# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, D.C. 20549**

# FORM 10-Q

■ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**for the quarterly period ended: September 30, 2022**

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**for the transition period from_________to________**

**Commission File Number: 000-10661**

trico bancshares

**(Exact Name of Registrant as Specified in Its Charter)**

| | |
|---|---|
| **CA** | **94-2792841** |
| **(State or Other Jurisdiction of Incorporation or Organization)** | **(I.R.S. Employer Identification Number)** |

**63 Constitution Drive**
**Chico, California 95973**
**(Address of Principal Executive Offices)(Zip Code)**

**(530) 898-0300**
**(Registrant’s Telephone Number, Including Area Code)**

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| **Common Stock** | **TCBK** | **The NASDAQ Stock Market** |

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ■ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ■ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of “accelerated filer”, “large accelerated filer”, “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| ■ | Large accelerated filer | ☐ | Accelerated filer |
| ☐ | Non-accelerated filer | ☐ | Smaller reporting company |
| ☐ | Emerging growth company | | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ■ No

Indicate the number of shares outstanding for each of the issuer's classes of common stock, as of the latest practical date:

Common stock, no par value: 33,327,189 shares outstanding as of November 4, 2022.

TriCo Bancshares
FORM 10-Q
TABLE OF CONTENTS

## GLOSSARY OF ACRONYMS AND TERMS

The following listing provides a comprehensive reference of common acronyms and terms used throughout the document:

| | |
|---|---|
| **ACL** | Allowance for Credit Losses |
| **AFS** | Available-for-Sale |
| **AOCI** | Accumulated Other Comprehensive Income |
| **ASC** | Accounting Standards Codification |
| **CARES** | Coronavirus Aid, Relief and Economic Security Act |
| **CDs** | Certificates of Deposit |
| **CDI** | Core Deposit Intangible |
| **CECL** | Current Expected Credit Loss |
| **COVID-19** | Coronavirus Disease |
| **CRE** | Commercial Real Estate |
| **CMO** | Collateralized mortgage obligation |
| **DFPI** | State Department of Financial Protection and Innovation |
| **FASB** | Financial Accounting Standards Board |
| **FDIC** | Federal Deposit Insurance Corporation |
| **FHLB** | Federal Home Loan Bank |
| **FRB** | Federal Reserve Board |
| **FTE** | Fully taxable equivalent |
| **GAAP** | Generally Accepted Accounting Principles (United States of America) |
| **HELOC** | Home equity line of credit |
| **HTM** | Held-to-Maturity |
| **NPA** | Nonperforming assets |
| **OCI** | Other Comprehensive Income |
| **PCD** | Purchase Credit Deteriorated |
| **PPP** | Paycheck Protection Program |
| **ROUA** | Right-of-Use Asset |
| **RSU** | Restricted Stock Unit |
| **SBA** | Small Business Administration |
| **SERP** | Supplemental Executive Retirement Plan |
| **SFR** | Single Family Residence |
| **TDR** | Troubled Debt Restructuring |
| **VRB** | Valley Republic Bancorp |
| **XBRL** | eXtensible Business Reporting Language |

## PART I – FINANCIAL INFORMATION

### Item 1. Financial Statements (unaudited)

**TRICO BANCSHARES**
**CONDENSED CONSOLIDATED BALANCE SHEETS**
(In thousands, except share data; unaudited)

| | September 30, 2022 | December 31, 2021 |
|---|---|---|
| Assets: | | |
| Cash and due from banks | $ 91,377 | $ 57,032 |
| Cash at Federal Reserve and other banks | 155,132 | 711,389 |
| Cash and cash equivalents | 246,509 | 768,421 |
| Investment securities: | | |
| Marketable equity securities | 2,592 | 2,938 |
| Available for sale debt securities, net of allowance for credit losses of $— | 2,480,265 | 2,207,938 |
| Held to maturity debt securities, net of allowance for credit losses of $— | 168,038 | 199,759 |
| Restricted equity securities | 17,250 | 17,250 |
| Loans held for sale | 247 | 3,466 |
| Loans | 6,314,290 | 4,916,624 |
| Allowance for credit losses | (101,488) | (85,376) |
| Total loans, net | 6,212,802 | 4,831,248 |
| Premises and equipment, net | 73,266 | 78,687 |
| Cash value of life insurance | 132,933 | 117,857 |
| Accrued interest receivable | 27,070 | 19,292 |
| Goodwill | 307,942 | 220,872 |
| Other intangible assets, net | 18,372 | 12,369 |
| Operating leases, right-of-use | 26,622 | 25,665 |
| Other assets | 262,971 | 109,025 |
| Total assets | $ 9,976,879 | $ 8,614,787 |
| Liabilities and Shareholders' Equity: | | |
| Liabilities: | | |
| Deposits: | | |
| Noninterest-bearing demand | $ 3,678,202 | $ 2,979,882 |
| Interest-bearing | 4,977,567 | 4,387,277 |
| Total deposits | 8,655,769 | 7,367,159 |
| Accrued interest payable | 853 | 928 |
| Operating lease liability | 28,717 | 26,280 |
| Other liabilities | 153,110 | 112,070 |
| Other borrowings | 47,068 | 50,087 |
| Junior subordinated debt | 101,024 | 58,079 |
| Total liabilities | 8,986,541 | 7,614,603 |
| Commitments and contingencies (Note 9) | | |
| Shareholders' equity: | | |
| Preferred stock, no par value: 1,000,000 shares authorized, zero issued and outstanding at September 30, 2022 and December 31, 2021 | — | — |
| Common stock, no par value: 50,000,000 shares authorized; 33,332,189 and 29,730,424 issued and outstanding at September 30, 2022 and December 31, 2021, respectively | 696,348 | 532,244 |
| Retained earnings | 516,699 | 466,959 |
| Accumulated other comprehensive (loss) income, net of tax | (222,709) | 981 |
| Total shareholders' equity | 990,338 | 1,000,184 |
| Total liabilities and shareholders' equity | $ 9,976,879 | $ 8,614,787 |

See accompanying notes to unaudited condensed consolidated financial statements.

**TRICO BANCSHARES**
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**
(In thousands, except per share data; unaudited)

| | Three months ended September 30, 2022 | Three months ended September 30, 2021 | Nine months ended September 30, 2022 | Nine months ended September 30, 2021 |
|---|---|---|---|---|
| Interest and dividend income: | | | | |
| Loans, including fees | $ 75,956 | $ 60,725 | $ 203,619 | $ 181,465 |
| Investments: | | | | |
| Taxable securities | 16,864 | 7,483 | 40,862 | 20,594 |
| Tax exempt securities | 1,468 | 882 | 3,733 | 2,656 |
| Dividends | 258 | 258 | 833 | 730 |
| Interest bearing cash at Federal Reserve and other banks | 1,820 | 280 | 3,469 | 578 |
| Total interest and dividend income | 96,366 | 69,628 | 252,516 | 206,023 |
| Interest expense: | | | | |
| Deposits | 992 | 855 | 2,519 | 2,620 |
| Other borrowings | 5 | 6 | 15 | 15 |
| Junior subordinated debt | 1,263 | 534 | 2,906 | 1,632 |
| Total interest expense | 2,260 | 1,395 | 5,440 | 4,267 |
| Net interest income | 94,106 | 68,233 | 247,076 | 201,756 |
| Provision for (reversal of) credit losses | 3,795 | (1,435) | 14,225 | (7,755) |
| Net interest income after credit loss provision (reversal) | 90,311 | 69,668 | 232,851 | 209,511 |
| Non-interest income: | | | | |
| Service charges and fees | 12,682 | 11,265 | 37,422 | 32,671 |
| Gain on sale of loans | 357 | 1,814 | 2,145 | 7,908 |
| Gain on sale of investment securities | — | — | — | — |
| Asset management and commission income | 1,020 | 957 | 2,946 | 2,738 |
| Increase in cash value of life insurance | 659 | 644 | 2,049 | 2,062 |
| Other | 922 | 415 | 2,604 | 1,783 |
| Total non-interest income | 15,640 | 15,095 | 47,166 | 47,162 |
| Non-interest expense: | | | | |
| Salaries and related benefits | 33,528 | 26,274 | 96,495 | 78,685 |
| Other | 20,937 | 19,533 | 60,681 | 52,911 |
| Total non-interest expense | 54,465 | 45,807 | 157,176 | 131,596 |
| Income before provision for income taxes | 51,486 | 38,956 | 122,841 | 125,077 |
| Provision for income taxes | 14,148 | 11,534 | 33,765 | 35,644 |
| Net income | $ 37,338 | $ 27,422 | $ 89,076 | $ 89,433 |
| Per share data: | | | | |
| Basic earnings per share | $ 1.12 | $ 0.92 | $ 2.76 | $ 3.01 |
| Diluted earnings per share | $ 1.12 | $ 0.92 | $ 2.74 | $ 2.99 |
| Dividends per share | $ 0.30 | $ 0.25 | $ 0.80 | $ 0.75 |

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)**
(In thousands; unaudited)

| | Three months ended September 30, 2022 | Three months ended September 30, 2021 | Nine months ended September 30, 2022 | Nine months ended September 30, 2021 |
|---|---|---|---|---|
| Net income | $ 37,338 | $ 27,422 | $ 89,076 | $ 89,433 |
| Other comprehensive loss, net of tax: | | | | |
| Unrealized losses on available for sale securities arising during the period | (76,740) | (4,440) | (223,748) | (7,924) |
| Change in minimum pension liability | — | — | 58 | — |
| Change in joint beneficiary agreements | — | — | — | (629) |
| Other comprehensive loss | (76,740) | (4,440) | (223,690) | (8,553) |
| Comprehensive income (loss) | $ (39,402) | $ 22,982 | $ (134,614) | $ 80,880 |

See accompanying notes to unaudited condensed consolidated financial statements.

**TRICO BANCSHARES**
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**
(In thousands, except share and per share data; unaudited)

| | Shares of Common Stock | Common Stock | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|
| Balance at June 30, 2021 | 29,716,294 | $ 531,038 | $ 427,575 | $ 8,167 | $ 966,780 |
| Net income | | | 27,422 | | 27,422 |
| Other comprehensive loss | | | | (4,440) | (4,440) |
| Stock options exercised | 4,000 | 58 | | | 58 |
| RSU vesting | | 485 | | | 485 |
| PSU vesting | | 252 | | | 252 |
| RSUs released | 2,689 | | | | — |
| PSUs released | 19,272 | | | | — |
| Repurchase of common stock | (27,646) | (494) | (620) | | (1,114) |
| Dividends paid ($0.25 per share) | | | (7,429) | | (7,429) |
| Three months ended September 30, 2021 | 29,714,609 | $ 531,339 | $ 446,948 | $ 3,727 | $ 982,014 |
| | | | | | |
| Balance at June 30, 2022 | 33,350,974 | $ 696,441 | $ 491,705 | $ (145,969) | $ 1,042,177 |
| Net income | | | 37,338 | | 37,338 |
| Other comprehensive loss | | | | (76,740) | (76,740) |
| Stock options exercised | 44,000 | 856 | | | 856 |
| RSU vesting | | 746 | | | 746 |
| PSU vesting | | 223 | | | 223 |
| RSUs released | 2,752 | | | | — |
| PSUs released | 26,338 | | | | — |
| Issuance of common stock | — | | | | — |
| Repurchase of common stock | (91,875) | (1,918) | (2,340) | | (4,258) |
| Dividends paid ($0.30 per share) | | | (10,004) | | (10,004) |
| Three months ended September 30, 2022 | 33,332,189 | $ 696,348 | $ 516,699 | $ (222,709) | $ 990,338 |

**TRICO BANCSHARES**
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**
(In thousands, except share and per share data; unaudited)

| | Shares of Common Stock | Common Stock | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|
| Balance at January 1, 2021 | 29,727,214 | $ 530,835 | $ 381,999 | $ 12,280 | $ 925,114 |
| Net income | | | 89,433 | | 89,433 |
| Other comprehensive loss | | | | (8,553) | (8,553) |
| Stock options exercised | 5,675 | 86 | | | 86 |
| RSU vesting | | 1,242 | | | 1,242 |
| PSU vesting | | 658 | | | 658 |
| RSUs released | 45,401 | | | | — |
| PSUs released | 19,272 | | | | — |
| Repurchase of common stock | (82,953) | (1,482) | (2,193) | | (3,675) |
| Dividends paid ($0.75 per share) | | | (22,291) | | (22,291) |
| Nine months ended September 30, 2021 | 29,714,609 | $ 531,339 | $ 446,948 | $ 3,727 | $ 982,014 |
| | | | | | |
| Balance at January 1, 2022 | 29,730,424 | $ 532,244 | $ 466,959 | $ 981 | $ 1,000,184 |
| Net income | | | 89,076 | | 89,076 |
| Other comprehensive loss | | | | (223,690) | (223,690) |
| Stock options exercised | 59,325 | 1,112 | | | 1,112 |
| RSU vesting | | 2,025 | | | 2,025 |
| PSU vesting | | 686 | | | 686 |
| RSUs released | 48,234 | | | | — |
| PSUs released | 26,338 | | | | — |
| Issuance of common stock | 4,105,518 | 173,585 | | | 173,585 |
| Repurchase of common stock | (637,650) | (13,304) | (13,540) | | (26,844) |
| Dividends paid ($0.80 per share) | | | (25,796) | | (25,796) |
| Nine months ended September 30, 2022 | 33,332,189 | $ 696,348 | $ 516,699 | $ (222,709) | $ 990,338 |

See accompanying notes to unaudited condensed consolidated financial statements.

**TRICO BANCSHARES**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
(In thousands; unaudited)

| | For the nine months ended September 30, | |
|---|---|---|
| | 2022 | 2021 |
| Operating activities: | | |
| Net income | $ 89,076 | $ 89,433 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation of premises and equipment, and amortization | 4,489 | 4,923 |
| Amortization of intangible assets | 4,632 | 4,271 |
| Provision for (reversal of) credit losses on loans | 13,645 | (7,880) |
| Amortization of investment securities premium, net | 6,564 | 4,702 |
| Originations of loans for resale | (62,192) | (175,127) |
| Proceeds from sale of loans originated for resale | 66,973 | 184,896 |
| Gain on sale of loans | (2,145) | (7,908) |
| Change in market value of mortgage servicing rights | (443) | 691 |
| Provision for losses on foreclosed assets | 113 | — |
| Gain on transfer of loans to foreclosed assets | (224) | (133) |
| Gain on sale of foreclosed assets | (22) | (68) |
| Operating lease expense payments | (4,351) | (3,690) |
| Gain on disposal of fixed assets | (1,069) | (445) |
| Increase in cash value of life insurance | (2,049) | (2,062) |
| Gain on life insurance death benefit | (309) | — |
| Loss on marketable equity securities | 346 | 59 |
| Equity compensation vesting expense | 2,711 | 1,900 |
| Change in: | | |
| Interest receivable | (4,384) | 1,579 |
| Interest payable | (601) | (306) |
| Amortization of operating lease ROUA | 4,432 | 4,038 |
| Other assets and liabilities, net | (7,201) | 1,046 |
| Net cash from operating activities | 107,991 | 99,919 |
| Investing activities: | | |
| Proceeds from maturities of securities available for sale | 212,501 | 263,865 |
| Proceeds from maturities of securities held to maturity | 31,421 | 66,880 |
| Purchases of securities available for sale | (699,035) | (960,668) |
| Loan origination and principal collections, net | (603,581) | (21,869) |
| Loans purchased | (21,292) | (102,710) |
| Proceeds from sale of other real estate owned | 416 | 944 |
| Proceeds from sale of premises and equipment | 6,689 | 2,743 |
| Purchases of premises and equipment | (3,130) | (2,114) |
| Proceeds from conversion of life insurance | 641 | — |
| Cash acquired from VRB, net of cash consideration paid | 426,883 | — |
| Net cash used by investing activities | (648,487) | (752,929) |
| Financing activities: | | |
| Net change in deposits | 73,131 | 730,888 |
| Net change in other borrowings | (3,019) | 18,687 |
| Repurchase of common stock, net of option exercises | (26,844) | (3,675) |
| Dividends paid | (25,796) | (22,291) |
| Exercise of stock options | 1,112 | 86 |

| | | |
|---|---|---|
| Net cash from financing activities | 18,584 | 723,695 |
| Net change in cash and cash equivalents | (521,912) | 70,685 |
| Cash and cash equivalents, beginning of period | 768,421 | 669,551 |
| Cash and cash equivalents, end of period | $ 246,509 | $ 740,236 |
| Supplemental disclosure of noncash activities: | | |
| Unrealized loss on securities available for sale | $ (317,659) | $ (11,249) |
| Loans transferred to held-for-sale | 12,044 | — |
| Market value of shares tendered in-lieu of cash to pay for exercise of options and/or related taxes | 2,444 | 835 |
| Obligations incurred in conjunction with leased assets | 4,609 | 2,883 |
| Loans transferred to foreclosed assets | 1,131 | 549 |
| Supplemental disclosure of cash flow activity: | | |
| Cash paid for interest expense | 5,515 | 4,573 |
| Cash paid for income taxes | 36,000 | 38,500 |

See accompanying notes to unaudited condensed consolidated financial statements.

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Note 1 - Summary of Significant Accounting Policies

### Description of Business and Basis of Presentation

TriCo Bancshares (the “Company” or “we”) is a California corporation organized to act as a bank holding company for Tri Counties Bank (the “Bank”). The Company and the Bank are headquartered in Chico, California. The Bank is a California-chartered bank that is engaged in the general commercial banking business in 31 California counties. The consolidated financial statements are prepared in accordance with accounting policies generally accepted in the United States of America and general practices in the banking industry. All adjustments necessary for a fair presentation of these consolidated financial statements have been included and are of a normal and recurring nature. The financial statements include the accounts of the Company. All inter-company accounts and transactions have been eliminated in consolidation.

The Company has five capital subsidiary business trusts (collectively, the “Capital Trusts”) that issued trust preferred securities, including two organized by the Company and three acquired with the acquisition of North Valley Bancorp. For financial reporting purposes, the Company’s investments in the Capital Trusts of $1,754,000 are accounted for under the equity method and, accordingly, are not consolidated and are included in other assets on the consolidated balance sheet. See the footnote 'Junior Subordinated Debt' for additional information on borrowings outstanding.

### Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021 (the “2021 Annual Report”). The Company believes that the disclosures made herein are adequate to make the information not misleading.

### Segment and Significant Group Concentration of Credit Risk

The Company grants agribusiness, commercial, consumer, and residential loans to customers located throughout California. The Company has a diversified loan portfolio within the business segments located in this geographical area. The Company currently classifies all its operation into one business segment that it denotes as community banking.

### Geographical Descriptions

For the purpose of describing the geographical location of the Company’s operations, the Company has defined northern California as that area of California north of, and including, Stockton to the east and San Jose to the west; central California as that area of the state south of Stockton and San Jose, to and including, Bakersfield to the east and San Luis Obispo to the west; and southern California as that area of the state south of Bakersfield and San Luis Obispo.

### Reclassification

Some items in the prior year consolidated financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or shareholders’ equity.

### Cash and Cash Equivalents

Net cash flows are reported for loan and deposit transactions and other borrowings. For purposes of the consolidated statement of cash flows, cash, due from banks with original maturities less than 90 days, interest-earning deposits in other banks, and Federal funds sold are considered to be cash equivalents.

### Allowance for Credit Losses - Securities

The Company measures expected credit losses on HTM debt securities on a collective basis by major security type, then further disaggregated by sector and bond rating. Accrued interest receivable on HTM debt securities totaled was considered insignificant at September 30, 2022 and is therefore excluded from the estimate of credit losses. The estimate of expected credit losses considers historical credit loss information that is adjusted for current condition and reasonable and supportable forecasts based on current and expected changes in credit ratings and default rates. Based on the implied guarantees of the U. S. Government or its agencies related to certain of these investment securities, and the absence of any historical or expected losses, substantially all qualify for a zero loss assumption.  Management has separately evaluated its HTM investment securities from obligations of state and political subdivisions utilizing the historical loss data represented by similar securities over a period of time spanning nearly 50 years.  As a result of this evaluation, management determined that the expected credit losses associated with these securities is not significant for financial reporting purposes and therefore, no allowance for credit losses has been recognized.

The Company evaluates AFS debt securities in an unrealized loss position to determine whether the decline in the fair value below the amortized cost basis (impairment) is due to credit-related factors or noncredit-related factors. Any impairment that is not credit related is recognized in other comprehensive income, net of applicable taxes. Credit-related impairment is recognized as an allowance for credit losses on the balance sheet, limited to the amount by which the amortized cost basis exceeds the fair value, with a corresponding adjustment to earnings. Both the allowance for credit losses and the adjustment to net income may be reversed if conditions change. However, if the Company intends to sell an impaired available for sale debt security or more likely than not will be required to sell such a security before recovering its amortized cost basis, the entire impairment amount is recognized in earnings with a corresponding adjustment to the security's amortized cost basis.  In evaluating available for sale debt securities in unrealized loss positions for impairment and the criteria regarding its intent or requirement to sell such securities, the Company considers the extent to which fair value is less than amortized cost, whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuers' financial condition, among other factors.  Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit loss expense.  Losses are charged against the ACL when management believes the uncollectability of an available for sale debt security is confirmed or when either of the criteria regarding intent or requirement to sell is met. No security credit losses were recognized during the three and nine month periods ended September 30, 2022 and 2021, respectively.

**Loans**

Loans that management has the intent and ability to hold until maturity or payoff are reported at principle amount outstanding, net of deferred loan fees and costs.  Loans are placed in nonaccrual status when reasonable doubt exists as to the full, timely collection of interest or principal, or a loan becomes contractually past due by 90 days or more with respect to interest or principal and is not well secured and in the process of collection. When a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed against interest income. Income on such loans is then recognized only to the extent that cash is received and where the future collection of principal is considered 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 loan is estimated to be fully collectible as to both principal and interest.  Accrued interest receivable is not included in the calculation of the allowance for credit losses.

**Allowance for Credit Losses - Loans**

The ACL is a valuation account that is deducted from the loan's amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the recorded loan balance is confirmed as uncollectible. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.  Regardless of the determination that a charge-off is appropriate for financial accounting purposes, the Company manages its loan portfolio by continually monitoring, where possible, a borrower's ability to pay through the collection of financial information, delinquency status, borrower discussion and the encouragement to repay in accordance with the original contract or modified terms, if appropriate.

Management estimates the allowance balance using relevant information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts.  The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist.  Historical credit loss experience provides the basis for the estimation of expected credit losses, which captures loan balances as of a point in time to form a cohort, then tracks the respective losses generated by that cohort of loans over the remaining life.  The Company identified and accumulated loan cohort historical loss data beginning with the fourth quarter of 2008 and through the current period.  In situations where the Company's actual loss history was not statistically relevant, the loss history of peers, defined as financial institutions with assets greater than three billion and less than ten billion, were utilized to create a minimum loss rate.  Adjustments to historical loss information are made for differences in relevant current loan-specific risk characteristics, such as historical timing of losses relative to the loan origination.  In its loss forecasting framework, the Company incorporates forward-looking information through the use of macroeconomic scenarios applied over the forecasted life of the assets.  These macroeconomic scenarios incorporate variables that have historically been key drivers of increases and decreases in credit losses.  These variables include, but are not limited to changes in environmental conditions, such as California unemployment rates, household debt levels, changes in the effective yield of BBB US Corporate debt, and U.S. gross domestic product.

A loan is considered to be collateral dependent when repayment is expected to be provided substantially through the operation or sale of the collateral.  The ACL on collateral dependent loans is measured using the fair value of the underlying collateral, adjusted for costs to sell when applicable, less the amortized cost basis of the financial asset.  If the value of underlying collateral is determined to be less than the recorded amount of the loan, a charge-off will be taken.  Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, is considered to be a TDR. The ACL on a TDR is measured using the same method as all other portfolio loans, except when the value of a concession cannot be measured using a method other than the discounted cash flow method. When the value of a concession is measured using the discounted cash flow method, the ACL is determined by discounting the expected future cash flows at the original interest rate of the loan.

PCD assets are assets acquired at a discount that is due, in part, to credit quality deterioration since origination. PCD assets are accounted for in accordance with ASC 326-20 and are initially recorded at fair value, by taking the sum of the present value of expected future cash flows and an allowance for credit losses, at acquisition. The allowance for credit losses for PCD assets is recorded through a gross-up of reserves on the balance sheet, while the allowance for acquired non-PCD assets, such as loans, is recorded through the provision for credit losses on the income statement, consistent with originated loans. Subsequent to acquisition, the allowance for credit losses for PCD loans will generally follow the same forward-looking estimation, provision, and charge-off process as non-PCD acquired and originated loans.

The Company has identified the following portfolio segments to evaluate and measure the allowance for credit loss:

Commercial real estate:

Commercial real estate - Non-owner occupied: These commercial properties typically consist of buildings which are leased to others for their use and rely on rents as the primary source of repayment. Property types are predominantly office, retail, or light industrial but the portfolio also has some special use properties. As such, the risk of loss associated with these properties is primarily driven by general economic changes or changes in regional economies and the impact of such on a tenant’s ability to pay. Ultimately this can affect occupancy, rental rates, or both. Additional risk of loss can come from new construction resulting in oversupply, the costs to hold or operate the property, or changes in interest rates. The terms on these loans at origination typically have maturities from five to ten years with amortization periods from fifteen to thirty years.

Commercial real estate - Owner occupied: These credits are primarily susceptible to changes in the financial condition of the business operated by the property owner. This may be driven by changes in, among other things, industry challenges, factors unique to the operating geography of the borrower, change in the individual fortunes of the business owner, general economic conditions and changes in business cycles. When default is driven by issues related specifically to the business owner, collateral values tend to provide better repayment support and may result in little or no loss. Alternatively, when default is driven more by general economic conditions, the underlying collateral may have devalued more and thus result in larger losses in the event of default. The terms on these loans at origination typically have maturities from five to ten years with amortization periods from fifteen to thirty years.

Multifamily: These commercial properties are generally comprised of more than four rentable units, such as apartment buildings, with each unit intended to be occupied as the primary residence for one or more persons. Multifamily properties are also subject to changes in general or regional economic conditions, such as unemployment, ultimately resulting in increased vacancy rates or reduced rents or both. In addition, new construction can create an oversupply condition and market competition resulting in increased vacancy, reduced market rents, or both. Due to the nature of their use and the greater likelihood of tenant turnover, the management of these properties is more intensive and therefore is more critical to the preclusion of loss.

Farmland: While the Company has few loans that were originated for the purpose of the acquisition of these commercial properties, loans secured by farmland represent unique risks that are associated with the operation of an agricultural businesses. The valuation of farmland can vary greatly over time based on the property's access to resources including but not limited to water, crop prices, foreign exchange rates, government regulation or restrictions, and the nature of ongoing capital investment needed to maintain the quality of the property. Loans secured by farmland typically represent less risk to the Company than other agriculture loans as the real estate typically provides greater support in the event of default or need for longer term repayment.

Consumer loans:

SFR 1-4 1st DT Liens: The most significant drivers of potential loss within the Company's residential real estate portfolio relate general, regional, or individual changes in economic conditions and their effect on employment and borrowers cash flow. Risk in this portfolio is best measured by changes in borrower credit score and loan-to-value. Loss estimates are based on the general movement in credit score, economic outlook and its effects on employment and the value of homes and the Bank’s historical loss experience adjusted to reflect the economic outlook and the unemployment rate.

