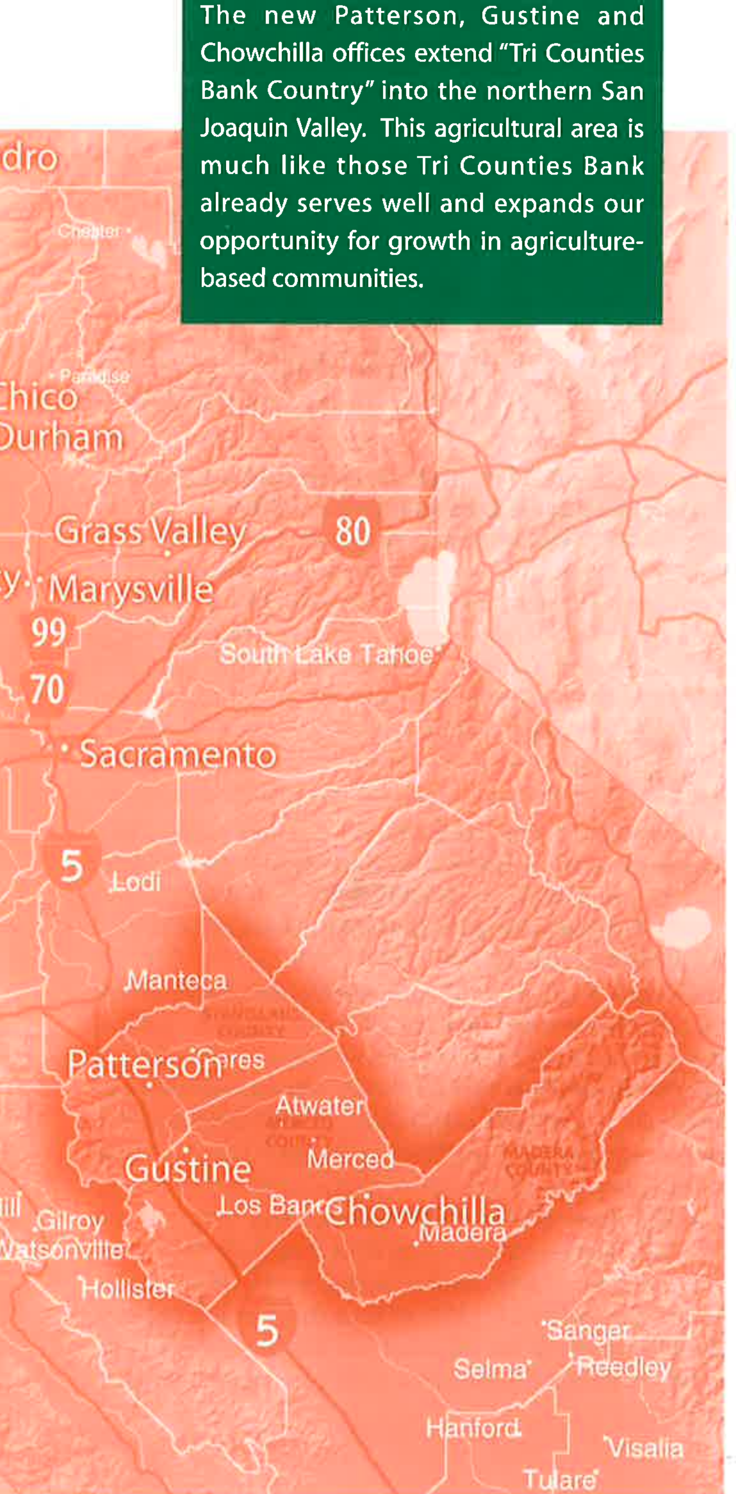
At December 31, 1997 and 1996, property held by a subsidiary of the Bank for the purposes of development was $856,000 and $1,173,000 respectively. Subsequent to December 31, 1997, one of the properties with a carrying value of $429,000 was sold. In 1996 the FDIC directed the Bank to divest the properties held by TCB Real Estate Corp. and to terminate its operations. The Bank and FDIC have agreed to a plan that will accomplish the divestiture by June 30, 1999.

