TriCo Bancshares Annual Report 2000

TRI COUNTIES BANK COUNTRY

30 TRADITIONAL BRANCHES
7 IN-STORE BRANCHES
18 CALIFORNIA COUNTIES

TRICO BANCSHARES

In 1975 with $1 million in capital, a group of business people, farmers and professionals chartered Tri Counties Bank in Chico, California. Six years later TriCo Bancshares, a holding company, was formed with the Bank as its sole subsidiary. At year end 2000, the Company had capital exceeding $85 million.

The Bank has grown from the original branch in Chico to thirty traditional branches, seven in-store branches in eighteen Northern California counties from the San Joaquin Valley to the Oregon border. In 2000, the Bank opened two new branches in Modesto and Paradise.

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

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

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

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

NASDAQ SYMBOL: TCBK
website: www.tcbk.com

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

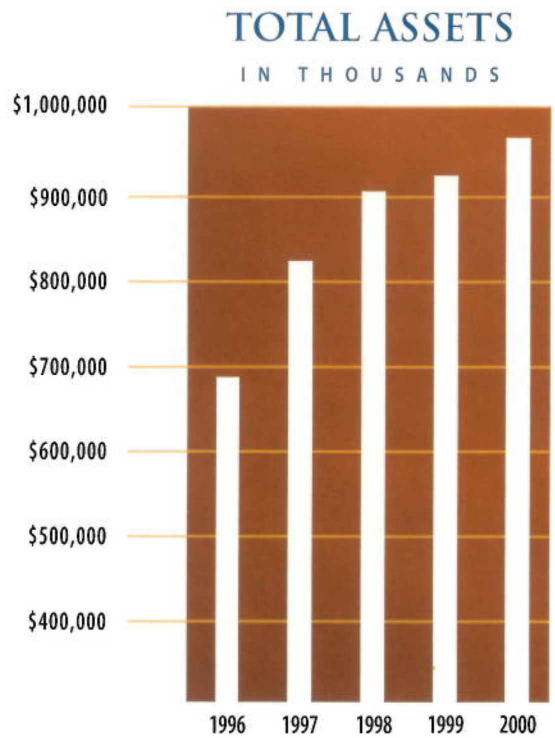
	2000	1999	1998	1997	1996
STATEMENT OF OPERATIONS DATA:[1]					
Interest income	**$ 76,653**	$ 68,589	$ 65,138	$ 59,877	$ 49,148
Interest expense	**28,543**	24,370	25,296	23,935	19,179
Net interest income	**48,110**	44,219	39,842	35,942	29,969
Provision for loan losses	**5,000**	3,550	4,200	3,000	777
Net interest income after provision for loan losses	**43,110**	40,669	35,642	32,942	29,192
Noninterest income	**14,645**	12,101	12,869	9,566	6,636
Noninterest expense	**37,895**	34,833	34,692	32,932	23,485
Income before income taxes	**19,860**	17,937	13,819	9,576	12,343
Provision for income taxes	**7,237**	6,534	5,049	3,707	5,037
Net income	**$ 12,623**	$ 11,403	$ 8,770	$ 5,869	$ 7,306
SHARE DATA:[2]					
Diluted earnings per share	**$1.72**	$1.56	$1.21	$0.81	$1.04
Cash dividend paid per share	**0.79**	0.70	0.49	0.43	0.39
Common shareholders' equity at year end	**11.87**	10.22	10.22	9.31	8.73
BALANCE SHEET DATA at year end:[3]					
Total loans, gross	**$640,391**	$587,979	$532,433	$448,967	$439,218
Total assets	**972,071**	924,796	904,599	826,165	694,859
Total deposits	**837,832**	794,110	769,173	724,094	595,621
Total shareholders' equity	**85,233**	73,123	72,029	65,124	60,777
Total long-term debt	**33,983**	45,505	37,924	11,440	24,281
SELECTED FINANCIAL RATIOS:					
Return on average assets	**1.35 %**	1.26 %	1.03 %	0.75 %	1.18 %
Return on average common shareholders' equity	**16.03 %**	15.59 %	12.80 %	9.34 %	13.03 %
Total risk-based capital ratio	**12.22 %**	11.77 %	11.83 %	11.90 %	13.58 %
Net interest margin[4]	**5.73 %**	5.49 %	5.28 %	5.16 %	5.37 %
Allowance for loan losses to total loans outstanding at end of year	**1.82 %**	1.88 %	1.54 %	1.44 %	1.39 %

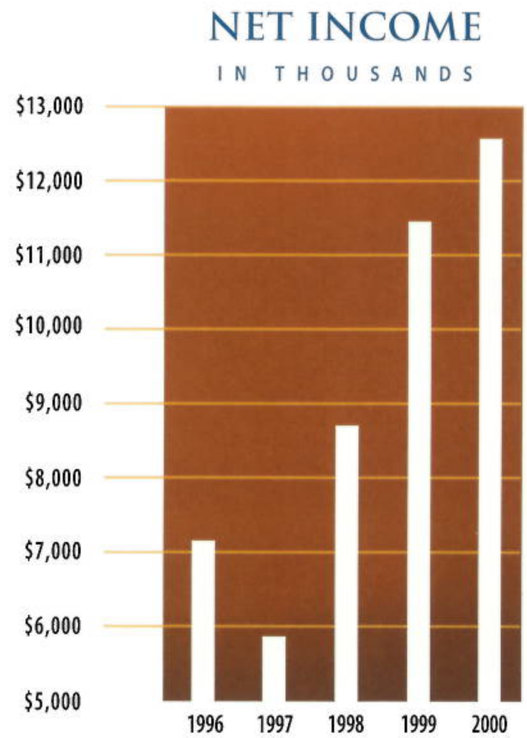
[1] Tax-exempt securities are presented on an actual yield basis.

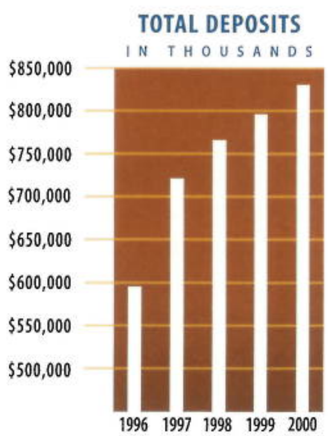
[2] Retroactively adjusted to reflect 3-for-2 stock split effected in 1998.

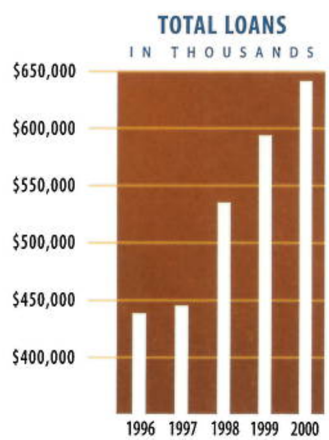
[3] The 1996 data reflects changes due to the purchase of Sutter Buttes Savings Bank.

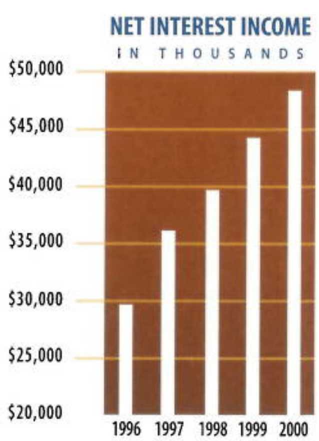
[4] Calculated on a tax equivalent basis.

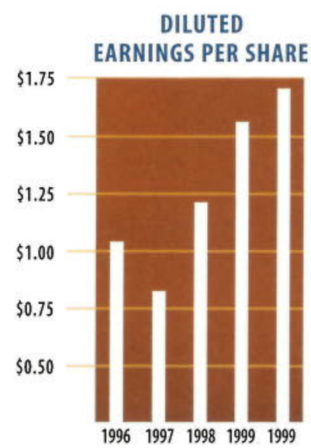

TOTAL ASSETS
IN THOUSANDS
$1,000,000
$900,000
$800,000
$700,000
$600,000
$500,000
$400,000
1996
1997
1998
1999
2000


NET INCOME
IN THOUSANDS
$13,000
$12,000
$11,000
$10,000
$9,000
$8,000
$7,000
$6,000
$5,000
1996
1997
1998
1999
2000


TOTAL DEPOSITS
IN THOUSANDS
$850,000
$800,000
$750,000
$700,000
$650,000
$600,000
$550,000
$500,000
1996
1997
1998
1999
2000


TOTAL LOANS
IN THOUSANDS
$650,000
$600,000
$550,000
$500,000
$450,000
$400,000
1996
1997
1998
1999
2000

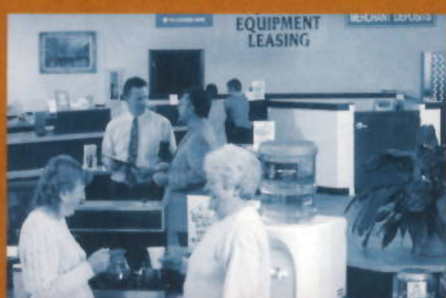

NET INTEREST INCOME
IN THOUSANDS
$50,000
$45,000
$40,000
$35,000
$30,000
$25,000
$20,000
1996
1997
1998
1999
2000


DILUTED
EARNINGS PER SHARE
$1.75
$1.50
$1.25
$1.00
$0.75
$0.50
1996
1997
1998
1999
1999

PRESIDENT'S LETTER

Record earnings, assets, dividends
Stock repurchase
Top Management changes
Raymond James Financial Services selected

New Modesto Branch



New Paradise Branch

The year 2000 proved to be a very good year for TriCo Bancshares. I am pleased to report that 2000 results surpassed all previous records for earnings, assets and dividends. Earnings increased 10.7% to $12,623,000. Diluted earnings per share were $1.72 versus $1.56 for 1999. Total assets grew 5.1% to $972,071,000. An increased dividend of $0.20 per share was paid in the second, third and fourth quarters versus $0.19 per share paid in the first quarter of 2000. For 2000, TriCo Bancshares realized a return on assets of 1.35% and a return on equity of 16.03% versus 1.26% and 15.59% in 1999. Our performance is a direct result of the dedication, ability and experience of our staff, management team and Board of Directors.

A repurchase plan announced July 20 authorized the repurchase of 150,000 shares of TriCo Bancshares common stock. As of December 31, 40,000 shares had been repurchased at an average price of $15.56. Outstanding shares now total 7,181,226.

The year also brought significant changes to our Bank. Two top management additions were made during the year. Andrew Mastorakis, former Wells Fargo Bank senior vice president and market president of Retail Banking joined us to head our Retail Banking Division. Cindy Bennington-Foor, former Bank of America vice president, joined the Retail Banking Division in November as Vice President and Southern Regional Manager.

Four long time Team TriCo members left during the year. Charter Board Member Everett B. Beich retired and is now Director Emeritus. Director and Corporate Secretary Douglas F. Hignell resigned to devote more time to religious and family activities. Dan Herbert, now Mayor of Chico, resigned in September as Senior Vice President, Supervisor of Southern Branches. Ruth Irvine, an employee since the Bank's first year, retired in December as Senior Vice President, Human Resource Manager. We thank them not only for their years of service but for the many contributions they have made over the years.

Two new Tri Counties Bank full-service branches opened in 2000. The Modesto Grand Opening was March 30. The Paradise Grand Opening was August 24. We now operate 30 traditional branch locations and 7 in-store branch locations in 18 California counties from Bakersfield north to the Oregon border.

Also noteworthy in 2000 was the selection of Raymond James Financial Services, Inc. to provide brokerage and insurance services including mutual funds, annuities, stocks and bonds to our customers and the general public. We have been providing these products for over 10 years and the change to Raymond James Financial Services, Inc. , demonstrates our goal of improving the financial well being of our customers by providing them with the highest quality products available to improve the financial well being of our customers. This business segment also continues to be a material component of our non-interest income.

Tri Counties Bank celebrated its Twenty-Fifth anniversary on March 11, 2000. During that time, we grew 13,600% to become the largest regional community bank in Northern California. Future growth depends on providing our customers with more than just great service; we must help them to reach their financial goals. We believe we have the people and facilities to accomplish this. We are pleased with the year behind us, and excited about what lies ahead.

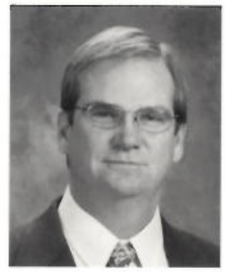
Thank you for your continuing support.

Sincerely,

Richard P. Smith
President and Chief Executive Officer

Tri Counties Bank Management Team

Richard P. Smith
President and CEO



Richard O'Sullivan
Executive Vice President,
Sales & Service

Andrew Mastorakis
Executive Vice President,
Retail Banking

Craig Carney
Senior Vice President,
Chief Credit Officer

Thomas Reddish
Vice President,
Chief Financial Officer

Ray Rios
Vice President,
Manager Information Systems

LEADING CUSTOMERS ON THEIR PATH TO FINANCIAL SUCCESS

Bruce and Laurie Couch have grown their multi-media presentation firm, Dogtown Group, into a multi-million dollar company.

They started with just a great idea and a great banker.

Banker Hugh Mattingly

"A Banker is an important part of any business. We stay up to speed on our customer's business so we can be ready to meet their needs."

Customer Bruce Couch

"My relationship with Hugh and Tri Counties Bank is worth a lot of money to me. We've got all our eggs in one basket and we like the basket."

Customer Laurie Couch

"We've been able to do a lot more with our business since we switched to Tri Counties Bank."

COMMERCIAL BANKING

Dave Raven
Vice President,
Commercial Lending

Richard O'Sullivan
Executive Vice President,
Sales & Service

Nolan Hawkins
Vice President,
Commercial Lending

Bob Elmore
Vice President,
Commercial Lending

Banker Maria Ringo

"To customers, products seem similar at different banks. But one thing I can really offer is great service. That's harder to find out there."

Ed and Dianne Wrona are among the many retail banking customers leaving the impersonal treatment of the giant banks.

Maria Ringo quickly found the banking products that fit them perfectly, and won them over with her friendly, welcoming attitude.

Customer Dianne Wrona

"Maria was a great ambassador for Tri Counties Bank. She knew so much information…actually off the top of her head."