SFR HELOCs and Junior Liens: Similar to residential real estate term loans, HELOCs and junior liens performance is also primarily driven by borrower cash flows based on employment status. However, HELOCs carry additional risks associated with the fact that most of these loans are secured by a deed of trust in a position that is junior to the primary lien holder. Furthermore, the risk that as the borrower's financial strength deteriorates, the outstanding balance on these credit lines may increase as they may only be canceled by the Company if certain limited criteria are met. In addition to the allowance for credit losses maintained as a percent of the outstanding loan balance, the Company maintains additional reserves for the unfunded portion of the HELOC.

Other: The majority of consumer loans are secured by automobiles, with the remainder primarily unsecured revolving debt (credit cards). These loans are susceptible to three primary risks; non-payment due to income loss, over-extension of credit and, when the borrower is unable to pay, shortfall in collateral value, if any. Typically non-payment is due to loss of job and will follow general economic trends in the marketplace driven primarily by rises in the unemployment rate. Loss of collateral value can be due to market demand shifts, damage to collateral itself or a combination of those factors. Credit card loans are unsecured and while collection efforts are pursued in the event of default, there is typically limited opportunity for recovery. Loss estimates are based on the general movement in credit score, economic outlook and its effects on employment and the Bank’s historical loss experience adjusted to reflect the economic outlook and the unemployment rate.

Commercial and Industrial:

Repayment of these loans is primarily based on the cash flow of the borrower, and secondarily on the underlying collateral provided by the borrower. A borrower's cash flow may be unpredictable, and collateral securing these loans may fluctuate in value. Most often, collateral includes accounts receivable, inventory, or equipment. Collateral securing these loans may depreciate over time, may be difficult to appraise, may be illiquid and may fluctuate in value based on the success of the business. Actual and forecast changes in gross domestic product are believed to be corollary to losses associated with these credits.

Construction:

While secured by real estate, construction loans represent a greater level of risk than term real estate loans due to the nature of the additional risks associated with the not only the completion of construction within an estimated time period and budget, but also the need to either sell the building or reach a level of stabilized occupancy sufficient to generate the cash flows necessary to support debt service and operating costs. The Company seeks to mitigate the additional risks associated with construction lending by requiring borrowers to comply with lower loan to value ratios and additional covenants as well as strong tertiary support of guarantors. The loss forecasting model applies the historical rate of loss for similar loans over the expected life of the asset as adjusted for macroeconomic factors.

Agriculture Production:

Repayment of agricultural loans is dependent upon successful operation of the agricultural business, which is greatly impacted by factors outside the control of the borrower. These factors include adverse weather conditions, including access to water, that may impact crop yields, loss of livestock due to disease or other factors, declines in market prices for agriculture products, changes in foreign exchange, and the impact of government regulations. In addition, many farms are dependent on a limited number of key individuals whose injury or death may significantly affect the successful operation of the business. Consequently, agricultural production loans may involve a greater degree of risk than other types of loans.

Leases:

The loss forecasting model applies the historical rate of loss for similar loans over the expected life of the asset. Leases typically represent an elevated level of credit risk as compared to loans secured by real estate as the collateral for leases is often subject to a more rapid rate of depreciation or depletion. The ultimate severity of loss is impacted by the type of collateral securing the exposure, the size of the exposure, the borrower's industry sector, any guarantors and the geographic market. Assumptions of expected loss are conditioned to the economic outlook and the other variables discussed above.

Unfunded commitments:

The estimated credit losses associated with these unfunded lending commitments is calculated using the same models and methodologies noted above and incorporate utilization assumptions at time of default. The reserve for unfunded commitments is maintained on the consolidated balance sheet in other liabilities.

**Accounting Standards Pending Adoption**

FASB issued ASU 2022-03, *Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions.* This ASU clarifies the guidance when measuring the fair value of an equity security subject to contractual restrictions that prohibit the sale of an equity security, and to introduce new disclosure requirements there within. Amendments in this ASU are effective for the Company beginning after December 31, 2023, with early adoption permitted. Management is evaluating the extent to which this standard will impact the consolidated financial statements.

FASB issued ASU 2022-02, *Financial Instruments — Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. This ASU addresses feedback received from adopters of CECL, specifically regarding accounting guidance for TDRs and disclosures of gross write-offs by year of loan origination. Accounting guidance for TDRs by creditors will be eliminated under this amendment, while also enhancing disclosure requirements for certain loan refinancing and restructurings by creditors when a borrower is experiencing financial difficulty. Amendments in this ASU are effective for the Company beginning after December 31, 2022, with early adoption permitted. Management is evaluating the extent to which this will impact the consolidated financial statements.

FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting.* This ASU provides temporary optional guidance to ease the potential burden in accounting for reference rate reform by providing optional expedients and exceptions for applying generally accepted accounting principles (GAAP) to contracts, hedging relationships, and other transactions affected if certain criteria are met. The amendments in this Update apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The election to apply the optional relief for existing fair value and cash flow hedge accounting relationships may be made on a hedge-by-hedge basis and across multiple reporting periods. Amendments in this ASU are effective for the Company through December 31, 2022. As the Company has an insignificant number of instruments that are applicable to this ASU, management has determined that no impact to the valuations of these instruments are applicable for financial reporting purposes.

**Note 2 - Business Combinations**

On March 25, 2022, the Company completed its acquisition of Valley Republic Bancorp (VRB), including the merger of Valley Republic Bank into Tri Counties Bank, with Tri Counties Bank as the surviving entity, in accordance with the terms of the merger agreement dated as of July 27, 2021. The cash and stock transaction was valued at approximately $174.0 million in aggregate, based on TriCo's closing stock price of $42.48 on March 25, 2022. Under the terms of the merger agreement, the Company issued approximately 4.1 million shares, in addition to approximately $431,000 in cash paid out for settlement of stock option awards at VRB.

VRB was headquartered in Bakersfield, California, and had four branch locations at acquisition in and around Bakersfield, which all now operate as branches for Tri Counties Bank, and a loan production office in Fresno, California. The Company's overlapping Bakersfield branch was consolidated into the acquired VRB branch during the quarter ended June 30, 2022, and the Company anticipates the VRB loan production office in Fresno will be consolidated with the nearby legacy loan production office during the third quarter of 2022.

The acquisition of VRB has been accounted for as a business combination. We recorded the fair values based on the valuations available as of reporting date. In accordance with business combination accounting guidance, we will continue to evaluate these fair values for up to one year following the merger date of March 25, 2022. While management believes the information available and presented below provide a reasonable basis for estimating fair value, we may obtain additional information and evidence during the measurement period that could result in changes to the estimated fair value amounts. Valuations subject to change include, but are not limited to, loans and leases, deposits, deferred tax items, and certain other assets and liabilities.

The following table summarizes the consideration paid for VRB and the amounts of assets acquired and liabilities assumed that were recorded at the acquisition date (in thousands):

| | Valley Republic Bancorp March 25, 2022 |
|---|---|
| Fair value of consideration transferred: | |
| Fair value of shares issued | $ 173,585 |
| Cash consideration | 431 |
| Total fair value of consideration transferred | 174,016 |
| Assets acquired: | |
| Cash and cash equivalents | 427,314 |
| Securities available for sale | 109,716 |
| Loans and leases | 771,353 |
| Premises and equipment | 4,658 |
| Cash value of life insurance | 13,609 |
| Core deposit intangible | 10,635 |
| Other assets | 26,244 |
| Total assets acquired | 1,363,529 |
| Liabilities assumed: | |
| Deposits | (1,215,479) |
| Subordinated debt | (47,236) |
| SERP liability | (3,352) |
| Other liabilities | (10,516) |
| Total liabilities assumed | (1,276,583) |
| Total net assets acquired | 86,946 |
| Goodwill recognized | $ 87,070 |

**Note 3 - Investment Securities**

The amortized cost, estimated fair values and allowance for credit losses of investments in debt securities are summarized in the following tables:

| | September 30, 2022 | | | |
|---|---|---|---|---|
| (in thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Debt Securities Available for Sale | | | | |
| Obligations of U.S. government agencies | $ 1,603,933 | $ 1 | $ (214,019) | $ 1,389,915 |
| Obligations of states and political subdivisions | 332,809 | 8 | (49,694) | 283,123 |
| Corporate bonds | 6,161 | — | (303) | 5,858 |
| Asset backed securities | 467,033 | 102 | (13,334) | 453,801 |
| Non-agency collateralized mortgage obligations | 388,380 | — | (40,812) | $ 347,568 |
| Total debt securities available for sale | $ 2,798,316 | $ 111 | $ (318,162) | $ 2,480,265 |

| Debt Securities Held to Maturity | | | | |
|---|---|---|---|---|
| Obligations of U.S. government agencies | $ 161,581 | $ 3 | $ (14,435) | $ 147,149 |
| Obligations of states and political subdivisions | 6,457 | — | (142) | 6,315 |
| Total debt securities held to maturity | $ 168,038 | $ 3 | $ (14,577) | $ 153,464 |

| | December 31, 2021 | | | |
|---|---|---|---|---|
| (in thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Debt Securities Available for Sale | | | | |
| Obligations of U.S. government agencies | $ 1,260,226 | $ 8,193 | $ (11,030) | $ 1,257,389 |
| Obligations of states and political subdivisions | 187,197 | 5,832 | (785) | 192,244 |
| Corporate bonds | 6,722 | 34 | — | 6,756 |
| Asset backed securities | 408,329 | 2,354 | (1,131) | 409,552 |
| Non-agency collateralized mortgage obligations | 345,856 | — | (3,859) | 341,997 |
| Total debt securities available for sale | $ 2,208,330 | $ 16,413 | $ (16,805) | $ 2,207,938 |
| Debt Securities Held to Maturity | | | | |
| Obligations of U.S. government agencies | 192,068 | 8,131 | — | 200,199 |
| Obligations of states and political subdivisions | 7,691 | 250 | — | 7,941 |
| Total debt securities held to maturity | $ 199,759 | $ 8,381 | $ — | $ 208,140 |

There were no sales of investment securities during the three and nine months ended September 30, 2022 and 2021, respectively. Investment securities with an aggregate carrying value of $578,794,000 and $423,892,000 at September 30, 2022 and December 31, 2021, respectively, were pledged as collateral for specific borrowings, lines of credit or local agency deposits.

The amortized cost and estimated fair value of debt securities at September 30, 2022 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. At September 30, 2022, obligations of U.S. government corporations and agencies with a cost basis totaling $1,570,291,000 consist almost entirely of residential real estate mortgage-backed securities whose contractual maturity, or principal repayment, will follow the repayment of the underlying mortgages. For purposes of the following table, the entire outstanding balance of these mortgage-backed securities issued by U.S. government corporations and agencies is categorized based on final maturity date. At September 30, 2022, the Company estimates the average remaining life of these mortgage-backed securities issued by U.S. government corporations and agencies to be approximately 6.51 years. Average remaining life is defined as the time span after which the principal balance has been reduced by half.

As of September 30, 2022, the contractual final maturity for available for sale and held to maturity investment securities is as follows:

| Debt Securities | Available for Sale | | Held to Maturity | |
|---|---|---|---|---|
| (in thousands) | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Due in one year | $ 32,699 | $ 31,842 | $ — | $ — |
| Due after one year through five years | 148,616 | 142,018 | 1,569 | 1,548 |
| Due after five years through ten years | 420,159 | 397,387 | 15,377 | 14,569 |
| Due after ten years | 2,196,842 | 1,909,018 | 151,092 | 137,347 |
| Totals | $ 2,798,316 | $ 2,480,265 | $ 168,038 | $ 153,464 |

Table of Contents

Gross unrealized losses on debt securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows:

| September 30, 2022: | Less than 12 months | | 12 months or more | | Total | |
|---|---|---|---|---|---|---|
| (in thousands) | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| Debt Securities Available for Sale | | | | | | |
| Obligations of U.S. government agencies | $ 537,215 | $ (95,003) | $ 852,554 | $ (119,016) | $ 1,389,769 | $ (214,019) |
| Obligations of states and political subdivisions | 27,993 | (8,728) | 253,108 | (40,966) | 281,101 | (49,694) |
| Corporate bonds | — | — | 5,858 | (303) | 5,858 | (303) |
| Asset backed securities | 130,298 | (6,102) | 303,548 | (7,232) | 433,846 | (13,334) |
| Non-agency collateralized mortgage obligations | 122,255 | (23,629) | 209,647 | (17,183) | 331,902 | (40,812) |
| Total debt securities available for sale | $ 817,761 | $ (133,462) | $ 1,624,715 | $ (184,700) | $ 2,442,476 | $ (318,162) |
| | | | | | | |
| Debt Securities Held to Maturity | | | | | | |
| Obligations of U.S. government agencies | $ — | $ — | $ 146,904 | $ (14,435) | $ 146,904 | $ (14,435) |
| Obligations of states and political subdivisions | — | — | $ 5,257 | $ (142) | 5,257 | (142) |
| Total debt securities held to maturity | $ — | $ — | $ 152,161 | $ (14,577) | $ 152,161 | $ (14,577) |

| December 31, 2021: | Less than 12 months | | 12 months or more | | Total | |
|---|---|---|---|---|---|---|
| (in thousands) | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| Debt Securities Available for Sale | | | | | | |
| Obligations of U.S. government agencies | $ 947,108 | $ (9,737) | $ 44,086 | $ (1,293) | $ 991,194 | $ (11,030) |
| Obligations of states and political subdivisions | 56,154 | (785) | — | — | 56,154 | (785) |
| Asset backed securities | 62,792 | (259) | 109,748 | (872) | 172,540 | (1,131) |
| Non-agency collateralized mortgage obligations | 327,045 | (3,859) | — | — | 327,045 | (3,859) |
| Total debt securities available for sale | $ 1,393,099 | $ (14,640) | $ 153,834 | $ (2,165) | $ 1,546,933 | $ (16,805) |

Obligations of U.S. government agencies: The unrealized losses on investments in obligations of U.S. government agencies are caused by interest rate increases and illiquidity. The contractual cash flows of these securities are guaranteed by U.S. Government Sponsored Entities (principally Fannie Mae and Freddie Mac). It is expected that the securities would not be settled at a price less than the amortized cost of the investment. Because management believes the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell and more likely than not will not be required to sell, there is no impairment on these securities and there has been no allowance for credit losses recorded. At September 30, 2022, 170 debt securities representing obligations of U.S. government agencies had unrealized losses with aggregate depreciation of 13.35% from the Company’s amortized cost basis.

Obligations of states and political subdivisions: The unrealized losses on investments in obligations of states and political subdivisions were caused by increases in required yields by investors in these types of securities. It is expected that the securities would not be settled at a price less than the amortized cost of the investment. Because management believes the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell and more likely than not will not be required to sell, there is no impairment on these securities and there has been no allowance for credit losses recorded as of September 30, 2022. At September 30, 2022, 218 debt securities representing obligations of states and political subdivisions had unrealized losses with aggregate depreciation of 15.02% from the Company’s amortized cost basis.

Corporate bonds: The unrealized losses on investments in corporate bonds were caused by increases in required yields by investors in these types of securities. It is expected that the securities would not be settled at a price less than the amortized cost of the investment. Because management believes the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell and more likely than not will not be required to sell, there is no impairment on these securities and there has been no allowance for credit losses recorded as of September 30, 2022. At September 30, 2022, 6 debt securities representing corporate bonds had unrealized losses with aggregate depreciation of 4.92% from the Company’s amortized cost basis.

Asset backed securities: The unrealized losses on investments in asset backed securities were caused by increases in required yields by investors for these types of securities. At the time of purchase, each of these securities was rated AA or AAA and through September 30, 2022 has not experienced any deterioration in credit rating. At September 30, 2022, 46 asset backed securities had unrealized losses with aggregate depreciation of 2.98% from the Company's amortized cost basis. The Company continues to monitor these securities for changes in credit rating or other indications of credit deterioration. Because management believes the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell and more likely than not will not be required to sell, there is no impairment on these securities and there has been no allowance for credit losses recorded as of September 30, 2022.

Non-agency collateralized mortgage obligations: The unrealized losses on investments in non-agency collateralized mortgage obligations were caused by increases in required yields by investors in these types of securities. It is expected that the securities would not be settled at a price less than the amortized cost of the investment. Because management believes the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell and more likely than not will not be required to sell, there is no impairment on these securities and there has been no allowance for credit losses recorded as of September 30, 2022. At September 30, 2022, 22 debt securities representing corporate bonds had unrealized losses with aggregate depreciation of 10.95% from the Company's amortized cost basis.

The Company monitors credit quality of debt securities held-to-maturity through the use of credit rating. The Company monitors the credit rating on a monthly basis. The following table summarizes the amortized cost of debt securities held-to-maturity at the dates indicated, aggregated by credit quality indicator:

| | September 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| | AAA/AA/A | BBB/BB/B | AAA/AA/A | BBB/BB/B |
| | (In thousands) | | (In thousands) | |
| Debt Securities Held to Maturity | | | | |
| Obligations of U.S. government agencies | $ 161,581 | $ — | $ 192,068 | $ — |
| Obligations of states and political subdivisions | 6,457 | — | 7,691 | — |
| Total debt securities held to maturity | $ 168,038 | $ — | $ 199,759 | $ — |

**Note 4 – Loans**

A summary of loan balances follows:

| (in thousands) | September 30, 2022 | December 31, 2021 |
|---|---|---|
| Commercial real estate: | | |
| CRE non-owner occupied | $ 2,062,406 | $ 1,603,141 |
| CRE owner occupied | 969,588 | 706,307 |
| Multifamily | 927,557 | 823,500 |
| Farmland | 279,379 | 173,106 |
| Total commercial real estate loans | 4,238,930 | 3,306,054 |
| Consumer: | | |
| SFR 1-4 1st DT liens | 765,029 | 666,960 |
| SFR HELOCs and junior liens | 394,136 | 337,513 |
| Other | 58,132 | 67,078 |
| Total consumer loans | 1,217,297 | 1,071,551 |
| Commercial and industrial | 534,960 | 259,355 |
| Construction | 243,571 | 222,281 |
| Agriculture production | 71,599 | 50,811 |
| Leases | 7,933 | 6,572 |
| Total loans, net of deferred loan fees and discounts | $ 6,314,290 | $ 4,916,624 |
| Total principal balance of loans owed, net of charge-offs | $ 6,361,329 | $ 4,946,653 |
| Unamortized net deferred loan fees | (14,783) | (13,922) |
| Discounts to principal balance of loans owed, net of charge-offs | (32,256) | (16,107) |
| Total loans, net of unamortized deferred loan fees and discounts | $ 6,314,290 | $ 4,916,624 |
| Allowance for credit losses on loans | $ (101,488) | $ (85,376) |

In March 2020 (Round 1) and subsequently in December 2020 (Round 2), the Small Business Administration ("SBA") Paycheck Protection Program ("PPP") was created to help small businesses keep workers employed during the COVID-19 crisis. Tri Counties

Bank, through its online portal, facilitated the ability for borrowers to open a new deposit account and submit PPP applications during the entirety of the Programs. The SBA ended PPP and did not accept new borrowing applications, effective May 31, 2021. PPP loan balances included in commercial and industrial loan totals above were $1,942,000 and $61,147,000, net of approximately $27,000 and $2,164,000 in deferred fee income as of September 30, 2022 and December 31, 2021, respectively. During the three months ended September 30, 2022, the Company recognized $291,000 in fees on PPP loans as compared with $872,000 and $2,984,000 for the three months ended June 30, 2022 and September 30, 2021, respectively. Based on the payment guarantee provided by the SBA as well as the expected short-term duration of the PPP loans acquired from VRB, the fair value of these loans approximates the principal balance outstanding as of the merger date, and therefore, no purchase discount was recorded.

**Note 5 – Allowance for Credit Losses**

For the periods indicated, the following tables summarize the activity in the allowance for credit losses on loans which is recorded as a contra asset, and the reserve for unfunded commitments which is recorded on the balance sheet within other liabilities:

| | Allowance for credit losses – Three months ended September 30, 2022 | | | | |
|---|---|---|---|---|---|
| (in thousands) | Beginning Balance | Charge-offs | Recoveries | Provision (benefit) | Ending Balance |
| Commercial real estate: | | | | | |
| CRE non-owner occupied | $ 28,081 | $ — | $ 1 | $ 1,162 | $ 29,244 |
| CRE owner occupied | 12,620 | — | 1 | 904 | 13,525 |
| Multifamily | 11,795 | — | — | 954 | 12,749 |
| Farmland | 2,954 | — | — | 168 | 3,122 |
| Total commercial real estate loans | 55,450 | — | 2 | 3,188 | 58,640 |
| Consumer: | | | | | |
| SFR 1-4 1st DT liens | 10,311 | — | 38 | 322 | 10,671 |
| SFR HELOCs and junior liens | 11,591 | — | 98 | (306) | 11,383 |
| Other | 2,029 | (185) | 53 | (19) | 1,878 |
| Total consumer loans | 23,931 | (185) | 189 | (3) | 23,932 |
| Commercial and industrial | 9,979 | (82) | 119 | 384 | 10,400 |
| Construction | 7,522 | — | — | (1,390) | 6,132 |
| Agriculture production | 1,046 | — | 1 | 1,321 | 2,368 |
| Leases | 16 | — | — | — | 16 |
| Allowance for credit losses on loans | $ 97,944 | $ (267) | $ 311 | $ 3,500 | $ 101,488 |
| Reserve for unfunded commitments | 4,075 | — | — | 295 | 4,370 |
| Total | $ 102,019 | $ (267) | $ 311 | $ 3,795 | $ 105,858 |

| | Allowance for credit losses – Nine months ended September 30, 2022 | | | | | |
|---|---|---|---|---|---|---|
| (in thousands) | Beginning Balance | ACL on PCD Loans | Charge-offs | Recoveries | Provision (benefit) | Ending Balance |
| Commercial real estate: | | | | | | |
| CRE non-owner occupied | $ 25,739 | $ 746 | $ — | $ 1 | $ 2,758 | $ 29,244 |
| CRE owner occupied | 10,691 | 63 | — | 2 | 2,769 | 13,525 |
| Multifamily | 12,395 | — | — | — | 354 | 12,749 |
| Farmland | 2,315 | 764 | (294) | — | 337 | 3,122 |
| Total commercial real estate loans | 51,140 | 1,573 | (294) | 3 | 6,218 | 58,640 |
| Consumer: | | | | | | |
| SFR 1-4 1st DT liens | 10,723 | 144 | — | 79 | (275) | 10,671 |
| SFR HELOCs and junior liens | 10,510 | — | — | 426 | 447 | 11,383 |
| Other | 2,241 | — | (470) | 200 | (93) | 1,878 |
| Total consumer loans | 23,474 | 144 | (470) | 705 | 79 | 23,932 |
| Commercial and industrial | 3,862 | 81 | (647) | 1,130 | 5,974 | 10,400 |
| Construction | 5,667 | 201 | — | — | 264 | 6,132 |
| Agriculture production | 1,215 | 38 | — | 3 | 1,112 | 2,368 |
| Leases | 18 | — | — | — | (2) | 16 |
| Allowance for credit losses on loans | $ 85,376 | $ 2,037 | $ (1,411) | $ 1,841 | $ 13,645 | $ 101,488 |
| Reserve for unfunded commitments | 3,790 | — | — | — | 580 | 4,370 |
| Total | $ 89,166 | $ 2,037 | $ (1,411) | $ 1,841 | $ 14,225 | $ 105,858 |

The allowance for credit losses (ACL) was $101,488,000 as of September 30, 2022, a net increase of $3,544,000 over the immediately preceding quarter. The provision for credit losses of $3,500,000 during the quarter was the net effect of increases in required reserves due to loan portfolio growth and changes in individually analyzed credits, which increased the provision need by approximately $3,218,000 and $1,356,000, respectively, while net decreases in qualitative factors and improvement in overall portfolio credit quality reduced the provisioning need by approximately $1,030,000. In addition to the aforementioned quarterly increase, the provision for credit losses of $13,645,000 during the nine months ended September 30, 2022 was comprised of $10,820,000 in association with the loans acquired from Valley Republic Bank in the first quarter of 2022, and a net provision for credit losses of $2,825,000 associated with organic loan portfolio growth and the net changes in quantitative and qualitative factors associated with overall borrower performance. Net recoveries for the three and nine months ended September 30, 2022 were approximately $44,000 and $430,000, respectively while during the same three and nine month periods of 2021, the Company recorded $261,000 in net charge-offs and $339,000 in recoveries, respectively.

In determining the allowance for credit losses, accruing loans with similar risk characteristics are generally evaluated collectively. To estimate expected losses the Company generally utilizes historical loss trends and the remaining contractual lives of the loan portfolios to determine estimated credit losses through a reasonable and supportable forecast period. Individual loan credit quality indicators including loan grade and borrower repayment performance have been statistically correlated with historical credit losses and various econometrics, including California unemployment, gross domestic product, and corporate bond yields. Model forecasts may be adjusted for inherent limitations or biases that have been identified through independent validation and back-testing of model performance to actual realized results.

The Company utilizes a forecast period of approximately eight quarters and obtains the forecast data from publicly available sources as of the balance sheet date. This forecast data continues to evolve and included improving shifts in the magnitude of changes for both the unemployment and GDP factors leading up to the balance sheet date, particularly CA unemployment trends. Inflation remains elevated from continued disruptions in the supply chain and volatile energy prices Despite the expected continued benefit to the net interest income of the Company from the elevated rate environment, Management notes the rapid intervals of rate increases by the Federal Reserve and flattening or inversion of the yield curve, have boosted expectations of the US entering a recession within 12 months and has led to the lowest levels of consumer sentiment in decades. As a result, management continues to believe that certain credit weakness are likely present in the overall economy and that it is appropriate to cautiously maintain a reserve level that incorporates such risk factors.