Other Real Estate Owned

The December 31, 1997 balance of Other Real Estate Owned (OREO) was $2,230,000 versus $1,389,000 in 1996. One property accounted for $767,000 of the 1997 balance. Development costs of $210,000 were incurred on that property during 1997. Properties foreclosed in 1997 and remaining in the Bank's possession at year end were valued at $1,495,000 net of a valuation allowance of $83,000. The Bank disposed of properties with a value of $838,000 in 1997. OREO properties consist of a mixture of land, single family residences and commercial buildings. OREO had increased $758,000 in 1996.

NEW BRANCH PROFILE

The new Patterson, Gustine and Chowchilla offices extend "Tri Counties Bank Country" into the northern San Joaquin Valley. This agricultural area is much like those Tri Counties Bank already serves well and expands our opportunity for growth in agriculture-based communities.



Intangible Assets

At December 31, 1997, the Bank had intangible assets totaling $8,902,000. During 1997 the Bank recorded additions of $9,066,000 and $142,000 related to the Wells and Sutter Buttes acquisitions, respectively. Amortization of intangible assets amounting $1,342,000 was recorded in 1997. In 1996, the Bank recorded an intangible asset related to the Sutter Buttes acquisition in the amount of $1,070,000. The balance of $1,036,000 at December 31,1996 reflected amortization of $34,000 for the year.

Deposits

Deposits at December 31, 1997 were up $128,473,000 (21.6%) to $724,094,000 over the 1996 year end balances. Deposits at the branches acquired from Wells Fargo Bank totaled $146,795,000 at year end. These balances reflected a net runoff of 6.85% from the date of acquisition. During 1997, time certificates of deposit not related to the Wells branches decreased $18,937,000 or 8.4%. It is believed that competitive pressures from alternative products such as mutual funds and annuities contributed to this decline.

Total deposits at December 31, 1996 had increased $79,428,000 (15.4%) to $595,621,000 over the 1995 year end balances. On the date of closing of the Sutter Buttes acquisition in October 1996, Sutter Buttes had deposits totaling $56,023,000. Because of these acquired deposits, growth occurred in all deposit categories. Certificates of deposit with balances over $100,000 increased from $13,439,000 in 1995 to $32,889,000. Of the increase, $6,000,000 was attributable to a State of California CD, approximately $5,500,000 was from Sutter Buttes and the balance was from internal growth. Prior to 1996, the Bank paid lower rates on CD's over $100,000 than it did on CD's under $100,000. This policy was changed in 1996.

Accrued Interest Payable

At December 31, 1997, the balance of accrued interest payable was $4,039,000 which was an increase of $992,000 over the 1996 year end. This increase was attributable to higher deposit totals. At December 31, 1996, accrued interest payable reflected a decrease of $115,000 to $3,047,000. The decrease was mainly due to lower rates of interest being accrued on time certificates of deposit.

Long-Term Debt

During 1997 the Bank retired $12,841,000 of long term debt during the year. In 1996 the Bank made principal payments of $2,011,000 on long term debt obligations. No new long term debt was incurred.

Equity

See Note U in the financial statements for a discussion of regulatory capital requirements. Management believes that the Company's 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)*

Market Risk Management

Overview. The goal for managing the assets and liabilities of The Bank is to maximize shareholder value and earnings while maintaining a high quality balance sheet without exposing the Bank to undue interest rate risk. The Board of Directors has overall responsibility for the Company's interest rate risk management policies. The Bank has an Asset and Liability Management Committee (ALCO) which establishes and monitors guidelines to control the sensitivity of earnings to changes in interest rates.

Asset/Liability Management. Activities involved in asset/liability management include but are not limited to lending, accepting and placing deposits, investing in securities and issuing debt. Interest rate risk is the primary market risk associated with asset/liability management. Sensitivity of earnings to interest rate changes arises when yields on assets change in a different time period or in a different amount from that of interest costs on liabilities. To mitigate interest rate risk, the structure of the balance sheet is managed with the goal that movements of interest rates on assets and liabilities are correlated and contribute to earnings even in periods of volatile interest rates. The asset/liability management policy sets limits on the acceptable amount of variance in net interest margin and market value of equity under changing interest environments. The Bank uses simulation models to forecast earnings, net interest margin and market value of equity.