Customer Ed Wrona

"Whatever Tri Counties Bank branch I go to, I get the same friendly feeling. It's just a great feeling. That's why we moved."

RETAIL BANKING

Cynthia Bennington-Foor
Vice President,
Regional Branch Supervisor,
Southern Branches

Andrew Mastorakis
Executive Vice President,
Retail Banking

Guy Watson
Vice President
Regional Branch Supervisor,
Northern Branches

Karen Fields
Vice President
Regional Branch Supervisor,
In-store Branches

Customer Lynn Miller

"She answered questions I didn't even know I had. I was impressed. Very impressed. And I'm getting much better service than I ever got in the city."

Customer Lynn Miller, who worked for a larger competing bank for 20 years, moved to Burney from Silicon Valley recently. She was concerned about the capabilities of a smaller bank in a rural area, and whether her property management business would be served to her standards. Tri Counties Bank and banker Dottie Sales eliminated all doubt. "I'm getting much better service than I ever got in the city. Tri Counties Bank very definitely can handle large banking transactions."

Banker Dottie Sales

"After we had worked on her accounts, and opened them up, that afternoon an arrangement of flowers came. I was overwhelmed!"

Dottie Sales consistently generates sales through her knowledge of banking products and the relationships she establishes with customers.

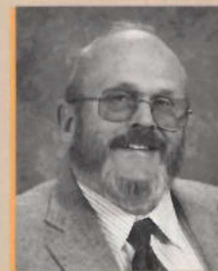
relationship
support

SUCCESSFUL SERVICE

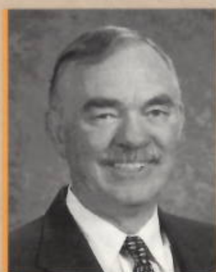
products
performance

BOARD OF DIRECTORS

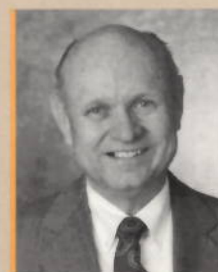
William J. Casey
Chairman of the Board
Health Care Consultant,
Chico



Donald E. Murphy
Vice Chairman of the Board
Vice President and
General Manager,
J.H. McKnight Ranch,
Nelson



Robert H. Steveson
Vice Chairman of the Board
TriCo Bancshares and
Tri Counties Bank
Chico



Wendell J. Lundberg
Secretary of the Board
Owner,
Wehah Farms
Rice and Grain Operations,
Richvale

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

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

Richard P. Smith
President and
Chief Executive Officer,
TriCo Bancshares and
Tri Counties Bank,
Chico

Carroll Taresh
Retired Banking Executive,
Chico

Alex A. Vereschagin, Jr.
Secretary-Treasurer,
Plaza Farms
and General Partner,
Vereschagin Co.,
Orland

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	December 31, 2000	1999
Assets		
Cash and due from banks	**$ 58,190**	$ 52,036
Federal funds sold	**—**	8,400
Cash and cash equivalents	**58,190**	60,436
Securities available-for-sale	**229,110**	231,708
Loans:		
Commercial	**277,935**	262,916
Consumer	**101,548**	79,589
Real estate mortgages	**222,909**	207,197
Real estate construction	**37,999**	38,277
	640,391	587,979
Less: Allowance for loan losses	**11,670**	11,037
Net loans	**628,721**	576,942
Premises and equipment, net	**16,772**	16,043
Cash value of life insurance	**13,753**	12,258
Other real estate owned	**1,441**	760
Accrued interest receivable	**6,935**	6,076
Deferred income taxes	**8,418**	10,764
Intangible assets	**5,464**	6,429
Other assets	**3,267**	3,380
Total assets	**$ 972,071**	$ 924,796
Liabilities and Shareholders' Equity		
Deposits:		
Noninterest-bearing demand	**$ 168,542**	$ 155,937
Interest-bearing demand	**150,749**	143,923
Savings	**214,158**	222,615
Time certificates, $100,000 and over	**93,342**	73,462
Other time certificates	**211,041**	198,173
Total deposits	**837,832**	794,110
Federal funds purchased	**500**	—
Accrued interest payable	**5,245**	4,193
Other liabilities	**9,278**	7,865
Long-term debt and other borrowings	**33,983**	45,505
Total liabilities	**886,838**	851,673
Commitments and contingencies (Note H)		
Shareholders' equity:		
Common stock, no par value: Authorized 20,000,000 shares; issued and outstanding 7,181,226 and 7,152,329 shares, respectively	**50,428**	50,043
Retained earnings	**35,129**	28,613
Accumulated other comprehensive income (loss)	**(324)**	(5,533)
Total shareholders' equity	**85,233**	73,123
Total liabilities and shareholders' equity	**$ 972,071**	$ 924,796

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except earnings per share)

	Years Ended December 31, 2000	1999	1998
Interest income:			
Interest and fees on loans	**$ 62,161**	$ 53,395	$ 48,506
Interest on investment securities—taxable	**11,704**	12,500	14,622
Interest on investment securities—tax exempt	**2,250**	2,229	1,860
Interest on federal funds sold	**538**	465	150
Total interest income	**76,653**	68,589	65,138
Interest expense:			
Interest on interest-bearing demand deposits	**2,360**	2,287	2,932
Interest on savings	**6,837**	6,811	6,473
Interest on time certificates of deposit	**13,324**	8,970	11,685
Interest on time certificates of deposit, $100,000 and over	**2,482**	3,209	1,775
Interest on short-term borrowing	**623**	386	816
Interest on long-term debt	**2,917**	2,707	1,615
Total interest expense	**28,543**	24,370	25,296
Net interest income	**48,110**	44,219	39,842
Provision for loan losses	**5,000**	3,550	4,200
Net interest income after provision for loan losses	**43,110**	40,669	35,642
Noninterest income:			
Service charges and fees	**7,484**	7,127	7,387
Gain on sale of investments	—	24	316
Other income	**7,161**	4,974	5,166
Total noninterest income	**14,645**	12,101	12,869
Noninterest expenses:			
Salaries and related expenses	**19,912**	17,837	16,803
Other, net	**17,983**	16,996	17,889
Total noninterest expenses	**37,895**	34,833	34,692
Income before income taxes	**19,860**	17,937	13,819
Income taxes	**7,237**	6,534	5,049
Net income	**$12,623**	$11,403	$ 8,770
Basic earnings per common share	**$ 1.76**	$ 1.60	$ 1.25
Diluted earnings per common share	**$ 1.72**	$ 1.56	$ 1.21

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 2000, 1999 and 1998 (in thousands, except share amounts)

	Common Stock					
	Number of Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total	Comprehensive Income
Balance, December 31, 1997	4,662,649	$48,161	$16,956	$7	$65,124	
Exercise of Common Stock options	60,125	532			532	
3-for-2 Common Stock split	2,330,371					
Repurchase of Common Stock	(2,055)	(21)	(39)		(60)	
Common Stock cash dividends			(3,430)		(3,430)	
Stock option amortization		166			166	
Comprehensive income:						
Net income			8,770		8,770	$8,770
Other comprehensive income, net of tax:						
Cumulative effect of change in accounting principle				337	337	337
Change in unrealized loss on securities, net of tax and reclassification adjustments (Note A):				590	590	590
Comprehensive income						$9,697
Balance, December 31, 1998	7,050,900	48,838	22,257	934	72,029	
Exercise of Common Stock options	106,440	1,074			1,074	
Repurchase of Common Stock	(5,101)	(35)	(51)		(86)	
Common Stock cash dividends			(4,996)		(4,996)	
Stock option amortization		166			166	
Comprehensive income:						
Net income			11,403		11,403	$11,403
Other comprehensive income, net of tax:						
Change in unrealized gain on securities, net of tax and reclassification adjustments (Note A):				(6,467)	(6,467)	(6,467)
Comprehensive income						$4,936
Balance, December 31, 1999	7,152,329	50,043	28,613	(5,533)	73,123	
Exercise of Common Stock options	78,625	665			665	
Repurchase of Common Stock	(49,728)	(349)	(427)		(776)	
Common Stock cash dividends			(5,680)		(5,680)	
Stock option amortization		69			69	
Comprehensive income:						
Net income			12,623		12,623	$12,623
Other comprehensive income, net of tax:						
Change in unrealized gain on securities, net of tax and reclassification adjustments (Note A):				5,209	5,209	5,209
Comprehensive income						$17,832
Balance, December 31, 2000	7,181,226	$50,428	$35,129	($324)	$85,233	

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years ended December 31, 2000	1999	1998
Operating activities:			
Net income	**$ 12,623**	$ 11,403	$ 8,770
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	**5,000**	3,550	4,200
Provision for losses on other real estate owned	**25**	10	377
Provision for premises impairment and lease loss	**—**	—	175
Depreciation and amortization	**2,641**	2,615	2,611
Amortization of intangible assets	**965**	1,135	1,338
(Accretion) amortization of investment security (discounts) premiums, net	**217**	538	128
Deferred income taxes	**(650)**	(410)	(2,084)
Investment security gains, net	**—**	(24)	(316)
Gain on receipt of insurance company stock	**(1,510)**	—	—
Gain on sale of loans	**(525)**	(800)	(497)
(Gain) loss on sale of other real estate owned, net	**(83)**	(178)	96
Amortization of stock options	**69**	166	166
Change in assets and liabilities:			
Increase in interest receivable	**(859)**	(255)	(120)
Increase (decrease) in interest payable	**1,052**	330	(176)
(Increase) decrease in other assets and liabilities	**(127)**	(2,481)	678
Net cash provided by operating activities	**18,838**	15,599	15,346
Investing activities :			
Proceeds from maturities of securities held-to-maturity	**—**	—	18,523
Proceeds from maturities of securities available-for-sale	**39,663**	64,496	82,214
Proceeds from sales of securities available-for-sale	**—**	14,137	87,094
Purchases of securities available-for-sale	**(27,567)**	(41,372)	(199,335)
Net increase in loans	**(57,805)**	(56,138)	(86,066)
Purchases of premises and equipment	**(2,998)**	(2,058)	(1,225)
Proceeds from sale of other real estate owned	**928**	1,268	1,711
Proceeds from sale of premises and equipment	**40**	44	1,110
Proceeds from sale of real estate properties	**—**	—	554
Net cash used by investing activities	**(47,739)**	(19,623)	(95,420)
Financing activities:			
Net increase in deposits	**43,722**	24,937	45,079
Net increase (decrease) in federal funds borrowed	**500**	(14,000)	(1,300)
Borrowings under long-term debt agreements	**35,000**	21,000	31,500
Payments of principal on long-term debt agreements	**(46,522)**	(13,419)	(5,016)
Repurchase of Common Stock	**(776)**	(86)	(60)
Cash dividends — Common	**(5,680)**	(4,996)	(3,430)
Issuance of Common Stock	**411**	541	308
Net cash provided by financing activities	**26,655**	13,977	67,081
Increase (decrease) in cash and cash equivalents	**(2,246)**	9,953	(12,993)
Cash and cash equivalents at beginning of year	**60,436**	50,483	63,476
Cash and cash equivalents at end of year	**$ 58,190**	$ 60,436	$ 50,483
Supplemental information:			
Cash paid for taxes	**$ 7,573**	$ 7,240	$ 6,965
Cash paid for interest expense	**$ 27,491**	$ 24,040	$ 25,472
Non-cash assets acquired through foreclosure	**$ 1,551**	$ 673	$ 644

Supplemental schedule of non-cash investing and financing activities:

On October 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 133 (see Note A) and in connection with the adoption, elected to transfer investment securities carried at $78,901,000 from the held-to-maturity classification to the available-for-sale classification.

See Notes to Consolidated Financial Statements

NOTES

TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2000, 1999 and 1998

Note A - General Summary of Significant Accounting Policies

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

Principles of Consolidation

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

Nature of Operations

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

Use of Estimates in the Preparation of Financial Statements

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

Securities

The Company classifies its debt and marketable equity securities into one of three categories: trading, available-for-sale or held-to-maturity. Trading securities are bought and held principally for the purpose of selling in the near term. Held-to-maturity securities are those securities which the Company has the ability and intent to hold until maturity. All other securities not included in trading or held-to-maturity are classified as available-for-sale. In 2000 and 1999, the Company did not have any securities classified as trading.

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

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

Effective October 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133). The Statement establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The Statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met.

The adoption of SFAS 133 did not materially impact the financial position or results of operations of the Company as the Company does not utilize derivative instruments in its operations. As allowed by the Statement, in connection with the adoption of SFAS 133, the Bank reclassified investment securities carried at $78,901,000 from the held-to-maturity classification to the available-for-sale classification. As a result of this transfer, an unrealized gain of $337,000, net of tax, was recognized in other comprehensive income as a cumulative effect of change in accounting principle.

Loans

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

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

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

Allowance for Loan Losses

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

The Company defines a loan as impaired when it is probable the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Certain impaired loans are measured based on the present value of expected future cash flows discounted at the loan's original effective interest rate. As a practical expedient, impairment may be measured based on the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through a valuation allowance.

Mortgage Operations

The Company sold substantially all of its conforming long-term residential mortgage loans originated during 2000, 1999, and 1998 for cash proceeds equal to the fair value of the loans. The Company records originated mortgage servicing rights as assets by allocating the total cost basis between the loan and the servicing right based on their relative fair values.

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

At December 31, 2000, the Company had no mortgage loans held for sale. At December 31, 2000 and 1999, the Company serviced real estate mortgage loans for others of $149 million and $149 million, respectively.

Premises and Equipment

Premises and equipment, including those acquired under capital lease, are stated at cost less accumulated depreciation and amortization. Depreciation and amortization expenses are computed using the straight-line method over the estimated useful lives of the related assets or lease terms. Asset lives range from 3-10 years for furniture and equipment and 15-40 years for land improvements and buildings.

Other Real Estate Owned

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

Identifiable Intangible Assets

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

Income Taxes

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

Cash Flows

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

Stock-Based Compensation

The Company uses the intrinsic value method to account for its stock option plans (in accordance with the provisions of Accounting Principles Board Opinion No. 25). Under this method, compensation expense is recognized for awards of options to purchase shares of common stock to employees under compensatory plans only if the fair market value of the stock at the option grant date (or other measurement date, if later) is greater than the amount the employee must pay to acquire the stock. Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123) permits companies to continue using the intrinsic value method or to adopt a fair value based method to account for stock option plans. The fair value based method

Note A - General Summary of Significant Accounting Policies (continued)

results in recognizing as expense over the vesting period the fair value of all stock-based awards on the date of grant. The Company has elected to continue to use the intrinsic value method and the pro forma disclosures required by SFAS 123 are included in Note J.