Purchased loans and leases that reflect a more-than-insignificant deterioration of credit from origination are considered PCD. For PCD loans and leases, the initial estimate of expected credit losses is recognized in the ACL on the date of acquisition using the same methodology as other loans and leases held-for-investment. The following table provides a summary of loans and leases purchased as part of the VRB acquisition with credit deterioration at acquisition:

| | As of March 25, 2022 | | | | | |
|---|---|---|---|---|---|---|
| (in thousands) | Commercial Real Estate | Consumer | Commercial and Industrial | Construction | Agriculture Production | Total |
| Par value | $ 27,237 | $ 3,877 | $ 2,674 | $ 25,645 | $ 9,080 | $ 68,513 |
| ACL at acquisition | (1,573) | (144) | (81) | (201) | (38) | (2,037) |
| Non-credit discount | (2,305) | (360) | (47) | (232) | (12) | (2,956) |
| Purchase price | $ 23,359 | $ 3,373 | $ 2,546 | $ 25,212 | $ 9,030 | $ 63,520 |

For the periods indicated, the following tables summarize the activity in the allowance for credit losses on loans which is recorded as a contra asset, and the reserve for unfunded commitments which is recorded on the balance sheet within other liabilities:

| | Allowance for credit losses – Year ended December 31, 2021 | | | | |
|---|---|---|---|---|---|
| (in thousands) | Beginning Balance | Charge-offs | Recoveries | Provision (benefit) | Ending Balance |
| Commercial real estate: | | | | | |
| CRE non-owner occupied | $ 29,380 | $ — | $ 12 | $ (3,653) | $ 25,739 |
| CRE owner occupied | 10,861 | (18) | 794 | (946) | 10,691 |
| Multifamily | 11,472 | — | — | 923 | 12,395 |
| Farmland | 1,980 | (126) | — | 461 | 2,315 |
| Total commercial real estate loans | 53,693 | (144) | 806 | (3,215) | 51,140 |
| Consumer: | | | | | |
| SFR 1-4 1st DT liens | 10,117 | (145) | 13 | 738 | 10,723 |
| SFR HELOCs and junior liens | 11,771 | (29) | 1,127 | (2,359) | 10,510 |
| Other | 3,260 | (577) | 361 | (803) | 2,241 |
| Total consumer loans | 25,148 | (751) | 1,501 | (2,424) | 23,474 |
| Commercial and industrial | 4,252 | (1,470) | 755 | 325 | 3,862 |
| Construction | 7,540 | (27) | — | (1,846) | 5,667 |
| Agriculture production | 1,209 | — | 24 | (18) | 1,215 |
| Leases | 5 | — | — | 13 | 18 |
| Allowance for credit losses on loans | $ 91,847 | $ (2,392) | $ 3,086 | $ (7,165) | $ 85,376 |
| Reserve for unfunded commitments | 3,400 | — | — | 390 | 3,790 |
| Total | $ 95,247 | $ (2,392) | $ 3,086 | $ (6,775) | $ 89,166 |

| | Allowance for credit losses – Three months ended September 30, 2021 | | | | |
|---|---|---|---|---|---|
| (in thousands) | Beginning Balance | Charge-offs | Recoveries | Provision | Ending Balance |
| Commercial real estate: | | | | | |
| CRE non-owner occupied | $ 26,028 | $ — | $ 10 | $ (817) | $ 25,221 |
| CRE owner occupied | 10,463 | (18) | 793 | (508) | 10,730 |
| Multifamily | 13,196 | — | — | (320) | 12,876 |
| Farmland | 1,950 | (126) | — | 78 | 1,902 |
| Total commercial real estate loans | 51,637 | (144) | 803 | (1,567) | 50,729 |
| Consumer: | | | | | |
| SFR 1-4 1st DT liens | 10,629 | (145) | 1 | 133 | 10,618 |
| SFR HELOCs and junior liens | 10,701 | — | 63 | (333) | 10,431 |
| Other | 2,620 | (181) | 97 | (94) | 2,442 |
| Total consumer loans | 23,950 | (326) | 161 | (294) | 23,491 |
| Commercial and industrial | 4,511 | (1,112) | 355 | (327) | 3,427 |
| Construction | 4,951 | — | — | 577 | 5,528 |
| Agriculture production | 1,007 | — | 2 | 110 | 1,119 |
| Leases | 6 | — | — | 6 | 12 |
| Allowance for credit losses on loans | $ 86,062 | $ (1,582) | $ 1,321 | $ (1,495) | $ 84,306 |
| Reserve for unfunded commitments | 3,465 | — | — | 60 | 3,525 |
| Total | $ 89,527 | $ (1,582) | $ 1,321 | $ (1,435) | $ 87,831 |

| (in thousands) | Allowance for credit losses – Nine months ended September 30, 2021 Beginning Balance | Charge-offs | Recoveries | Provision | Ending Balance |
|---|---|---|---|---|---|
| Commercial real estate: | | | | | |
| CRE non-owner occupied | $ 29,380 | $ — | $ 12 | $ (4,171) | $ 25,221 |
| CRE owner occupied | 10,861 | (18) | 794 | (907) | 10,730 |
| Multifamily | 11,472 | — | — | 1,404 | 12,876 |
| Farmland | 1,980 | (126) | — | 48 | 1,902 |
| Total commercial real estate loans | 53,693 | (144) | 806 | (3,626) | 50,729 |
| Consumer: | | | | | |
| SFR 1-4 1st DT liens | 10,117 | (145) | 12 | 634 | 10,618 |
| SFR HELOCs and junior liens | 11,771 | — | 860 | (2,200) | 10,431 |
| Other | 3,260 | (460) | 262 | (620) | 2,442 |
| Total consumer loans | 25,148 | (605) | 1,134 | (2,186) | 23,491 |
| Commercial and industrial | 4,252 | (1,446) | 570 | 51 | 3,427 |
| Construction | 7,540 | — | — | (2,012) | 5,528 |
| Agriculture production | 1,209 | — | 24 | (114) | 1,119 |
| Leases | 5 | — | — | 7 | 12 |
| Allowance for credit losses on loans | 91,847 | (2,195) | 2,534 | (7,880) | 84,306 |
| Reserve for unfunded commitments | 3,400 | — | — | 125 | 3,525 |
| Total | $ 95,247 | $ (2,195) | $ 2,534 | $ (7,755) | $ 87,831 |

As part of the on-going monitoring of the credit quality of the Company's loan portfolio, management tracks certain credit quality indicators including, but not limited to, trends relating to (i) the level of criticized and classified loans, (ii) net charge-offs, (iii) non-performing loans, and (iv) delinquency within the portfolio. The Company analyzes loans individually to classify the loans as to credit risk and grading. This analysis is performed annually for all outstanding balances greater than $1,000,000 and non-homogeneous loans, such as commercial real estate loans, unless other indicators, such as delinquency, trigger more frequent evaluation. Loans below the $1,000,000 threshold and homogenous in nature are evaluated as needed for proper grading based on delinquency and borrower credit scores.

The Company utilizes a risk grading system to assign a risk grade to each of its loans. Loans are graded on a scale ranging from Pass to Loss. A description of the general characteristics of the risk grades is as follows:

- *Pass* – This grade represents loans ranging from acceptable to very little or no credit risk. These loans typically meet most if not all policy standards in regard to: loan amount as a percentage of collateral value, debt service coverage, profitability, leverage, and working capital.
- *Special Mention* – This grade represents “Other Assets Especially Mentioned” in accordance with regulatory guidelines and includes loans that display some potential weaknesses which, if left unaddressed, may result in deterioration of the repayment prospects for the asset or may inadequately protect the Company's position in the future. These loans warrant more than normal supervision and attention.
- *Substandard* – This grade represents “Substandard” loans in accordance with regulatory guidelines. Loans within this rating typically exhibit weaknesses that are well defined to the point that repayment is jeopardized. Loss potential is, however, not necessarily evident. The underlying collateral supporting the credit appears to have sufficient value to protect the Company from loss of principal and accrued interest, or the loan has been written down to the point where this is true. There is a definite need for a well-defined workout/rehabilitation program.
- *Doubtful* – This grade represents “Doubtful” loans in accordance with regulatory guidelines. An asset classified as Doubtful has all the weaknesses inherent in a loan classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral, and financing plans.
- *Loss* – This grade represents “Loss” loans in accordance with regulatory guidelines. A loan classified as Loss is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off the loan, even though some recovery may be affected in the future. The portion of the loan that is graded loss should be charged off no later than the end of the quarter in which the loss is identified.

Based on the most recent analysis performed, the risk category of loans by class of loans is as follows for the period indicated:

| (in thousands) | Term Loans Amortized Cost Basis by Origination Year – As of September 30, 2022 2022 | 2021 | 2020 | 2019 | 2018 | Prior | Revolving Loans Amortized Cost Basis | Revolving Loans Converted to Term | Total |
|---|---|---|---|---|---|---|---|---|---|
| Commercial real estate: | | | | | | | | | |
| CRE non-owner occupied risk ratings | | | | | | | | | |
| Pass | $ 314,435 | $ 309,032 | $ 151,529 | $ 225,181 | $ 152,544 | $ 761,494 | $ 108,941 | $ — | $ 2,023,156 |
| Special Mention | — | — | — | 8,650 | — | 22,079 | 1,345 | — | 32,074 |
| Substandard | — | 900 | 792 | — | 1,066 | 4,418 | — | — | 7,176 |
| Doubtful/Loss | — | — | — | — | — | — | — | — | — |
| Total CRE non-owner occupied risk ratings | $ 314,435 | $ 309,932 | $ 152,321 | $ 233,831 | $ 153,610 | $ 787,991 | $ 110,286 | $ — | $ 2,062,406 |
| Commercial real estate: | | | | | | | | | |
| CRE owner occupied risk ratings | | | | | | | | | |
| Pass | $ 187,346 | $ 193,426 | $ 132,676 | $ 69,125 | $ 50,770 | $ 267,391 | $ 34,869 | $ — | $ 935,603 |
| Special Mention | — | 16,904 | 236 | — | — | 7,217 | — | — | 24,357 |
| Substandard | 3,230 | 723 | — | 117 | 1,130 | 3,326 | 1,102 | — | 9,628 |
| Doubtful/Loss | — | — | — | — | — | — | — | — | — |
| Total CRE owner occupied risk ratings | $ 190,576 | $ 211,053 | $ 132,912 | $ 69,242 | $ 51,900 | $ 277,934 | $ 35,971 | $ — | $ 969,588 |
| Commercial real estate: | | | | | | | | | |
| Multifamily risk ratings | | | | | | | | | |
| Pass | $ 153,679 | $ 285,798 | $ 97,578 | $ 88,771 | $ 105,714 | $ 165,961 | $ 29,924 | $ — | $ 927,425 |
| Special Mention | — | — | — | — | — | — | — | — | — |
| Substandard | — | — | — | — | — | 132 | — | — | 132 |
| Doubtful/Loss | — | — | — | — | — | — | — | — | — |
| Total multifamily loans | $ 153,679 | $ 285,798 | $ 97,578 | $ 88,771 | $ 105,714 | $ 166,093 | $ 29,924 | $ — | $ 927,557 |
| Commercial real estate: | | | | | | | | | |
| Farmland risk ratings | | | | | | | | | |
| Pass | $ 43,021 | $ 53,913 | $ 16,940 | $ 23,810 | $ 13,611 | $ 39,521 | $ 49,444 | $ — | $ 240,260 |
| Special Mention | 2,284 | 777 | 239 | — | — | 1,433 | 21,431 | — | 26,164 |
| Substandard | — | — | 335 | 1,520 | 3,155 | 7,026 | 919 | — | 12,955 |
| Doubtful/Loss | — | — | — | — | — | — | — | — | — |
| Total farmland loans | $ 45,305 | $ 54,690 | $ 17,514 | $ 25,330 | $ 16,766 | $ 47,980 | $ 71,794 | $ — | $ 279,379 |
| Consumer loans: | | | | | | | | | |
| SFR 1-4 1st DT liens risk ratings | | | | | | | | | |
| Pass | $ 154,671 | $ 269,240 | $ 136,710 | $ 33,821 | $ 30,232 | $ 122,402 | $ 10 | $ 3,242 | $ 750,328 |
| Special Mention | — | — | — | 283 | 3,297 | 3,708 | — | 441 | 7,729 |
| Substandard | — | 1,209 | — | — | 1,025 | 4,123 | — | 615 | 6,972 |
| Doubtful/Loss | — | — | — | — | — | — | — | — | — |
| Total SFR 1st DT liens | $ 154,671 | $ 270,449 | $ 136,710 | $ 34,104 | $ 34,554 | $ 130,233 | $ 10 | $ 4,298 | $ 765,029 |

| (in thousands) | Term Loans Amortized Cost Basis by Origination Year – As of September 30, 2022 2022 | 2021 | 2020 | 2019 | 2018 | Prior | Revolving Loans Amortized Cost Basis | Revolving Loans Converted to Term | Total |
|---|---|---|---|---|---|---|---|---|---|
| Consumer loans: | | | | | | | | | |
| SFR HELOCs and Junior Liens | | | | | | | | | |
| Pass | $ 420 | $ — | $ — | $ — | $ — | $ 136 | $ 378,609 | $ 8,522 | $ 387,687 |
| Special Mention | — | — | — | — | — | — | 1,783 | 82 | 1,865 |
| Substandard | — | — | — | — | — | — | 3,814 | 770 | 4,584 |
| Doubtful/Loss | — | — | — | — | — | — | — | — | — |
| Total SFR HELOCs and Junior Liens | $ 420 | $ — | $ — | $ — | $ — | $ 136 | $ 384,206 | $ 9,374 | $ 394,136 |
| Consumer loans: | | | | | | | | | |
| Other risk ratings | | | | | | | | | |
| Pass | $ 11,538 | $ 13,996 | $ 11,175 | $ 11,977 | $ 5,657 | $ 2,118 | $ 873 | $ — | $ 57,334 |
| Special Mention | 2 | 4 | 104 | 143 | 184 | 113 | 43 | — | 593 |
| Substandard | — | — | 42 | 43 | 1 | 96 | 23 | — | 205 |
| Doubtful/Loss | — | — | — | — | — | — | — | — | — |
| Total other consumer loans | $ 11,540 | $ 14,000 | $ 11,321 | $ 12,163 | $ 5,842 | $ 2,327 | $ 939 | $ — | $ 58,132 |
| Commercial and industrial loans: | | | | | | | | | |
| Commercial and industrial risk ratings | | | | | | | | | |
| Pass | $ 115,676 | $ 68,377 | $ 25,530 | $ 25,839 | $ 9,157 | $ 7,005 | $ 260,876 | $ 761 | $ 513,221 |
| Special Mention | 3,354 | 150 | 22 | 1,590 | 169 | 29 | 14,374 | — | 19,688 |
| Substandard | — | 24 | — | — | 35 | 710 | 1,180 | 102 | 2,051 |
| Doubtful/Loss | — | — | — | — | — | — | — | — | — |
| Total commercial and industrial loans | $ 119,030 | $ 68,551 | $ 25,552 | $ 27,429 | $ 9,361 | $ 7,744 | $ 276,430 | $ 863 | $ 534,960 |
| Construction loans: | | | | | | | | | |
| Construction risk ratings | | | | | | | | | |
| Pass | $ 43,353 | $ 85,108 | $ 52,726 | $ 42,886 | $ 2,642 | $ 5,186 | $ — | $ — | $ 231,901 |
| Special Mention | — | — | — | 11,455 | — | — | — | — | 11,455 |
| Substandard | — | — | — | 84 | — | 131 | — | — | 215 |
| Doubtful/Loss | — | — | — | — | — | — | — | — | — |
| Total construction loans | $ 43,353 | $ 85,108 | $ 52,726 | $ 54,425 | $ 2,642 | $ 5,317 | $ — | $ — | $ 243,571 |
| Agriculture production loans: | | | | | | | | | |
| Agriculture production risk ratings | | | | | | | | | |
| Pass | $ 1,837 | $ 2,635 | $ 1,288 | $ 1,204 | $ 8,947 | $ 1,181 | $ 41,865 | $ — | $ 58,957 |
| Special Mention | — | — | — | — | 104 | 33 | 2,211 | — | 2,348 |
| Substandard | — | — | 1,804 | — | — | — | 8,490 | — | 10,294 |
| Doubtful/Loss | — | — | — | — | — | — | — | — | — |
| Total agriculture production loans | $ 1,837 | $ 2,635 | $ 3,092 | $ 1,204 | $ 9,051 | $ 1,214 | $ 52,566 | $ — | $ 71,599 |

| (in thousands) | Term Loans Amortized Cost Basis by Origination Year – As of September 30, 2022 2022 | 2021 | 2020 | 2019 | 2018 | Prior | Revolving Loans Amortized Cost Basis | Revolving Loans Converted to Term | Total |
|---|---|---|---|---|---|---|---|---|---|
| Leases: | | | | | | | | | |
| Lease risk ratings | | | | | | | | | |
| Pass | $ 7,933 | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $7,933 |
| Special Mention | — | — | — | — | — | — | — | — | — |
| Substandard | — | — | — | — | — | — | — | — | — |
| Doubtful/Loss | — | — | — | — | — | — | — | — | — |
| Total leases | $ 7,933 | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ 7,933 |
| Total loans outstanding: | | | | | | | | | |
| Risk ratings | | | | | | | | | |
| Pass | $ 1,033,909 | $ 1,281,525 | $ 626,152 | $ 522,614 | $ 379,274 | $ 1,372,395 | $ 905,411 | $ 12,525 | $ 6,133,805 |
| Special Mention | 5,640 | 17,835 | 601 | 22,121 | 3,754 | 34,612 | 41,187 | 523 | 126,273 |
| Substandard | 3,230 | 2,856 | 2,973 | 1,764 | 6,412 | 19,962 | 15,528 | 1,487 | 54,212 |
| Doubtful/Loss | — | — | — | — | — | — | — | — | — |
| Total loans outstanding | $ 1,042,779 | $ 1,302,216 | $ 629,726 | $ 546,499 | $ 389,440 | $ 1,426,969 | $ 962,126 | $ 14,535 | $ 6,314,290 |

| (in thousands) | Term Loans Amortized Cost Basis by Origination Year – As of December 31, 2021 | | | | | | Revolving Loans Amortized Cost Basis | Revolving Loans Converted to Term | Total |
|---|---|---|---|---|---|---|---|---|---|
| | 2021 | 2020 | 2019 | 2018 | 2016 | Prior | | | |
| Commercial real estate: | | | | | | | | | |
| CRE non-owner occupied risk ratings | | | | | | | | | |
| Pass | $ 275,305 | $ 127,299 | $ 199,764 | $ 133,046 | $ 224,581 | $ 543,430 | $ 49,899 | $ — | $ 1,553,324 |
| Special Mention | — | — | 8,386 | 399 | 4,390 | 20,612 | 1,732 | — | 35,519 |
| Substandard | — | — | — | 1,382 | 739 | 12,177 | — | — | 14,298 |
| Doubtful/Loss | — | — | — | — | — | — | — | — | — |
| Total CRE non-owner occupied risk ratings | $ 275,305 | $ 127,299 | $ 208,150 | $ 134,827 | $ 229,710 | $ 576,219 | $ 51,631 | $ — | $ 1,603,141 |
| Commercial real estate: | | | | | | | | | |
| CRE owner occupied risk ratings | | | | | | | | | |
| Pass | $ 178,092 | $ 104,571 | $ 63,979 | $ 48,721 | $ 55,399 | $ 203,431 | $ 22,745 | $ — | $ 676,938 |
| Special Mention | 15,515 | — | — | 289 | 2,964 | 3,833 | — | — | 22,601 |
| Substandard | — | — | 858 | 1,214 | 455 | 4,241 | — | — | 6,768 |
| Doubtful/Loss | — | — | — | — | — | — | — | — | — |
| Total CRE owner occupied risk ratings | $ 193,607 | $ 104,571 | $ 64,837 | $ 50,224 | $ 58,818 | $ 211,505 | $ 22,745 | $ — | $ 706,307 |
| Commercial real estate: | | | | | | | | | |
| Multifamily risk ratings | | | | | | | | | |
| Pass | $ 278,942 | $ 100,752 | $ 71,822 | $ 109,374 | $ 85,932 | $ 146,984 | $ 25,236 | $ — | $ 819,042 |
| Special Mention | — | — | — | — | — | — | — | — | — |
| Substandard | — | — | 4,305 | — | — | 153 | — | — | 4,458 |
| Doubtful/Loss | — | — | — | — | — | — | — | — | — |
| Total multifamily loans | $ 278,942 | $ 100,752 | $ 76,127 | $ 109,374 | $ 85,932 | $ 147,137 | $ 25,236 | $ — | $ 823,500 |
| Commercial real estate: | | | | | | | | | |
| Farmland risk ratings | | | | | | | | | |
| Pass | $ 43,601 | $ 17,399 | $ 20,223 | $ 15,119 | $ 9,129 | $ 18,455 | $ 37,612 | $ — | $ 161,538 |
| Special Mention | — | — | — | — | 1,197 | 2,519 | 1,491 | — | 5,207 |
| Substandard | — | — | 2,895 | — | 578 | 1,371 | 1,517 | — | 6,361 |
| Doubtful/Loss | — | — | — | — | — | — | — | — | — |
| Total farmland loans | $ 43,601 | $ 17,399 | $ 23,118 | $ 15,119 | $ 10,904 | $ 22,345 | $ 40,620 | $ — | $ 173,106 |
| Consumer loans: | | | | | | | | | |
| SFR 1-4 1st DT liens risk ratings | | | | | | | | | |
| Pass | $ 268,743 | $ 159,860 | $ 40,661 | $ 30,880 | $ 36,197 | $ 113,519 | $ — | $ 3,527 | $ 653,387 |
| Special Mention | — | — | 286 | 3,282 | 416 | 1,476 | — | 383 | 5,843 |
| Substandard | 1,103 | — | — | 1,089 | 256 | 4,758 | — | 524 | 7,730 |
| Doubtful/Loss | — | — | — | — | — | — | — | — | — |
| Total SFR 1st DT liens | $ 269,846 | $ 159,860 | $ 40,947 | $ 35,251 | $ 36,869 | $ 119,753 | $ — | $ 4,434 | $ 666,960 |

Table of Contents

| (in thousands) | 2021 | 2020 | 2019 | 2018 | 2017 | Prior | Revolving Loans Amortized Cost Basis | Revolving Loans Converted to Term | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Term Loans Amortized Cost Basis by Origination Year – As of December 31, 2021 | | | | | | | | |
| Consumer loans: | | | | | | | | | |
| SFR HELOCs and Junior Liens | | | | | | | | | |
| Pass | $ 494 | $ — | $ — | $ — | $ — | $ 185 | $ 317,381 | $ 9,675 | $ 327,735 |
| Special Mention | — | — | — | — | — | 53 | 3,655 | 832 | 4,540 |
| Substandard | — | — | — | — | — | 2 | 4,164 | 1,072 | 5,238 |
| Doubtful/Loss | — | — | — | — | — | — | — | — | — |
| Total SFR HELOCs and Junior Liens | $ 494 | $ — | $ — | $ — | $ — | $ 240 | $ 325,200 | $ 11,579 | $ 337,513 |
| Consumer loans: | | | | | | | | | |
| Other risk ratings | | | | | | | | | |
| Pass | $ 20,920 | $ 15,939 | $ 17,316 | $ 8,016 | $ 2,137 | $ 1,079 | $ 612 | $ — | $ 66,019 |
| Special Mention | — | 46 | 157 | 233 | 98 | 51 | 69 | — | 654 |
| Substandard | — | 53 | 96 | 94 | 67 | 85 | 10 | — | 405 |
| Doubtful/Loss | — | — | — | — | — | — | — | — | — |
| Total other consumer loans | $ 20,920 | $ 16,038 | $ 17,569 | $ 8,343 | $ 2,302 | $ 1,215 | $ 691 | $ — | $ 67,078 |
| Commercial and industrial loans: | | | | | | | | | |
| Commercial and industrial risk ratings | | | | | | | | | |
| Pass | $ 92,972 | $ 17,933 | $ 27,335 | $ 11,335 | $ 6,355 | $ 6,774 | $ 89,358 | $ 860 | $ 252,922 |
| Special Mention | — | 2,417 | 69 | 152 | 71 | 80 | 116 | — | 2,905 |
| Substandard | — | — | 146 | 152 | 804 | 414 | 1,832 | 180 | 3,528 |
| Doubtful/Loss | — | — | — | — | — | — | — | — | — |
| Total commercial and industrial loans | $ 92,972 | $ 20,350 | $ 27,550 | $ 11,639 | $ 7,230 | $ 7,268 | $ 91,306 | $ 1,040 | $ 259,355 |
| Construction loans: | | | | | | | | | |
| Construction risk ratings | | | | | | | | | |
| Pass | $ 66,318 | $ 79,567 | $ 58,383 | $ 4,849 | $ 1,716 | $ 8,148 | $ — | $ — | $ 218,981 |
| Special Mention | — | — | — | — | — | — | — | — | — |
| Substandard | 2,675 | 472 | — | — | — | 153 | — | — | 3,300 |
| Doubtful/Loss | — | — | — | — | — | — | — | — | — |
| Total construction loans | $ 68,993 | $ 80,039 | $ 58,383 | $ 4,849 | $ 1,716 | $ 8,301 | $ — | $ — | $ 222,281 |
| Agriculture production loans: | | | | | | | | | |
| Agriculture production risk ratings | | | | | | | | | |
| Pass | $ 2,068 | $ 878 | $ 1,393 | $ 801 | $ 940 | $ 853 | $ 43,686 | $ — | $ 50,619 |
| Special Mention | — | — | — | 150 | — | 42 | — | — | 192 |
| Substandard | — | — | — | — | — | — | — | — | — |
| Doubtful/Loss | — | — | — | — | — | — | — | — | — |
| Total agriculture production loans | $ 2,068 | $ 878 | $ 1,393 | $ 951 | $ 940 | $ 895 | $ 43,686 | $ — | $ 50,811 |

| (in thousands) | Term Loans Amortized Cost Basis by Origination Year – As of December 31, 2021: 2021 | 2020 | 2019 | 2018 | 2017 | Prior | Revolving Loans Amortized Cost Basis | Revolving Loans Converted to Term | Total |
|---|---|---|---|---|---|---|---|---|---|
| Pass | $ 6,572 | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ 6,572 |
| Special Mention | — | — | — | — | — | — | — | — | — |
| Substandard | — | — | — | — | — | — | — | — | — |
| Doubtful/Loss | — | — | — | — | — | — | — | — | — |
| Total leases | $ 6,572 | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ 6,572 |
| Total loans outstanding: | | | | | | | | | |
| Risk ratings | | | | | | | | | |
| Pass | $ 1,234,027 | $ 624,198 | $ 500,876 | $ 362,141 | $ 422,386 | $ 1,042,858 | $ 586,529 | $ 14,062 | $ 4,787,077 |
| Special Mention | 15,515 | 2,463 | 8,898 | 4,505 | 9,136 | 28,666 | 7,063 | 1,215 | 77,461 |
| Substandard | 3,778 | 525 | 8,300 | 3,931 | 2,899 | 23,354 | 7,523 | 1,776 | 52,086 |
| Doubtful/Loss | — | — | — | — | — | — | — | — | — |
| Total loans outstanding | $ 1,253,320 | $ 627,186 | $ 518,074 | $ 370,577 | $ 434,421 | $ 1,094,878 | $ 601,115 | $ 17,053 | $ 4,916,624 |

The following table shows the ending balance of current and past due originated loans by loan category as of the date indicated:

| (in thousands) | Analysis of Past Due Loans - As of September 30, 2022 | | | | | |
|---|---|---|---|---|---|---|
| | 30-59 days | 60-89 days | > 90 days | Total Past Due Loans | Current | Total |
| Commercial real estate: | | | | | | |
| CRE non-owner occupied | $ 113 | $ 166 | $ 224 | $ 503 | $ 2,061,903 | $ 2,062,406 |
| CRE owner occupied | 689 | — | 75 | 764 | 968,824 | 969,588 |
| Multifamily | — | — | — | — | 927,557 | 927,557 |
| Farmland | 336 | 438 | — | 774 | 278,605 | 279,379 |
| Total commercial real estate loans | 1,138 | 604 | 299 | 2,041 | 4,236,889 | 4,238,930 |
| Consumer: | | | | | | |
| SFR 1-4 1st DT liens | 15 | 114 | 616 | 745 | 764,284 | 765,029 |
| SFR HELOCs and junior liens | 1,257 | 53 | 964 | 2,274 | 391,862 | 394,136 |
| Other | 63 | 44 | 42 | 149 | 57,983 | 58,132 |
| Total consumer loans | 1,335 | 211 | 1,622 | 3,168 | 1,214,129 | 1,217,297 |
| Commercial and industrial | 669 | 280 | 140 | 1,089 | 533,871 | 534,960 |
| Construction | — | — | 85 | 85 | 243,486 | 243,571 |
| Agriculture production | — | — | 88 | 88 | 71,511 | 71,599 |
| Leases | — | — | — | — | 7,933 | 7,933 |
| Total | $ 3,142 | $ 1,095 | $ 2,234 | $ 6,471 | $ 6,307,819 | $ 6,314,290 |

| (in thousands) | Analysis of Past Due Loans - As of December 31, 2021 | | | | | |
|---|---|---|---|---|---|---|
| | 30-59 days | 60-89 days | > 90 days | Total Past Due Loans | Current | Total |
| Commercial real estate: | | | | | | |
| CRE non-owner occupied | $ 226 | $ 37 | $ — | $ 263 | $ 1,602,878 | $ 1,603,141 |
| CRE owner occupied | 271 | 127 | 273 | 671 | 705,636 | 706,307 |
| Multifamily | — | — | — | — | 823,500 | 823,500 |
| Farmland | — | — | 575 | 575 | 172,531 | 173,106 |
| Total commercial real estate loans | 497 | 164 | 848 | 1,509 | 3,304,545 | 3,306,054 |
| Consumer: | | | | | | |
| SFR 1-4 1st DT liens | — | 13 | 362 | 375 | 666,585 | 666,960 |
| SFR HELOCs and junior liens | 36 | 361 | 1,212 | 1,609 | 335,904 | 337,513 |
| Other | 109 | 7 | 28 | 144 | 66,934 | 67,078 |
| Total consumer loans | 145 | 381 | 1,602 | 2,128 | 1,069,423 | 1,071,551 |
| Commercial and industrial | 146 | 245 | 166 | 557 | 258,798 | 259,355 |
| Construction | — | 90 | — | 90 | 222,191 | 222,281 |
| Agriculture production | 48 | — | — | 48 | 50,763 | 50,811 |
| Leases | — | — | — | — | 6,572 | 6,572 |
| Total | $ 836 | $ 880 | $ 2,616 | $ 4,332 | $ 4,912,292 | $ 4,916,624 |

The following table shows the ending balance of non accrual loans by loan category as of the date indicated:

| | Non Accrual Loans | | | | | |
|---|---|---|---|---|---|---|
| | As of September 30, 2022 | | | As of December 31, 2021 | | |
| (in thousands) | Non accrual with no allowance for credit losses | Total non accrual | Past due 90 days or more and still accruing | Non accrual with no allowance for credit losses | Total non accrual | Past due 90 days or more and still accruing |
| Commercial real estate: | | | | | | |
| CRE non-owner occupied | $ 2,032 | $ 2,032 | $ — | $ 7,899 | $ 7,899 | $ — |
| CRE owner occupied | 1,703 | 1,778 | — | 4,763 | 5,036 | — |
| Multifamily | 132 | 132 | — | 4,457 | 4,457 | — |
| Farmland | 813 | 695 | — | 452 | 3,020 | — |
| Total commercial real estate loans | 4,680 | 4,637 | — | 17,571 | 20,412 | — |
| Consumer: | | | | | | |
| SFR 1-4 1st DT liens | 3,103 | 3,255 | — | 3,594 | 3,595 | — |
| SFR HELOCs and junior liens | 2,945 | 3,365 | — | 3,285 | 3,801 | — |
| Other | 6 | 61 | — | 48 | 71 | — |
| Total consumer loans | 6,054 | 6,681 | — | 6,927 | 7,467 | — |
| Commercial and industrial | 462 | 655 | 5 | 1,904 | 2,416 | — |
| Construction | 120 | 120 | — | 15 | 55 | — |
| Agriculture production | — | 5,373 | — | — | — | — |
| Leases | — | — | — | — | — | — |
| Sub-total | 11,316 | 17,466 | 5 | 26,417 | 30,350 | — |
| Less: Guaranteed loans | (110) | (147) | — | (713) | (775) | |
| Total, net | $ 11,206 | $ 17,319 | $ 5 | $ 25,704 | $ 29,575 | $ — |

Interest income on non accrual loans that would have been recognized during the three months ended September 30, 2022 and 2021, if all such loans had been current in accordance with their original terms, totaled $497,000 and $412,000, respectively. Interest income actually recognized on these originated loans during the three months ended September 30, 2022 and 2021 was $272,000 and $117,000, respectively.