Simulation of earnings is the primary tool used to measure the sensitivity of earnings to interest rate changes. Using computer modeling techniques The Bank is able to estimate the potential impact of changing interest rates on earnings. A balance sheet forecast is prepared using inputs of actual loan, securities and interest bearing liability (i.e. deposits/borrowings) positions as the beginning base. The forecast balance sheet is processed against four interest rate scenarios which are provided by an independent economic forecasting company. The scenarios include a most likely rate forecast, a rising rate forecast, a flat rate forecast and a falling rate forecast. The Bank's 1998 earnings forecast is determined by utilizing a forecast balance sheet projected from year end 1997 balances. (The Bank does not hold any assets in trading accounts.)

The following assumptions were used in the modeling activity:

- Total asset growth of 1.4% based on ending balances
- Loan growth of 9.6% based on average balances
- Investment growth of 0.7% based on average balances
- Deposit growth of 3.5% based on ending balances
- Balance sheet target balances were the same for all rate scenarios
- Ending prime rate of interest for most likely rates 8.25%, for rising rates 10.28%, for flat rates 8.5% and for falling rates 6.0%

The following table summarizes the effect on earnings before taxes of changing interest rates as measured against a flat rate (no change) scenario.

Interest Rate Risk Simulation of Income Before Income Taxes as of December 31, 1997

	Estimated Impact on 1998 Income Before Income Taxes (in thousands)
Variation from flat rate scenario	
Most likely rates	$257
Rising rates	54
Falling rates	(196)

The simulations of earnings do not incorporate any management actions which might moderate the negative consequences of interest rate deviations. Therefore, they do not reflect likely actual results, but serve as conservative estimates of interest rate risk.

The Bank also uses a second simulation model which rate shocks the balance sheet with an immediate parallel shift in interest rates of ±100 basis points(bp). This simulation model provides estimates of the future market value of equity(MVE) and net interest margins(NIM). MVE measures the impact on equity due to the changes in the market values of assets and liabilities as a result of a change in interest rates. NIM is described above under the heading "Net Interest Income/Net Interest Margin." The Bank measures the volatility of these benchmarks using a twelve month time horizon. Using the December 31, 1997 balance sheet as the base for the simulation the following table summarizes the effect on NIM and net interest income of a ±100 basis point change in interest rates:

Interest Rate Risk Simulation of NIM as of December 31, 1997

	% Change in NIM from Current 12 Mo. Horizon	Change in Net Interest Margin 12 Mo. Horizon (in thousands)
-100bp	(4.11%)	($1,366)
0bp	(0.82%)	($ 171)
+100bp	2.47%	$ 997

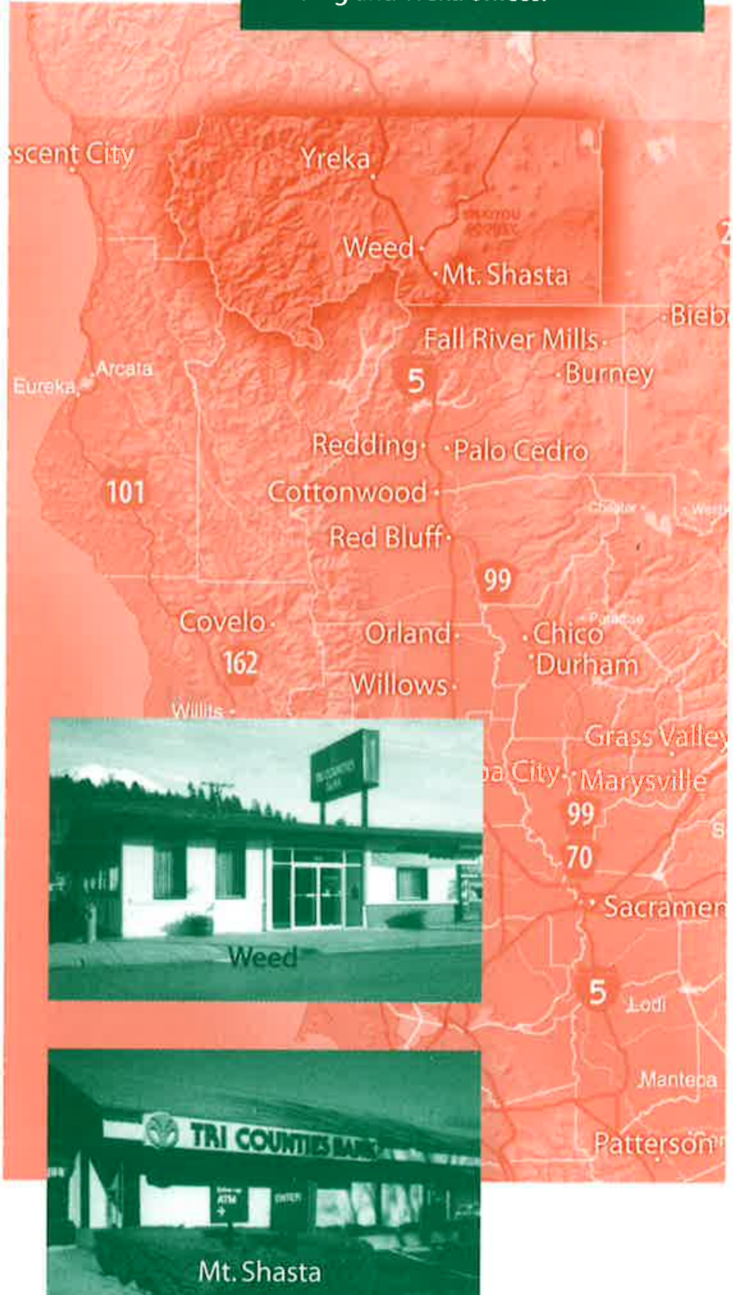
These results indicate that the balance sheet is asset sensitive since earnings increase when interest rates rise. The magnitude of the NIM change is within the Bank's policy guidelines. The asset liability management policy limits aggregate market risk, as measured in this fashion, to an acceptable level within the context of risk-return trade-offs.