Comprehensive Income

For the Company, comprehensive income includes net income reported on the statement of income and changes in the fair value of its available-for-sale investments reported as a component of shareholders' equity.

The changes in the components of other comprehensive income for the years ended December 31, 2000, 1999, and 1998 are reported as follows:

	2000	1999	1998
	(in thousands)		
Unrealized gain (loss) arising during the period, net of tax	$5,209	$(6,452)	$1,128
Reclassification adjustment for net realized gains on securities available for sale included in net income during the year, net of tax of $0 , $9 and $115, respectively	—	(15)	(201)
	$5,209	$(6,467)	$927

Reclassifications

Certain amounts previously reported in the 1999 and 1998 financial statements have been reclassified to conform to the 2000 presentation. These reclassifications did not affect previously reported net income or total shareholders' equity.

Note B - Restricted Cash Balances

Reserves (in the form of deposits with the Federal Reserve Bank) of $500,000 were maintained to satisfy Federal regulatory requirements at December 31, 2000 and December 31, 1999. These reserves are included in cash and due from banks in the accompanying balance sheet.

Note C - Investment Securities

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

	December 31, 2000			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Securities Available-for-Sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 31,308	$ 35	$ (170)	$ 31,173
Obligations of states and political subdivisions	44,721	778	(123)	45,376
Mortgage-backed securities	136,410	31	(1,355)	135,086
Other securities	17,183	1,831	(1,539)	17,475
Totals	$229,622	$2,675	$ (3,187)	$229,110

	December 31, 1999			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Securities Available-for-Sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 31,447	$ 16	$ (887)	$ 30,576
Obligations of states and political subdivisions	44,969	40	(2,394)	42,615
Mortgage-backed securities	137,980	1	(5,392)	132,589
Other securities	26,029	170	(271)	25,928
Totals	$240,425	$227	$ (8,944)	$231,708

The amortized cost and estimated fair value of debt securities at December 31, 2000 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
		(in thousands)
Securities Available-for-Sale		
Due in one year	$ 5,305	$ 5,299
Due after one year through five years	29,687	29,605
Due after five years through ten years	48,958	48,594
Due after ten years	140,215	138,323
Other Securities	5,457	7,289
Totals	$229,622	$229,110

Note C - Investment Securities (continued)

Proceeds from sales of securities available-for-sale were as follows:

For the Year	Gross Proceeds	Gross Gains	Gross Losses
		(in thousands)	
2000	$ —	$ —	$ —
1999	$14,137	$ 24	$ —
1998	$87,094	$331	$ 15

Investment securities with an aggregate carrying value of $128,500,000 and $106,585,000 at December 31, 2000 and 1999, respectively, were pledged as collateral for specific borrowings, lines of credit and local agency deposits.

Note D - Allowance for Loan Losses

Activity in the allowance for loan losses was as follows:

	Years Ended December 31,		
	2000	1999	1998
		(in thousands)	
Balance, beginning of year	$11,037	$8,206	$6,459
Provision for loan losses	5,000	3,550	4,200
Loans charged off	(4,705)	(1,082)	(2,755)
Recoveries of loans previously charged off	338	363	302
Balance, end of year	$11,670	$11,037	$8,206

Loans classified as nonaccrual amounted to approximately $12,262,000, $1,758,000 and $1,045,000 at December 31, 2000, 1999, and 1998, respectively. These nonaccrual loans were classified as impaired and are included in the recorded balance in impaired loans for the respective years shown below. If interest on those loans had been accrued, such income would have been approximately $731,000, $69,000 and $220,000, in 2000, 1999 and 1998, respectively.

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

	2000	
	Recorded Investment	Valuation Allowance
Impaired loans -		
Valuation allowance required	$16,191	$3,266
No valuation allowance required	25,322	—
Total impaired loans	$41,513	$3,266

	1999	
	Recorded Investment	Valuation Allowance
Impaired loans -		
Valuation allowance required	$ 649	$215
No valuation allowance required	3,943	—
Total impaired loans	$4,592	$215

This valuation allowance is included in the allowance for loan losses shown above for the respective year. The average recorded investment in impaired loans was $23,053,000, $5,147,000 and $9,459,000 for the years ended December 31, 2000, 1999 and 1998, respectively. The Company recognized interest income on impaired loans of $2,962,000, $371,000 and $565,000 for the years ended December 31, 2000, 1999 and 1998, respectively.

Note E - Premises and Equipment

Premises and equipment were comprised of:

	December 31,	
	2000	1999
	(in thousands)	
Premises	$12,215	$11,814
Furniture and equipment	15,180	14,040
	27,395	25,854
Less: Accumulated depreciation and amortization	(14,181)	(13,372)
	13,214	12,482
Land and land improvements	3,558	3,561
	$16,772	$16,043

Depreciation and amortization of premises and equipment amounted to $2,152,000, $2,281,000 and $2,251,000 in 2000, 1999 and 1998, respectively.

Note F - Time Deposits

At December 31, 2000, the scheduled maturities of time deposits were as follows (in thousands):

	Scheduled Maturities
2001	$285,427
2002	12,796
2003	5,992
2004	20
2005 and thereafter	148
Total	$304,383

Note G - Long-Term Debt and Other Borrowings

Long-term debt is as follows:

	December 31, 2000	1999
	(in thousands)	
FHLB loan, fixed rate of 5.41% payable on May 30, 2000	$ —	$20,000
FHLB loan, fixed rate of 5.84% payable on November 6, 2000	—	1,500
FHLB loan, fixed rate of 5.90% payable on January 16, 2001	1,000	1,000
FHLB loan, fixed rate of 7.36% payable on November 30, 2001	10,000	—
FHLB loan, fixed rate of 5.41% payable on April 7, 2008, callable by FHLB on a quarterly basis beginning April 7, 2003	20,000	20,000
FHLB loan, fixed rate of 5.35% payable on December 9, 2008	1,500	1,500
FHLB loan, fixed rate of 5.77% payable on February 23, 2009	1,000	1,000
Capital lease obligation on premises, effective rate of 13% payable monthly in varying amounts through December 1, 2009	483	505
Total long-term debt	$33,983	$45,505

The Company maintains a collateralized line of credit with the Federal Home Loan Bank of San Francisco. Based on the FHLB stock requirements at December 31, 2000, this line provided for maximum borrowings of $117,121,000 of which $33,500,000 was outstanding, leaving $83,621,000 available. The maximum month-end outstanding balances of short term reverse repurchase agreements in 2000 and 1999 were $16,611,000 and $5,000,000, respectively. The Company has available unused lines of credit totaling $64,500,000 for Federal funds transactions at December 31, 2000.

Note H - Commitments and Contingencies (See also Note P)

At December 31, 2000, future minimum commitments under non-cancelable capital and operating leases with initial or remaining terms of one year or more are as follows:

	Capital Leases	Operating Leases
	(in thousands)	
2001	$ 88	$1,000
2002	89	897
2003	90	861
2004	91	744
2005	92	552
Thereafter	379	2,495
Future minimum lease payments	829	$6,549
Less amount representing interest	346	
Present value of future lease payments	$ 483	

Rent expense under operating leases was $971,000 in 2000, $1,013,000 in 1999, and $1,066,000 in 1998.

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

Note I - Dividend Restrictions

The Bank paid to the Company cash dividends in the aggregate amounts of $7,118,000, $5,170,000 and $3,650,000 in 2000, 1999 and 1998, respectively. The Bank is regulated by the Federal Deposit Insurance Corporation (FDIC) and the State of California Department of Financial Institutions. California banking laws limit the Bank's ability to pay dividends to the lesser of (1) retained earnings or (2) net income for the last three fiscal years, less cash distributions paid during such period. Under this regulation, at December 31, 2000, the Bank may pay dividends of $17,867,000.

Note J - Stock Options

In May 1995, the Company adopted the TriCo Bancshares 1995 Incentive Stock Option Plan ('95 Plan) covering key employees. Under the 1995 Plan, the option price cannot be less than the fair market value of the Common Stock at the date of grant. Options for the '95 Plan expire on the tenth anniversary of the grant date.

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

Note J - Stock Options (continued)

Stock option activity is summarized in the following table:

	Number Of Shares*	Option Price Per Share	Weighted Average Exercise Price	Weighted Average Fair Value of Grants
Outstanding at December 31, 1997	671,357	$ 4.95 to $18.25	$ 5.65	
Options exercised	(60,125)	4.95 to 18.25	5.12	
Options forfeited	(1,350)	18.25 to 18.25	18.25	
Outstanding at December 31, 1998	609,882	$ 4.95 to $18.25	$ 7.37	
Options exercised	(106,440)	4.95 to 5.24	5.09	
Options forfeited	(2,551)	5.24 to 18.25	12.89	
Outstanding at December 31, 1999	500,891	$ 4.95 to $18.25	$ 7.82	
Options granted	118,900	16.13 to 16.13	16.13	$ 3.99
Options exercised	(78,625)	5.24 to 5.24	5.24	
Options forfeited	(750)	18.25 to 18.25	18.25	
Outstanding at December 31, 2000	540,416	$ 4.95 to $18.25	$10.01	

*Adjusted for the 3-for-2 Common Stock split effected October 30, 1998.

Of the stock options outstanding as of December 31, 2000, options on 426,902 shares were exercisable at a weighted average price of $8.38.

The Company has stock options outstanding under the four option plans described above. The Company accounts for these plans under APB Opinion No. 25, under which no compensation cost has been recognized except for the options granted under the 1993 plan. The Company recognized expense of $69,000, $166,000, and $166,000 for the 1993 Plan options in 2000, 1999 and 1998, respectively. Had compensation cost for these plans been determined in accordance with SFAS 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

		2000	1999	1998
Net income	As reported	$12,623	$11,403	$8,770
	Pro forma	$12,507	$11,330	$8,697
Basic earnings per share	As reported	$1.76	$1.60	$1.25
	Pro forma	$1.74	$1.59	$1.24
Diluted earnings per share	As reported	$1.72	$1.56	$1.21
	Pro forma	$1.70	$1.55	$1.20

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 2000: risk-free interest rate of 6.65%; expected dividend yield of 4.7%; expected life of 6 years; expected volatility of 30%. No options were granted in 1999 and 1998.

Note K - Other Noninterest Income and Expenses and Income

The components of other noninterest income were as follows:

	Years Ended December 31, 2000	1999	1998
	(in thousands)		
Commissions on sale of investment and insurance products	$ 2,784	$ 2,319	$ 2,066
Gain on sale of loans and leases	525	800	497
Increase in cash value of insurance policies	657	373	336
Sale of customer checks	286	283	263
Gain (loss) on sale of other real estate owned	83	178	(96)
Gain on sale of credit card portfolio	—	—	897
Receipt of stock from insurance company demutualization	1,510	—	—
Other	1,316	997	1,203
Total other noninterest income	$7,161	$4,950	$5,166

The components of other noninterest expenses were as follows:

	Years Ended December 31, 2000	1999	1998
	(in thousands)		
Equipment and data processing	$3,376	$ 3,525	$ 3,551
Occupancy	2,587	2,456	2,353
Advertising	1,336	943	879
Professional fees	1,005	1,027	1,046
Intangible amortization	965	1,135	1,338
Telecommunications	957	906	976
Postage	486	552	548
Assessments	222	179	174
Net other real estate owned expense	127	62	540
Provision for premises impairment and lease loss	—	—	175
Operational Losses	807	273	334
Other	6,115	5,938	5,975
Total noninterest expenses	$17,983	$16,996	$17,889

Note L - Income Taxes

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

	Years Ended December 31,		
	2000	1999	1998
	(in thousands)		
Current Tax Provision:			
Federal	$5,890	$ 5,013	$ 5,245
State	1,997	1,931	1,888
Total current	7,887	6,944	7,133
Deferred Tax Benefit:			
Federal	(511)	(152)	(1,621)
State	(139)	(258)	(463)
Total deferred	(650)	(410)	(2,084)
Total income taxes	$7,237	$ 6,534	$ 5,049

Taxes recorded directly to shareholders' equity are not included in the preceding table. These taxes (benefits) relating to changes in the unrealized gains and losses on available-for-sale investment securities amounting to $2,996,000 in 2000, $(3,846,000) in 1999 and $657,000 in 1998, and benefits related to employee stock options of $243,000 in 2000, $246,000 in 1999 and $224,000 in 1998 were recorded directly to shareholders' equity.

The provisions for income taxes applicable to income before taxes for the years ended December 31, 2000, 1999 and 1998 differ from amounts computed by applying the statutory Federal income tax rates to income before taxes. The effective tax rate and the statutory federal income tax rate are reconciled as follows:

	Years Ended December 31,		
	2000	1999	1998
Federal statutory income tax rate	34.0%	34.0%	34.0%
State income taxes, net of federal tax benefit	6.2	6.3	6.8
Tax-exempt interest on municipal obligation	(3.9)	(3.9)	(4.1)
Other	0.1	—	(0.2)
Effective Tax Rate	36.4%	36.4%	36.5%

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

	2000	1999
	(in thousands)	
Deferred Tax Assets:		
Loan losses	$ 5,015	$ 4,586
Deferred compensation	2,948	2,519
Intangible amortization	882	823
Nonaccrual interest	335	31
Stock option amortization	243	286
Unrealized loss on securities	188	3,184
OREO write downs	181	266
Other	323	816
Total deferred tax assets	10,115	12,511
Deferred Tax Liabilities:		
Securities income	(833)	—
Securities accretion	(384)	(299)
Depreciation	(339)	(671)
Capital leases	(105)	(101)
State taxes	(36)	(351)
Other	—	(325)
Total deferred tax liability	(1,697)	(1,747)
Net deferred tax asset	$8,418	$10,764

Note M - Retirement Plans

Substantially all employees with at least one year of service are covered by a discretionary employee stock ownership plan (ESOP). Contributions are made to the plan at the discretion of the Board of Directors. Contributions to the plan(s) totaling $842,000 in 2000, $881,000 in 1999, and $640,000 in 1998 are included in salary expense.