Interest income on non accrual loans that would have been recognized during the nine months ended September 30, 2022 and 2021, if all such loans had been current in accordance with their original terms, totaled $901,000 and $1,472,000, respectively. Interest income actually recognized on these originated loans during the nine months ended September 30, 2022 and 2021 was $285,000 and $293,000, respectively.

The following tables present the amortized cost basis of collateral dependent loans by class of loans as of the following periods:

| | As of September 30, 2022 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (in thousands) | Retail | Office | Warehouse | Other | Multifamily | Farmland | SFR-1st Deed | SFR-2nd Deed | Automobile/ Truck | A/R and Inventory | Equipment | Total |
| Commercial real estate: | | | | | | | | | | | | |
| CRE non-owner occupied | $ 1,031 | $ 101 | $ — | $ 900 | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ 2,032 |
| CRE owner occupied | 573 | 75 | 1,131 | — | — | — | — | — | — | — | — | 1,779 |
| Multifamily | — | — | — | — | 132 | — | — | — | — | — | — | 132 |
| Farmland | — | — | — | — | — | 813 | — | — | — | — | — | 813 |
| Total commercial real estate loans | 1,604 | 176 | 1,131 | 900 | 132 | 813 | — | — | — | — | — | 4,756 |
| Consumer: | | | | | | | | | | | | |
| SFR 1-4 1st DT liens | — | — | — | — | — | — | 3,255 | — | — | — | — | 3,255 |
| SFR HELOCs and junior liens | — | — | — | — | — | — | 1,503 | 1,442 | — | — | — | 2,945 |
| Other | — | — | — | 5 | — | — | — | — | 43 | — | 2 | 50 |
| Total consumer loans | — | — | — | 5 | — | — | 4,758 | 1,442 | 43 | — | 2 | 6,250 |
| Commercial and industrial | — | — | — | — | — | — | — | — | — | 604 | 50 | 654 |
| Construction | — | — | — | — | — | — | 120 | — | — | — | — | 120 |
| Agriculture production | — | — | — | 88 | — | — | — | — | — | 1,804 | 3,481 | 5,373 |
| Leases | — | — | — | — | — | — | — | — | — | — | — | — |
| Total | $ 1,604 | $ 176 | $ 1,131 | $ 993 | $ 132 | $ 813 | $ 4,878 | $ 1,442 | $ 43 | $ 2,408 | $ 3,533 | $ 17,153 |

| | As of December 31, 2021 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (in thousands) | Retail | Office | Warehouse | Other | Multifamily | Farmland | SFR -1st Deed | SFR -2nd Deed | Automobile/ Truck | A/R and Inventory | Equipment | Total |
| Commercial real estate: | | | | | | | | | | | | |
| CRE non-owner occupied | $ 2,591 | $ 1,253 | $ 1,545 | $ 7,272 | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ 12,661 |
| CRE owner occupied | — | — | — | — | — | — | — | — | — | — | — | — |
| Multifamily | — | — | — | — | 4,458 | — | — | — | — | — | — | 4,458 |
| Farmland | — | — | — | — | — | 1,027 | — | — | — | — | — | 1,027 |
| Total commercial real estate loans | 2,591 | 1,253 | 1,545 | 7,272 | 4,458 | 1,027 | — | — | — | — | — | 18,146 |
| Consumer: | | | | | | | | | | | | |
| SFR 1-4 1st DT liens | — | — | — | — | — | — | 3,589 | — | — | — | — | 3,589 |
| SFR HELOCs and junior liens | — | — | — | — | — | — | 1,649 | 1,636 | — | — | — | 3,285 |
| Other | — | — | — | 43 | — | — | — | — | 5 | — | 5 | 53 |
| Total consumer loans | — | — | — | 43 | — | — | 5,238 | 1,636 | 5 | — | 5 | 6,927 |
| Commercial and industrial | — | — | — | — | — | — | — | — | — | 2,162 | 112 | 2,274 |
| Construction | — | — | — | — | — | — | 15 | — | — | — | — | 15 |
| Agriculture production | — | — | — | — | — | — | — | — | — | — | — | — |
| Leases | — | — | — | — | — | — | — | — | — | — | — | — |
| Total | $ 2,591 | $ 1,253 | $ 1,545 | $ 7,315 | $ 4,458 | $ 1,027 | $ 5,253 | $ 1,636 | $ 5 | $ 2,162 | $ 117 | $ 27,362 |

The following tables show certain information regarding TDRs that occurred during the periods indicated:

| | TDR information for the three months ended September 30, 2022 | | | | | | |
|---|---|---|---|---|---|---|---|
| (dollars in thousands) | Number | Pre-mod outstanding principal balance | Post-mod outstanding principal balance | Financial impact due to TDR taken as additional provision | Number that defaulted during the period | Recorded investment of TDRs that defaulted during the period | Financial impact due to the default of previous TDR taken as charge-offs or additional provisions |
| Commercial real estate: | | | | | | | |
| CRE non-owner occupied | — | $ — | $ — | $ — | — | $ — | $ — |
| CRE owner occupied | — | — | — | — | — | — | — |
| Multifamily | — | — | — | — | — | — | — |
| Farmland | — | — | — | — | — | — | — |
| Total commercial real estate loans | — | — | — | — | — | — | — |
| Consumer: | | | | | | | |
| SFR 1-4 1st DT liens | — | — | — | — | — | — | — |
| SFR HELOCs and junior liens | — | — | — | — | — | — | — |
| Other | — | — | — | — | — | — | — |
| Total consumer loans | — | — | — | — | — | — | — |
| Commercial and industrial | — | — | — | — | — | — | — |
| Construction | — | — | — | — | — | — | — |
| Agriculture production | 4 | 7,210 | 7,210 | — | — | — | — |
| Leases | — | — | — | — | — | — | — |
| Total | 4 | $ 7,210 | $ 7,210 | $ — | — | $ — | $ — |

| | TDR information for the three months ended September 30, 2021 | | | | | | |
|---|---|---|---|---|---|---|---|
| (dollars in thousands) | Number | Pre-mod outstanding principal balance | Post-mod outstanding principal balance | Financial impact due to TDR taken as additional provision | Number that defaulted during the period | Recorded investment of TDRs that defaulted during the period | Financial impact due to the default of previous TDR taken as charge-offs or additional provisions |
| Commercial real estate: | | | | | | | |
| CRE non-owner occupied | 3 | $ 3,943 | $ 3,938 | $ — | — | $ — | $ — |
| CRE owner occupied | — | — | — | — | — | — | — |
| Multifamily | — | — | — | — | — | — | — |
| Farmland | 1 | 50 | 50 | 50 | — | — | — |
| Total commercial real estate loans | 4 | 3,993 | 3,988 | 50 | — | — | — |
| Consumer: | | | | | | | |
| SFR 1-4 1st DT liens | — | — | — | — | — | — | — |
| SFR HELOCs and junior liens | — | — | — | — | — | — | — |
| Other | — | — | — | — | — | — | — |
| Total consumer loans | — | — | — | — | — | — | — |
| Commercial and industrial | 2 | 160 | 159 | 106 | — | — | — |
| Construction | — | — | — | — | — | — | — |
| Agriculture production | — | — | — | — | — | — | — |
| Leases | — | — | — | — | — | — | — |
| Total | 6 | $ 4,153 | $ 4,147 | $ 156 | — | $ — | $ — |

| (dollars in thousands) | Number | Pre-mod outstanding principal balance | Post-mod outstanding principal balance | Financial impact due to TDR taken as additional provision | Number that defaulted during the period | Recorded investment of TDRs that defaulted during the period | Financial impact due to the default of previous TDR taken as charge-offs or additional provisions |
|---|---|---|---|---|---|---|---|
| | TDR Information for the nine months ended September 30, 2022 | | | | | | |
| Commercial real estate: | | | | | | | |
| CRE non-owner occupied | — | $ — | $ — | $ — | — | $ — | $ — |
| CRE owner occupied | — | — | — | — | — | — | — |
| Multifamily | — | — | — | — | — | — | — |
| Farmland | 3 | 1,228 | 1,440 | — | — | — | — |
| Total commercial real estate loans | 3 | 1,228 | 1,440 | — | — | — | — |
| Consumer: | | | | | | | |
| SFR 1-4 1st DT liens | — | — | — | — | — | — | — |
| SFR HELOCs and junior liens | — | — | — | — | 2 | 146 | — |
| Other | — | — | — | — | — | — | — |
| Total consumer loans | — | — | — | — | 2 | 146 | — |
| Commercial and industrial | — | — | — | — | 1 | 22 | — |
| Construction | — | — | — | — | — | — | — |
| Agriculture production | 4 | 7,210 | 7,210 | — | — | — | — |
| Leases | — | — | — | — | — | — | — |
| Total | 7 | $ 8,438 | $ 8,650 | $ — | 3 | $ 168 | $ — |

| (dollars in thousands) | Number | Pre-mod outstanding principal balance | Post-mod outstanding principal balance | Financial impact due to TDR taken as additional provision | Number that defaulted during the period | Recorded investment of TDRs that defaulted during the period | Financial impact due to the default of previous TDR taken as charge-offs or additional provisions |
|---|---|---|---|---|---|---|---|
| | TDR Information for the nine months ended September 30, 2021 | | | | | | |
| Commercial real estate: | | | | | | | |
| CRE non-owner occupied | — | $ 4,966 | $ 4,956 | $ 1,020 | — | $ — | $ — |
| CRE owner occupied | — | 740 | 742 | 742 | — | — | — |
| Multifamily | — | — | — | — | — | — | — |
| Farmland | — | 50 | 50 | 50 | — | 847 | — |
| Total commercial real estate loans | — | 5,756 | 5,748 | 1,812 | — | 847 | — |
| Consumer: | | | | | | | |
| SFR 1-4 1st DT liens | — | — | — | — | — | — | — |
| SFR HELOCs and junior liens | — | — | — | — | — | — | — |
| Other | — | — | — | — | — | — | — |
| Total consumer loans | — | — | — | — | — | — | — |
| Commercial and industrial | — | 2,476 | 2,469 | 709 | — | 260 | (5) |
| Construction | — | — | — | — | — | — | — |
| Agriculture production | — | — | — | — | — | — | — |
| Leases | — | — | — | — | — | — | — |
| Total | — | $ 8,232 | $ 8,217 | $ 2,521 | — | $ 1,107 | $ (5) |

The Company also modified the terms of select loans in an effort to assist borrowers that were not related to the COVID-19 pandemic. If the borrower was experiencing financial difficulty and a concession was granted, the Company considered such modifications as troubled debt restructurings. Modifications classified as TDRs can include one or a combination of the following: rate modifications, term extensions, interest only modifications, either temporary or long-term, payment modifications, and collateral substitutions/additions. The objective of the modifications was to increase loan repayments by customers and thereby reduce net charge-offs. The modified loans are included in impaired loans for purposes of determining the level of the allowance for credit losses.

For all new TDRs, an impairment analysis is conducted. If the loan is determined to be collateral dependent, any additional amount of impairment will be calculated based on the difference between estimated collectible value and the current carrying balance of the loan. This difference could result in an increased provision and is typically charged off. If the asset is determined not to be collateral dependent, the impairment is measured on the net present value difference between the expected cash flows of the restructured loan and the cash flows which would have been received under the original terms. The effect of this could result in a requirement for additional provision to the reserve. The effect of these required provisions for the period are indicated above.

Typically if a TDR defaults during the period, the loan is then considered collateral dependent and, if it was not already considered collateral dependent, an appropriate provision will be reserved or charge will be taken. The additional provisions required resulting from default of previously modified TDR's are noted above. Loans that defaulted within the twelve month period subsequent to modification were not considered significant for financial reporting purposes.

**Note 6 - Leases**

The Company records a ROUA on the consolidated balance sheets for those leases that convey rights to control use of identified assets for a period of time in exchange for consideration. The Company also records a lease liability on the consolidated balance sheets for the present value of future payment commitments. All of the Company's leases are comprised of operating leases in which the Company is lessee of real estate property for branches, ATM locations, and general administration and operations. The Company has elected not to include short-term leases (i.e. leases with initial terms of 12 month or less) within the ROUA and lease liability. Known or determinable adjustments to the required minimum future lease payments were included in the calculation of the Company's ROUA and lease liability. Adjustments to the required minimum future lease payments that are variable and will not be determinable until a future period, such as changes in the consumer price index, are included as variable lease costs. Additionally, expected variable payments for common area maintenance, taxes and insurance were unknown and not determinable at lease commencement and therefore, were not included in the determination of the Company's ROUA or lease liability.

The value of the ROUA and lease liability is impacted by the amount of the periodic payment required, length of the lease term, and the discount rate used to calculate the present value of the minimum lease payments. The Company's lease agreements often include one or more options to renew at the Company's discretion. If at lease inception, the Company considers the exercising of a renewal option to be reasonably certain, the Company will include the extended term in the calculation of the ROU asset and lease liability. Topic 842 requires the use of the rate implicit in the lease whenever this rate is readily determinable. As this rate is rarely determinable, the Company utilizes its incremental borrowing rate at lease inception, on a collateralized basis, over a similar term. The lease liability is reduced based on the discounted present value of remaining payments as of each reporting period. The ROUA value is measured using the amount of lease liability and adjusted for prepaid or accrued lease payments, remaining lease incentives, unamortized direct costs (if any), and impairment (if any).

The following table presents the components of lease expense for the periods ended:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| (in thousands) | 2022 | 2021 | 2022 | 2021 |
| Operating lease cost | $ 1,415 | $ 1,328 | $ 4,203 | $ 3,854 |
| Short-term lease cost | 76 | 57 | 210 | 180 |
| Variable lease cost | 9 | 8 | 18 | 5 |
| Sublease income | — | — | — | (24) |
| Total lease cost | $ 1,500 | $ 1,393 | $ 4,431 | $ 4,015 |

The following table presents supplemental cash flow information related to leases for the periods ended:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| (in thousands) | 2022 | 2021 | 2022 | 2021 |
| Cash paid for amounts included in the measurement of lease liabilities: | | | | |
| Operating cash flows for operating leases | $ 1,536 | $ 1,261 | $ 4,351 | $ 3,690 |
| ROUA obtained in exchange for operating lease liabilities | $ — | $ 1,575 | $ 4,609 | $ 2,883 |

The following table presents the weighted average operating lease term and discount rate as of the period ended:

| | September 30, | |
|---|---|---|
| | 2022 | 2021 |
| Weighted-average remaining lease term (years) | 8.3 | 9.3 |
| Weighted-average discount rate | 2.91 % | 2.92 % |

At September 30, 2022, future expected operating lease payments are as follows:

| (in thousands) | | |
|---|---|---|
| Periods ending December 31, | | |
| 2022 | $ | 1,444 |
| 2023 | | 5,287 |
| 2024 | | 4,882 |
| 2025 | | 4,262 |
| 2026 | | 3,867 |
| Thereafter | | 12,997 |
| | | 32,739 |
| Discount for present value of expected cash flows | | (4,022) |
| Lease liability at September 30, 2022 | $ | 28,717 |

**Note 7 - Deposits**

A summary of the balances of deposits follows:

| (in thousands) | | September 30, 2022 | | December 31, 2021 |
|---|---|---|---|---|
| Noninterest-bearing demand | $ | 3,678,202 | $ | 2,979,882 |
| Interest-bearing demand | | 1,749,123 | | 1,568,682 |
| Savings | | 2,924,674 | | 2,520,959 |
| Time certificates, $250,000 or more | | 46,688 | | 44,652 |
| Other time certificates | | 257,082 | | 252,984 |
| Total deposits | $ | 8,655,769 | $ | 7,367,159 |

Certificate of deposit balances of zero and $1,000,000 from the State of California were included in time certificates, over $250,000, at September 30, 2022 and December 31, 2021, respectively. The Company participated in a deposit program offered by the State of California whereby the State made deposits at the Company’s request subject to collateral and credit worthiness constraints, generally more favorable than other wholesale funding sources available to the Company. Overdrawn deposit balances of $1,803,000 and $2,324,000 were classified as consumer loans at September 30, 2022 and December 31, 2021, respectively.

**Note 8 - Subordinated Debentures**

The following table summarizes the terms and recorded balances of each debenture as of the date indicated (dollars in thousands):

| | | | | | September 30, 2022 | | | | December 31, 2021 |
|---|---|---|---|---|---|---|---|---|---|
| Subordinated Debt Series | Maturity Date | | Face Value | Coupon Rate (Variable) 3 mo. LIBOR + | Current Coupon Rate | | Recorded Book Value | | Recorded Book Value |
| TriCo Cap Trust I | 10/7/2033 | $ | 20,619 | 3.05 % | 5.56 % | $ | 20,619 | $ | 20,619 |
| TriCo Cap Trust II | 7/23/2034 | | 20,619 | 2.55 % | 5.33 % | | 20,619 | | 20,619 |
| North Valley Trust II | 4/24/2033 | | 6,186 | 3.25 % | 6.03 % | | 5,479 | | 5,403 |
| North Valley Trust III | 7/23/2034 | | 5,155 | 2.80 % | 5.58 % | | 4,361 | | 4,291 |
| North Valley Trust IV | 3/15/2036 | | 10,310 | 1.33 % | 4.62 % | | 7,335 | | 7,147 |
| VRB Subordinated - 6% | 3/29/2029 | | 16,000 | Fixed | 6.00 % | | 17,234 | | — |
| VRB Subordinated - 5% | 8/27/2035 | | 20,000 | Fixed | 5.00 % | | 25,377 | | — |
| | | $ | 98,889 | | | $ | 101,024 | $ | 58,079 |

The VRB - 6% Subordinated Debt issuance has a fixed rate of 6.00% through March 29, 2024, then indexed to the three-month LIBOR plus 3.5% through the maturity date. The VRB - 5% Subordinated Debt issuance is fixed at 5.00% through August 27, 2025, then indexed to the three-month LIBOR plus 4.9% through the maturity date.

**Note 9 - Commitments and Contingencies**

The following table presents a summary of the Bank's commitments and contingent liabilities:

| (in thousands) | September 30, 2022 | December 31, 2021 |
|---|---|---|
| Financial instruments whose amounts represent risk: | | |
| Commitments to extend credit: | | |
| Commercial loans | $ 673,956 | $ 409,950 |
| Consumer loans | 746,498 | 628,791 |
| Real estate mortgage loans | 451,296 | 333,764 |
| Real estate construction loans | 325,485 | 213,563 |
| Standby letters of credit | 26,459 | 21,871 |
| Deposit account overdraft privilege | 125,205 | 125,670 |

**Note 10 - Shareholders' Equity**

**Dividends Paid**

The Bank paid to the Company cash dividends in the aggregate amounts of $16,860,000 and $7,058,000 during the three months ended September 30, 2022 and 2021, respectively, and $52,365,000 and $23,197,000, respectively, during the equivalent nine month periods then ended. The Bank is regulated by the FDIC and the DFPI. Absent approval from the Commissioner of the DFPI, California banking laws generally 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.

**Stock Repurchase Plan**

On February 25, 2021 the Board of Directors authorized the repurchase of up to 2,000,000 shares of the Company's common stock (the 2021 Repurchase Plan), which approximated 6.7% of the shares outstanding as of the approval date. The actual timing of any share repurchases will be determined by the Company's management and therefore the total value of the shares to be purchased under the 2021 Repurchase Plan is subject to change. The 2021 Repurchase Plan has no expiration date (in accordance with applicable laws and regulations) and during the three and nine month periods ending September 30, 2022, the Company repurchased 45,132 and 571,881 shares with a market value of $2,059,000 and $23,809,000, respectively. During the three and nine month periods ending September 30, 2021, the Company repurchased 17,963 and 63,317 shares with a market value of $730,000 and $2,831,000, respectively. As of September 30, 2022, approximately 1,364,000 shares remained available for repurchase under the 2021 Repurchase Plan.

In connection with approval of the 2021 Repurchase Plan, the Company's previous repurchase program adopted on November 12, 2019 (the 2019 Repurchase Plan) was terminated. Under the 2019 Repurchase Plan, the Company repurchased 223 shares during the nine months ended September 30, 2021.

**Stock Repurchased Under Equity Compensation Plans**

The Company's shareholder-approved equity compensation plans permit award recipients the option tender recently vested shares in lieu of cash for the payment of exercise price, if applicable, and the tax withholding on such shares. During the three months ended September 30, 2022 and 2021, equity award holders tendered 32,910 and zero shares, respectively, of the Company's common stock in connection with option exercises. During the nine months ended September 30, 2022 and 2021, equity award holders tendered 37,929 and zero shares, respectively, of the Company's common stock in connection with option exercises. Equity holders also tendered 13,833 and 9,683 shares in connection with the tax withholding requirements of other share based awards during the three months ended September 30, 2022 and 2021, respectively, and 27,840 and 19,413 during the nine months ended September 30, 2022 and 2021, respectively. In total, shares of the Company's common stock tendered had market values of $2,199,000 and $384,000 during the quarters ended September 30, 2022 and 2021, respectively, and $3,029,000 and $836,000 during the year to date periods ended September 30, 2022 and 2021, respectively. The tendered shares were retired. The market value of tendered shares is the last market trade price at closing on the day an option is exercised or the share based award vests. Stock repurchased under equity incentive plans are not included in the total of stock repurchased under the 2021 or 2019 Stock Repurchase Plans.

**Note 11 - Stock Options and Other Equity-Based Incentive Instruments**

On April 16, 2019, the Board of Directors adopted the 2019 Equity Incentive Plan (2019 Plan) which was approved by shareholders on May 21, 2019. The 2019 Plan allows for up to 1,500,000 shares to be issued in connection with equity-based incentives. The Company's 2009 Equity Incentive Plan (2009 Plan) expired on March 26, 2019. While no new awards can be granted under the 2009 Plan, existing grants continue to be governed by the terms, conditions and procedures set forth in any applicable award agreement.

Stock option activity during the nine months ended September 30, 2022 is summarized in the following table:

| | Number of Shares | Weighted Average Exercise Price |
|---|---|---|
| Outstanding at December 31, 2021 | 78,825 | $ 19.28 |
| Options granted | — | — |
| Options exercised | (59,325) | 18.74 |
| Options forfeited | — | — |
| Outstanding at September 30, 2022 | 19,500 | $ 20.90 |

The following table shows the number, weighted-average exercise price, intrinsic value, and weighted average remaining contractual life of options exercisable, options not yet exercisable and total options outstanding as of September 30, 2022:

| | Currently Exercisable | Currently Not Exercisable | Total Outstanding |
|---|---|---|---|
| Number of options | 19,500 | — | 19,500 |
| Weighted average exercise price | $ 20.90 | $ — | $ 20.90 |
| Intrinsic value (in thousands) | $ 463 | $ — | $ 463 |
| Weighted average remaining contractual term (yrs.) | 1.1 | n/a | 1.1 |

As of September 30, 2022 all options outstanding are fully vested and are expected to be exercised prior to expiration. The Company did not modify any option grants during 2021 or the nine months ended September 30, 2022.

Activity related to restricted stock unit awards during the nine months ended September 30, 2022 is summarized in the following table:

| | Service Condition Vesting RSUs | Market Plus Service Condition Vesting RSUs |
|---|---|---|
| Outstanding at December 31, 2021 | 103,517 | 99,763 |
| RSUs granted | 57,932 | 11,531 |
| RSUs added through dividend and performance credits | 2,078 | 4,751 |
| RSUs released | (48,234) | (26,338) |
| RSUs forfeited/expired | (1,421) | (1,572) |
| Outstanding at September 30, 2022 | 113,872 | 88,135 |

The 113,872 of service condition vesting RSUs outstanding as of September 30, 2022 include a feature whereby each RSU outstanding is credited with a dividend amount equal to any common stock cash dividend declared and paid, and the credited amount is divided by the closing price of the Company's stock on the dividend payable date to arrive at an additional amount of RSUs outstanding under the original grant. The dividend credits follow the same vesting requirements as the RSU awards and are not considered participating securities. The 113,872 of service condition vesting RSUs outstanding as of September 30, 2022 are expected to vest, and be released, on a weighted-average basis, over the next 1.9 years. The Company expects to recognize $3,348,000 of pre-tax compensation costs related to these service condition vesting RSUs between September 30, 2022 and their vesting dates. The Company did not modify any service condition vesting RSUs during 2021 or during the nine months ended September 30, 2022.