Gap analysis provides another measure of interest rate risk. The Bank does not actively use gap analysis in managing interest rate risk. It is presented here for comparative purposes. Interest rate sensitivity is a function of the repricing characteristics of the Bank'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 Bank's current portfolio that are subject to repricing at various time horizons. The differences are known as interest sensitivity gaps.

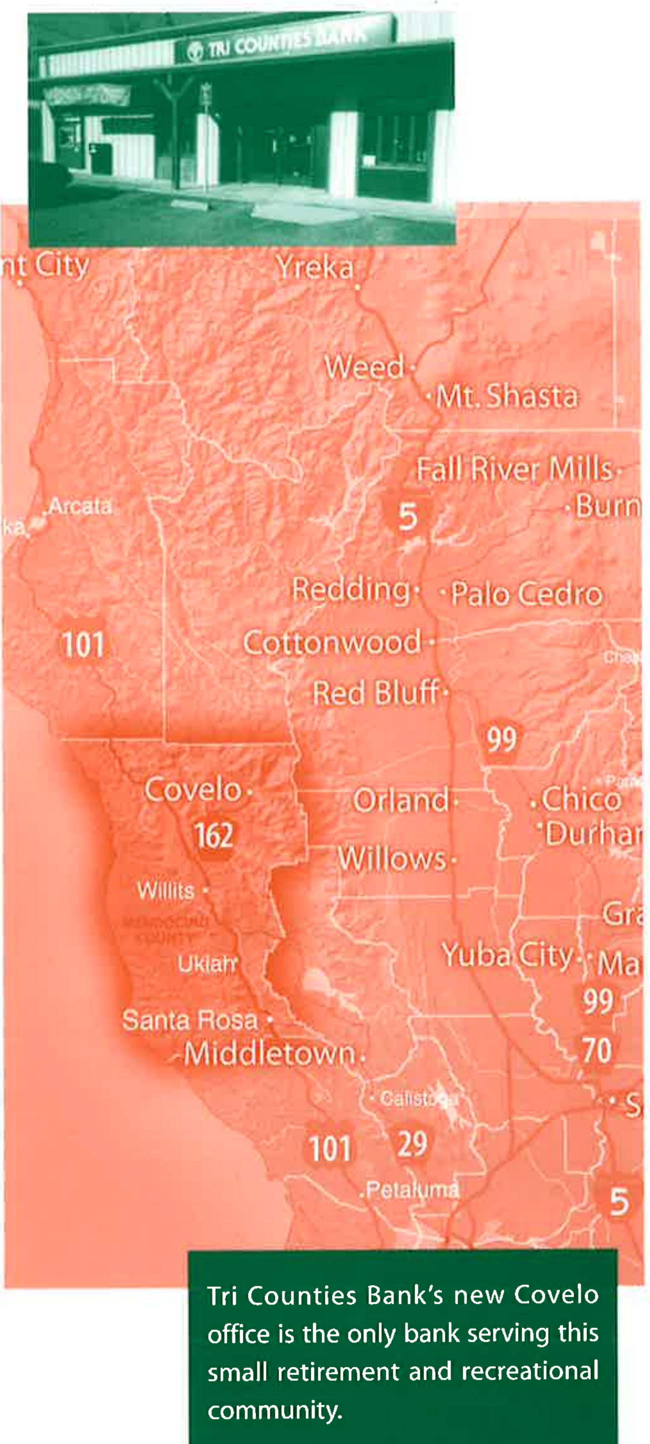
As reflected in the following repricing tables, the Bank is liability sensitive in the short term. This gap position would indicate that as interest rates rise, the Bank's earnings should be adversely impacted and conversely, as interest rates fall, earnings should be favorably impacted. Because the Bank's deposit liabilities do not reprice immediately with changes in interest rates, in recent years of moderate interest rate changes the Bank's earnings have reacted as though the gap position is slightly asset sensitive.