The Company has a supplemental retirement plan for directors and a supplemental executive retirement plan covering key executives. These plans are non-qualified defined benefit plans and are unsecured and unfunded. The Company has purchased insurance on the lives of the participants and intends to use the cash values of these policies ($7,938,000 and $7,247,000 at December 31, 2000 and 1999, respectively) to pay the retirement obligations.

The Company has an Executive Deferred Compensation Plan, which allows directors and key executives designated by the Board of Directors of the Company to defer a portion of their compensation. The Company has purchased insurance on the lives of the participants and intends to use the cash values of these policies to pay the compensation obligations. At December 31, 2000 and 1999, the cash values exceeded the recorded liabilities.

Note M - Retirement Plans (continued)

The following table sets forth the plans' status:

	December 31, 2000	1999
	(in thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of year	$(4,378)	$(3,933)
Service cost	(74)	(70)
Interest cost	(317)	(275)
Amendments	(181)	(78)
Actuarial loss	(322)	(158)
Benefits paid	138	136
Benefit obligation at end of year	$(5,134)	$(4,378)
Change in plan assets:		
Fair value of plan assets at beginning of year	$ —	$ —
Fair value of plan assets at end of year	$ —	$ —
Funded status	$(5,134)	$(4,378)
Unrecognized net obligation existing at January 1, 1986	148	183
Unrecognized net actuarial loss	1,264	983
Unrecognized prior service cost	333	166
Accrued benefit cost	$(3,389)	$(3,046)

	Years Ended December 31, 2000	1999	1998
	(in thousands)		
Net pension cost included the following components:			
Service cost-benefits earned during the period	$74	$ 70	$ 53
Interest cost on projected benefit obligation	317	275	256
Amortization of net obligation at transition	35	35	35
Amortization of prior service cost	13	11	10
Recognized net actuarial loss	41	43	47
Net periodic pension cost	$480	$434	$401

The net periodic pension cost was determined using a discount rate assumption of 7.25% for 2000, 7.0% for 1999, and 7.0% for 1998, respectively. The rates of increase in compensation used in each year were 0% to 5%.

Note N - Earnings per Share

The Company's basic and diluted earnings per share are as follows (in thousands except per share data):

Year Ended December 31, 2000	Income	Weighted Average Shares	Per Share Amount
Basic Earnings per Share Net income available to common shareholders	$12,623	7,191,790	$1.76
Common stock options outstanding	—	148,939	
Diluted Earnings per Share Net income available to common shareholders	$12,623	7,340,729	$1.72

Year Ended December 31, 1999	Income	Weighted Average Shares	Per Share Amount
Basic Earnings per Share Net income available to common shareholders	$11,403	7,129,560	$1.60
Common stock options outstanding	—	188,960	
Diluted Earnings per Share Net income available to common shareholders	$11,403	7,318,520	$1.56

Year Ended December 31, 1998	Income	Weighted Average Shares	Per Share Amount
Basic Earnings per Share Net income available to common shareholders	$8,770	7,017,306	$1.25
Common stock options outstanding	—	259,296	
Diluted Earnings per Share Net income available to common shareholders	$8,770	7,276,602	$1.21

Note O - Related Party Transactions

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

The following table summarizes the activity in these loans for 1999:

Balance December 31, 1999	Advances/ New Loans	Payments	Balance December 31, 2000
	(in thousands)		
$9,912	$1,390	$4,779	$6,523

NOTES

TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2000, 1999 and 1998

Note P - Financial Instruments With Off-Balance Sheet Risk

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

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

	Contractual Amount December 31, 2000	1999
	(in thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit:		
Commercial loans	$79,808	$74,992
Consumer loans	55,528	49,735
Real estate mortgage loans	477	364
Real estate construction loans	22,289	13,581
Standby letters of credit	1,229	1,988

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

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

Note Q - Concentration of Credit Risk

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

Note R - Disclosure of Fair Value of Financial Instruments

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

Securities

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

Loans

The fair value of variable rate loans is the current carrying value. The interest rates on these loans are regularly adjusted to market rates. The fair value of other types of fixed rate loans is estimated by discounting the future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings for the same remaining maturities. The allowance for loan losses is a reasonable estimate of the valuation allowance needed to adjust computed fair values for credit quality of certain loans in the portfolio

Deposit Liabilities and Long-Term Debt

The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. These values do not consider the estimated fair value of the Company's core deposit intangible, which is a significant unrecognized asset of the Company. The fair value of time deposits and debt is based on the discounted value of contractual cash flows.

Note R - Disclosure of Fair Value of Financial Instruments (continued)

Commitments to Extend Credit and Standby Letters of Credit

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

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

	December 31, 2000	
Financial assets:	Carrying Amount	Fair Value
	(in thousands)	
Cash and cash equivalents	$ 58,190	$ 58,190
Securities:		
Available-for-sale	229,110	229,110
Loans, net	628,721	637,389
Accrued interest receivable	6,935	6,935
Financial liabilities:		
Deposits	837,832	795,101
Federal funds purchased	500	500
Accrued interest payable	5,245	5,245
Long-term borrowings	33,983	35,066

	December 31, 1999	
Financial assets:	Carrying Amount	Fair Value
	(in thousands)	
Cash and cash equivalents	$ 60,436	$ 60,436
Securities:		
Available-for-sale	231,708	231,708
Loans, net	576,942	562,406
Accrued interest receivable	6,076	6,076
Financial liabilities:		
Deposits	794,110	735,559
Federal funds purchased	—	—
Accrued interest payable	4,193	4,193
Long-term borrowings	45,505	44,244

Note S - TriCo Bancshares Financial Statements

TriCo Bancshares (Parent Only) Balance Sheets

	December 31,	
Assets	2000	1999
	(in thousands)	
Cash	$ 272	$ 161
Securities available-for-sale	180	180
Investment in Tri Counties Bank	83,457	71,855
Other assets	1,324	927
Total assets	$85,233	$73,123
Liabilities and shareholders' equity		
Total liabilities	$ —	$ —
Shareholders' equity:		
Common stock, no par value: Authorized 20,000,000 shares; issued and outstanding 7,181,226 and 7,152,329 shares, respectively	$50,428	$50,043
Retained earnings	35,129	28,613
Accumulated other comprehensive income (loss)	(324)	(5,533)
Total shareholders' equity	85,233	73,123
Total liabilities and shareholders' equity	$85,233	$73,123

Statements of Income

	Years Ended December 31,		
	2000	1999	1998
	(in thousands)		
Interest income	$ 18	$ 1	$ —
Administration expense	980	385	369
Loss before equity in net income of Tri Counties Bank	(962)	(384)	(369)
Equity in net income of Tri Counties Bank:			
Distributed	7,118	5,170	3,650
Undistributed	6,070	6,459	5,338
Income tax credits	397	158	151
Net income	$12,623	$11,403	$8,770

Statements of Cash Flows

	Years ended December 31,		
	2000	1999	1998
	(in thousands)		
Operating activities:			
Net income	$12,623	$11,403	$8,770
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed equity in Tri Counties Bank	(6,070)	(6,459)	(5,338)
Deferred income taxes	(397)	(158)	(153)
Decrease in other operating assets and liabilities	—	(8)	(76)
Net cash provided by operating activities	6,156	4,778	3,203
Investing activities:			
Purchases of securities available-for-sale	—	(180)	—
Net cash used for investing activities	—	(180)	—
Financing activities:			
Issuance of common stock	411	541	309
Repurchase of common stock	(776)	(86)	(60)
Cash dividends — common	(5,680)	(4,996)	(3,430)
Net cash used for financing activities	(6,045)	(4,541)	(3,181)
Increase in cash and cash equivalents	111	57	22
Cash and cash equivalents at beginning of year	161	104	82
Cash and cash equivalents at end of year	$ 272	$ 161	$ 104

Note T - Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital to risk-weighted assets, and of Tier I capital to average assets. Management believes, as of December 31, 2000, that the Company meets all capital adequacy requirements to which it is subject.

As of December 31, 2000, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table below. There are no conditions or events since that notification that Management believes have changed the institution's category.

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

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2000:						
Total Capital (to Risk Weighted Assets):						
Consolidated	$89,302	12.20%	≥$58,537	≥8.0%	≥$73,172	≥10.0%
Tri Counties Bank	$87,414	11.97%	≥$58,417	≥8.0%	≥$73,021	≥10.0%
Tier I Capital (to Risk Weighted Assets):						
Consolidated	$80,156	10.95%	≥$29,268	≥4.0%	≥$43,903	≥ 6.0%
Tri Counties Bank	$78,255	10.72%	≥$29,208	≥4.0%	≥$43,812	≥ 6.0%
Tier I Capital (to Average Assets):						
Consolidated	$80,156	8.41%	≥$38,128	≥4.0%	≥$47,660	≥ 5.0%
Tri Counties Bank	$78,255	8.22%	≥$38,069	≥4.0%	≥$47,587	≥ 5.0%
As of December 31, 1999:						
Total Capital (to Risk Weighted Assets):						
Consolidated	$80,808	11.77%	≥$54,916	≥8.0%	≥$68,645	≥10.0%
Tri Counties Bank	$79,556	11.61%	≥$54,827	≥8.0%	≥$68,534	≥10.0%
Tier I Capital (to Risk Weighted Assets):						
Consolidated	$72,227	10.52%	≥$27,458	≥4.0%	≥$41,187	≥ 6.0%
Tri Counties Bank	$70,959	10.35%	≥$27,413	≥4.0%	≥$41,120	≥ 6.0%
Tier I Capital (to Average Assets):						
Consolidated	$72,227	7.78%	≥$37,130	≥4.0%	≥$46,413	≥ 5.0%
Tri Counties Bank	$70,959	7.65%	≥$37,093	≥4.0%	≥$46,367	≥ 5.0%

Note U - Summary of Quarterly Results of Operations (unaudited)

The following table sets forth the results of operations for the four quarters of 2000 and 1999, and is unaudited; however, in the opinion of Management, it reflects all adjustments (which include only normal recurring adjustments) necessary to present fairly the summarized results for such periods.

	2000 Quarters Ended			
	December 31,	September 30,	June 30,	March 31,
	(Dollars in thousands, except per share data)			
Interest income	$19,887	$19,912	$18,960	$17,894
Interest expense	7,584	7,641	6,910	6,408
Net interest income	12,303	12,271	12,050	11,486
Provision for loan losses	1,500	1,800	900	800
Net interest income after provision for loan losses	10,803	10,471	11,150	10,686
Noninterest income	3,445	3,334	3,240	4,626
Noninterest expense	10,116	9,305	9,450	9,024
Income before income taxes	4,132	4,500	4,940	6,288
Income tax expense	1,428	1,653	1,796	2,360
Net income	$ 2,704	$ 2,847	$ 3,144	$ 3,928
Per common share:				
Net income (diluted)	$ 0.37	$ 0.39	$ 0.43	$ 0.54
Dividends	$ 0.20	$ 0.20	$ 0.20	$ 0.19

	1999 Quarters Ended			
	December 31,	September 30,	June 30,	March 31,
	(Dollars in thousands, except per share data)			
Interest income	$18,092	$17,558	$16,594	$16,345
Interest expense	6,442	6,237	5,853	5,838
Net interest income	11,650	11,321	10,741	10,507
Provision for loan losses	965	875	870	840
Net interest income after provision for loan losses	10,685	10,446	9,871	9,667
Noninterest income	2,923	2,848	3,368	2,962
Noninterest expense	8,820	8,640	8,887	8,486
Income before income taxes	4,788	4,654	4,352	4,143
Income tax expense	1,703	1,721	1,601	1,509
Net income	$ 3,085	$ 2,933	$ 2,751	$ 2,634
Per common share:				
Net income (diluted)	$ 0.42	$ 0.40	$ 0.38	$ 0.36
Dividends	$ 0.19	$ 0.19	$ 0.16	$ 0.16

Note V – Business Segments

The Company is principally engaged in traditional community banking activities provided through its thirty branches and seven in-store branches located throughout Northern and Central California. Community banking activities include the Bank's commercial and retail lending, deposit gathering and investment and liquidity management activities. In addition to its community banking services, the Bank offers investment brokerage and leasing services. In 1998 and prior, the Company held investments in real estate through its wholly-owned subsidiary, TCB Real Estate. These activities are monitored and reported by Bank management as separate operating segments.

The accounting policies of the segments are the same as those described in Note A. The Company evaluates segment performance based on net interest income, or profit or loss from operations, before income taxes not including nonrecurring gains and losses.

As permitted under the Statement, the results of the separate branches have been aggregated into a single reportable segment, Community Banking. The Company's leasing, investment brokerage and real estate segments do not meet the prescribed aggregation or materiality criteria and therefore are reported as "Other" in the following table.

Summarized financial information for the years ended December 31, 2000, 1999 and 1998 concerning the Bank's reportable segments is as follows:

	Community Banking	Other	Total
2000			
Net interest income	$ 47,228	$ 882	$ 48,110
Noninterest income	11,506	3,139	14,645
Noninterest expense	35,913	1,982	37,895
Net income	11,328	1,295	12,623
Assets	$956,447	$15,624	$972,071
1999			
Net interest income	$ 43,540	$ 679	$ 44,219
Noninterest income	9,668	2,433	12,101
Noninterest expense	33,558	1,275	34,833
Net income	10,237	1,166	11,403
Assets	$915,890	$8,906	$924,796
1998			
Net interest income	$ 39,789	$ 53	$ 39,842
Noninterest income	10,777	2,092	12,869
Noninterest expense	33,416	1,276	34,692
Net income	8,203	567	8,770
Assets	$901,580	$3,019	$904,599

REPORT OF INDEPENDENT PUBLIC ACCOUNTANT

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

We have audited the accompanying consolidated balance sheets of TriCo Bancshares (a California corporation) and Subsidiary as of December 31, 2000 and 1999, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of TriCo Bancshares and Subsidiary as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with auditing standards generally accepted in the United States.

Arthur Andersen LLP

San Francisco, California
January 17, 2001

Market Information

The Common Stock of the Company trades on the NASDAQ National Market under the symbol "TCBK." The shares were first listed in the NASDAQ Stock Market in April 1993.