The 88,135 of market plus service condition vesting RSUs outstanding as of September 30, 2022 are expected to vest, and be released, on a weighted-average basis, over the next 1.8 years. The Company expects to recognize $1,309,000 of pre-tax compensation costs related to these RSUs between September 30, 2022 and their vesting dates. As of September 30, 2022, the number of market plus service condition vesting RSUs outstanding that will actually vest, and be released, may be reduced to zero or increased to 132,203 depending on the total return of the Company's common stock versus the total return of an index of bank stocks from the grant date to the vesting date. The Company did not modify any market plus service condition vesting RSUs during 2021 or during the nine months ended September 30, 2022.

**Note 12 - Non-interest Income and Expense**

The following table summarizes the Company's non-interest income for the periods indicated:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| (in thousands) | 2022 | 2021 | 2022 | 2021 |
| ATM and interchange fees | $ 6,714 | $ 6,516 | $ 19,941 | $ 18,935 |
| Service charges on deposit accounts | 4,436 | 3,608 | 12,433 | 10,339 |
| Other service fees | 1,022 | 897 | 3,183 | 2,682 |
| Mortgage banking service fees | 477 | 476 | 1,422 | 1,406 |
| Change in value of mortgage servicing rights | 33 | (232) | 443 | (691) |
| Total service charges and fees | 12,682 | 11,265 | 37,422 | 32,671 |
| Increase in cash value of life insurance | 659 | 644 | 2,049 | 2,062 |
| Asset management and commission income | 1,020 | 957 | 2,946 | 2,738 |
| Gain on sale of loans | 357 | 1,814 | 2,145 | 7,908 |
| Lease brokerage income | 252 | 183 | 648 | 542 |
| Sale of customer checks | 326 | 107 | 871 | 342 |
| Gain on sale of investment securities | — | — | — | — |
| Loss on marketable equity securities | (115) | (14) | (346) | (59) |
| Other | 459 | 139 | 1,431 | 958 |
| Total other non-interest income | 2,958 | 3,830 | 9,744 | 14,491 |
| Total non-interest income | $ 15,640 | $ 15,095 | $ 47,166 | $ 47,162 |

The components of non-interest expense were as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| (in thousands) | 2022 | 2021 | 2022 | 2021 |
| Base salaries, net of deferred loan origination costs | $ 22,377 | $ 17,673 | $ 62,762 | $ 50,721 |
| Incentive compensation | 4,832 | 3,123 | 11,697 | 11,025 |
| Benefits and other compensation costs | 6,319 | 5,478 | 18,782 | 16,939 |
| Total salaries and benefits expense | 33,528 | 26,274 | 93,241 | 78,685 |
| Occupancy | 3,965 | 3,771 | 11,536 | 11,197 |
| Data processing and software | 3,449 | 3,689 | 10,558 | 10,092 |
| Equipment | 1,422 | 1,336 | 4,208 | 4,060 |
| Intangible amortization | 1,702 | 1,409 | 4,632 | 4,271 |
| Advertising | 990 | 966 | 2,445 | 2,080 |
| ATM and POS network charges | 1,694 | 1,692 | 4,850 | 4,489 |
| Professional fees | 1,172 | 1,090 | 3,281 | 2,730 |
| Telecommunications | 575 | 574 | 1,660 | 1,719 |
| Regulatory assessments and insurance | 828 | 673 | 2,327 | 1,903 |
| Merger and acquisition expense | — | 651 | 6,253 | 651 |
| Postage | 287 | 156 | 828 | 478 |
| Operational losses | 492 | 244 | 765 | 665 |
| Courier service | 497 | 286 | 1,397 | 868 |
| Gain on sale or acquisition of foreclosed assets | (148) | (144) | (246) | (210) |
| Loss (gain) on disposal of fixed assets | 4 | (19) | (1,069) | (445) |
| Other miscellaneous expense | 4,008 | 3,159 | 10,510 | 8,363 |
| Total other non-interest expense | 20,937 | 19,533 | 63,935 | 52,911 |
| Total non-interest expense | $ 54,465 | $ 45,807 | $ 157,176 | $ 131,596 |

### Note 13 - Earnings Per Share

Basic earnings per share represent income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustments to income that would result from assumed issuance. Potential common shares that may be issued by the Company relate to outstanding stock options and restricted stock units (RSUs), and are determined using the treasury stock method. Earnings per share have been computed based on the following:

| | Three months ended September 30, | |
|---|---|---|
| (in thousands) | 2022 | 2021 |
| Net income | $ 37,338 | $ 27,422 |
| Average number of common shares outstanding | 33,348 | 29,714 |
| Effect of dilutive stock options and restricted stock | 115 | 137 |
| Average number of common shares outstanding used to calculate diluted earnings per share | 33,463 | 29,851 |
| Options excluded from diluted earnings per share because of their antidilutive effect | — | — |

| | Nine months ended September 30, | |
|---|---|---|
| (in thousands) | 2022 | 2021 |
| Net income | $ 89,076 | $ 89,433 |
| Average number of common shares outstanding | 32,332 | 29,720 |
| Effect of dilutive stock options and restricted stock | 137 | 167 |
| Average number of common shares outstanding used to calculate diluted earnings per share | 32,469 | 29,887 |
| Options excluded from diluted earnings per share because of their antidilutive effect | — | — |

### Note 14 – Comprehensive Income (Loss)

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet identified as accumulated other comprehensive income (AOCI), such items, along with net income, are components of other comprehensive income (loss) (OCI).

The components of other comprehensive income (loss) and related tax effects are as follows:

| | Three months ended September 30, | | Nine months ended September 30, 2022 | |
|---|---|---|---|---|
| (in thousands) | 2022 | 2021 | 2022 | 2021 |
| Unrealized holding losses on available for sale securities before reclassifications | $ (109,341) | $ (6,304) | $ (317,659) | $ (11,249) |
| Amounts reclassified out of AOCI: | | | | |
| Realized gains on debt securities | — | — | — | — |
| Unrealized holding losses on available for sale securities after reclassifications | (109,341) | (6,304) | (317,659) | (11,249) |
| Tax effect | 32,601 | 1,864 | 93,911 | 3,325 |
| Unrealized holding losses on available for sale securities, net of tax | (76,740) | (4,440) | (223,748) | (7,924) |
| Change in unfunded status of the supplemental retirement plans before reclassifications | 5 | (49) | 97 | (147) |
| Amounts reclassified out of AOCI: | | | | |
| Amortization of prior service cost | (7) | (14) | (21) | (43) |
| Amortization of actuarial losses | 2 | 63 | 6 | 190 |
| Total amounts reclassified out of accumulated other comprehensive (loss) income | (5) | 49 | (15) | 147 |
| Change in unfunded status of the supplemental retirement plans after reclassifications | — | — | 82 | — |
| Tax effect | | — | (24) | — |
| Change in unfunded status of the supplemental retirement plans, net of tax | — | — | 58 | — |
| Change in joint beneficiary agreement liability before reclassifications | — | — | — | (629) |
| Tax effect | — | — | — | — |
| Change in joint beneficiary agreement liability before reclassifications, net of tax | — | — | — | (629) |
| Total other comprehensive loss | $ (76,740) | $ (4,440) | $ (223,690) | $ (8,553) |

The components of accumulated other comprehensive (loss) income, included in shareholders' equity, are as follows:

| (in thousands) | September 30, 2022 | December 31, 2021 |
|---|---|---|
| Net unrealized loss on available for sale securities | $ (318,051) | $ (392) |
| Tax effect | 94,027 | 116 |
| Unrealized holding loss on available for sale securities, net of tax | (224,024) | (276) |
| Unfunded status of the supplemental retirement plans | 2,481 | 2,399 |
| Tax effect | (733) | (709) |
| Unfunded status of the supplemental retirement plans, net of tax | 1,748 | 1,690 |
| Joint beneficiary agreement liability | (433) | (433) |
| Tax effect | — | — |
| Joint beneficiary agreement liability, net of tax | (433) | (433) |
| Accumulated other comprehensive (loss) income | $ (222,709) | $ 981 |

**Note 15 - Fair Value Measurement**

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In estimating fair value, the Company utilizes valuation techniques that are consistent with the market approach, income approach, and/or the cost  approach. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability including assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset and the risk of nonperformance. Marketable equity securities, debt securities available-for-sale, loans held for sale, and mortgage servicing rights are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application impairment write-downs of individual assets.

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the observable nature of the assumptions used to determine fair value. These levels are:

Level 1 - Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 - Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 - Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

*Marketable equity securities and debt securities available for sale* - Marketable equity securities and debt securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. The Company had no securities classified as Level 3 during any of the periods covered in these financial statements.

*Loans held for sale* - Loans held for sale are carried at the lower of cost or fair value. The fair value of loans held for sale is based on what secondary markets are currently offering for loans with similar characteristics. As such, we classify those loans subjected to recurring fair value adjustments as Level 2.

*Individually evaluated loans* - Loans are not recorded at fair value on a recurring basis. However, from time to time, certain loans have individual risk characteristics not consistent with a pool of loans and is individually evaluated for credit reserves.  Loans for which it is probable that payment of interest and principal will not be made in accordance with the original contractual terms of the loan agreement are typically individually evaluated. The fair value of these loans are estimated using one of several methods, including collateral value, fair value of similar debt, enterprise value, liquidation value and discounted cash flows. Those loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. Loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value which uses substantially observable data, the Company records the loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value, or the appraised value contains a significant unobservable assumption, such as deviations from comparable sales, and there is no observable market price, the Company records the loan as nonrecurring Level 3.

*Foreclosed assets* - Foreclosed assets include assets acquired through, or in lieu of, loan foreclosure. Foreclosed assets are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, management periodically performs valuations and the assets are carried at the lower of carrying amount or fair value less cost to sell. When the fair value of foreclosed assets is based on an observable market price or a current appraised value which uses substantially observable data, the Company records the loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value, or the appraised value contains a significant unobservable assumption, such as deviations from comparable sales, and there is no observable market price, the Company records the foreclosed asset as nonrecurring Level 3. Revenue and expenses from operations and changes in the valuation allowance are included in other non-interest expense.

*Mortgage servicing rights* - Mortgage servicing rights are carried at fair value. A valuation model, which utilizes a discounted cash flow analysis using a discount rate and prepayment speed assumptions is used in the computation of the fair value measurement. While the prepayment speed assumption is currently quoted for comparable instruments, the discount rate assumption currently requires a significant degree of management judgment and is therefore considered an unobservable input. As such, the Company classifies mortgage servicing rights subjected to recurring fair value adjustments as Level 3.

The table below presents the recorded amount of assets and liabilities measured at fair value on a recurring basis (in thousands):

| Fair value at September 30, 2022 | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Marketable equity securities | $ 2,592 | $ 2,592 | $ — | $ — |
| Debt securities available for sale: | | | | |
| Obligations of U.S. government corporations and agencies | 1,389,915 | — | 1,389,915 | — |
| Obligations of states and political subdivisions | 283,123 | — | 283,123 | — |
| Corporate bonds | 5,858 | — | 5,858 | — |
| Asset backed securities | 453,801 | — | 453,801 | — |
| Non-agency collateralized mortgage obligations | 347,568 | — | 347,568 | — |
| Loans held for sale | 247 | — | 247 | — |
| Mortgage servicing rights | 6,798 | — | — | 6,798 |
| Total assets measured at fair value | $ 2,489,902 | $ 2,592 | $ 2,480,512 | $ 6,798 |

| Fair value at December 31, 2021 | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Marketable equity securities | $ 2,938 | $ 2,938 | $ — | $ — |
| Debt securities available for sale: | | | | |
| Obligations of U.S. government corporations and agencies | 1,257,389 | — | 1,257,389 | — |
| Obligations of states and political subdivisions | 192,244 | — | 192,244 | — |
| Corporate bonds | 6,756 | — | 6,756 | — |
| Asset backed securities | 409,552 | — | 409,552 | — |
| Non-agency collateralized mortgage obligations | 341,997 | — | 341,997 | — |
| Loans held for sale | 3,466 | — | 3,466 | — |
| Mortgage servicing rights | 5,874 | — | — | 5,874 |
| Total assets measured at fair value | $ 2,220,216 | $ 2,938 | $ 2,211,404 | $ 5,874 |

Transfers between levels of the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer, which generally corresponds with the Company's quarterly valuation process. There were no transfers between any levels during the nine months ended September 30, 2022, or the year ended December 31, 2021.

The following table provides a reconciliation of assets and liabilities measured at fair value using significant unobservable inputs (Level 3) on a recurring basis during the time periods indicated. Had there been any transfer into or out of Level 3 during the time periods indicated, the amount included in the "Transfers into (out of) Level 3" column would represent the beginning balance of an item in the period (interim quarter) during which it was transferred (in thousands):

| Three months ended September 30, | Beginning Balance | Transfers into (out of) Level 3 | Change Included in Earnings | Issuances | Ending Balance |
|---|---|---|---|---|---|
| 2022: Mortgage servicing rights | $ 6,667 | — | $ 33 | $ 98 | $ 6,798 |
| 2021: Mortgage servicing rights | $ 5,603 | — | $ (233) | $ 366 | $ 5,736 |

Table of Contents

| Nine months ended September 30, | Beginning Balance | Transfers into (out of) Level 3 | Change Included in Earnings | Issuances | Ending Balance |
|---|---|---|---|---|---|
| 2022: Mortgage servicing rights | $ 5,874 | — | $ 443 | $ 481 | $ 6,798 |
| 2021: Mortgage servicing rights | $ 5,092 | — | $ (691) | $ 1,335 | $ 5,736 |

The key unobservable inputs used in determining the fair value of mortgage servicing rights are mortgage prepayment speeds and the discount rate used to discount cash projected cash flows. Generally, any significant increases in the mortgage prepayment speed and discount rate utilized in the fair value measurement of the mortgage servicing rights will result in a negative fair value adjustments (and decrease in the fair value measurement). Conversely, a decrease in the mortgage prepayment speed and discount rate will result in a positive fair value adjustment (and increase in the fair value measurement).

The following table presents quantitative information about recurring Level 3 fair value measurements at September 30, 2022 and December 31, 2021:

| As of September 30, 2022: | Fair Value (in thousands) | Valuation Technique | Unobservable Inputs | Range, Weighted Average |
|---|---|---|---|---|
| Mortgage Servicing Rights | $ 6,798 | Discounted cash flow | Constant prepayment rate | 7% - 14%; 7.5% |
| | | | Discount rate | 10% - 14%; 12% |
| As of December 31, 2021: | | | | |
| Mortgage Servicing Rights | $ 5,874 | Discounted cash flow | Constant prepayment rate | 11% - 15.8%; 12.5% |
| | | | Discount rate | 10% - 14%; 12% |

The tables below present the recorded investment in assets and liabilities measured at fair value on a nonrecurring basis, as of the dates indicated (in thousands):

| September 30, 2022 | Total | Level 1 | Level 2 | Level 3 | Total Gains (Losses) |
|---|---|---|---|---|---|
| Fair value: | | | | | |
| Individually evaluated loans | $ 5,216 | — | — | $ 5,216 | $ (1,567) |
| Foreclosed assets | 770 | — | — | 770 | 13 |
| Total assets measured at fair value | $ 5,986 | $ — | $ — | $ 5,986 | $ (1,554) |

| December 31, 2021 | Total | Level 1 | Level 2 | Level 3 | Total Losses |
|---|---|---|---|---|---|
| Fair value: | | | | | |
| Individually evaluated loans | $ 3,683 | — | — | $ 3,683 | $ (1,105) |

| September 30, 2021 | Total | Level 1 | Level 2 | Level 3 | Total Losses |
|---|---|---|---|---|---|
| Fair value: | | | | | |
| Individually evaluated loans | $ 2,942 | — | — | $ 2,942 | $ (1,604) |
| Foreclosed assets | 447 | — | — | 447 | 21 |
| Total assets measured at fair value | $ 3,389 | — | — | $ 3,389 | $ (1,583) |

The individually evaluated loan amounts above represent collateral dependent loans that have been adjusted to fair value. When the Company identifies a collateral dependent loan with unique risk characteristics, the Company evaluates the need for an allowance using the current fair value of the collateral, less selling costs. Depending on the characteristics of a loan, the fair value of collateral is generally estimated by obtaining external appraisals. If the Company determines that the value of the loan is less than the recorded investment in the loan, the Company recognizes this impairment and adjust the carrying value of the loan to fair value through the allowance for credit losses. The loss represents charge-offs or impairments on collateral dependent loans for fair value adjustments based on the fair value of collateral. The carrying value of loans fully charged-off is zero.

The foreclosed assets amount above represents impaired real estate that has been adjusted to fair value. Foreclosed assets represent real estate which the Company has taken control of in partial or full satisfaction of loans. At the time of foreclosure, other real estate owned is recorded at fair value less costs to sell, which becomes the property's new basis. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for credit losses. After foreclosure, management periodically performs valuations such that the real estate is carried at the lower of its new cost basis or fair value, net of estimated costs to sell. Fair value adjustments on other real estate owned are recognized within net loss on real estate owned. The loss represents impairments on real estate owned for fair value adjustments based on the fair value of the real estate.

The Company’s property appraisals are primarily based on the sales comparison approach and income approach methodologies, which consider recent sales of comparable properties, including their income generating characteristics, and then make adjustments to reflect the general assumptions that a market participant would make when analyzing the property for purchase. These adjustments may increase or decrease an appraised value and can vary significantly depending on the location, physical characteristics and income producing potential of each property. Additionally, the quality and volume of market information available at the time of the appraisal can vary from period to period and cause significant changes to the nature and magnitude of comparable sale adjustments. Given these variations, comparable sale adjustments are generally not a reliable indicator for how fair value will increase or decrease from period to period. Under certain circumstances, management discounts are applied based on specific characteristics of an individual property.

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a nonrecurring basis at September 30, 2022:

| September 30, 2022 | Fair Value (in thousands) | Valuation Technique | Unobservable Inputs | Range, Weighted Average |
|---|---|---|---|---|
| Individually evaluated loans | $ 5,216 | Sales comparison approach<br>Income approach | Adjustment for differences between comparable sales;<br>Capitalization rate | Not meaningful<br>N/A |
| Foreclosed assets (Residential real estate) | $ 770 | Sales comparison approach | Adjustment for differences between comparable sales | Not meaningful<br>N/A |

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a nonrecurring basis at December 31, 2021:

| December 31, 2021 | Fair Value (in thousands) | Valuation Technique | Unobservable Inputs | Range, Weighted Average |
|---|---|---|---|---|
| Individually evaluated loans | $ 3,683 | Sales comparison approach<br>Income approach | Adjustment for differences between comparable sales;<br>Capitalization rate | Not meaningful<br>N/A |

Fair values for financial instruments are management’s estimates of the values at which the instruments could be exchanged in a transaction between willing parties. The Company uses the exit price notion when measuring the fair value of financial instruments. These estimates are subjective and may vary significantly from amounts that would be realized in actual transactions. In addition, other significant assets are not considered financial assets including, any mortgage banking operations, deferred tax assets, and premises and equipment. Further, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on the fair value estimates and have not been considered in any of these estimates.

| | September 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| (in thousands) | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets: | | | | |
| Level 1 inputs: | | | | |
| Cash and due from banks | $ 91,377 | $ 91,377 | $ 57,032 | $ 57,032 |
| Cash at Federal Reserve and other banks | 201,240 | 201,240 | 711,389 | 711,389 |
| Level 2 inputs: | | | | |
| Securities held to maturity | 168,038 | 153,463 | 199,759 | 208,140 |
| Restricted equity securities | 17,250 | N/A | 17,250 | N/A |
| Level 3 inputs: | | | | |
| Loans, net | 6,212,802 | 6,125,823 | 4,831,248 | 4,880,044 |
| Financial liabilities: | | | | |
| Level 2 inputs: | | | | |
| Deposits | 8,655,769 | 8,648,844 | 7,367,159 | 7,366,422 |
| Other borrowings | 47,068 | 47,068 | 50,087 | 50,087 |
| Level 3 inputs: | | | | |
| Junior subordinated debt | 101,024 | 106,631 | 58,079 | 57,173 |

| (in thousands) | Contract Amount | Fair Value | Contract Amount | Fair Value |
|---|---|---|---|---|
| Off-balance sheet: | | | | |
| Level 3 inputs: | | | | |
| Commitments | $ 2,197,235 | $ 21,972 | $ 1,586,068 | $ 15,861 |
| Standby letters of credit | 26,459 | 265 | 21,871 | 219 |
| Overdraft privilege commitments | 125,205 | 1,252 | 125,670 | 1,257 |

**Note 16 - 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 consolidated 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, Tier 1, and common equity Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. The following tables present actual and required capital ratios as of September 30, 2022 and December 31, 2021 for the Company and the Bank under applicable Basel III Capital Rules. The minimum capital amounts presented include the minimum required capital levels as of September 30, 2022 and December 31, 2021 based on the then phased-in provisions of the Basel III Capital Rules. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

| | Actual | | Required for Capital Adequacy Purposes | | Required to be Considered Well Capitalized | |
|---|---|---|---|---|---|---|
| As of September 30, 2022: | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| | | | (dollars in thousands) | | | |
| Total Capital (to Risk Weighted Assets): | | | | | | |
| Consolidated | $ 1,081,212 | 13.97 % | $ 812,434 | 10.50 % | N/A | N/A |
| Tri Counties Bank | $ 1,072,238 | 13.86 % | $ 812,026 | 10.50 % | $ 773,358 | 10.00 % |
| Tier 1 Capital (to Risk Weighted Assets): | | | | | | |
| Consolidated | $ 941,748 | 12.17 % | $ 657,685 | 8.50 % | N/A | N/A |
| Tri Counties Bank | $ 975,455 | 12.61 % | $ 657,354 | 8.50 % | $ 618,686 | 8.00 % |
| Common equity Tier 1 Capital (to Risk Weighted Assets): | | | | | | |
| Consolidated | $ 885,089 | 11.44 % | $ 541,623 | 7.00 % | N/A | N/A |
| Tri Counties Bank | $ 975,455 | 12.61 % | $ 541,351 | 7.00 % | $ 502,683 | 6.50 % |
| Tier 1 Capital (to Average Assets): | | | | | | |
| Consolidated | $ 941,748 | 9.61 % | $ 392,056 | 4.00 % | N/A | N/A |
| Tri Counties Bank | $ 975,455 | 9.96 % | $ 391,814 | 4.00 % | $ 489,767 | 5.00 % |

| As of December 31, 2021: | Actual | | Required for Capital Adequacy Purposes | | Required to be Considered Well Capitalized | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| | | | (dollars in thousands) | | | |
| Total Capital (to Risk Weighted Assets): | | | | | | |
| Consolidated | $ 893,294 | 15.42 % | $ 608,258 | 10.50 % | N/A | N/A |
| Tri Counties Bank | $ 884,255 | 15.28 % | $ 607,610 | 10.50 % | $ 578,676 | 10.00 % |
| Tier 1 Capital (to Risk Weighted Assets): | | | | | | |
| Consolidated | $ 820,654 | 14.17 % | $ 492,399 | 8.50 % | N/A | N/A |
| Tri Counties Bank | $ 811,713 | 14.03 % | $ 491,875 | 8.50 % | $ 462,941 | 8.00 % |
| Common equity Tier 1 Capital (to Risk Weighted Assets): | | | | | | |
| Consolidated | $ 764,319 | 13.19 % | $ 405,505 | 7.00 % | N/A | N/A |
| Tri Counties Bank | $ 811,713 | 14.03 % | $ 405,073 | 7.00 % | $ 376,140 | 6.50 % |
| Tier 1 Capital (to Average Assets): | | | | | | |
| Consolidated | $ 820,654 | 9.88 % | $ 332,205 | 4.00 % | N/A | N/A |
| Tri Counties Bank | $ 811,713 | 9.77 % | $ 332,196 | 4.00 % | $ 415,245 | 5.00 % |

As of September 30, 2022 and December 31, 2021, capital levels at the Company and the Bank exceed all capital adequacy requirements under the Basel III Capital Rules. Also, at September 30, 2022 and December 31, 2021, the Bank’s capital levels exceeded the minimum amounts necessary to be considered well capitalized under the current regulatory framework for prompt corrective action.

The Basel III Capital Rules require for all banking organizations to maintain a capital conservation buffer above the minimum risk-based capital requirements in order to avoid certain limitations on capital distributions, stock repurchases and discretionary bonus payments to executive officers. The capital conservation buffer is exclusively composed of common equity tier 1 capital, and it applies to each of the risk-based capital ratios but not the leverage ratio. At September 30, 2022, the Company and the Bank are in compliance with the capital conservation buffer requirement.

## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

### FORWARD-LOOKING STATEMENTS

### Cautionary Statements Regarding Forward-Looking Information

The statements contained herein that are not historical facts are forward-looking statements based on management’s current expectations and beliefs concerning future developments and their potential effects on the Company. Such statements involve inherent risks and uncertainties, many of which are difficult to predict and are generally beyond our control. There can be no assurance that future developments affecting us will be the same as those anticipated by management. We caution readers that a number of important factors could cause actual results to differ materially from those expressed in, or implied or projected by, such forward-looking statements. These risks and uncertainties include, but are not limited to, the following: the strength of the United States economy in general and the strength of the local economies in which we conduct operations; the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System; inflation, interest rate, market and monetary fluctuations on the Company's business condition and financial operating results; the impact of changes in financial services industry policies, laws and regulations; technological changes; weather, natural disasters and other catastrophic events that may or may not be caused by climate change and their effects on economic and business environments in which the Company operates; the continuing adverse impact on the U.S. economy, including the markets in which we operate due to the COVID-19 global pandemic; the impact of a slowing U.S. economy and increased unemployment on the performance of our loan portfolio, the market value of our investment securities, the availability of sources of funding and the demand for our products; adverse developments with respect to U.S. or global economic conditions and other uncertainties, including the impact of supply chain disruptions, inflationary pressures and labor shortages on the economic recovery and our business; the impacts of international hostilities or geopolitical events; the costs or effects of mergers, acquisitions or dispositions we may make, whether we are able to obtain any required governmental approvals in connection with any such mergers, acquisitions or dispositions, and/or our ability to realize the contemplated financial business benefits associated with any such activities; the regulatory and financial impacts associated with exceeding $10 billion in total assets; the negative impact on our reputation and profitability in the event customers experience economic harm or in the event that regulatory violations are identified; the ability to execute our business plan in new lending markets; the future operating or financial performance of the Company, including our outlook for future growth and changes in the level of our nonperforming assets and charge-offs; the appropriateness of the allowance for credit losses, including the timing and effects of the implementation of the current expected credit losses model; any deterioration in values of California real estate, both residential and commercial; the effect of changes in accounting standards and practices; possible other-than-temporary impairment of securities held by us due to changes in credit quality or rates; changes in consumer spending, borrowing and savings habits; our ability to attract and maintain deposits and other sources of liquidity; the effects of changes in the level or cost of checking or savings account deposits on our funding costs and net interest margin; changes in the financial performance and/or condition of our borrowers; our noninterest expense and the efficiency ratio; competition and innovation with respect to financial products and services by banks, financial institutions and non-traditional providers including retail businesses and technology companies; the challenges of integrating and retaining key employees; the costs and effects of litigation and of unexpected or adverse outcomes in such litigation; a failure in or breach of our operational or security systems or infrastructure, or those of our third-party vendors or other service providers, including as a result of cyber-attacks and the cost to defend against such attacks; breaches in data security, including as a result of work from home arrangements; failure to safeguard personal information; change to U.S. tax policies, including our effective income tax rate; the effect of a fall in stock market prices on our brokerage and wealth management businesses; the discontinuation of the London Interbank Offered Rate and other reference rates; and our ability to manage the risks involved in the foregoing. Additional factors that could cause results to differ materially from those described above can be found in our Annual Report on Form 10-K for the year ended December 31, 2021, which has been filed with the Securities and Exchange Commission (the “SEC”) and all subsequent filings with the SEC under Sections 13(a), 13(c), 14, and 15(d) of the Securities Act of 1934, as amended. Such filings are also available in the “Investor Relations” section of our website, *https://www.tcbk.com/investor-relations* and in other documents we file with the SEC. Annualized, pro forma, projections and estimates are not forecasts and may not reflect actual results. We undertake no obligation (and expressly disclaim any such obligation) to update or alter our forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by law.