NEW BRANCH PROFILE

The new Weed and Mt. Shasta offices serve an area whose economy is based largely on tourism and recreation: Hiking, camping, fishing in the Summer, skiing in the Winter. These two offices fill the marketing void between the Tri Counties Bank Redding and Yreka offices.



NEW BRANCH PROFILE



Tri Counties Bank's new Covelo office is the only bank serving this small retirement and recreational community.

(B) Balance Sheet Analysis *(continued)*

Interest Rate Sensitivity—December 31, 1997

	Repricing within:				
	3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years
	(dollars in thousands)				
Interest-earning assets:					
Securities	$ 36,451	$ 7,562	$ 39,652	$131,246	$ 51,606
Fed funds sold	15,000	—	—	—	—
Loans	232,318	40,892	18,079	57,509	100,169
Total interest-earning assets	$283,769	$48,454	$57,731	$188,755	$151,775
Interest-bearing liabilities					
Transaction deposits	$347,360	$ —	$ —	$ —	$ —
Time	102,914	71,773	64,605	14,584	789
Short-term borrowings	15,300	—	—	—	—
Long-term borrowings	5,003	3	6	5,999	429
Total interest-bearing liabilities	$470,577	$71,776	$64,611	$ 20,583	$ 1,218
Interest sensitivity gap	$(186,808)	$(23,322)	$ (6,880)	$168,172	$150,557
Cumulative sensitivity gap	(186,808)	(210,130)	(217,010)	(48,838)	101,719
As a percentage of earning assets:					
Interest sensitivity gap	(25.57%)	(3.19%)	(0.94%)	23.02%	20.61%
Cumulative sensitivity gap	(25.57%)	(28.76%)	(29.70%)	6.68%	13.93%

Liquidity

Liquidity refers to the Bank'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 the Consolidated Statement of Cash Flows. Net cash used by investing activities totaled approximately $113,907,000 in 1997. The purchase of securities was responsible for the major use of funds in this category.

Liquidity is generated from liabilities through deposit growth and short-term borrowings. These activities are included under financing activities in the cash flow statement. In 1997 funds totaling $108,202,000 were provided by financing activities. Deposit growth as a result of the purchase of the Wells branch provided funds amounting to $128,473,000. The Bank also had available correspondent banking lines of credit totaling

$49,700,000 at year end. 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 or used through the results of operating activities. In 1997 operating activities provided cash of $1,950,000.