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

	Prices of the Company's Common Stock		Approximate Trading Volume
Quarter Ended:[1]	High	Low	(in shares)
March 31, 1999	$ 18.25	$ 15.44	401,800
June 30, 1999	18.75	15.81	680,100
September 30, 1999	20.00	16.75	417,900
December 31, 1999	20.50	17.00	363,800
March 31, 2000	19.25	14.75	563,400
June 30, 2000	17.00	15.44	446,100
September 30, 2000	17.50	15.69	620,900
December 31, 2000	17.00	14.75	232,700

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

Holders

As of December 31, 2000, there were approximately 1,825 holders of record of the Company's Common Stock.

Dividends

The Company has paid quarterly dividends since March 1990. The Company paid quarterly dividends of $0.20 per share in the second, third and fourth quarters of 2000, $0.19 per share in the first quarter of 2000 as well as the final two quarters in 1999, and $0.16 per share in the first and second quarters of 1999.

The holders of Common Stock of the Company are entitled to receive cash dividends when and as declared by the Board of Directors, out of funds legally available therefore, subject to the restrictions set forth in the California General Corporation Law (the "Corporation Law"). The Corporation Law provides that a corporation may make a distribution to its shareholders if the corporation's retained earnings equal at least the amount of the proposed distribution.

The Company, as sole shareholder of the Bank, is entitled to receive dividends when and as declared by the Bank's Board of Directors, out of funds legally available therefore, subject to the powers of the FDIC and the restrictions set forth in the California Financial Code (the "Financial Code"). The Financial Code provides that a bank may not make any distributions in excess of the lesser of: (i) the bank's retained earnings, or (ii) the bank's net income for the last three fiscal years, less the amount of any distributions made by the bank to its shareholders during such period. However, a bank may, with the prior approval of the California Superintendent of Banks (the "Superintendent"), make a distribution to its shareholders of up to the greater of (A) the bank's retained earnings, (B) the bank's net income for its last fiscal year, or (C) the bank's net income for its current fiscal year. If the Superintendent determines that the shareholders' equity of a bank is inadequate or that a distribution by the bank to its shareholders would be unsafe or unsound, the Superintendent may order a bank to refrain from making a proposed distribution. The FDIC may also order a bank to refrain from making a proposed distribution when, in its opinion, the payment of such would be an unsafe or unsound practice. The Bank paid dividends totaling $7,117,500 to the Company in 2000. As of December 31, 2000 and subject to the limitations and restrictions under applicable law, the Bank had funds available for dividends in the amount of $17,867,000.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
of Financial Condition and Results of Operations

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

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

Overview

2000 was another outstanding year for TriCo Bancshares and Tri Counties Bank, and marked the Bank's twenty-fifth year of existence. During the year, the Company continued its expansion into the San Joaquin Valley with the opening of a branch in Modesto, and added to its presence north of Sacramento with the opening of a branch in Paradise. In 2000, the Bank also refocused and added resources to enhance its retail and small business banking delivery systems. At the same time the Bank was expanding, it was able to improve the profitability of its entire operation from the Oregon border to Bakersfield.

Strong loan demand and expense control allowed the Bank to increase its loan to deposit ratio, net interest margin and efficiency ratio in 2000. 2000 was the third year in which every employee's compensation was tied to the financial performance of the employee's business unit, the business units they support, and the Bank overall. The combination of growth and increased internal cooperation resulted in a 10.7% increase in net income during 2000. Management believes the Bank is positioned to realize continued growth in earnings and returns for shareholders in 2001.

The Company had earnings of $12,623,000 for the year ended December 31, 2000 versus $11,403,000 for 1999. Diluted earnings per share for the same years were $1.72 and $1.56, respectively.

Net interest income for 2000 was $49,280,000 which was an increase of $3,907,000 (8.6%) over 1999. The interest income component of net interest income was up 11.6% to $77,823,000. Interest and fees on loans were up $8,766,000 (16.4%) to $62,161,000 as average loans outstanding increased $57,979,000 (10.2%) to $624,717,000 and the average earnings rate on loans increased 53 basis points to 9.95%. Interest income on investment securities and federal funds sold decreased $686,000 (4.2%) to $15,662,000 mostly due to lower average balances. Interest expense was up $4,173,000 (17.1%) to $28,543,000. This increase was due to an increase in the average rate paid on interest bearing liabilities from 3.57% to 4.05%, as well as an increase in average balances of interest bearing liabilities from $682,358,000 to $704,005,000. Net interest margin was 5.73% in 2000 versus 5.49% in 1999.

The Bank provided $5,000,000 to the allowance for loan losses in 2000 compared to $3,550,000 in 1999. Net loan charge-offs in 2000 were $4,367,000 compared to $719,000 in 1999. At year-end 2000 and 1999 the allowance for loan losses as a percentage of gross loans was 1.82% and 1.88%, respectively.

Noninterest income is comprised of "service charges and fees" and "other income". Service charge and fee income increased $357,000 (5.0%) to $7,484,000 in 2000 versus year ago results. Other income was up $2,187,000 (44.0%) to $7,161,000 from $4,974,000 in 1999. The increase in other income included a one-time pre-tax income item of $1,510,000. This one-time item represents the initial value of 88,796 common shares of John Hancock Financial Services, Inc. (JHF) which the Bank received as a consequence of its ownership of certain insurance policies through John Hancock Mutual Life Insurance Company and John Hancock's conversion from a mutual company to a stock company. Also during 2000, income from the sale of mutual funds, annuities and insurance increased $465,000 (20.1%) to $2,784,000. Overall, noninterest income increased $2,544,000 (21.0%) for the year to $14,645,000.

Noninterest expenses increased $3,062,000 (8.8%) to $37,895,000 in 2000. The Company's efficiency ratio, which is noninterest expense divided by the sum of noninterest income and fully tax-equivalent net interest income, improved to 59.3% in 2000 from 60.6% in 1999.

Salary and benefit expenses increased $2,075,000 (11.6%) to $19,912,000 in 2000. Incentive and commission related salary expenses increased $444,000 (24.3%) to $2,274,000 in 2000. Base salaries and benefits increased $1,631,000 (10.2%) in 2000. The increase in base salaries was mainly due to a 3.7% increase in average full time equivalent employees (FTEs) from 378 during 1999 to 392 during 2000, and an average annual base salary and benefits expense increase of 6.5% during 2000. The large increase in incentive and commission related salary expense was more than offset by revenue growth. These results are consistent with the Bank's strategy of working more efficiently with fewer employees who are compensated in part based on their business unit's performance. Other noninterest expenses increased $987,000 (5.8%) to $17,983,000 in 2000.

Assets of the Company totaled $972,071,000 at

December 31, 2000 which was an increase of $47,275,000 (5.1%) from 1999 ending balances.

For 2000, the Company realized a return on assets of 1.35% and a return on shareholders' equity of 16.03% versus 1.26% and 15.59%, respectively, in 1999. The Company ended 2000 with a Tier 1 capital ratio of 11.0% and a total risk-based capital ratio of 12.2%.

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

(A) Results of Operations

	2000	1999	1998	1997	1996
	Years Ended December 31, (in thousands, except earnings per share amounts)				
Interest income:					
Interest and fees on loans	$62,161	$ 53,395	$ 48,506	$ 44,903	$ 38,227
Interest on investment securities–taxable	11,704	12,500	14,622	13,791	10,409
Interest on investment securities–tax exempt[1]	3,420	3,383	2,809	958	207
Interest on federal funds sold	538	465	150	553	392
Total interest income	77,823	69,743	66,087	60,205	49,235
Interest expense:					
Interest on deposits	25,003	21,277	22,865	22,682	17,201
Interest on short-term borrowing	623	386	816	537	359
Interest on long-term debt	2,917	2,707	1,615	716	1,619
Total interest expense	28,543	24,370	25,296	23,935	19,179
Net interest income	49,280	45,373	40,791	36,270	30,056
Provision for loan losses	5,000	3,550	4,200	3,000	777
Net interest income after provision for loan losses	44,280	41,823	36,591	33,270	29,279
Noninterest income:					
Service charges, fees and other	14,645	12,077	12,553	9,548	6,636
Investment securities gains (losses), net	—	24	316	18	—
Total noninterest income	14,645	12,101	12,869	9,566	6,636
Noninterest expenses:					
Salaries and employee benefits	19,912	17,837	16,803	15,671	11,989
Other, net	17,983	16,996	17,889	17,261	11,496
Total noninterest expenses	37,895	34,833	34,692	32,932	23,485
Net income before income taxes	21,030	19,091	14,768	9,904	12,430
Income taxes	7,237	6,534	5,049	3,707	5,037
Tax equivalent adjustment[2]	1,170	1,154	949	328	87
Net income	$12,623	$ 11,403	$ 8,770	$ 5,869	$ 7,306
Basic earnings per common share[2]	$ 1.76	$ 1.60	$ 1.25	$ 0.84	$ 1.08
Diluted earnings per common share[2]	$ 1.72	$ 1.56	$ 1.21	$ 0.81	$ 1.04
Cash dividend paid per share	$ 0.79	$ 0.70	$ 0.49	$ 0.43	$ 0.39
Selected Balance Sheet Information					
Total Assets	$972,071	$924,796	$904,599	$826,165	$694,859
Long-term Debt	$ 33,983	$ 45,505	$ 37,924	$ 11,440	$ 24,281

[1]Interest on tax-free securities is reported on a tax equivalent basis of 1.52 for 2000, 1.52 for 1999, 1.52 for 1998, 1.52 for 1997, and 1.72 for 1996.
[2]Restated on a historical basis to reflect the 3-for-2 stock split effected October 30, 1998.

Net Interest Income/Net Interest Margin

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

Net interest income for 2000 totaled $49,280,000 which was up $3,907,000 (8.6%) over the prior year. Interest income increased $8,080,000 (11.6%) to $77,823,000 in 2000. Average outstanding loan balances of $624,717,000 for 2000 reflected a 10.2% increase over 1999 balances. This increase in average loan balances contributed an additional $5,462,000 to interest income and was the major factor in the improvement in net interest income. The average yield received on loans rose 53 basis points to 9.95% which increased interest income by $3,304,000. This increase in average yield resulted from increases in market interest rates that began in 1999 and reached their high in the spring of 2000. Average balances of investment securities decreased $24,178,000 (9.7%) to $226,163,000. The lower volume of securities resulted in a decrease in interest income of $1,534,000. An increase of 35 basis points in the average tax effective yield on investments added $775,000 to interest income.

Interest expense increased $4,173,000 (17.1%) to $28,543,000 in 2000. Higher average balances of interest-bearing liabilities added $1,009,000 to interest expense in 2000 as compared to 1999, while a higher average rate paid for those balances increased interest expense by $3,164,000. Net interest margin for 2000 was 5.73% versus 5.49% in 1999.

Net interest income for 1999 totaled $45,373,000 which was up $4,582,000 (11.2%) over the prior year. Average outstanding loan balances of $566,738,000 for 1999 reflected a 16.2% increase over 1998 balances. This increase contributed an additional $7,873,000 to interest income and was the major factor in the improvement in net interest income. The average yield received on loans fell 53 basis points to 9.42% which reduced interest income by $2,984,000. This decrease in average yield resulted from reductions in market interest rates that began in 1998 and reached their low in the spring of 1999 before beginning to rise in the fall of 1999. Average balances of investment securities decreased $31,706,000 (11.2%) to $250,341,000. The lower volume of securities resulted in a decrease in interest income of $1,959,000. An increase of 16 basis points in the average tax effective yield on investments added $411,000 to interest income.

Interest expense decreased $926,000 (3.7%) to $24,370,000 in 1999. Higher average balances of interest-bearing liabilities added $1,225,000 to interest expense in 1999 as compared to 1998, while a lower average rate paid for those balances reduced interest expense by $2,151,000. Net interest margin for 1999 was 5.49% versus 5.28% in 1998.

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

(A) Results of Operations (continued)

Table One: Analysis of Net Interest Margin on Earning Assets

	2000			1999			1998		
Assets	Average Balance[1]	Income	Yield/ Rate	Average Balance[1]	Income	Yield/ Rate	Average Balance[1]	Income	Yield/ Rate
				(dollars in thousands)					
Earning assets:									
Loans[2,3]	$624,717	$62,161	9.95%	$566,738	$53,395	9.42%	$447,598	$48,506	9.95%
Securities - taxable	181,316	11,704	6.46%	205,489	12,500	6.08%	245,499	14,622	5.96%
Securities - nontaxable[4]	44,847	3,420	7.63%	44,852	3,383	7.54%	36,548	2,809	7.69%
Federal funds sold	8,696	538	6.19%	8,733	465	5.32%	2,663	150	5.63%
Total earning assets	859,576	77,823	9.05%	825,812	69,743	8.45%	772,308	66,087	8.56%
Cash and due from banks	39,295			37,206			33,819		
Premises and equipment	16,622			16,260			17,448		
Other assets, net	42,150			37,210			32,921		
Less: Unrealized gain (loss) on securities	(8,112)			(3,508)			355		
Less: Allowance for loan losses	(11,741)			(9,525)			(7,270)		
Total assets	$937,790			$903,455			$849,581		
Liabilities and shareholders' equity									
Interest-bearing demand deposits	$149,412	2,360	1.58%	$145,558	2,287	1.57%	$137,001	2,932	2.14%
Savings deposits	218,286	6,837	3.13%	224,368	6,811	3.04%	212,291	6,473	3.05%
Time deposits	278,968	15,806	5.67%	255,659	12,179	4.76%	257,805	13,460	5.22%
Federal funds purchased	7,753	524	6.76%	7,024	356	5.07%	8,025	446	5.56%
Repurchase agreements	1,508	99	6.56%	614	30	4.89%	6,474	370	5.72%
Long-term debt	48,078	2,917	6.07%	49,135	2,707	5.51%	28,426	1,615	5.68%
Total interest-bearing liabilities	704,005	28,543	4.05%	682,358	24,370	3.57%	650,022	25,296	3.89%
Noninterest-bearing deposits	141,767			135,511			119,929		
Other liabilities	13,277			12,465			11,109		
Shareholders' equity	78,741			73,121			68,521		
Total liabilities and shareholders' equity	$937,790			$903,455			$849,581		
Net interest rate spread[5]			5.00%			4.87%			
Net interest income/net interest margin[6]		$49,280	5.73%		$45,373	5.49%		$40,791	5.28%

[1] Average balances are computed principally on the basis of daily balances.
[2] Nonaccrual loans are included.
[3] Interest income on loans includes fees on loans of $2,928,000 in 2000, $2,853,000 in 1999, and $2,958,000 in 1998.
[4] Interest income is stated on a tax equivalent basis of 1.52 in 2000, 1999, and 1998.
[5] Net interest rate spread represents the average yield earned on interest-earning assets less the average rate paid on interest-bearing liabilities.
[6] Net interest margin is computed by dividing net interest income by total average earning assets.