### General

As TriCo Bancshares (referred to in this report as “we”, “our” or 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. Within Management’s Discussion and Analysis of Financial Condition and Results of Operations, interest income, net interest income, and net interest yield are generally presented on a FTE basis. The Company believes the use of these non-generally accepted accounting principles (non-GAAP) measures provides additional clarity in assessing its results, and the presentation of these measures on a FTE basis is a common practice within the banking industry. Interest income and net interest income are shown on a non-FTE basis in the Part I - Financial Information section of this Form 10-Q, and a reconciliation of the FTE and non-FTE presentations is provided below in the discussion of net interest income.

The Company's results for the quarter ended September 30, 2022 reflect the full operational impact of the March 25, 2022 merger with VRB, whereas the results for the nine months ended September 30, 2022 do not include the operating results of VRB for the days prior to the merger date.

### Critical Accounting Policies and Estimates

The Company’s discussion and analysis of its financial condition and results of operations are based upon the Company’s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of

America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those that materially affect the financial statements and are related to the adequacy of the allowance for loan losses, investments, mortgage servicing rights, fair value measurements, retirement plans and intangible assets. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. A detailed discussion related to the Company's accounting policies including those related to estimates on the allowance for credit losses, other than temporary impairment of investments and impairment of intangible assets, can be found in Note 1 of the consolidated financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2021.

**Geographical Descriptions**

For the purpose of describing the geographical location of the Company's operations, the Company has defined northern California as that area of California north of, and including, Stockton to the east and San Jose to the west; central California as that area of the state south of Stockton and San Jose, to and including, Bakersfield to the east and San Luis Obispo to the west; and southern California as that area of the state south of Bakersfield and San Luis Obispo.

**Financial Highlights**

Performance highlights and other developments for the Company as of or for the three and nine months ended September 30, 2022, included the following:

- For the three and nine months ended September 30, 2022, the Company's return on average assets was 1.46% and 1.23%, while the return on average equity was 13.78% and 11.25%, respectively. The nine-month ratio was impacted by merger related expenses of $6,253,000 during the 2022 period.
- Organic loan growth, excluding PPP and acquired loans, totaled $216.7 million (14.2% annualized) for the current quarter and $824.3 million (17.4% annualized) for the trailing twelve-month period.
- As of September 30, 2022, the Company reported total loans, total assets and total deposits of $6.3 billion, $10.0 billion and $8.7 billion, respectively. As a direct result of organic loan growth during the quarter, the loan to deposit ratio has increased to 72.9% as of September 30, 2022, as compared to 69.8% as of the trailing quarter.
- The average rate of interest paid on deposits, including non-interest-bearing deposits, of 0.04% has remained unchanged during each of the prior four quarters, and represents a decrease of one basis point from the average rate paid of 0.05% during the same quarter of the prior year.
- Noninterest income related to service charges and fees was $12.7 million for the three month period ended September 30, 2022, an increase of 12.6% when compared to the same period in 2021.
- The provision for credit losses for loans and debt securities was approximately $3.8 million during the quarter ended September 30, 2022, as compared to a provision expense of $2.1 million during the trailing quarter ended June 30, 2022, and a reversal of provision expense totaling $1.4 million for the three month period ended September 30, 2021.
- The allowance for credit losses to total loans was 1.61% as of September 30, 2022, compared to 1.60% as of the trailing quarter end, and 1.72% as of September 30, 2021. Non-performing assets to total assets were 0.21% at September 30, 2022, as compared to 0.15% as of June 30, 2022, and 0.37% at September 30, 2021.

**TRICO BANCSHARES**
**Financial Summary**
(In thousands, except per share amounts; unaudited)

| | Three months ended September 30, 2022 | Three months ended September 30, 2021 | Nine months ended September 30, 2022 | Nine months ended September 30, 2021 |
|---|---|---|---|---|
| Net interest income | $ 94,106 | $ 68,233 | $ 247,076 | $ 201,756 |
| Reversal of (provision for) credit losses | (3,795) | 1,435 | (14,225) | 7,755 |
| Non-interest income | 15,640 | 15,095 | 47,166 | 47,162 |
| Non-interest expense | (54,465) | (45,807) | (157,176) | (131,596) |
| Provision for income taxes | (14,148) | (11,534) | (33,765) | (35,644) |
| Net income | $ 37,338 | $ 27,422 | $ 89,076 | $ 89,433 |
| Per Share Data: | | | | |
| Basic earnings per share | $ 1.12 | $ 0.92 | $ 2.76 | $ 3.01 |
| Diluted earnings per share | $ 1.12 | $ 0.92 | $ 2.74 | $ 2.99 |
| Dividends paid | $ 0.30 | $ 0.25 | $ 0.80 | $ 0.75 |
| Book value at period end | | | $ 29.71 | $ 33.05 |
| Average common shares outstanding | 33,348 | 29,714 | 32,332 | 29,720 |
| Average diluted common shares outstanding | 33,463 | 29,851 | 32,469 | 29,887 |
| Shares outstanding at period end | | | 33,332 | 29,715 |
| At period end: | | | | |
| Loans | | | $ 6,314,290 | $ 4,887,496 |
| Total investment securities | | | $ 2,668,145 | $ 2,333,015 |
| Total assets | | | $ 9,976,879 | $ 8,458,030 |
| Total deposits | | | $ 8,655,769 | $ 7,236,822 |
| Other borrowings | | | $ 47,068 | $ 45,601 |
| Shareholders’ equity | | | $ 990,338 | $ 982,014 |
| Financial Ratios: | | | | |
| During the period: | | | | |
| Return on average assets (annualized) | 1.46 % | 1.30 % | 1.23 % | 1.48 % |
| Return on average equity (annualized) | 13.78 % | 11.02 % | 11.25 % | 12.42 % |
| Net interest margin[1] (annualized) | 4.02 % | 3.50 % | 3.71 % | 3.61 % |
| Efficiency ratio | 49.63 % | 54.97 % | 53.42 % | 52.87 % |
| Average equity to average assets | 10.61 % | 11.82 % | 10.94 % | 11.89 % |
| At end of period: | | | | |
| Equity to assets | | | 9.93 % | 11.61 % |
| Total capital to risk-adjusted assets | | | 13.97 % | 15.41 % |

[1] Fully Taxable Equivalent (FTE)

The Company reported net income of $37,338,000 for the quarter ended September 30, 2022, compared to $31,364,000 during the trailing quarter ended June 30, 2022, and $27,422,000 during the quarter ended September 30, 2021. Diluted earnings per share were $1.12 for the third quarter of 2022, compared to $0.93 for the second quarter of 2022 and $0.92 for the third quarter of 2021.

## Results of Operations

The following discussion and analysis is designed to provide a better understanding of the significant changes and trends related to the Company and the Bank’s financial condition, operating results, asset and liability management, liquidity and capital resources and should be read in conjunction with the Condensed Consolidated Financial Statements of the Company and the Notes thereto located at Item 1 of this report.

Table of Contents

### Net Interest Income

The Company's primary source of revenue is net interest income, or the difference between interest income on interest-earning assets and interest expense on interest-bearing liabilities. Following is a summary of the components of FTE net income for the periods indicated.

| | Three months ended | | | |
|---|---|---|---|---|
| (in thousands) | September 30, 2022 | June 30, 2022 | Change | % Change |
| Interest income | $ 96,366 | $ 86,955 | $ 9,411 | 10.8 % |
| Interest expense | (2,260) | (1,909) | (351) | 18.4 % |
| Fully tax-equivalent adjustment (FTE) (1) | 440 | 397 | 43 | 10.8 % |
| Net interest income (FTE) | $ 94,546 | $ 85,443 | $ 9,103 | 10.7 % |
| Net interest margin (FTE) | 4.02 % | 3.67 % | | |
| | | | | |
| Acquired loans discount accretion, net: | | | | |
| Amount (included in interest income) | $ 714 | $ 1,677 | $ (963) | (57.4)% |
| Net interest margin less effect of acquired loan discount accretion(1) | 3.99 % | 3.60 % | 0.39 % | |
| PPP loans yield, net: | | | | |
| Amount (included in interest income) | $ 313 | $ 964 | $ (651) | (67.5)% |
| Net interest margin less effect of PPP loan yield (1) | 4.02 % | 3.65 % | 0.37 % | |
| Acquired loans discount accretion and PPP loan yield, net: (1) | | | | |
| Amount (included in interest income) | $ 1,027 | $ 2,641 | $ (1,614) | (61.1)% |
| Net interest margin less effect of acquired loan discount accretion and PPP loan yield (1) | 3.98 % | 3.57 % | 0.41 % | |

| | Three months ended September 30, 2022 | | | |
|---|---|---|---|---|
| (dollars in thousands) | 2022 | 2021 | Change | % Change |
| Interest income | $ 96,366 | $ 69,628 | $ 26,738 | 38.4 % |
| Interest expense | (2,260) | (1,395) | (865) | 62.0 % |
| Fully tax-equivalent adjustment (FTE) (1) | 440 | 265 | 175 | 66.0 % |
| Net interest income (FTE) | $ 94,546 | $ 68,498 | $ 26,048 | 38.0 % |
| Net interest margin (FTE) | 4.02 % | 3.50 % | | |
| | | | | |
| Acquired loans discount accretion, net: | | | | |
| Amount (included in interest income) | $ 714 | $ 2,034 | $ (1,320) | (64.9)% |
| Net interest margin less effect of acquired loan discount accretion(1) | 3.99 % | 3.40 % | 0.59 % | |
| PPP loans yield, net: | | | | |
| Amount (included in interest income) | $ 313 | $ 3,507 | $ (3,194) | (91.1)% |
| Net interest margin less effect of PPP loan yield (1) | 4.02 % | 3.42 % | 0.60 % | |
| Acquired loans discount accretion and PPP loan yield, net: | | | | |
| Amount (included in interest income) | $ 1,027 | $ 5,541 | $ (4,514) | (81.5)% |
| Net interest margin less effect of acquired loan discount accretion and PPP loan yield (1) | 3.98 % | 3.31 % | 0.67 % | |

| (dollars in thousands) | Nine months ended September 30, 2022 2022 | 2021 | Change | % Change |
|---|---|---|---|---|
| Interest income | $ 252,516 | $ 206,023 | $ 46,493 | 22.6 % |
| Interest expense | (5,440) | (4,267) | (1,173) | 27.5 % |
| Fully tax-equivalent adjustment (FTE) (1) | 1,120 | 797 | 323 | 40.5 % |
| Net interest income (FTE) | $ 248,196 | $ 202,553 | $ 45,643 | 22.5 % |
| Net interest margin (FTE) | 3.71 % | 3.61 % | | |
| | | | | |
| Acquired loans discount accretion, net: | | | | |
| Amount (included in interest income) | $ 3,714 | $ 6,311 | $ (2,597) | (41.2)% |
| Net interest margin less effect of acquired loan discount accretion(1) | 3.65 % | 3.50 % | 0.15 % | |
| PPP loans yield, net: | | | | |
| Amount (included in interest income) | $ 2,374 | $ 12,549 | $ (10,175) | (81.1)% |
| Net interest margin less effect of PPP loan yield (1) | 3.69 % | 3.53 % | 0.16 % | |
| Acquired loans discount accretion and PPP loan yield, net: | | | | |
| Amount (included in interest income) | $ 6,088 | $ 18,860 | $ (12,772) | (67.7)% |
| Net interest margin less effect of acquired loans discount and PPP loan yield (1) | 3.63 % | 3.41 % | 0.22 % | |

(1) Certain information included herein is presented on a fully tax-equivalent (FTE) basis and / or to present additional financial details which may be desired by users of this financial information. The Company believes the use of these non-generally accepted accounting principles (non-GAAP) measures provide additional clarity in assessing its results, and the presentation of these measures are common practice within the banking industry.

Loans may be acquired at a premium or discount to par value, in which case, the premium is amortized (subtracted from) or the discount is accreted (added to) interest income over the remaining life of the loan. Generally, as time goes on, the dollar impact of loan discount accretion and loan premium amortization decrease as the purchased loans mature or pay off early. Upon the early pay off of a loan, any remaining unaccreted discount or unamortized premium is immediately taken into interest income; and as loan payoffs may vary significantly from quarter to quarter, so may the impact of discount accretion and premium amortization on interest income. As a result of the increase in interest rates, the prepayment rate of portfolio loans, inclusive of those acquired at a premium or discount, declined throughout 2022. During the three months ended September 30, 2022, June 30, 2022, and September 30, 2021, purchased loan discount accretion was $714,000, $1,677,000, and $2,034,000, respectively.

**Summary of Average Balances, Yields/Rates and Interest Differential**

The following table presents, for the three month periods indicated, information regarding the Company's consolidated average assets, liabilities and shareholders' equity, the amounts of interest income from average interest-earning assets and resulting yields, and the amount of interest expense paid on interest-bearing liabilities. Average loan balances include nonperforming loans. Interest income includes proceeds from loans on nonaccrual loans only to the extent cash payments have been received and applied to interest income. Yields on securities and certain loans have been adjusted upward to reflect the effect of income thereon exempt from federal income taxation at the current statutory tax rate (dollars in thousands).

| | For the three months ended | | | | | |
|---|---|---|---|---|---|---|
| | September 30, 2022 | | | September 30, 2021 | | |
| | Average Balance | Interest Income/ Expense | Rates Earned /Paid | Average Balance | Interest Income/ Expense | Rates Earned /Paid |
| Assets: | | | | | | |
| Loans, excluding PPP | $ 6,162,267 | $ 75,643 | 4.87 % | $ 4,684,492 | $ 57,218 | 4.85 % |
| PPP loans | 8,775 | 313 | 14.15 % | 213,430 | 3,507 | 6.52 % |
| Investment securities - taxable | 2,591,513 | 17,122 | 2.62 % | 2,019,283 | 7,741 | 1.52 % |
| Investment securities - nontaxable(1) | 210,606 | 1,908 | 3.59 % | 130,028 | 1,147 | 3.50 % |
| Total investments | 2,802,119 | 19,030 | 2.69 % | 2,149,311 | 8,888 | 1.64 % |
| Cash at Federal Reserve and other banks | 346,991 | 1,820 | 2.08 % | 710,936 | 280 | 0.16 % |
| Total interest-earning assets | 9,320,152 | 96,806 | 4.12 % | 7,758,169 | 69,893 | 3.57 % |
| Other assets | 810,966 | | | 589,942 | | |
| Total assets | $ 10,131,118 | | | $ 8,348,111 | | |
| Liabilities and shareholders' equity: | | | | | | |
| Interest-bearing demand deposits | $ 1,775,884 | $ 119 | 0.03 % | $ 1,507,697 | $ 116 | 0.03 % |
| Savings deposits | 3,011,145 | 685 | 0.09 % | 2,407,368 | 328 | 0.05 % |
| Time deposits | 321,100 | 188 | 0.23 % | 321,381 | 411 | 0.51 % |
| Total interest-bearing deposits | 5,108,129 | 992 | 0.08 % | 4,236,446 | 855 | 0.08 % |
| Other borrowings | 38,908 | 5 | 0.05 % | 48,330 | 6 | 0.05 % |
| Junior subordinated debt | 101,011 | 1,263 | 4.96 % | 57,891 | 534 | 3.66 % |
| Total interest-bearing liabilities | 5,248,048 | 2,260 | 0.17 % | 4,342,667 | 1,395 | 0.13 % |
| Noninterest-bearing deposits | 3,644,086 | | | 2,900,817 | | |
| Other liabilities | 164,208 | | | 117,601 | | |
| Shareholders' equity | 1,074,776 | | | 987,026 | | |
| Total liabilities and shareholders' equity | $ 10,131,118 | | | $ 8,348,111 | | |
| Net interest spread(2) | | | 3.95 % | | | 3.45 % |
| Net interest income and interest margin(3) | | $ 94,546 | 4.02 % | | $ 68,498 | 3.50 % |

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

As compared to the same quarter in the prior year, average loan yields, excluding PPP, increased 2 basis points from 4.85% during the three months ended September 30, 2021, to 4.87% during the three months ended September 30, 2022. The accretion of discounts from acquired loans added 5 and 17 basis points to loan yields during the quarters ended September 30, 2022 and September 30, 2021, respectively. Therefore, the 2 basis point increase in yields on loans during the comparable three month periods ended September 30, 2022 and 2021 was the net effect of a 14 basis point increase in market loan rates, partially offset by a 12 basis point decline in the accretion of discounts.

The rates paid on interest bearing deposits increased by 1 basis point during the quarter ended September 30, 2022 compared to the trailing quarter. The cost of interest-bearing deposits remained flat at 8 basis points between the quarter ended September 30, 2022 and the same quarter of the prior year. In addition, the level of noninterest-bearing deposits continues to benefit the average cost of total deposits which remained flat at 0.04% in both the current and trailing quarter, compared to 0.5% in the third quarter of the prior year. Non-interest bearing deposit balances grew $74.0 million during the three months ended September 30, 2022. As of September 30, 2022, the ratio of average total noninterest-bearing deposits to total average deposits was 41.6%.

| | Nine months ended September 30, 2022 | | | Nine months ended September 30, 2021 | | |
|---|---|---|---|---|---|---|
| | Average Balance | Income/ Expense | Yield/ Rate | Average Balance | Income/ Expense | Yield/ Rate |
| Assets | | | | | | |
| Loans, excluding PPP | $ 5,668,055 | $ 201,245 | 4.75 % | $ 4,580,292 | $ 168,916 | 4.93 % |
| PPP loans | 32,287 | 2,374 | 9.83 % | 300,006 | 12,549 | 5.59 % |
| Investments-taxable | 2,487,111 | 41,695 | 2.24 % | 1,838,023 | 21,324 | 1.55 % |
| Investments-nontaxable (1) | 183,772 | 4,853 | 3.53 % | 129,057 | 3,453 | 3.58 % |
| Total investments | 2,670,883 | 46,548 | 2.33 % | 1,967,080 | 24,777 | 1.68 % |
| Cash at Federal Reserve and other banks | 573,252 | 3,469 | 0.81 % | 656,912 | 578 | 0.12 % |
| Total earning assets | 8,944,477 | 253,636 | 3.79 % | 7,504,290 | 206,820 | 3.68 % |
| Other assets, net | 737,721 | | | 591,983 | | |
| Total assets | $ 9,682,198 | | | $ 8,096,273 | | |
| Liabilities and shareholders' equity | | | | | | |
| Interest-bearing demand deposits | $ 1,724,787 | $ 302 | 0.02 % | $ 1,476,987 | $ 269 | 0.02 % |
| Savings deposits | 2,863,447 | 1,541 | 0.07 % | 2,318,169 | 965 | 0.06 % |
| Time deposits | 319,940 | 676 | 0.28 % | 327,562 | 1,386 | 0.57 % |
| Total interest-bearing deposits | 4,908,174 | 2,519 | 0.07 % | 4,122,718 | 2,620 | 0.08 % |
| Other borrowings | 39,609 | 15 | 0.05 % | 40,732 | 15 | 0.05 % |
| Junior subordinated debt | 87,804 | 2,906 | 4.42 % | 57,790 | 1,632 | 3.78 % |
| Total interest-bearing liabilities | 5,035,587 | 5,440 | 0.14 % | 4,221,240 | 4,267 | 0.14 % |
| Noninterest-bearing deposits | 3,435,487 | | | 2,790,828 | | |
| Other liabilities | 152,186 | | | 121,334 | | |
| Shareholders' equity | 1,058,938 | | | 962,871 | | |
| Total liabilities and shareholders' equity | $ 9,682,198 | | | $ 8,096,273 | | |
| Net interest rate spread (1) (2) | | | 3.65 % | | | 3.54 % |
| Net interest income and margin (1) (3) | | $ 248,196 | 3.71 % | | $ 202,553 | 3.61 % |

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

**Summary of Changes in Interest Income and Expense due to Changes in Average Asset and Liability Balances and Yields Earned and Rates Paid**

The following table sets forth, for the period identified, a summary of the changes in interest income and interest expense from changes in average asset and liability balances (volume) and changes in average interest rates for the periods indicated. Changes not solely attributable to volume or rates have been allocated in proportion to the respective volume and rate components.

| (in thousands) | Three months ended September 30, 2022 compared with three months ended September 30, 2021 Volume | Rate | Total |
|---|---|---|---|
| Increase (decrease) in interest income: | | | |
| Loans, including PPP | $ 36,188 | $ (20,957) | $ 15,231 |
| Investment securities[1] | 8,193 | 1,949 | 10,142 |
| Cash at Federal Reserve and other banks | (146) | 1,686 | 1,540 |
| Total interest-earning assets | 44,235 | (17,322) | 26,913 |
| Increase (decrease) in interest expense: | | | |
| Interest-bearing demand deposits | 20 | (17) | 3 |
| Savings deposits | 75 | 282 | 357 |
| Time deposits | — | (223) | (223) |
| Other borrowings | (1) | — | (1) |
| Junior subordinated debt | 395 | 334 | 729 |
| Total interest-bearing liabilities | 489 | 376 | 865 |
| Increase (decrease) in net interest income | $ 43,746 | $ (17,698) | $ 26,048 |

| (in thousands) | Nine months ended September 30, 2022 compared with nine months ended September 30, 2021 Volume | Rate | Total |
|---|---|---|---|
| Increase (decrease) in interest income: | | | |
| Loans, including PPP | $ 86,269 | $ (64,115) | $ 22,154 |
| Investment securities[1] | 12,020 | 9,751 | 21,771 |
| Cash at Federal Reserve and other banks | (100) | 2,991 | 2,891 |
| Total interest-earning assets | 98,189 | (51,373) | 46,816 |
| Increase (decrease) in interest expense: | | | |
| Interest-bearing demand deposits | 50 | (17) | 33 |
| Savings deposits | 327 | 249 | 576 |
| Time deposits | (43) | (667) | (710) |
| Other borrowings | (1) | 1 | — |
| Junior subordinated debt | 1,135 | 139 | 1,274 |
| Total interest-bearing liabilities | 1,468 | (295) | 1,173 |
| Increase (decrease) in net interest income | $ 96,721 | $ (51,078) | $ 45,643 |

The following commentary regarding net interest income, interest income and interest expense may be best understood while referencing the *Summary of Average Balances, Yields/Rates and Interest Differential* and the *Summary of Changes in Interest Income and Expense due to Changes in Average Asset and Liability Balances and Yields Earned and Rates Paid* shown above.

Net interest income (FTE) during the three months ended September 30, 2022 increased $26,048,000 or 27.6% to $94,546,000 compared to $68,498,000 during the three months ended September 30, 2021. The overall increase in net interest income (FTE) was due to largely an increase in average investment and loan balances, which resulted in improvements in net interest income totaling $8,193,000 and $36,188,000, respectively, despite lower yields on loans partially offsetting those earnings by $20,957,000. In addition, interest income on cash reserves improved by $1,686,000 due to the increase in rates. Following the VRB merger during the first quarter of 2022, larger average balances of subordinated debt has resulted in $729,000 of additional net interest expense.

Net interest income (FTE) during the nine months ended September 30, 2022 increased $45,643,000 or 22.5% to $248,196,000 compared to $202,553,000 during the nine months ended September 30, 2021. The overall increase in net interest income (FTE) was due to largely an increase in average investment and loan balances, which resulted in improvements in net interest income totaling $12,020,000 and $86,269,000, respectively, despite lower yields on loans partially offsetting those earnings by $64,115,000. Following the VRB merger during the first quarter of 2022, larger average balances of subordinated debt has resulted in $1,274,000 of additional net interest expense.

**Asset Quality and Credit Loss Provisioning**

During the three months ended September 30, 2022, the Company recorded a provision for credit losses of $3,795,000, as compared to a $2,100,000 provision during the trailing quarter, and a reversal of provision expense of $1,435,000 during the third quarter of 2021.

The following table presents details of the provision for (reversal of) credit losses for the periods indicated:

| | Three months ended | | | | |
|---|---|---|---|---|---|
| (dollars in thousands) | September 30, 2022 | June 30, 2022 | March 31, 2022 | December 31, 2021 | September 30, 2021 |
| Addition to (reversal of) allowance for credit losses | $ 3,500 | $ 1,940 | $ 8,205 | $ 715 | $ (1,495) |
| Addition to reserve for unfunded loan commitments | 295 | 160 | 125 | 265 | 60 |
| Total provision for (reversal of) credit losses | $ 3,795 | $ 2,100 | $ 8,330 | $ 980 | $ (1,435) |

The following table presents the activity in the allowance for credit losses on loans for the periods indicated:

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| (dollars in thousands) | September 30, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
| Balance, beginning of period | $ 97,944 | $ 86,062 | $ 85,376 | $ 91,847 |
| ACL at acquisition for PCD loans | — | — | 2,037 | — |
| Provision for (reversal of) credit losses | 3,500 | (1,495) | 13,645 | (7,880) |
| Loans charged-off | (267) | (1,582) | (1,411) | (2,195) |
| Recoveries of previously charged-off loans | 311 | 1,321 | 1,841 | 2,534 |
| Balance, end of period | $ 101,488 | $ 84,306 | $ 101,488 | $ 84,306 |

The allowance for credit losses (ACL) was $101,488,000 as of September 30, 2022, a net increase of $3,544,000 over the immediately preceding quarter. The provision for credit losses of $3,500,000 during the quarter was the net effect of increases in required reserves due to qualitative factors and individually analyzed credits. In addition to the aforementioned quarterly increase, the provision for credit losses of $13,645,000 during the nine months ended September 30, 2022 was comprised of $10,820,000 in association with the loans acquired from Valley Republic Bank in the first quarter of 2022, and a net provision for credit losses of $2,825,000 associated with organic loan portfolio growth and the net changes in quantitative and qualitative factors associated with overall borrower performance. For the quarter, the qualitative components of the ACL resulted in a net increase in required reserves, despite continued improvement in US employment rates, due to increased uncertainty in the global economic markets, concentration risks in commercial lending and the rapid rise in interest rates. Meanwhile, the quantitative component of the ACL increased reserve requirements over the trailing quarter due to loan volume growth and increases in specific reserves totaling approximately $1,237,000.