Since the adoption of SFAS 115 January 1, 1994 and prior to 1997, Management targeted the available-for-sale portfolio (AFS) to be maintained at 35-40% of the total securities holdings. During 1997, the Board of Directors approved Management's recommendation that up to 100% of the future securities purchases be placed in the available-for-sale category. When SFAS 115 was implemented, it was believed that the unrealized losses which might be incurred in the AFS portfolio would be used in the determination of capital for regulatory reporting purposes. Subsequently, the FDIC has issued a directive that eliminates using the unrealized losses in determining regulatory capital. Consequently, classifying securities in the AFS portfolio provides management more flexibility in managing the investment portfolio as securities may be sold as the Bank's needs dictate. AFS securities at December 31, 1997 were 66.4% of the total securities holdings. The AFS securities plus cash in excess of reserve requirements totaled $223,753,000 which was 27.1% of total assets at year end. This was up from $109,202,000 and 15.7% at the end of 1996.

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, are more likely to be withdrawn to obtain higher yields elsewhere if available. The Bank participates in a program wherein the State of California places time deposits with the Bank at the Bank's option. At December 31, 1997 and 1996 the Bank had $25,000,000 and $15,000,000 respectively, of these State deposits.

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

	Amounts as of December 31,		
	1997	1996	1995
	(in thousands)		
Time remaining until maturity:			
Less than 3 months	**$31,029**	$ 19,443	$ 9,985
3 months to 6 months	**8,312**	3,396	2,909
6 months to 12 months	**7,572**	7,480	545
More than 12 months	**1,994**	2,570	—
Total	**$48,907**	$ 32,889	$ 13,439

Loan demand also affects the Bank's liquidity position. The following table present the maturities of loans at December 31, 1997.

Loan Maturities - December 31, 1997

	Within One Year	After One But Within 5 Years	After 5 Years	Total
	(in thousands)			
Loans with predetermined interest rates:				
Commercial, financial and agricultural	$ 9,739	$ 24,816	$ 24,614	$ 59,169
Consumer installment	5,668	13,213	21,588	40,469
Real estate mortgage	6,023	16,053	33,076	55,152
Real estate construction	6,698	116	52	6,866
	$ 28,128	$ 54,198	$ 79,330	$161,656
Loans with floating interest rates:				
Commercial, financial and agricultural	$ 56,205	$ 25,241	$ 25,198	$106,644
Consumer installment	17,333	2,494	27,654	47,481
Real estate mortgage	12,389	21,889	71,524	105,802
Real estate construction	27,384	—	—	27,384
	$113,311	$49,624	$124,376	$287,311
Total loans	$141,439	$103,822	$203,706	$448,967

(B) Balance Sheet Analysis *(continued)*

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

Securities Maturities and Weighted Average Yields - December 31, 1997

	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	$ 3,000	5.31%	$18,805	6.30%	$ —	—	$ —	—	$ 21,805	6.17%
Obligations of states and political subdivisions	—	—	530	4.35%	—	—	—	—	530	4.35%
Mortgage-backed securities	—	—	3,754	5.73%	8,652	6.45%	56,023	5.90%	68,429	5.96%
Total securities held-to-maturity	$ 3,000	5.31%	$23,089	6.16%	$ 8,652	6.45%	$ 56,023	5.90%	$ 90,764	6.00%
Securities Available-for-Sale										
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$36,514	5.84%	$64,635	5.99%	$ —	—	$ —	—	$101,149	5.93%
Obligations of states and political subdivisions	226	5.11%	751	5.38%	135	7.00%	12,687	5.64%	13,799	5.63%
Mortgage-backed securities	87	8.50%	661	7.01%	7,006	6.16%	28,430	5.93%	36,184	6.00%
Short-term corporate obligations	19,960	6.07	—	—	—	—	—	—	19,960	6.07%
Other securities	—	—	—	—	—	—	4,661	—	4,661	—
Total securities available-for-sale	$56,787	5.92%	$66,047	5.99%	$ 7,141	6.17%	$ 45,778	5.84%	$175,753	5.94%
Total all securities	$59,787	5.89%	$89,136	6.04%	$15,793	6.32%	$101,801	5.88%	$266,517	5.96%

The principal cash requirements of the Company are dividends on 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

The Bank has certain ongoing commitments under operating and capital leases. (See Note H of the financial statements for the terms.) These commitments do not significantly impact operating results.

As of December 31, 1997 commitments to extend credit were the only 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 increased to $145,805,000 from $118,991,000 at December 31, 1996. Much of the increase relates to credit cards. The commitments represent 32.5% of the total loans outstanding at year end 1997 versus 27.16% a year ago.