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

	2000 over 1999			1999 over 1998		
	Volume	Yield/ Rate[4]	Total	Volume	Yield/ Rate[4]	Total
			(dollars in thousands)			
Increase (decrease) in interest income:						
Loans[1,2]	$ 5,462	$ 3,304	$ 8,766	$ 7,873	$(2,984)	$ 4,889
Investment securities[3]	(1,534)	775	(759)	(1,959)	411	(1,548)
Federal funds sold	(2)	75	73	342	(27)	315
Total	3,926	4,154	8,080	6,256	(2,600)	3,656
Increase (decrease) in interest expense:						
Demand deposits (interest-bearing)	61	12	73	183	(828)	(645)
Savings deposits	(185)	211	26	368	(30)	338
Time deposits	1,110	2,517	3,627	(112)	(1,169)	(1,281)
Federal funds purchased	37	131	168	(56)	(34)	(90)
Repurchase agreements	44	25	69	(335)	(5)	(340)
Long-term borrowings	(58)	268	210	1,177	(85)	1,092
Total	1,009	3,164	4,173	1,225	(2,151)	(926)
Increase (decrease) in net interest income	$ 2,917	$ 990	$ 3,907	$ 5,031	$ (449)	$ 4,582

1 Nonaccrual loans are included.
2 Interest income on loans includes fees on loans of $2,928,000 in 2000, $2,853,000 in 1999, and $2,958,000 in 1998.
3 Interest income is stated on a tax equivalent basis of 1.52 in 2000, 1999, and 1998.
4 The rate/volume variance has been included in the rate variance.

Provision for Loan Losses

In 2000, the Bank provided $5,000,000 for loan losses compared to $3,550,000 in 1999. Net loan charge-offs increased $3,648,000 (507%) to $4,367,000 during 2000. Included in the $4,367,000 of net loan charge-offs during 2000 is $3,800,000 of charge-offs on a group of agricultural related loans to one borrower. As of December 31, 2000, the Company's recorded net book value for this nonperforming loan relationship after charge-offs was approximately $8,400,000. Net charge-offs of consumer installment loans decreased $63,000 (56%). Net charge-offs of commercial, financial and agricultural loans increased $3,631,000 (675%), while net charge-offs of real estate mortgage loans increased $80,000 (116%). The 2000 charge-offs represented 0.70% of average loans outstanding versus 0.13% the prior year. Nonperforming loans were 2.29% of total loans at year end versus 0.46% in 1999. The ratio of allowance for loan losses to nonperforming loans was 80% versus 412% at the end of 1999.

In 1999, the Bank provided $3,550,000 for loan losses compared to $4,200,000 in 1998. Net loan charge-offs decreased $1,734,000 (70.7%) to $719,000 during 1999. Net charge-offs of consumer installment loans decreased $460,000 (80.4%) mainly due to the sale of the Bank's credit card portfolio in May 1998. Net charge-offs of commercial, financial and agricultural loans decreased $1,163,000 (68.4%), while net charge-offs of real estate mortgage loans decreased $111,000 (61.7%). The 1999 charge-offs represented 0.13% of average loans outstanding versus 0.50% the prior year. Nonperforming loans were 0.46% of total loans at year end versus 0.31% in 1998. The ratio of allowance for loan losses to nonperforming loans was 412% versus 493% at the end of 1998. (See balance sheet analysis "Nonaccrual, Past Due and Restructured Loans" for further discussion.)

Service Charges and Fees and Other Income

For 2000, service charge and fee income increased $357,000 (5.0%) to $7,484,000 compared to $7,127,000 in 1999. This increase was due mainly to increased ATM fees. Other income was up $2,187,000 (44.0%) to $7,161,000 from $4,974,000 in 1999. The increase in other income included a one-time pre-tax income item of $1,510,000 from the receipt of common stock. This one-time item represents the initial value of 88,796 common shares of John Hancock Financial Services, Inc. (JHF) which the Bank received as a consequence of its ownership of certain insurance policies through John Hancock Mutual Life Insurance Company and John Hancock's conversion from a mutual company to a stock company. The Bank continues to own the JHF shares in its securities available-for-sale, and as of December 31, 2000 has recorded an additional $1,831,000 unrealized gain since the receipt of these shares. Significant changes in the following items also contributed to the net increase in other income: commissions on non-deposit investment product sales increased $465,000 to $2,784,000, income from the increase in cash value of insurance policies increased $284,000 to $657,000, and gain on sale of loans decreased $275,000 to $525,000. Overall, noninterest income increased $2,544,000 (21.0%) for the year to $14,645,000.

(A) Results of Operations (continued)

For 1999, service charge and fee income decreased $260,000 (3.5%) to $7,127,000 compared to $7,387,000 in 1998. This decrease was mainly due to $283,000 of non-recurring credit card related fee income that was recorded subsequent to the sale of the Bank's credit card portfolio in May of 1998. Other income was down $508,000 (9.3%) to $4,974,000 from $5,482,000 in 1998. The decrease in other income included a gain on sale of the credit card portfolio of $897,000 in 1998, gain on the sale of investments of $24,000 in 1999 compared to $316,000 in 1998, gain on sale of loans of $800,000 in 1999 versus $497,000 in 1998, and income from the sale of mutual funds, annuities and insurance of $2,318,000 in 1999 compared to $2,066,000 in 1998. Overall, noninterest income decreased $768,000 (6.0%) for the year to $12,101,000. Excluding the effect of the credit card portfolio, which was sold in May 1998, noninterest income would have increased $412,000 (3.5%) to $12,101,000 in 1999 versus $11,689,000 in 1998.

Securities Transactions

During 2000 the Bank had no sales of securities. Also during 2000, the Bank received proceeds from maturities of securities totaling $39,663,000, and used $29,077,000 to purchase securities.

For 1999 the Bank realized net gains of $24,000 on the sale of securities with market values of $14,137,000. In addition, the Bank received proceeds from maturities of securities totaling $64,496,000. During 1999 the Bank purchased $41,372,000 of securities.

Salaries and Benefits

Salary and benefit expenses increased $2,075,000 (11.6%) to $19,912,000 in 2000. Incentive and commission related salary expenses increased $444,000 (24.3%) to $2,274,000 in 2000. Base salaries and benefits increased $1,631,000 (10.2%) in 2000. The increase in base salaries was mainly due to a 3.7% increase in average full time equivalent employees (FTEs) from 378 during 1999 to 392 during 2000, and an average annual base salary and benefits expense increase of 6.5% during 2000. The large increase in incentive and commission related salary expense was more than offset by revenue growth. These results are consistent with the Bank's strategy of working more efficiently with fewer employees who are compensated in part based on their business unit's performance or on their ability to generate revenue.

Salary and benefit expenses increased $1,034,000 (6.2%) to $17,837,000 in 1999. Base salaries increased $528,000 (4.5%). Average full time equivalent employees were 378 in 1999 versus 376 in 1998. Incentive and commission related salary expenses increased $328,000 (21.8%) to $1,830,000 in 1999.

Other Expenses

Other expenses increased $987,000 (5.8%) to $17,983,000 in 2000. Approximately $534,000 of the increase was due to operational losses that went from $273,000 in 1999 to $807,000 in 2000. Contributing to the increase in operational losses during 2000 was a $434,000 fraud loss due to a single deposit relationship that was identified in the fourth quarter of 2000. Advertising expense increased $390,000 to $1,336,000 in 2000. Intangible asset amortization decreased $170,000 in 2000 to $965,000.

Other expenses decreased $893,000 (5.0%) to $16,996,000 in 1999. Approximately $478,000 of the decrease was due to reduced expenses and provisions related to other real estate owned which decreased to $62,000 in 1999 from $540,000 in 1998. Intangible asset amortization decreased $203,000 in 1999 to $1,135,000.

Provision for Taxes

The effective tax rate on income was 36.4%, 36.4%, and 36.5% in 2000, 1999, and 1998, respectively. The effective tax rate was greater than the federal statutory tax rate due to state tax expense of $1,857,000, $1,680,000, and $1,425,000, in these years. Tax-free income of $2,250,000, $2,229,000, and $1,860,000 from investment securities in these years helped to reduce the effective tax rate.

Return on Average Assets and Equity

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

	2000	1999	1998
Return on total assets	1.35%	1.26%	1.03%
Return on shareholders' equity	16.03%	15.59%	12.80%
Shareholders' equity to total assets	8.78%	8.09%	8.07%
Common shareholders' dividend payout ratio	45.00%	43.81%	39.11%

During 2000, return on assets increased to 1.35% from 1.26% in 1999. The increase in ROA was due to increased productivity and the Bank's continued loan growth. The Company's efficiency ratio (noninterest expense divided by net interest income plus noninterest income) improved to 59.3% in 2000 from 60.6% in 1999. Return on assets increased in 1999 to 1.26% from the 1.03% achieved in 1998.

Return on shareholders' equity increased to 16.03% in 2000 from 15.59% in 1999. The higher ROE in 2000 resulted from average capital increasing 7.7% while net income increased 10.7%. In 1999, return on shareholders' equity increased to 15.59% from 12.80% in 1998. The higher ROE in 1999 was due to a 30.0% increase in net income while average shareholders' equity increased only 6.7%.

In 2000, the average shareholders' equity to average asset ratio increased to 8.78% from 8.09%. The shareholders' average equity to average assets ratio for 1999 increased to 8.09% from 8.07% for 1998.

In 2000, dividends paid to common shareholders totaled $5,680,000 compared to $4,996,000 in 1999. The resulting common shareholders' dividend payout ratio of 45.0% in 2000 compared to 43.8% in 1999.

(B) Balance Sheet Analysis

Loans

The Bank concentrates its lending activities in four principal areas: commercial loans (including agricultural loans), consumer loans, real estate mortgage loans (residential and commercial loans and mortgage loans originated for sale), and real estate construction loans. At December 31, 2000, these four categories accounted for approximately 43%, 16%, 35%, and 6% of the Bank's loan portfolio, respectively, as compared to 45%, 13%, 35%, and 7%, at December 31, 1999. The shift in the percentages was primarily due to the Bank's efforts to increase its consumer loan portfolio during 2000. The interest rates charged for the loans made by the Bank vary with the degree of risk, the size and maturity of the loans, the borrower's relationship with the Bank and prevailing money market rates indicative of the Bank's cost of funds.

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

At December 31, 2000 loans totaled $640,391,000 which was an 8.9% ($52,412,000) increase over the balances at the end of 1999. Demand for commercial and agriculture related loans was strong in 2000. Demand for residential mortgage loans decreased significantly starting in the fall of 1999, and was replaced somewhat by demand for home equity loans, which the Bank classifies as consumer loans. The average loan to deposit ratio in 2000 was 79.2% compared to 74.5% in 1999.

At December 31, 1999, loans totaled $587,979,000 which was a 10.4% ($55,546,000) increase over the balances at the end of 1998. Demand for commercial and agriculture related loans was strong in 1999. Total loan balances at the Bank's southernmost branches, which include its Sacramento office and its San Joaquin Valley offices, increased $56,105,000 to $113,128,000 during 1999 while loan balances at the Bank's northern branches decreased $559,000 to $474,851,000 in 1999. From January 1999 to July 1999, the Bank sold approximately $26,275,000 of fixed rate residential mortgage loans out of its loan portfolio that were originated prior to December 31, 1998. Excluding the sale of these fixed rate residential mortgage loans, loan balances in the Bank's northern branches would have increased approximately $25,716,000 in 1999. The average loan to deposit ratio in 1999 was 74.5% compared to 67.2% in 1998.

Loan Portfolio Composite

	December 31, 2000	1999	1998	1997	1996
	(dollars in thousands)				
Commercial, financial and agricultural	$277,935	$262,916	$211,773	$165,813	$176,868
Consumer installment	101,548	79,589	72,512	87,950	75,498
Real estate mortgage	222,909	207,197	211,072	160,954	160,575
Real estate construction	37,999	38,277	37,076	34,250	26,348
Total loans	$640,391	$587,979	$532,433	$448,967	$439,289

Nonaccrual, Past Due and Restructured Loans

During 2000, nonperforming assets increased $11,227,000 (326%) to a total of $14,668,000. Nonperforming loans increased $10,546,000 (393%) to $13,227,000, and other real estate owned (OREO) increased $681,000 (90%) to $1,441,000 during 2000. The ratio of nonperforming loans to total loans at December 31, 2000 was 2.07% versus 0.46% at the end of 1999. Included in the balance of nonperforming loans at December 31, 2000 is $8,400,000 that represents the Company's recorded net book value for a group of agricultural related loans to one borrower. The Company believes the problems with this loan relationship are not applicable to the Company's agriculture loan portfolio generally as the Company believes that the weakness in this loan relationship was not due to crop failure or overall weakness in the agriculture sectors in which this borrower operates. Rather, the Company believes the losses on this loan relationship is unique to this particular borrower. Excluding the large nonperforming loan relationship noted above, the ratio of nonperforming loans to total loans at December 31, 2000 would have been 0.75%. Classifications of nonperforming loans as a percent of the total at the end of 2000 were as follows: secured by real estate, 57%; loans to farmers, 40%; commercial loans, 2.5%; and consumer loans, 0.5%.

During 1999, nonperforming assets increased $364,000 (11.8%) to a total of $3,441,000. Nonperforming loans increased $1,016,000 (61.0%) to $2,681,000, and other real estate owned (OREO) decreased $652,000 (46.2%) to $760,000 during 1999. The ratio of nonperforming loans to total loans at December 31, 1999 was 0.46% versus 0.31% at the end of 1998. The continued low ratio of nonperforming loans to total loans was due in part to favorable economic conditions and three years of operation under an enhanced system, which focuses on early identification of problem loans followed by prompt action to ensure performance or charge-off of the loan. Classifications of nonperforming loans as a percent of the total at the end of 1999 were as follows: secured by real estate, 84%; loans to farmers, 11%; commercial loans, 3%; and consumer loans, 2%.