The Company utilizes a forecast period of approximately eight quarters and obtains the forecast data from publicly available sources as of the balance sheet date. This forecast data continues to evolve and included improving shifts in the magnitude of changes for both the unemployment and GDP factors leading up to the balance sheet date, particularly CA unemployment trends. Inflation remains elevated from continued disruptions in the supply chain and high energy prices Despite the expected continued benefit to the net interest income of the Company from the elevated rate environment, Management notes the rapid intervals of rate increases by the Federal Reserve and flattening or inversion of the yield curve, have boosted expectations of the US entering a recession within 12 months and has led to the lowest levels of consumer sentiment in decades. As a result, management continues to believe that certain credit weakness are likely present in the overall economy and that it is appropriate to cautiously maintain a reserve level that incorporates such risk factors.

Loans past due 30 days or more increased by $551,000 during the quarter ended September 30, 2022 to $6,471,000, as compared to $5,920,000 at June 30, 2022. Non-performing loans were $17,471,000 at September 30, 2022, an increase of $5,546,000 from $11,925,000 as of June 30, 2022, and a decrease of $11,319,000 from $28,790,000 as of September 30, 2021. The current quarter change in non-performing assets is nearly entirely attributed to a single agriculture production relationship, which also was the primary contributor to the increase in specific reserves for the quarter.

The following table illustrates the total loans by risk rating and their respective percentage of total loans for the periods presented.

| (dollars in thousands) | September 30, 2022 | % of Total Loans | June 30, 2022 | % of Total Loans | September 30, 2021 | % of Total Loans |
|---|---|---|---|---|---|---|
| Risk Rating: | | | | | | |
| Pass | $ 6,133,805 | 97.1 % | $ 5,960,781 | 97.5 % | $ 4,698,475 | 96.1 % |
| Special Mention | 126,273 | 2.0 % | 105,819 | 1.7 % | 138,699 | 2.9 % |
| Substandard | 54,212 | 0.9 % | 46,821 | 0.8 % | 50,322 | 1.0 % |
| Total | $ 6,314,290 | | $ 6,113,421 | | $ 4,887,496 | |
| | | | | | | |
| Classified loans to total loans | 0.86 % | | 0.77 % | | 1.03 % | |
| Loans past due 30+ days to total loans | 0.10 % | | 0.10 % | | 0.22 % | |

The ratio of classified loans increased to 0.86% as of September 30, 2022 as compared to 0.77% in the trailing quarter, but improved by 17 basis points from the equivalent period in 2021. The Company's criticized loan balances increased during the current quarter by approximately $27,846,000 to $180,486,000 as of September 30, 2022. There were no charge-offs incurred in connection with these loans and management continues to work toward resolution with the borrowers.

There were two properties added to other real estate owned totaling $443,000 during the quarter ended September 30, 2022, and two disposals totaling $394,000. As of September 30, 2022, other real estate owned consisted of nine properties with a carrying value of approximately $3,441,000.

Non-performing assets of $20,912,000 at September 30, 2022 represented 0.21% of total assets, a slight change but generally in line with the $15,304,000 or 0.15% and $31,440,000 or 0.37% as of June 30, 2022 and September 30, 2021, respectively.

**SBA Paycheck Protection Program and COVID Deferrals**

In March 2020 (Round 1) and subsequently in December 2020 (Round 2), the Small Business Administration ("SBA") Paycheck Protection Program ("PPP") was created to help small businesses keep workers employed during the COVID-19 crisis. Tri Counties Bank, through its online portal, facilitated the ability for borrowers to open a new deposit account and submit PPP applications during the entirety of the Programs. The SBA ended PPP and did not accept new borrowing applications, effective May 31, 2021. The following is a summary of PPP loan related information as of the periods indicated:

The following is a summary of PPP loan related information as of the periods indicated:

| (dollars in thousands) | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|---|---|---|---|
| Total number of PPP loans outstanding | 16 | 450 | 1,449 |
| | | | |
| PPP loan balance (TCBK round 1 origination), gross | $ 433 | $ 2,544 | $ 9,302 |
| PPP loan balance (TCBK round 2 origination), gross | 533 | 60,767 | 148,159 |
| Acquired PPP loan balance (VRB origination), gross | 1,003 | — | — |
| Total PPP loans, gross outstanding | $ 1,969 | $ 63,311 | $ 157,461 |
| | | | |
| PPP deferred loan fees (Round 1 origination) | — | 1 | 40 |
| PPP deferred loan fees (Round 2 origination) | 27 | 2,163 | 5,973 |
| Total PPP deferred loan fees (costs) outstanding | $ 27 | $ 2,164 | $ 6,013 |

As of September 30, 2022, there was approximately $27,000 in net deferred fee income remaining to be recognized. During the three months ended September 30, 2022, the Company recognized $291,000 in fees on PPP loans as compared with $872,000 and $2,984,000 for the three months ended June 30, 2022 and September 30, 2021, respectively. Based on the payment guarantee provided by the SBA as well as the expected short-term duration of the PPP loans acquired from VRB, the fair value of these loans approximates the principal balance outstanding as of the merger date, and therefore, no purchase discount was recorded.

**Non-interest Income**

The following table summarizes the Company's non-interest income for the periods indicated (in thousands):

| | Three months ended September 30, | | | |
|---|---|---|---|---|
| (in thousands) | 2022 | 2021 | $ Change | % Change |
| ATM and interchange fees | $ 6,714 | $ 6,516 | $ 198 | 3.0 % |
| Service charges on deposit accounts | 4,436 | 3,608 | 828 | 22.9 % |
| Other service fees | 1,022 | 897 | 125 | 13.9 % |
| Mortgage banking service fees | 477 | 476 | 1 | 0.2 % |
| Change in value of mortgage servicing rights | 33 | (232) | 265 | (114.2)% |
| Total service charges and fees | 12,682 | 11,265 | 1,417 | 12.6 % |
| Increase in cash value of life insurance | 659 | 644 | 15 | 2.3 % |
| Asset management and commission income | 1,020 | 957 | 63 | 6.6 % |
| Gain on sale of loans | 357 | 1,814 | (1,457) | (80.3)% |
| Lease brokerage income | 252 | 183 | 69 | 37.7 % |
| Sale of customer checks | 326 | 107 | 219 | 204.7 % |
| Gain on sale of investment securities | — | — | — | n/m |
| (Loss) gain on marketable equity securities | (115) | (14) | (101) | 721.4 % |
| Other | 459 | 139 | 320 | 230.2 % |
| Total other non-interest income | 2,958 | 3,830 | (872) | (22.8)% |
| Total non-interest income | $ 15,640 | $ 15,095 | $ 545 | 3.6 % |

Non-interest income increased $545,000 or 3.6% to $15,640,000 during the three months ended September 30, 2022, compared to $15,095,000 during the quarter ended September 30, 2021. Generally, the increases in recurring non-interest income items reflects the VRB merger timing. As noted above, decreasing mortgage related activity reduced the gain on sale of loans recorded during the quarter by $1,457,000 or 80.3%, as compared to the three months ended September 30, 2021. Further, changes in the value of mortgage service rights, while lesser in magnitude, typically have an inverse relationship with changes in mortgage banking activities.

| | Nine months ended September 30, | | | |
|---|---|---|---|---|
| (in thousands) | 2022 | 2021 | $ Change | % Change |
| ATM and interchange fees | $ 19,941 | $ 18,935 | $ 1,006 | 5.3 % |
| Service charges on deposit accounts | 12,433 | 10,339 | 2,094 | 20.3 % |
| Other service fees | 3,183 | 2,682 | 501 | 18.7 % |
| Mortgage banking service fees | 1,422 | 1,406 | 16 | 1.1 % |
| Change in value of mortgage servicing rights | 443 | (691) | 1,134 | (164.1)% |
| Total service charges and fees | 37,422 | 32,671 | 4,751 | 14.5 % |
| Increase in cash value of life insurance | 2,049 | 2,062 | (13) | (0.6)% |
| Asset management and commission income | 2,946 | 2,738 | 208 | 7.6 % |
| Gain on sale of loans | 2,145 | 7,908 | (5,763) | (72.9)% |
| Lease brokerage income | 648 | 542 | 106 | 19.6 % |
| Sale of customer checks | 871 | 342 | 529 | 154.7 % |
| Gain on sale of investment securities | — | — | — | n/m |
| Loss on marketable equity securities | (346) | (59) | (287) | 486.4 % |
| Other | 1,431 | 958 | 473 | 49.4 % |
| Total other non-interest income | 9,744 | 14,491 | (4,747) | (32.8)% |
| Total non-interest income | $ 47,166 | $ 47,162 | $ 4 | — % |

The changes in non-interest income for the nine months ended September 30, 2022 and 2021 are generally consistent with changes in the three months periods discussed above.

**Non-interest Expense**

The following table summarizes the Company's non-interest expense for the periods indicated:

| (in thousands) | Three months ended September 30, 2022 | 2021 | $ Change | % Change |
|---|---|---|---|---|
| Base salaries, net of deferred loan origination costs | $ 22,377 | $ 17,673 | $ 4,704 | 26.6 % |
| Incentive compensation | 4,832 | 3,123 | 1,709 | 54.7 % |
| Benefits and other compensation costs | 6,319 | 5,478 | 841 | 15.4 % |
| Total salaries and benefits expense | 33,528 | 26,274 | 7,254 | 27.6 % |
| Occupancy | 3,965 | 3,771 | 194 | 5.1 % |
| Data processing and software | 3,449 | 3,689 | (240) | (6.5)% |
| Equipment | 1,422 | 1,336 | 86 | 6.4 % |
| Intangible amortization | 1,702 | 1,409 | 293 | 20.8 % |
| Advertising | 990 | 966 | 24 | 2.5 % |
| ATM and POS network charges | 1,694 | 1,692 | 2 | 0.1 % |
| Professional fees | 1,172 | 1,090 | 82 | 7.5 % |
| Telecommunications | 575 | 574 | 1 | 0.2 % |
| Regulatory assessments and insurance | 828 | 673 | 155 | 23.0 % |
| Merger and acquisition expense | — | 651 | (651) | n/m |
| Postage | 287 | 156 | 131 | 84.0 % |
| Operational losses | 492 | 244 | 248 | 101.6 % |
| Courier service | 497 | 286 | 211 | 73.8 % |
| Gain on sale or acquisition of foreclosed assets | (148) | (144) | (4) | 2.8 % |
| Loss (gain) on disposal of fixed assets | 4 | (19) | 23 | (121.1)% |
| Other miscellaneous expense | 4,008 | 3,159 | 849 | 26.9 % |
| Total other non-interest expense | 20,937 | 19,533 | 1,404 | 7.2 % |
| Total non-interest expense | $ 54,465 | $ 45,807 | $ 8,658 | 18.9 % |
| Average full time equivalent staff | 1,198 | 1,049 | 149 | 14.2 % |

Generally, the increases in recurring non-interest expense items reflect the VRB merger timing of March 25, 2022, and therefore, related expenses for the combined entities, less certain realized cost savings, are only being captured within the most recent three months ended September 30, 2022. Total non-interest expense increased $8,658,000 or 18.9% to $54,465,000 during the three months ended September 30, 2022 as compared to $45,807,000 for the quarter ended September 30, 2021. Total salaries and benefits expense increased by $7,254,000 or 27.6% to $33,528,000, largely from a net increase of 99 full-time equivalent positions following the aforementioned merger with VRB, the build out of other loan production and compliance teams, and the continued strength of organic growth within the loan portfolio driving incentive compensation expense.

| (in thousands) | Nine months ended September 30, 2022 | 2021 | $ Change | % Change |
|---|---|---|---|---|
| Base salaries, net of deferred loan origination costs | $ 62,762 | $ 50,721 | $ 12,041 | 23.7 % |
| Incentive compensation | 11,697 | 11,025 | 672 | 6.1 % |
| Benefits and other compensation costs | 18,782 | 16,939 | 1,843 | 10.9 % |
| Total salaries and benefits expense | 93,241 | 78,685 | 14,556 | 18.5 % |
| Occupancy | 11,536 | 11,197 | 339 | 3.0 % |
| Data processing and software | 10,558 | 10,092 | 466 | 4.6 % |
| Equipment | 4,208 | 4,060 | 148 | 3.6 % |
| Intangible amortization | 4,632 | 4,271 | 361 | 8.5 % |
| Advertising | 2,445 | 2,080 | 365 | 17.5 % |
| ATM and POS network charges | 4,850 | 4,489 | 361 | 8.0 % |
| Professional fees | 3,281 | 2,730 | 551 | 20.2 % |
| Telecommunications | 1,660 | 1,719 | (59) | (3.4)% |
| Regulatory assessments and insurance | 2,327 | 1,903 | 424 | 22.3 % |
| Merger and acquisition expense | 6,253 | 651 | 5,602 | n/m |
| Postage | 828 | 478 | 350 | 73.2 % |
| Operational losses | 765 | 665 | 100 | 15.0 % |
| Courier service | 1,397 | 868 | 529 | 60.9 % |
| Gain on sale or acquisition of foreclosed assets | (246) | (210) | (36) | 17.1 % |
| Gain on disposal of fixed assets | (1,069) | (445) | (624) | 140.2 % |
| Other miscellaneous expense | 10,510 | 8,363 | 2,147 | 25.7 % |
| Total other non-interest expense | 63,935 | 52,911 | 11,024 | 20.8 % |
| Total non-interest expense | $ 157,176 | $ 131,596 | $ 25,580 | 19.4 % |
| Average full-time equivalent staff | 1,155 | 1,031 | 124 | 12.0 % |

The changes in non-interest expense for the nine months ended September 30, 2022 and 2021 are generally consistent with changes in the comparable three months periods discussed above.

**Income Taxes**

The Company’s effective tax rate was 27.5% for the nine months ended September 30, 2022, as compared to 28.1% for the year ended December 31, 2021. Differences between the Company's effective tax rate and applicable federal and state blended statutory rate of approximately 29.6% are due to the proportion of non-taxable revenues, non-deductible expenses, and benefits from tax credits as compared to the levels of pre-tax earnings.

**Financial Condition**

For financial reporting purposes, the Company does not separately track the changes in assets and liabilities based on branch location or regional geography. The following is a comparison of the quarterly change in certain assets and liabilities:

| Ending balances (dollars in thousands) | September 30, 2022 | June 30, 2022 | $ Change | Annualized % Change |
|---|---|---|---|---|
| Total assets | $ 9,976,879 | $ 10,120,611 | $ (143,732) | (5.7)% |
| Total loans | 6,314,290 | 6,113,421 | 200,869 | 13.1 % |
| Total loans, excluding PPP | 6,312,348 | 6,095,667 | 216,681 | 14.2 % |
| Total investments | 2,668,145 | 2,802,815 | (134,670) | (19.2)% |
| Total deposits | $ 8,655,769 | $ 8,756,775 | $ (101,006) | (4.6)% |

Organic loan growth, excluding PPP, of $216,681,000 or 14.2% on an annualized basis was realized during the quarter ended September 30, 2022, primarily within commercial real estate. During the quarter, and exclusive of PPP balance changes, loan originations/draws totaled approximately $737.0 million while payoffs/repayments of loans totaled $536.0 million, which compares to origination/draws and payoff/repayments activity during the three months ended June 30, 2022 of $697.0 million and $397.0 million, respectively. While management believes that loan pipelines remain sufficient to support loan growth, loan pipeline activity may moderate as customer awareness of the rising interest rate environment weighs more heavily on their decision making criteria. Investment security balances decreased $134,670,000 or 19.2% on an annualized basis as the result of declines in market values grew, and prepayments or maturities from the portfolio were utilized to augment the Company's overall balance sheet position. Deposit balances also decreased, with a change of $101,006,000 or 4.6% annualized during the period.

The following is a comparison of the year over year change in certain assets and liabilities:

| Ending balances | As of September 30, 2022 | | | | | |
|---|---|---|---|---|---|---|
| (dollars in thousands) | 2022 | 2021 | $ Change | Acquired Balances | Organic $ Change | Organic % Change |
| Total assets | $ 9,976,879 | $ 8,458,030 | $ 1,518,849 | $ 1,363,529 | $ 155,320 | 1.8 % |
| Total loans | 6,314,290 | 4,887,496 | 1,426,794 | 773,390 | 653,404 | 13.4 |
| Total loans, excluding PPP | 6,312,348 | 4,736,048 | 1,576,300 | 751,978 | 824,322 | 17.4 |
| Total investments | 2,668,145 | 2,333,015 | 335,130 | 109,716 | 225,414 | 9.7 |
| Total deposits | $ 8,655,769 | $ 7,236,822 | $ 1,418,947 | $ 1,215,479 | $ 203,468 | 2.8 % |

Non-PPP loan balances have increased as a result of organic activities by approximately $824.3 million during the twelve month period ending September 30, 2022. Investment securities increased to $2.7 billion at September 30, 2022, an organic change of $225.4 million or 9.7% from the prior year. When combined with balances acquired from Valley Republic Bank, this represents an increase of nearly $1.8 billion in earning assets during the last twelve months.

### Investment Securities

Investment securities available for sale increased $272,327,000 to $2,480,265,000 as of September 30, 2022, compared to December 31, 2021. This increase is primarily supported by deposit growth and available cash reserves. There were no sales of investment securities during the three and nine months ended September 30, 2022 and 2021, respectively.

The following table presents the available for sale debt securities portfolio by major type as of September 30, 2022 and December 31, 2021:

| | September 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| (in thousands) | Fair Value | % | Fair Value | % |
| Debt securities available for sale: | | | | |
| Obligations of U.S. government agencies | $ 1,389,915 | 56.0 % | $ 1,257,389 | 57.0 % |
| Obligations of states and political subdivisions | 283,123 | 11.5 % | 192,244 | 8.7 % |
| Corporate bonds | 5,858 | 0.2 % | 6,756 | 0.3 % |
| Asset backed securities | 453,801 | 18.3 % | 409,552 | 18.5 % |
| Non-agency collateralized mortgage obligations | 347,568 | 14.0 % | 341,997 | 15.5 % |
| Total debt securities available for sale | $ 2,480,265 | 100.0 % | $ 2,207,938 | 100.0 % |

| | September 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| (in thousands) | Amortized Cost | % | Amortized Cost | % |
| Debt securities held to maturity: | | | | |
| Obligations of U.S. government and agencies | $ 161,581 | 96.2 % | $ 192,068 | 96.1 % |
| Obligations of states and political subdivisions | 6,457 | 3.8 % | 7,691 | 3.9 % |
| Total debt securities held to maturity | $ 168,038 | 100.0 % | $ 199,759 | 100.0 % |

Investment securities held to maturity decreased $31,721,000 to $168,038,000 as of September 30, 2022, as compared to December 31, 2021. This decrease is attributable to calls and principal repayments of $31,421,000, and amortization of net purchase premiums of $6,564,000.

### Loans

The Company concentrates its lending activities in six principal areas: commercial real estate loans, consumer loans, commercial and industrial loans, construction loans, agriculture production loans and leases. The interest rates charged for the loans made by the Company vary with the degree of risk, the size and maturity of the loans, the borrower’s relationship with the Company and prevailing money market rates indicative of the Company’s cost of funds.

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

The following table shows the Company's loan balances, net deferred loan costs and discounts, as of the dates indicated:

| (in thousands) | September 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| Commercial real estate | $ 4,238,930 | 67.1 % | $ 3,306,054 | 67.2 % |
| Consumer | 1,217,297 | 19.3 % | 1,071,551 | 21.8 % |
| Commercial and industrial | 534,960 | 8.5 % | 259,355 | 5.3 % |
| Construction | 243,571 | 3.9 % | 222,281 | 4.5 % |
| Agriculture production | 71,599 | 1.1 % | 50,811 | 1.1 % |
| Leases | 7,933 | 0.1 % | 6,572 | 0.1 % |
| Total loans | $ 6,314,290 | 100.0 % | $ 4,916,624 | 100.0 % |

### Nonperforming Assets

The following tables set forth the amount of the Company's NPAs as of the dates indicated. "Performing nonaccrual loans" are loans that may be current for both principal and interest payments, or are less than 90 days past due, but for which payment in full of both principal and interest is not expected, and are not well secured and in the process of collection:

| (in thousands) | September 30, 2022 | December 31, 2021 |
|---|---|---|
| Performing nonaccrual loans | $ 15,215 | $ 27,713 |
| Nonperforming nonaccrual loans | 2,251 | 2,637 |
| Total nonaccrual loans | 17,466 | 30,350 |
| Loans 90 days past due and still accruing | 5 | — |
| Total nonperforming loans | 17,471 | 30,350 |
| Foreclosed assets | 3,441 | 2,594 |
| Total nonperforming assets | $ 20,912 | $ 32,944 |
| Nonperforming assets to total assets | 0.21 % | 0.38 % |
| Nonperforming loans to total loans | 0.27 % | 0.62 % |
| Allowance for credit losses to nonperforming loans | 581 % | 294 % |

**Changes in nonperforming assets during the three months ended September 30, 2022**

| (in thousands) | Balance at June 30, 2022 | New NPA / Valuation Adjustments | Pay-downs /Sales /Upgrades | Charge-offs/ [1] Write-downs | Transfers to Foreclosed Assets | Balance at September 30, 2022 |
|---|---|---|---|---|---|---|
| Commercial real estate: | | | | | | |
| CRE non-owner occupied | $ 2,161 | $ — | $ (129) | $ — | $ — | $ 2,032 |
| CRE owner occupied | 1,441 | 648 | (27) | — | (284) | 1,778 |
| Multifamily | 140 | — | (8) | — | — | 132 |
| Farmland | 363 | 335 | (3) | — | — | 695 |
| Total commercial real estate loans | 4,105 | 983 | (167) | — | (284) | 4,637 |
| Consumer | | | | | | |
| SFR 1-4 1st DT liens | 3,323 | 349 | (258) | — | (159) | 3,255 |
| SFR HELOCs and junior liens | 3,315 | 479 | (429) | — | — | 3,365 |
| Other | 108 | 15 | (2) | (60) | — | 61 |
| Total consumer loans | 6,746 | 843 | (689) | (60) | (159) | 6,681 |
| Commercial and industrial | 954 | 67 | (279) | (82) | — | 660 |
| Construction | 120 | — | — | — | — | 120 |
| Agriculture production | — | 5,373 | — | — | — | 5,373 |
| Leases | — | — | — | — | — | — |
| Total nonperforming loans | 11,925 | 7,266 | (1,135) | (142) | (443) | 17,471 |
| Foreclosed assets | 3,379 | 13 | (394) | — | 443 | 3,441 |
| Total nonperforming assets | $ 15,304 | $ 7,279 | $ (1,529) | $ (142) | $ — | $ 20,912 |

[1] The table above does not include deposit overdraft charge-offs.

Nonperforming assets increased during the three months ended September 30, 2022 by $5,608,000 or 36.6% to $20,912,000 at September 30, 2022 compared to $15,304,000 at June 30, 2022. The increase in nonperforming assets during the third quarter of 2022 was primarily the result of nonperforming loans added during the period totaling $7,266,000.  Management is actively engaged in the collection and recovery efforts for all nonperforming assets and believes that the credit loss reserves associated with these loans is sufficient as of September 30, 2022.

**Loan charge-offs during the three months ended September 30, 2022**

In the third quarter of 2022, the Company recorded $142,000 in loan charge-offs and $125,000 in deposit overdraft charge-offs less $281,000 in loan recoveries and $29,000 in deposit overdraft recoveries, which collectively resulted in $44,000 of net recoveries.

Table of Contents

**Changes in nonperforming assets during the nine months ended September 30, 2022**

| (in thousands) | Balance at December 31, 2021 | New NPA / Valuation Adjustments | Pay-downs /Sales /Upgrades | Charge-offs/ [1] Write-downs | Transfers to Foreclosed Assets | Balance at September 30, 2022 |
|---|---|---|---|---|---|---|
| Commercial real estate: | | | | | | |
| CRE non-owner occupied | $ 7,899 | $ 2,214 | $ (8,081) | $ — | $ — | $ 2,032 |
| CRE owner occupied | 5,036 | 648 | (3,622) | — | (284) | 1,778 |
| Multifamily | 4,457 | — | (4,325) | — | — | 132 |
| Farmland | 3,020 | 726 | (2,444) | (294) | (313) | 695 |
| Total commercial real estate loans | 20,412 | 3,588 | (18,472) | (294) | (597) | 4,637 |
| Consumer | | | | | | |
| SFR 1-4 1st DT liens | 3,596 | 722 | (904) | — | (159) | 3,255 |
| SFR HELOCs and junior liens | 3,801 | 2,092 | (2,153) | — | (375) | 3,365 |
| Other | 71 | 141 | (28) | (123) | — | 61 |
| Total consumer loans | 7,468 | 2,955 | (3,085) | (123) | (534) | 6,681 |
| Commercial and industrial | 2,415 | 711 | (1,819) | (647) | — | 660 |
| Construction | 55 | 85 | (20) | — | — | 120 |
| Agriculture production | — | 5,373 | — | — | — | 5,373 |
| Leases | — | — | — | — | — | — |
| Total nonperforming loans | 30,350 | 12,712 | (23,396) | (1,064) | (1,131) | 17,471 |
| Foreclosed assets | 2,594 | 110 | (393) | — | 1,131 | 3,442 |
| Total nonperforming assets | $ 32,944 | $ 12,822 | $ (23,789) | $ (1,064) | $ — | $ 20,913 |

**The Components of the Allowance for Credit Losses for Loans**

The following table sets forth the allowance for credit losses as of the dates indicated:

| (in thousands) | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|---|---|---|---|
| Allowance for credit losses: | | | |
| Qualitative and forecast factor allowance | $ 67,825 | $ 59,855 | $ 58,998 |
| Cohort model allowance reserves | 31,844 | 24,539 | 24,475 |
| Allowance for individually evaluated loans | 1,819 | 982 | 833 |
| Total allowance for credit losses | $ 101,488 | $ 85,376 | $ 84,306 |
| Allowance for credit losses for loans / total loans | 1.61 % | 1.74 % | 1.72 % |

For additional information regarding the allowance for loan losses, including changes in specific, formula, and environmental factors allowance categories, see *"Asset Quality and Loan Loss Provisioning"* at *"Results of Operations"*, above. Based on the current conditions of the loan portfolio, management believes that the $101,488,000 allowance for loan losses at September 30, 2022 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 the allocation of the allowance for credit losses between loan types and by percentage of the total allowance for loan losses as of the dates indicated:

| (in thousands) | September 30, 2022 | | December 31, 2021 | | September 30, 2021 | |
|---|---|---|---|---|---|---|
| Commercial real estate | $ 58,640 | 57.8 % | 51,140 | 59.9 % | $ 50,729 | 60.2 % |
| Consumer | 23,932 | 23.6 % | 23,474 | 27.5 % | 23,491 | 27.9 % |
| Commercial and industrial | 10,400 | 10.2 % | 3,862 | 4.5 % | 3,427 | 4.1 % |
| Construction | 6,132 | 6.0 % | 5,667 | 6.7 % | 5,528 | 6.6 % |
| Agriculture production | 2,368 | 2.3 % | 1,215 | 1.4 % | 1,119 | 1.2 % |
| Leases | 16 | 0.1 % | 18 | — % | 12 | — % |
| Total allowance for credit losses | $ 101,488 | 100.0 % | 85,376 | 100.0 % | $ 84,306 | 100.0 % |

The following table summarizes the allocation of the allowance for credit losses as a percentage of the total loans for each loan category as of the dates indicated:

| (in thousands) | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|---|---|---|---|
| Commercial real estate | 1.38 % | 1.55 % | 1.57 % |
| Consumer | 1.97 % | 2.19 % | 2.22 % |
| Commercial and industrial | 1.94 % | 1.49 % | 0.99 % |
| Construction | 2.52 % | 2.55 % | 2.55 % |
| Agriculture production | 3.31 % | 2.39 % | 2.52 % |
| Leases | 0.20 % | 0.27 % | 0.24 % |
| Total loans | 1.61 % | 1.74 % | 1.72 % |

Table of Contents

The following table summarizes the activity in the allowance for credit losses for the periods indicated:

| (in thousands) | Three months ended September 30, 2022 | Three months ended September 30, 2021 | Nine months ended September 30, 2022 | Nine months ended September 30, 2021 |
|---|---|---|---|---|
| Allowance for credit losses: | | | | |
| Balance at beginning of period | $ 97,944 | $ 86,062 | $ 85,376 | $ 91,847 |
| ACL on PCD loans | — | — | 2,037 | — |
| Provision for (reversal of) loan losses | 3,500 | (1,495) | 13,645 | (7,880) |
| Loans charged-off: | | | | |
| Commercial real estate: | | | | |
| CRE non-owner occupied | — | — | — | — |
| CRE owner occupied | — | (18) | — | (18) |
| Multifamily | — | — | — | — |
| Farmland | — | (126) | (294) | (126) |
| Consumer: | | | | |
| SFR 1-4 1st DT liens | — | (145) | — | (145) |
| SFR HELOCs and junior liens | — | — | — | — |
| Other | (185) | (181) | (470) | (460) |
| Commercial and industrial | (82) | (1,112) | (647) | (1,446) |
| Construction | — | — | — | — |
| Agriculture production | — | — | — | — |
| Leases | — | — | — | — |
| Total loans charged-off | (267) | (1,582) | (1,411) | (2,195) |
| Recoveries of previously charged-off loans: | | | | |
| Commercial real estate: | | | | |
| CRE non-owner occupied | 1 | 10 | 1 | 12 |
| CRE owner occupied | 1 | 793 | 2 | 794 |
| Multifamily | — | — | — | — |
| Farmland | — | — | — | — |
| Consumer: | | | | |
| SFR 1-4 1st DT liens | 38 | 1 | 79 | 12 |
| SFR HELOCs and junior liens | 98 | 63 | 426 | 860 |
| Other | 53 | 97 | 200 | 262 |
| Commercial and industrial | 119 | 355 | 1,130 | 570 |
| Construction | — | — | — | — |
| Agriculture production | 1 | 2 | 3 | 24 |
| Leases | — | — | — | — |
| Total recoveries of previously charged-off loans | 311 | 1,321 | 1,841 | 2,534 |
| Net recoveries | 44 | (261) | 430 | 339 |
| Balance at end of period | $ 101,488 | $ 84,306 | $ 101,488 | $ 84,306 |
| Average total loans | $ 6,171,042 | $ 4,897,922 | $ 5,700,342 | $ 4,880,298 |
| Ratios (annualized): | | | | |
| Net recoveries (charge-offs) during period to average loans outstanding during period | — % | (0.02)% | 0.02 % | 0.01 % |
| Provision for credit losses (benefit from reversal of) to average loans outstanding during period | 0.11 % | (0.12)% | 0.48 % | (0.32)% |

### Foreclosed Assets, Net of Allowance for Losses

The following table details the components and summarize the activity in foreclosed assets, net of allowances for losses, for the nine months ended September 30, 2022:

| (in thousands) | Balance at December 31, 2021 | Sales | Valuation Adjustments | Transfers from Loans | Balance at September 30, 2022 |
|---|---|---|---|---|---|
| Land & construction | $ 155 | $ — | $ — | $ 313 | $ 468 |
| Residential real estate | 1,258 | (394) | — | 534 | 1,398 |
| Commercial real estate | 1,181 | — | 110 | 284 | 1,575 |
| Total foreclosed assets | $ 2,594 | $ (394) | $ 110 | $ 1,131 | $ 3,441 |

### Deposits

During the three months ended September 30, 2022, the Company’s deposits decreased by $101,006,000. During the 12-month period ended September 30, 2022, the Company's deposits have increased by $1,418,947,000, including $1,215,479,000 that were acquired through the VRB merger.