Disclosure of Fair Value

The Financial Accounting Standards Board (FASB), Statement of Financial Accounting Standards Number 107, Disclosures about Fair Value of Financial Statements, 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 Bank used the carrying amount for cash, short-term investments, accrued interest receivable, short-term borrowings and accrued interest payable as 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. The fair value of fixed rate instruments 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 1997 year end, the fair values calculated on the Bank's assets are .26% above the carrying values versus .02% below the carrying values at year end 1996. The change in the calculated fair value percentage relates to the securities and loan categories and is the result of changes in interest rates in 1997. (See Note R of the financial statements)

Year 2000 Project

The Company, like most businesses heavily dependent on computer processing systems, will be required to ensure its applications will function properly in the year 2000. The Company is committed to attaining Year 2000 compliance, ensuring that information systems accurately process dates and times, including calculating, comparing and sequencing data, from, into and between the 20th and 21st centuries.

To meet this commitment, The Year 2000 Project is well under way at the Bank and involves employees from all levels of the organization. Each operating department is represented to address its individual issues. The project plan covers all phases of the Year 2000 effort in the discovery, planning and implementation process. A senior executive has been appointed to manage the company-wide efforts. Immediate attention has been focused on four areas: reliance on vendors, exchange/transmission of data with external parties, corporate borrower compliance efforts and internal system evaluation, testing and adjustments if necessary. The assessment phase of the project includes ongoing communication with vendors and service providers related to the four areas mentioned. The assessment phase is nearing completion and includes the identification of hardware, software, networks, various processing platforms and customer and vendor interdependencies. The assessment also includes environmental systems that may be dependent on embedded microchip technology. Ongoing notification and follow-up communication is underway with identified vendors and service providers. The Bank's main system software provider, Fiserv CBS Worldwide, used globally by hundreds of financial institutions, has ITAA*2000 certification, a process that indicates that Fiserv CBS Worldwide has the capabilities to successfully address the Year 2000 challenge. The company-wide target date to complete testing and updates is December 31, 1998 for internal systems and external service providers. Any final testing and implementations are targeted for the first quarter of 1999.

The Company has established a process of ongoing communication with the Bank's senior management and Board of Directors regarding the progress of the Year 2000 project.

At this time, it is not expected that any substantial out of pocket expenses will be incurred in becoming Year 2000 compliant. Major processing systems are covered by ongoing maintenance agreements. Existing staff should be able to complete tasks related to Year 2000 issues without significant overtime costs.

TriCo Bancshares—Executive Officers

Robert H. Steveson...... **President & Chief Executive Officer**

Robert Stanberry .... **Vice President & Chief Financial Officer**

Douglas F. Hignell....... **Secretary**

Tri Counties Bank—Executive Officers

Robert H. Steveson ..... **President & Chief Executive Officer**

Richard Smith .... **Executive Vice President Employee Support and Control**

Richard O'Sullivan ...... **Executive Vice President Sales & Service**

Robert Stanberry .... **Vice President & Chief Financial Officer**

Craig Carney............ **Senior Vice President Senior Credit Officer**

TriCo Bancshares Headquarters

63 Constitution Drive
Chico, California 95973
Telephone (530) 898-0300

Notice of Annual Meeting

Tuesday May 19, 1998 at 6:00 P.M.
63 Constitution Drive
Chico, California 95973

Shareholder Relations

Suzanne Youngs
63 Constitution Drive
Chico, California 95973
(530) 898-0300

Transfer Agent

ChaseMellon Shareholder Services, L.L.C.
Overpeck Centre
85 Challanger Road
Ridgefield Park, NJ 07660

Internet Address: www.chasemellon.com

Stock Listing

NASDAQ Stock Exchange
Symbol: "TCBK"

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, 1997, 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, 63 Constitution Drive, Chico, CA 95973.**

Tri Counties Bank Traditional Branch Locations

Pillsbury Branch
2171 Pillsbury Road
P.O. Box 1130
Chico, CA 95927
(530) 898-0470
Brian Endemano, Manager

Park Plaza Branch
780 Mangrove Ave.
P.O. Box 2207
Chico, CA 95927
(530) 898-0400
Ray Block, Manager

Durham Branch
9411 Midway
P.O. Box 190
Durham, CA 95938
(530) 898-0430
Daryle Polk, Manager