(B) Balance Sheet Analysis (continued)

Commercial, real estate and consumer loans are reviewed on an individual basis for reclassification to nonaccrual status when any one of the following occurs: the loan becomes 90 days past due as to interest or principal, the full and timely collection of additional interest or principal becomes uncertain, the loan is classified as doubtful by internal credit review or bank regulatory agencies, a portion of the principal balance has been charged off, or the Bank takes possession of the collateral. The reclassification of loans as nonaccrual does not necessarily reflect Management's judgment as to whether they are collectible.

Interest income is not accrued on loans where Management has determined that the borrowers will be unable to meet contractual principal and/or interest obligations, unless the loan is well secured and in the process of collection. When a loan is placed on nonaccrual, any previously accrued but unpaid interest is reversed. Income on such loans is then recognized only to the extent that cash is received and where the future collection on principal is probable. Interest accruals are resumed on such loans only when they are brought fully current with respect to interest and principal and when, in the judgment of Management, the loans are estimated to be fully collectible as to both principal and interest.

Interest income on nonaccrual loans, which would have been recognized during the year, ended December 31, 2000, if all such loans had been current in accordance with their original terms, totaled $1,824,000. Interest income actually recognized on these loans in 2000 was $1,093,000.

The Bank's policy is to place loans 90 days or more past due on nonaccrual status. In some instances when a loan is 90 days past due Management does not place it on nonaccrual status because the loan is well secured and in the process of collection. A loan is considered to be in the process of collection if, based on a probable specific event, it is expected that the loan will be repaid or brought current. Generally, this collection period would not exceed 30 days. Loans where the collateral has been repossessed are classified as OREO or, if the collateral is personal property, the loan is classified as other assets on the Company's financial statements.

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

The following table sets forth the amount of the Bank's nonperforming assets as of the dates indicated:

	December 31,				
	2000	1999	1998	1997	1996
	(dollars in thousands)				
Nonaccrual loans	$12,262	$ 1,758	$ 1,045	$ 4,721	$ 9,044
Accruing loans past due 90 days or more	965	923	620	528	20
Total nonperforming loans	$13,227	$ 2,681	$ 1,665	$ 5,249	$ 9,064
Other real estate owned	1,441	760	1,412	2,230	1,389
Total nonperforming assets	$14,668	$ 3,441	$ 3,077	$ 7,479	$10,453
Nonincome producing investments in real estate held by Bank's real estate development subsidiary	$ —	$ —	$ —	$ 856	$ 1,173
Nonperforming loans to total loans	2.07%	0.46%	0.31%	1.17%	2.06%
Allowance for loan losses to nonperforming loans	88%	412%	493%	123%	67%
Nonperforming assets to total assets	1.51%	0.37%	0.34%	0.91%	1.50%
Allowance for loan losses to nonperforming assets	80%	321%	267%	86%	58%

Allowance for Loan Losses

Credit risk is inherent in the business of lending. As a result, the Company maintains an Allowance for Loan Losses to absorb losses inherent in the Company's loan and lease portfolio. This is maintained through periodic charges to earnings. These charges are shown in the Consolidated Income Statements as provision for loan losses. All specifically identifiable and quantifiable losses are immediately charged off against the allowance. However, for a variety of reasons, not all losses are immediately known to the Company and, of those that are known, the full extent of the loss may not be quantifiable at that point in time. The balance of the Company's Allowance for Loan Losses is meant to be an estimate of these unknown but probable losses inherent in the portfolio.

For the remainder of this discussion, "loans" shall include all loans and lease contracts, which are a part of the Bank's portfolio.

Assessment of the Adequacy of the Allowance for Loan Losses

The Company formally assesses the adequacy of the allowance on a quarterly basis. Determination of the adequacy is based on ongoing assessments of the probable risk in the outstanding loan and lease portfolio, and to a lesser extent the Company's loan and lease commitments. These assessments include the periodic re-grading of credits based on changes in their individual credit characteristics including delinquency, seasoning, recent financial performance of the borrower, economic factors, changes in the interest rate environment, growth of the portfolio as a whole or by segment, and other factors as warranted. Loans are initially graded when originated. They are re-graded as they are renewed, when there is a new loan to the same borrower, when identified facts demonstrate heightened risk of nonpayment, or if they become delinquent. Re-grading of larger problem loans occurs at least quarterly. Confirmation of the quality of the grading process is obtained by independent credit reviews conducted by consultants specifically hired for this purpose and by various bank regulatory agencies.

The Company's method for assessing the appropriateness of the allowance includes specific allowances for identified problem loans and leases, formula allowance factors for pools of credits, and allowances for changing environmental factors (e.g., interest rates, growth, economic conditions, etc.). Allowances for identified problem loans are based on specific analysis of individual credits Allowance factors for loan pools are based on the previous 5 years historical loss experience by product type. Allowances for changing environmental factors are Management's best estimate of the probable impact these changes have had on the loan portfolio as a whole.

The Components of the Allowance for Loan Losses

As noted above, the overall allowance consists of a specific allowance, a formula allowance, and an allowance for environmental factors. The first component, the specific allowance, results from the analysis of identified problem credits and the evaluation of sources of repayment including collateral, as applicable. Through Management's ongoing loan grading process, individual loans are identified that have conditions that indicate the borrower may be unable to pay all amounts due under the contractual terms. These loans are evaluated individually by Management and specified allowances for loan losses established where applicable. The amount of this component is disclosed in Note D to the consolidated financial statements. In addition to loans identified for specific allowance analysis, Management may identify additional loans for specific allowance analysis.

The second component, the formula allowance, is an estimate of the probable losses that have occurred across the major loan categories in the Company's loan portfolio. This analysis is based on loan grades by pool and the loss history of these pools. This analysis covers the Company's entire loan portfolio including unused commitments but excludes any loans, which were analyzed individually for specific allowances as discussed above. The total amount allocated for this component is determined by applying loss estimation factors to outstanding loans and loan commitments. The loss factors are based primarily on the Company's historical loss experience tracked over a five-year period and adjusted as appropriate for the input of current trends and events. Because historical loss experience varies for the different categories of loans, the loss factors applied to each category also differ. In addition, there is a greater chance that the Company has suffered a loss from a loan that was graded less than satisfactory than if the loan was last graded satisfactory. Therefore, for any given category, a larger loss estimation factor is applied to less than satisfactory loans than to those that the Company last graded as satisfactory. The resulting formula allowance is the sum of the allocations determined in this manner.

The third or "unallocated" component of the allowance for credit losses is a component that is not allocated to specific loans or groups of loans, but rather is intended to absorb losses that may not be provided for by the other components.

There are several primary reasons that the other components discussed above might not be sufficient to absorb the losses present in portfolios, and the unallocated portion of the allowance is used to provide for the losses that have occurred because of them.

The first is that there are limitations to any credit risk grading process. The volume of loans makes it impractical to re-grade every loan every quarter. Therefore, it is possible that some currently performing loans not recently graded will not be as strong as their last grading and an insufficient portion of the allowance will have been allocated to them. Grading and loan review often must be done without knowing whether all relevant facts are at hand. Troubled borrowers may deliberately or inadvertently omit important information from reports or conversations with lending officers regarding their financial condition and the diminished strength of repayment sources.

The second is that the loss estimation factors are based primarily on historical loss totals. As such, the factors may not give sufficient weight to such considerations as the current general economic and business conditions that affect the Company's borrowers and specific industry conditions that affect borrowers in that industry. The factors might also not give sufficient weight to other environmental factors such as changing economic conditions and interest rates, portfolio growth, entrance into new markets or products, and other characteristics as may be determined by Management.

Specifically, in assessing how much unallocated allowance needed to be provided at December 31, 2000, Management considered the following:

- with respect to loans to the agriculture industry, Management considered the effects on borrowers of weather conditions and overseas market conditions for exported products as well as commodity prices in general;
- with respect to changes in the interest rate environment Management considered the recent changes in interest rates and the resultant economic impact it may have had on borrowers with high leverage and/or low profitability; and
- with respect to loans to borrowers in new markets and growth in general, Management considered the relatively short seasoning of such loans and the lack of experience with such borrowers.

(B) Balance Sheet Analysis (continued)

Each of these considerations was assigned a factor and applied to a portion or all of the loan portfolio. Since these factors are not derived from experience and are applied to large non-homogeneous groups of loans, they are considered unallocated and are available for use across the portfolio as a whole.

At December 31, 2000 the allowance for loan losses was $11,670,000 consisting of a specific allowance of $3,266,000, a formula allowance of $5,414,000, and an unallocated allowance of $2,990,000. At December 31, 1999 the allowance for loan losses was $11,037,000 consisting of a specific allowance of $600,000, a formula allowance of $6,606,000, and an unallocated allowance of $3,831,000.

The increase in the specific allowance portion of the reserve was due to the overall increase in classified and impaired loans, which under the Company's allowance methodology are analyzed for specific reserve. As these classified and impaired loans were analyzed for specific reserve, they were excluded from the loan balances that were subject to the formula allowance portion of the reserve; and resulted in a decrease in the formula allowance portion of the reserve.

The allowance for loan losses to total loans at December 31, 2000 was 1.82% versus 1.88% at the end of 1999. At December 31, 1998, the allowance for loan losses to total loans was 1.54%.

Based on the current conditions of the loan portfolio, Management believes that the $11,670,000 allowance for loan losses at December 31, 2000 is adequate to absorb probable losses inherent in the Bank's loan portfolio. No assurance can be given, however, that adverse economic conditions or other circumstances will not result in increased losses in the portfolio.

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

	December 31,				
	2000	1999	1998	1997	1996
	(dollars in thousands)				
Balance, beginning of year	$ 11,037	$ 8,206	$ 6,459	$ 6,097	$ 5,580
Provision charged to operations	5,000	3,550	4,200	3,000	777
Loans charged off:					
Commercial, financial and agricultural	(4,450)	(865)	(1,865)	(1,289)	(283)
Consumer installment	(103)	(148)	(702)	(1,551)	(909)
Real estate mortgage	(152)	(69)	(188)	—	—
Total loans charged-off	(4,705)	(1,082)	(2,755)	(2,840)	(1,192)
Recoveries:					
Commercial, financial and agricultural	281	327	164	85	243
Consumer installment	54	36	130	117	66
Real estate mortgage	3	—	8	—	—
Total recoveries	338	363	302	202	309
Net loans charged-off	(4,367)	(719)	(2,453)	(2,638)	(883)
Balance added through acquisition	—	—	—	—	623
Balance, year end	$ 11,670	$ 11,037	$ 8,206	$ 6,459	$ 6,097
Average total loans	$624,717	$566,738	$487,598	$448,117	$368,550
Ratios:					
Net charge-offs during period to average loans outstanding during period	0.70%	0.13%	0.50%	0.59%	0.24%
Provision for loan losses to average loans outstanding	0.80%	0.63%	0.86%	0.67%	0.21%
Allowance to loans at year end	1.82%	1.88%	1.54%	1.44%	1.39%

The following tables summarize the allocation of the allowance for loan losses between loan types at December 31, 2000 and 1999:

	December 31, 2000 (dollars in thousands)	
Balance at End of Period Applicable to:	Amount	Percent of loans in each category to total loans
Commercial, financial and agricultural	$ 6,873	43.4%
Consumer installment	1,373	15.9%
Real estate mortgage	2,925	34.8%
Real estate construction	499	5.9%
	$11,670	100.0%

	December 31, 1999 (dollars in thousands)	
Balance at End of Period Applicable to:	Amount	Percent of loans in each category to total loans
Commercial, financial and agricultural	5,224	44.7%
Consumer installment	1,464	13.6%
Real estate mortgage	3,671	35.2%
Real estate construction	678	6.5%
	$11,037	100.0%

Investment in Real Estate Properties

During 1998, the subsidiary divested all investment properties pursuant to an agreement between the Bank and the FDIC.

Other Real Estate Owned

The December 31, 2000 balance of Other Real Estate Owned (OREO) was $1,441,000 versus $760,000 in 1999. Properties foreclosed in 2000 and remaining in the Bank's possession at year-end were valued at $1,037,000 net of a valuation allowance of $15,000. The Bank disposed of properties with a value of $928,000 in 2000. OREO properties consist of a mixture of land, single family residences, and commercial buildings.

Intangible Assets

At December 31, 2000 and 1999, the Bank had intangible assets totaling $5,464,000 and $6,429,000, respectively. The intangible assets are the result of the Bank's 1997 acquisitions of certain Wells Fargo branches and Sutter Buttes Savings Bank. Amortization of intangible assets amounting to $965,000, $1,135,000 and $1,338,000 was recorded in 2000, 1999, and 1998, respectively.

Deposits

Deposits at December 31, 2000 were up $43,722,000 (5.5%) over the 1999 year-end balances to $837,832,000. All categories of deposits except savings increased in 2000. Included in the December 31, 2000 and 1999 certificate of deposit balances is $40,000,000 from the State of California.

Deposits at December 31, 1999 were up $24,937,000 (3.2%) to $794,110,000 over the 1998 year-end balances. All categories of deposits except interest-bearing demand deposits increased in 1999. The Bank often experiences significant deposit balance increases at year-end due to agricultural and small business customers depositing year-end receipts. The magnitude of this year-end deposit increase varies from year to year. Interest-bearing demand deposits were up 14.3% from year-end 1997 to year-end 1998, and then down 3.9% from year-end 1998 to year-end 1999.

Long-Term Debt

During 2000, the Bank repaid $46,522,000 of long-term debt, and added $35,000,000 under long-term debt agreements. In 1999, the Bank made principal payments of $13,419,000 on long-term debt obligations, and added $21,000,000 under long-term debt agreements.

Equity

See Note T in the financial statements for a discussion of regulatory capital requirements. Management believes that the Company's capital is adequate to support anticipated growth, meet the cash dividend requirements of the Company and meet the future risk-based capital requirements of the Bank and the Company.