### Off-Balance Sheet Arrangements

See Note 9 to the condensed consolidated financial statements at Item 1 of Part I of this report for information about the Company’s commitments and contingencies including off-balance-sheet arrangements.

### Capital Resources

The current and projected capital position of the Company and the impact of capital plans and long-term strategies are reviewed regularly by Management.

On February 25, 2021 the Board of Directors authorized the repurchase of up to 2,000,000 shares of the Company's common stock (the 2021 Repurchase Plan), which approximated 6.7% of the shares outstanding as of the approval date. The actual timing of any share repurchases will be determined by the Company's management and therefore the total value of the shares to be purchased under the 2021 Repurchase Plan is subject to change. The Company may repurchase its outstanding shares of common stock from time to time in open market or privately-negotiated transactions, including block trades, or pursuant to 10b5-1 trading plans. The 2021 Repurchase Plan has no expiration date (in accordance with applicable laws and regulations).

During the three and nine month period ended September 30, 2022, the Company repurchased 45,132 and 571,881 shares with a market value of $2,059,000 and $23,809,000, respectively. Management's decisions as to the timing and extent of share repurchases is influenced by a variety of factors, including but not limited to; the market ask price for TCBK stock, internal capital adequacy projections and projected regulatory capital ratios.

Total shareholders' equity decreased by $51,839,000 during the quarter ended September 30, 2022, as a result of an increase in accumulated other comprehensive losses of $76,740,000, share repurchases totaling approximately $2,059,000 and cash dividend payments on common stock of $10,004,000, partially offset by net income of $37,338,000. As a result, the Company’s book value was $29.71 per share at September 30, 2022 as compared to $31.25 and $33.05 at June 30, 2022, and September 30, 2021, respectively. Changes in the book value were also impacted by the issuance of common stock associated with the acquisition of VRB. The Company’s tangible book value per share, a non-GAAP measure, calculated by subtracting goodwill and other intangible assets from total shareholders’ equity and dividing that sum by total shares outstanding, was $19.92 per share at September 30, 2022, as compared to $21.41 and $25.16 at June 30, 2022, and September 30, 2021, respectively.

### Trailing Quarter Balance Sheet Change

| | September 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| | Ratio | Minimum Regulatory Requirement | Ratio | Minimum Regulatory Requirement |
| Total risk based capital | 14.0 % | 10.5 % | 15.4 % | 10.5 % |
| Tier I capital | 12.2 % | 8.5 % | 14.2 % | 8.5 % |
| Common equity Tier 1 capital | 11.4 % | 7.0 % | 13.2 % | 7.0 % |
| Leverage | 9.6 % | 4.0 % | 9.9 % | 4.0 % |

See Note 10 and Note 16 to the condensed consolidated financial statements at Item 1 of Part I of this report for additional information about the Company’s capital resources.

As of September 30, 2022, we had an effective shelf registration statement on file with the Securities and Exchange Commission that allows us to issue various types of debt securities, as well as common stock, preferred stock, warrants, depository shares representing fractional interest in shares of preferred stock, purchase contracts and units from time to time in one or more offerings. Each issuance under the shelf registration statement will require the filing of a prospectus supplement identifying the amount and terms of the securities to be issued. The registration statement does not limit the amount of securities that may be issued thereunder. Our ability to issue securities is subject to market conditions and other factors including, in the case of our debt securities, our credit ratings and compliance with current and prospective covenants in credit agreements.

**Liquidity**

The Company's principal source of asset liquidity is cash maintained at the Federal Reserve Bank of San Francisco ("Federal Reserve") and other banks and marketable investment securities classified as available for sale. As of September 30, 2022, Federal Reserve required cash reserve ratios continue to be temporarily reduced to zero as a response to the worldwide COVID-19 pandemic and on-going impact on supply chains and the energy markets. The Company's profitability during the first nine months of 2022 generated cash flows from operations of $107,991,000 compared to $99,919,000 during the first nine months of 2021. Net cash used by investing activities was $648,487,000 for the nine months ended September 30, 2022, compared to net cash used by investing activities of $752,929,000 during the nine months ending 2021. Financing activities provided $18,584,000 during the nine months ended September 30, 2022, compared to $723,695,000 used during the nine months ended September 30, 2021. During the nine months ended September 30, 2022 cash acquired in connection with the VRB merger of $426,883,000 and proceeds from the maturity of available for sale securities of $212,501,000 were the largest contributors to the source of funding that facilitated net organic loan growth of approximately $626,000,000 and net organic investment security growth of approximately $162,000,000, inclusive of changes in the fair value of available for sale investment securities, compared to an increase of deposit balances of $730,888,000 during the same period in 2021.

The changes in contractual obligations of the Company and Bank, to include but not limited to term subordinated debt, operating leases, deferred compensation and supplemental retirement plans as well as off-balance sheet commitments such as unfunded loans and letters of credit. These contractual obligations increased as a result of the merger with VRB during the quarter ended March 31, 2022, but organically, remained otherwise consistent with similar balances or totals as of December 31, 2021.

The following table identified certain liquidity source and capacity available to the Company as of the dates indicated:

| (in thousands) | September 30, 2022 | December 31, 2021 |
|---|---|---|
| FHLB advances | | |
| Borrowing capacity | $ 2,434,714 | $ 2,251,285 |
| Amount utilized | — | — |
| Letters of credit | — | — |
| Amount available | 2,434,714 | 2,251,285 |
| | | |
| FRB discount window | | |
| Borrowing capacity | $ 255,603 | $ 184,694 |
| Amount utilized | — | — |
| Amount available | 255,603 | 184,694 |
| | | |
| Unsecured lines of credit available | $ 60,000 | $ 60,000 |
| | | |
| Unencumbered debt securities | $ 2,071,334 | $ 1,984,241 |

The Company is dependent upon the payment of cash dividends by the Bank to service its commitments, which have historically included dividends to shareholders, scheduled debt service payments, and general operations. Shareholder dividends are expected to continue subject to the Board's discretion and management's continuing evaluation of capital levels, earnings, asset quality and other factors. The Company expects that the cash dividends paid by the Bank to the Company will be sufficient to cover the Company's cash flow needs. However, the Company and its ability to generate liquidity through either the issuance of stock or debt, also serves as a potential source of strength for the Bank. Dividends paid by the Company to holders of its common stock used $25,796,000 and $22,291,000 of cash during the nine months ended September 30, 2022 and 2021, respectively. The Company's liquidity is dependent on dividends received from the Bank. Dividends from the Bank are subject to certain regulatory restrictions.

**TRICO BANCSHARES—NON-GAAP FINANCIAL MEASURES**
(Unaudited. Dollars in thousands)

In addition to results presented in accordance with generally accepted accounting principles in the United States of America (GAAP), this filing contains certain non-GAAP financial measures. Management has presented these non-GAAP financial measures in this filing because it believes that they provide useful and comparative information to assess trends in the Company's core operations reflected in the current quarter's results, and facilitate the comparison of our performance with the performance of our peers. However, these non-GAAP financial measures are supplemental and are not a substitute for any analysis based on GAAP. Where applicable, comparable earnings information using GAAP financial measures is also presented. Because not all companies use the same calculations, our presentation may not be comparable to other similarly titled measures as calculated by other companies. For a reconciliation of these non-GAAP financial measures, see the tables below:

| | Three months ended | | | Nine months ended | |
|---|---|---|---|---|---|
| (dollars in thousands) | September 30, 2022 | June 30, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
| **Net interest margin** | | | | | |
| *Acquired loans discount accretion, net:* | | | | | |
| Amount (included in interest income) | $714 | $1,677 | $2,034 | $3,714 | $6,311 |
| Effect on average loan yield | 0.05 % | 0.11 % | 0.17 % | 0.09 % | 0.18 % |
| Effect on net interest margin (FTE) | 0.03 % | 0.07 % | 0.10 % | 0.06 % | 0.11 % |
| Net interest margin (FTE) | 4.02 % | 3.67 % | 3.50 % | 3.71 % | 3.61 % |
| Net interest margin less effect of acquired loan discount accretion (Non-GAAP) | 3.99 % | 3.60 % | 3.40 % | 3.65 % | 3.50 % |
| *PPP loans yield, net:* | | | | | |
| Amount (included in interest income) | $313 | $964 | $3,507 | $2,374 | $12,549 |
| Effect on net interest margin (FTE) | 0.01 % | 0.02 % | 0.09 % | 0.02 % | 0.08 % |
| Net interest margin less effect of PPP loan yield (Non-GAAP) | 4.02 % | 3.65 % | 3.42 % | 3.69 % | 3.53 % |
| *Acquired loan discount accretion and PPP loan yield, net:* | | | | | |
| Amount (included in interest income) | $1,027 | $2,641 | $5,541 | $6,088 | $18,860 |
| Effect on net interest margin (FTE) | 0.04 % | 0.10 % | 0.19 % | 0.08 % | 0.20 % |
| Net interest margin less effect of acquired loan discount accretion and PPP yields, net (Non-GAAP) | 3.98 % | 3.57 % | 3.31 % | 3.63 % | 3.41 % |

| | Three months ended | | | Nine months ended | |
|---|---|---|---|---|---|
| (dollars in thousands) | September 30, 2022 | June 30, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
| **Pre-tax pre-provision return on average assets or equity** | | | | | |
| Net income (GAAP) | $37,338 | $31,364 | $27,422 | $89,076 | $89,433 |
| Exclude income tax expense | 14,148 | 11,748 | 11,534 | 33,765 | 35,644 |
| Exclude provision (benefit) for credit losses | 3,795 | 2,100 | (1,435) | 14,225 | (7,755) |
| Net income before income tax and provision expense (Non-GAAP) | $55,281 | $45,212 | $37,521 | $137,066 | $117,322 |
| | | | | | |
| Average assets (GAAP) | $10,131,118 | $10,121,714 | $8,348,111 | $9,682,198 | $8,096,273 |
| Average equity (GAAP) | $1,074,776 | $1,091,454 | $987,026 | $1,058,938 | $962,871 |
| | | | | | |
| Return on average assets (GAAP) (annualized) | 1.46 % | 1.24 % | 1.30 % | 1.23 % | 1.48 % |
| Pre-tax pre-provision return on average assets (Non-GAAP) (annualized) | 2.16 % | 1.79 % | 1.78 % | 1.89 % | 1.94 % |
| Return on average equity (GAAP) (annualized) | 13.78 % | 11.53 % | 11.02 % | 11.25 % | 12.42 % |
| Pre-tax pre-provision return on average equity (Non-GAAP) (annualized) | 20.41 % | 16.61 % | 15.08 % | 17.31 % | 16.29 % |

| (dollars in thousands) | Three months ended September 30, 2022 | Three months ended June 30, 2022 | Three months ended September 30, 2021 | Nine months ended September 30, 2022 | Nine months ended September 30, 2021 |
|---|---|---|---|---|---|
| **Return on tangible common equity** | | | | | |
| Average total shareholders' equity | $1,074,776 | $1,091,454 | $987,026 | $1,058,938 | $962,871 |
| Exclude average goodwill | 307,942 | 307,942 | 220,872 | 281,151 | 220,872 |
| Exclude average other intangibles | 19,433 | 21,040 | 14,267 | 17,717 | 19,264 |
| Average tangible common equity (Non-GAAP) | $747,401 | $762,472 | $751,887 | $760,070 | $722,735 |
| | | | | | |
| Net income (GAAP) | $37,338 | $31,364 | $27,422 | $89,076 | $89,433 |
| Exclude amortization of intangible assets, net of tax effect | 1,199 | 1,199 | 992 | 3,263 | 3,008 |
| Tangible net income available to common shareholders (Non-GAAP) | $38,537 | $32,563 | $28,414 | $92,339 | $92,441 |
| | | | | | |
| Return on average equity | 13.78 % | 11.53 % | 11.02 % | 11.25 % | 12.42 % |
| Return on average tangible common equity (Non-GAAP) | 20.46 % | 17.13 % | 14.99 % | 16.24 % | 17.10 % |

| (dollars in thousands) | Three months ended September 30, 2022 | June 30, 2022 | March 31, 2022 | December 31, 2021 | September 30, 2021 |
|---|---|---|---|---|---|
| **Tangible shareholders' equity to tangible assets** | | | | | |
| Shareholders' equity (GAAP) | $990,338 | $1,042,177 | $1,109,182 | $1,000,184 | $982,014 |
| Exclude goodwill and other intangible assets, net | 326,314 | 328,016 | 329,718 | 233,241 | 234,434 |
| Tangible shareholders' equity (Non-GAAP) | $664,024 | $714,161 | $779,464 | $766,943 | $747,580 |
| | | | | | |
| Total assets (GAAP) | $9,976,879 | $10,120,611 | $10,118,328 | $8,614,787 | $8,458,030 |
| Exclude goodwill and other intangible assets, net | 326,314 | 328,016 | 329,718 | 233,241 | 234,434 |
| Total tangible assets (Non-GAAP) | $9,650,565 | $9,792,595 | $9,788,610 | $8,381,546 | $8,223,596 |
| | | | | | |
| Shareholders'  equity to total assets (GAAP) | 9.93 % | 10.30 % | 10.96 % | 11.61 % | 11.61 % |
| Tangible shareholders' equity to tangible assets (Non-GAAP) | 6.88 % | 7.29 % | 7.96 % | 9.15 % | 9.09 % |

| (dollars in thousands) | Three months ended September 30, 2022 | June 30, 2022 | March 31, 2022 | December 31, 2021 | September 30, 2021 |
|---|---|---|---|---|---|
| **Tangible common shareholders' equity per share** | | | | | |
| Tangible s/h equity (Non-GAAP) | $664,024 | $714,161 | $779,464 | $766,943 | $747,580 |
| | | | | | |
| Common shares outstanding at end of period | 33,332,189 | 33,350,974 | 33,837,935 | 29,730,424 | 29,714,609 |
| | | | | | |
| Common s/h equity (book value) per share (GAAP) | $29.71 | $31.25 | $32.78 | $33.64 | $33.05 |
| Tangible common shareholders' equity (tangible book value) per share (Non-GAAP) | $19.92 | $21.41 | $23.04 | $25.80 | $25.16 |

*****************

## Item 3. Quantitative and Qualitative Disclosures about Market Risk

Based on the changes in interest rates occurring subsequent to December 31, 2021, the following update of the Company's assessment of market risk as of September 30, 2022 is being provided. These updates and changes should be read in conjunction with the additional quantitative and qualitative disclosures in our Annual Report on Form 10-K for the year ended December 31, 2021.

During the quarter ended September 30, 2022, market interest rates, including many rates that serve as reference indices for variable rate loans and investment securities continued to increase. As noted above, these rate increases have continued to benefit growth in total interest income. As of September 30, 2022, the Company's loan portfolio consisted of approximately $6.4 billion in outstanding principal with a weighted average coupon rate of 4.65%. Included in the September 30, 2022 loan total are variable rate loans totaling $3.6 billion, of which, $862 million are considered floating based on the Wall Street Prime index. In addition, the Company holds certain investment securities totaling $402 million which are subject to repricing on not less than a quarterly basis.

Management funds the acquisition of nearly all of its earning assets through its core deposit gathering activities. As of September 30, 2022, non-interest bearing deposits increased by approximately $74,000,000 from the trailing quarter end, and represented 42.5% of total deposits. Further, during the quarter ended September 30, 2022, the cost of interest bearing deposits were 0.08% and the cost of total deposits were 0.04%. With the intent of maximizing net interest income and maintaining healthy credit quality, management intends to continue to carefully deploy any excess liquidity and migrate certain earning assets into higher yielding categories, when available (shifting proceeds from investment security prepayment or maturity into loans, for example).

As of September 30, 2022 the overnight Federal funds rate, the rate primarily used in these interest rate shock scenarios, was 3.08%. These scenarios assume that 1) interest rates increase or decrease evenly (in a "ramp" fashion) over a twelve-month period and remain at the new levels beyond twelve months or 2) that interest rates change instantaneously ("shock"). The simulation results shown below assume no changes in the structure of the Company's balance sheet over the twelve months being measured.

The following table summarizes the estimated effect on net interest income and market value of equity to changing interest rates as measured against a flat rate (no interest rate change) instantaneous parallel shock scenario over a twelve month period utilizing a interest sensitivity (GAP) analysis based on the Company's specific mix of interest earning assets and interest bearing liabilities as of September 30, 2022.

Interest Rate Risk Simulations:

| Change in Interest Rates (Basis Points) | Estimated Change in Net Interest Income (NII) (as % of NII) | Estimated Change in Market Value of Equity (MVE) (as % of MVE) |
|---|---|---|
| +300 (shock) | 0.5 % | (2.5)% |
| +200 (shock) | 0.4 % | (1.2)% |
| +100 (shock) | — % | 0.3 % |
| + 0 (flat) | — % | — % |
| -100 (shock) | (4.6)% | (6.5)% |
| -200 (shock) | (9.9)% | (16.6)% |
| -300 (shock) | (14.0)% | (30.1)% |

Basic assumptions include prepayment speeds on mortgage-related assets, cash flows and maturities of other investment securities, loan and deposit volumes and pricing. These assumptions are inherently subjective and may not be realized and, as a result, actual results will differ from our projections. More specifically, non-maturity deposit assumptions include savings accounts that reprice in the third month of the time horizon while all other non-maturity deposits are scheduled to reprice in the sixtieth month. In addition, variances in the timing, magnitude and frequency of interest rate changes, overall market conditions including volumes and pricing, and changes in management strategies, among other factors, will also result in variances between the projected and actual results.

These projections are based on the current interest rate environment and a static balance sheet mix of earning assets and interest sensitive liabilities. While market interest rates have been volatile in recent months, the impact of those changes on the Company's mix of assets and liabilities may not correlate directly to changes in the Company's net interest income or market value of equity. In addition, the Company's ability to reprice deposit costs downward in a falling interest rate scenario is generally constrained under the assumption that negative deposit rates will not be introduced.

## Item 4. Controls and Procedures

The Company's management, including its Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company's disclosure controls and procedures as of September 30, 2022. Disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are controls and procedures designed to reasonably assure that information required to be disclosed in the Company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported on a timely basis. Disclosure controls are also designed to reasonably assure that such information is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based upon their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2022.

During the three months ended September 30, 2022, there were no changes in our internal controls or in other factors that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

## PART II – OTHER INFORMATION

### Item 1 - Legal Proceedings

Due to the nature of our business, we are involved in legal proceedings that arise in the ordinary course of our business. While the outcome of these matters is currently not determinable, we do not expect that the ultimate costs to resolve these matters will have a material adverse effect on our consolidated financial position, results of operations, or cash flows.

### Item 1A - Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors discussed in Part I, “Item 1A. Risk Factors” in our 2021 Annual Report on Form 10-K, which could materially affect our business, financial condition, or results of operations. In the first quarter of 2022, we identified the following additional risk factor:

**Instability in global economic conditions and geopolitical matters, as well as volatility in financial markets, could have a material adverse effect on the Company’s results of operations and financial condition.**

Instability in global economic conditions and geopolitical matters, as well as volatility in financial markets, could have a material adverse effect on the Company’s results of operations and financial condition. The macroeconomic environment in the United States is susceptible to global events and volatility in financial markets. For example, trade negotiations between the U.S. and other nations remain uncertain and could adversely impact economic and market conditions for the Company and its clients and counterparties. In addition, global demand for products may exceed supply during the economic recovery from the COVID-19 pandemic, and such shortages may cause inflation, adversely impact consumer and business confidence, and adversely affect the economy as well as the Company’s financial condition and results.

Specifically, on February 24, 2022, Russian military forces invaded Ukraine, and sustained conflict and disruption in the region is likely. Although the length, impact and outcome of the ongoing war in Ukraine is highly unpredictable, this conflict could lead to significant market and other disruptions, including significant volatility in commodity prices and supply of energy resources, instability in financial markets, supply chain interruptions, political and social instability, changes in consumer or purchaser preferences as well as increase in cyberattacks and espionage. The extent and duration of the military action, sanctions and resulting market disruptions could be significant and could potentially have substantial impact on the global economy and our business for an unknown period of time. Any of the above-mentioned factors could affect our business, financial condition and operating results. Any such disruptions may also magnify the impact of other risks described in this Quarterly Report on Form 10-Q and our Form 10-K for the year ended December 31, 2021.

### Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds

The following table shows the repurchases made by the Company or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Exchange Act) during the periods indicated:

| Period | (a) Total number of shares purchased (1) | (b) Average price paid per share | (c) Total number of shares purchased as of part of publicly announced plans or programs | (d) Maximum number of shares that may yet be purchased under the plans or programs at period end (2) |
|---|---|---|---|---|
| July 1-31, 2022 | 52,184 | $ 45.85 | 17,795 | 1,392,139 |
| August 1-31, 2022 | 40,145 | 47.35 | 6,233 | 1,385,906 |
| September 1-30, 2022 | 21,104 | 45.63 | 21,104 | 1,364,802 |
| Total | 113,433 | | 45,132 | |

(1) Includes shares purchased by the Company’s Employee Stock Ownership Plan in open market purchases and shares tendered by employees pursuant to various other equity incentive plans. See Notes 10 and 11 to the condensed consolidated financial statements at Item 1 of Part I of this report, for a discussion of the Company’s stock repurchased under equity compensation plans.

(2) Does not include shares that may be purchased by the Company’s Employee Stock Ownership Plan and pursuant to various other equity incentive plans. See Note 10 to the condensed consolidated financial statements at Item 1 of Part I of this report, for a discussion of the Company’s stock repurchase plan.

**Item 6 – Exhibits**

EXHIBIT INDEX

| Exhibit No. | Exhibit |
|---|---|
| 2.1 | Agreement and Plan of Reorganization dated as of July 27, 2021, by and between TriCo Bancshares and Valley Republic Bancorp (incorporated by reference to Exhibit in TriCo's current report on Form 8-K filed on July 28, 2021). |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of CEO |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of CFO |
| 32.1 | Section 1350 Certification of CEO |
| 32.2 | Section 1350 Certification of CFO |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |

*Management contract or compensatory plan or arrangement

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

| | |
|---|---|
| | **TRICO BANCSHARES** |
| | (Registrant) |
| Date: November 9, 2022 | /s/ Peter G. Wiese |
| | Peter G. Wiese |
| | Executive Vice President and Chief Financial Officer |
| | (Duly authorized officer and principal financial and chief accounting officer) |

**Exhibit 31.1**

Rule 13a-14(a)/15d-14(a) Certification of CEO

I, Richard P. Smith, certify that;

1. I have reviewed this report on Form 10-Q of TriCo Bancshares;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2022

/s/ Richard P. Smith

Richard P. Smith

President and Chief Executive Officer

**Exhibit 31.2**

Rule 13a-14(a)/15d-14(a) Certification of CFO

I, Peter G. Wiese, certify that;

1. I have reviewed this report on Form 10-Q of TriCo Bancshares;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

| | |
|---|---|
| Date: November 9, 2022 | /s/ Peter G. Wiese |
| | Peter G. Wiese |
| | Executive Vice President and Chief Financial Officer |

**Exhibit 32.1**

Section 1350 Certification of CEO

In connection with the Quarterly Report of TriCo Bancshares (the "Company") on Form 10-Q for the period ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard P. Smith, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Richard P. Smith

Richard P. Smith

President and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to TriCo Bancshares and will be retained by TriCo Bancshares and furnished to the Securities and Exchange Commission or its staff upon request.

**Exhibit 32.2**

Section 1350 Certification of CFO

In connection with the Quarterly Report of TriCo Bancshares (the "Company") on Form 10-Q for the period ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Peter G. Wiese, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company

/s/ Peter G. Wiese

Peter G. Wiese

Executive Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to TriCo Bancshares and will be retained by TriCo Bancshares and furnished to the Securities and Exchange Commission or its staff upon request.