Orland Branch
100 East Walker Street
P.O. Box 188
Orland, CA 95963
(530) 865-5524
Dennis Ryan, Manager

Willows Branch
210 North Tehama Street
P.O. Box 1158
Willows, CA 95988
(530) 934-2191
Tori Perez, Manager

Cottonwood Branch
3349 Main Street
P.O. Box 410
Cottonwood, CA 96022
(530) 347-3751
Bonnie Coleman, Manager

Palo Cedro Branch
9125 Deschutes Road
P.O. Box 144
Palo Cedro, CA 96073
(530) 547-4494
Julie Jones, Manager

Burney Branch
37093 Main Street
Burney, CA 96013
(530) 335-2215
Vi Nelson, Manager

Fall River Mills Branch
43308 State Highway 299E
P.O. Box 758
Fall River Mills, CA 96028
(530) 336-6291
Vi Nelson, Manager

Redding Branch
1845 California Street
P.O. Box 994788
Redding, CA 96099
(530) 244-4700
Connie Spooner, Manager

Bieber Branch
Bridge & Market Streets
P.O. Box 217
Bieber, CA 96009
(530) 294-5211
Vi Nelson, Manager

Yreka Branch
165 S. Broadway
P.O. Box 98
Yreka, CA 96097
(530) 842-2761
Roger Fellows, Manager

Yuba City Branch
1441 Colusa Avenue
P.O. Box 1501
Yuba City, CA 95992
(530) 671-5563
Jerry Woodward, Manager

Hilltop Branch
1250 Hilltop Drive
P.O. Box 494549
Redding, CA 96049
(530) 223-3307
Guy Watson, Manager

Marysville Branch
729 E Street
Marysville, CA 95901
(530) 749-6135
Theresa Schulte, Manager

Chowchilla Branch
305 Trinity Street
Chowchilla, CA 93610
(209) 665-4868
Joe Ramirez, Manager

Covelo Branch
76405 Covelo Road
P.O. Box 278
Covelo, CA 95428
(707) 983-6135
Pia McIsaac, Manager

Crescent City Branch
936 Third Street
Crescent City, CA 95531
(707) 464-4145
Sharle Hoke, Manager

Gustine Branch
319 Fifth Street
Gustine, CA 95322
(209) 854-3761

Middletown Branch
21097 Calistoga Street
Middletown, CA 95461
(707) 987-3196
Brent Bosanek, Manager

Mt. Shasta Branch
204 Chestnut Street
Mt. Shasta, CA 96067
(530) 926-2653
Linda Ward, Manager

Patterson Branch
17 Plaza
Patterson, CA 95363
(209) 892-4098
Jeannette Kessler, Manager

Susanville Branch
1605 Main Street
Susanville, CA 96130
(530) 257-4151
Cleo Polley, Manager

Weed Branch
303 Main Street
Weed, CA 96094
(530) 938-4401
Patti Hickman, Manager

Tri Counties Bank In-Store Branch Locations

At Raley's
700 Onstott Road
Yuba City, CA 95991
(530) 751-8415
Kendra Fain, Manager

At Raley's
727 South Main Street
Red Bluff, CA 96080
(530) 529-7080
Crystal Adams, Manager

At Raley's
201 Lake Boulevard
Redding, CA 96003
(530) 245- 4650
Julie Crowley, Manager

At Raley's
110 Hartnell Avenue
Redding, CA 96002
(530) 224-3430
Starla Collette, Manager

At Albertsons
146 W. East Avenue
Chico, CA 95973
(530) 898-0380
Chimene Sonsteng, Manager

At Albertsons
12054 Nevada City Hwy
Grass Valley, CA 95949
(530) 477-9740
Allison Richter, Manager

Chico Mall Branch
1950 E. 20th St.-Suite 725
Chico, CA 95928
(530) 898-0370

Tri Counties Bank Administration Office

63 Constitution Drive
Chico, CA 95973
(530) 898-0300
Fax: (530) 898-0310

DEFINED
GOALS

CONTINUED
GROWTH

FOCUSED
EFFORT

ACHIEVEMENT

TRICO
BANCSHARES
63 Constitution Drive
Chico, California 95973
(530) 898-0300
Fax: (530) 898-0310
http://www.tcbk.com