Market Risk Management

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

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

Simulation of net interest margin, net income and market value of equity under various interest rate scenarios is the primary tool used to measure interest rate risk. Using computer-modeling techniques, the Bank is able to estimate the potential impact of changing interest rates on net interest margin, net income and market value of equity. A balance sheet forecast is prepared using inputs of actual loan, securities and interest-bearing liability (i.e. deposits/borrowings) positions as the beginning base.

In the simulation of net interest margin and net income under various interest rate scenarios, the forecast balance sheet is processed against seven interest rate scenarios. These seven interest rate scenarios include a flat rate scenario, which assumes interest rates are unchanged in the future, and six additional rate ramp scenarios ranging from +300 to -300 basis points around the flat scenario in 100 basis point increments. These ramp scenarios assume that interest rates increase or decrease evenly (in a "ramp" fashion) over a twelve-month period and remain at the new levels beyond twelve months.

(B) Balance Sheet Analysis (continued)

The following table summarizes the effect on net interest income and net income due to changing interest rates as measured against a flat rate (no change) scenario:

Interest Rate Risk Simulation of Net Interest Income and Net Income as of December 31, 2000

Change in Interest Rates (Basis Points)	Estimated Change in Net Interest Income (NII) (as % of "flat" NII)	Estimated Change in Net Income (NI) (as % of "flat" NI)
+300 (ramp)	1.25%	2.75%
+200 (ramp)	1.03%	2.29%
+100 (ramp)	0.66%	1.48%
+ 0 (flat)	—	—
-100 (ramp)	(1.52)%	(3.39)%
-200 (ramp)	(3.15)%	(7.04)%
-300 (ramp)	(5.21)%	(11.64)%

In the simulation of market value of equity under various interest rate scenarios, the forecast balance sheet is processed against seven interest rate scenarios. These seven interest rate scenarios include the flat rate scenario described above, and six additional rate shock scenarios ranging from +300 to -300 basis points around the flat scenario in 100 basis point increments. These rate shock scenarios assume that interest rates increase or decrease immediately (in a "shock" fashion) and remain at the new level in the future.

The following table summarizes the effect on market value of equity due to changing interest rates as measured against a flat rate (no change) scenario:

Interest Rate Risk Simulation of Market Value of Equity as of December 31, 2000

Change in Interest Rates (Basis Points)	Estimated Change in Market Value of Equity (MVE) (as % of "flat" MVE)
+300 (shock)	(10.74)%
+200 (shock)	(6.92)%
+100 (shock)	(3.35)%
+ 0 (flat)	—
-100 (shock)	2.14%
-200 (shock)	2.12%
-300 (shock)	(2.08)%

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

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

As with any method of measuring interest rate risk, certain shortcomings are inherent in the method of analysis presented in the preceding tables. For example, although certain of the Bank's assets and liabilities may have similar maturities or repricing time frames, they may react in different degrees to changes in market interest rates. In addition, the interest rates on certain of the Bank's asset and liability categories may precede, or lag behind, changes in market interest rates. Also, the actual rates of prepayments on loans and investments could vary significantly from the assumptions utilized in deriving the results as presented in the preceding table. Further, a change in U.S. Treasury rates accompanied by a change in the shape of the treasury yield curve could result in different estimations from those presented herein. Accordingly, the results in the preceding tables should not be relied upon as indicative of actual results in the event of changing market interest rates. Additionally, the resulting estimates of changes in market value of equity are not intended to represent, and should not be construed to represent, estimates of changes in the underlying value of the Bank.

Interest rate sensitivity is a function of the repricing characteristics of the Bank's portfolio of assets and liabilities. One aspect of these repricing characteristics is the time frame within which the interest-bearing assets and liabilities are subject to change in interest rates either at replacement, repricing or maturity. An analysis of the repricing time frames of interest-bearing assets and liabilities is sometimes called a "gap" analysis because it shows the gap between assets and liabilities repricing or maturing in each of a number of periods. Another aspect of these repricing characteristics is the relative magnitude of the repricing for each category of interest earning asset and interest-bearing liability given various changes in market interest rates. Gap analysis gives no indication of the relative magnitude of repricing given various changes in interest rates. Interest rate sensitivity management focuses on the maturity of assets and liabilities and their repricing during periods of changes in market interest rates. Interest rate sensitivity gaps are measured as the difference between the volumes of assets and liabilities in the Bank's current portfolio that are subject to repricing at various time horizons.

The following interest rate sensitivity table shows the Bank's repricing gaps as of December 31, 2000. In this table transaction deposits, which may be repriced at will by the

Bank, have been included in the less than 3-month category. The inclusion of all of the transaction deposits in the less than 3-month repricing category causes the Bank to appear liability sensitive. Because the Bank may reprice its transaction deposits at will, transaction deposits may or may not reprice immediately with changes in interest rates. In recent years of moderate interest rate changes the Bank's earnings have reacted as though the gap position is slightly asset sensitive mainly because the magnitude of interest-bearing liability repricing has been less than the magnitude of interest-earning asset repricing. This difference in the magnitude of asset and liability repricing is mainly due to the Bank's strong core deposit base, which although they may be repriced within three months, historically, the timing of their repricing has been longer than three months and the magnitude of their repricing has been minimal.

Due to the limitations of gap analysis, as described above, the Bank does not actively use gap analysis in managing interest rate risk. Instead, the Bank relies on the more sophisticated interest rate risk simulation model described above as its primary tool in measuring and managing interest rate risk.

Interest Rate Sensitivity - December 31, 2000

	Repricing within:				
	Less than 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years
	(dollars in thousands)				
Interest-earning assets:					
Securities	$ 52,094	$ 8,431	$ 17,918	$ 90,838	$ 54,884
Loans	304,835	31,642	59,550	172,827	60,942
Total interest-earning assets	$ 356,929	40,073	77,468	263,665	115,826
Interest-bearing liabilities					
Transaction deposits	$ 364,908	$ —	$ —	$ —	$ —
Time	117,716	71,815	95,895	18,819	136
Fed funds purchased	500	—	—	—	—
Long-term borrowings	1,007	7	10,016	169	22,783
Total interest-bearing liabilities	$ 484,131	$ 71,822	$ 105,911	$ 18,988	$ 22,919
Interest sensitivity gap	$(127,202)	$ (31,749)	$ (28,443)	$244,677	$ 92,907
Cumulative sensitivity gap	$(127,202)	$(158,951)	$(187,394)	$ 57,283	$150,190
As a percentage of earning assets:					
Interest sensitivity gap	(14.90%)	(3.72%)	(3.33%)	28.65%	10.88%
Cumulative sensitivity gap	(14.90%)	(18.61%)	(21.94%)	6.71%	17.59%

Liquidity

Liquidity refers to the Bank's ability to provide funds at an acceptable cost to meet loan demand and deposit withdrawals, as well as contingency plans to meet unanticipated funding needs or loss of funding sources. These objectives can be met from either the asset or liability side of the balance sheet. Asset liquidity sources consist of the repayments and maturities of loans, selling of loans, short-term money market investments, maturities of securities and sales of securities from the available-for-sale portfolio. These activities are generally summarized as investing activities in the Consolidated Statement of Cash Flows. Net cash used by investing activities totaled approximately $47,739,000 in 2000, which means that assets were not generally used for liquidity purposes. Increased loan balances were responsible for the major use of funds in this category.

Liquidity is generated from liabilities through deposit growth and short-term borrowings. These activities are included under financing activities in the Consolidated Statement of Cash Flows. In 2000, financing activities provided funds totaling $26,655,000. Internal deposit growth provided funds amounting to $43,722,000. The Bank also had available correspondent banking lines of credit totaling $64,500,000 at year-end. While these sources are expected to continue to provide significant amounts of funds in the future, their mix, as well as the possible use of other sources, will depend on future economic and market conditions.

Liquidity is also provided or used through the results of operating activities. In 2000, operating activities provided cash of $18,838,000.

In connection with the adoption of SFAS 133 on October 1, 1998, the Bank reclassified its entire portfolio of held-to-maturity investment securities, with a carrying value of $78,901,000, to the available-for-sale classification. The AFS securities plus cash and cash equivalents in excess of reserve requirements totaled $286,800,000 at December 31, 2000, which was 29.5% of total assets at that time. This was down from $291,644,000 and 31.5% at the end of 1999.

The overall liquidity of the Bank is enhanced by the sizable core deposits, which provide a relatively stable funding base. The maturity distribution of certificates of deposit in denominations of $100,000 or more is set forth in the following table. These deposits are generally more rate sensitive than other deposits and, therefore, are more likely to be withdrawn to obtain higher yields elsewhere if available. The Bank participates in a program wherein the State of California places time deposits with the Bank at the Bank's option. At December 31, 2000 and 1999, the Bank had $40,000,000 of these State deposits.

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

	Amounts as of December 31,		
	2000	1999	1998
	(in thousands)		
Time remaining until maturity:			
Less than 3 months	$55,721	$52,260	$47,957
3 months to 6 months	14,002	10,906	7,208
6 months to 12 months	18,686	7,228	3,812
More than 12 months	4,933	3,068	5,880
Total	$93,342	$73,462	$64,857

(B) Balance Sheet Analysis (continued)

Loan demand also affects the Bank's liquidity position. The following table presents the maturities of loans at December 31, 2000:

Loan Maturities - December 31, 2000

	Within One Year	After One But Within 5 Years	After 5 Years	Total
		(in thousands)		
Loans with predetermined interest rates:				
Commercial, financial and agricultural	$27,996	$57,041	$18,949	$103,986
Consumer installment	12,159	27,557	15,946	55,662
Real estate mortgage	5,089	22,286	59,824	87,199
Real estate construction	16,680	0	320	17,000
	$61,924	$106,884	$95,039	$263,847
Loans with floating interest rates:				
Commercial, financial and agricultural	$114,076	$65,195	$97,757	$277,028
Consumer installment	44,371	32	0	44,403
Real estate mortgage	17,855	1,729	14,274	33,858
Real estate construction	9,721	11,472	62	21,255
	$186,023	$78,428	$112,093	$376,544
Total loans	$247,947	$185,312	$207,132	$640,391

The maturity distribution and yields of the available-for-sale investment portfolio is presented in the following table. The timing of the maturities indicated in the table below is based on final contractual maturities. Most mortgage-backed securities return principal throughout their contractual lives. As such, the weighted average life of mortgage-backed securities based on outstanding principal balance is usually significantly shorter than the final contractual maturity indicated below. At December 31, 2000, the Bank had no held-to-maturity securities.

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

Off-Balance Sheet Items

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

As of December 31, 2000 commitments to extend credit were the Bank's only financial instruments with off-balance sheet risk. The Bank has not entered into any contracts for financial derivative instruments such as futures, swaps, options, etc. Loan commitments increased to $163,667,000 from $140,660,000 at December 31, 1999. The commitments represent 25.6% of the total loans outstanding at year-end 2000 versus 23.9% a year ago.

Disclosure of Fair Value

The intent of presenting the fair values of financial instruments is to depict the market's assessment of the present value of net future cash flows discounted to reflect both current interest rates and the market's assessment of the risk that the cash flows will not occur.

In determining fair values, the Bank used the carrying amount for cash, short-term investments, accrued interest receivable, short-term borrowings and accrued interest payable, as all of these instruments are short-term in nature. Securities are reflected at quoted market values. Loans and deposits have a long-term time horizon, which required more complex calculations for fair value determination. Loans are grouped into homogeneous categories and broken down between fixed and variable rate instruments. Loans with a variable rate, that reprice immediately, are val-

Securities Maturities and Weighted Average Tax Equivalent Yields - December 31, 2000

	Within One Year		After One Year but Through Five Years		After Five Years but Through Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
					(dollars in thousands)					
Securities Available-for-Sale										
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$4,998	4.92%	$9,932	5.74%	$16,243	7.05%	$ —	— %	$31,173	6.29%
Obligations of states and political subdivisions	301	7.69%	4,178	5.72%	1,643	6.86%	39,254	7.80%	45,376	7.57%
Mortgage-backed securities	—	—	15,496	6.32%	30,708	5.83%	88,882	6.60%	135,086	6.39%
Corporate bonds							10,186	7.88%	10,186	7.88%
Other securities							3,948	8.04%	3,948	8.04%
Other equities							3,341	0.00%	3,341	0.00%
Total securities available-for-sale	$5,299	5.08%	$29,606	6.04%	$48,594	6.27%	$145,611	6.90%	$229,110	6.71%
Total all securities	$5,299	5.08%	$29,606	6.04%	$48,594	6.27%	$145,611	6.90%	$229,110	6.71%

ued at carrying value. The fair value of fixed rate instruments is estimated by discounting the future cash flows using current rates. Credit risk and repricing risk factors are included in the current rates. Fair value for nonaccrual loans is reported at carrying value and is included in the net loan total. Since the allowance for loan losses exceeds any potential adjustment for credit problems, no further valuation adjustment has been made.

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

At 2000 year-end, the fair values calculated on the Bank's assets are 0.88% above the carrying values versus 1.60% below the carrying values at year-end 1999. The change in the calculated fair value percentage relates to the loan category and is the result of changes in interest rates in 2000 (See Note R of the financial statements).

TriCo Bancshares—Executive Officers

Richard P. Smith . . . . **President & Chief Executive Officer**

Thomas J. Reddish. . . . . . **Vice President & Chief Financial Officer**

Wendell J. Lundberg . . . . **Secretary**

Tri Counties Bank—Executive Officers

Richard P. Smith . . . . **President & Chief Executive Officer**

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

Andrew P. Mastorakis . . . **Executive Vice President Retail Banking**

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

Thomas J. Reddish. . . . . . **Vice President & Chief Financial Officer**

TriCo Bancshares Headquarters

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

Notice of Annual Meeting

Tuesday May 8, 2001 at 6:00 P.M.
63 Constitution Drive
Chico, California 95973

Shareholder Relations

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

Transfer Agent

Mellon Investor Services
Overpeck Centre
85 Challanger Road
Ridgefield Park, NJ 07660

Internet Address: www.mellon-investor.com

Stock Listing

NASDAQ Stock Exchange
Symbol: "TCBK"

The Company will provide to any interested party, without charge, a copy of the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Securities and Exchange Commission, including the financial statements and schedules thereto. The report may be obtained by written request to: **Corporate Secretary, TriCo Bancshares, 63 Constitution Drive, Chico, CA 95973.**

Tri Counties Bank Traditional Branch Locations

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

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

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

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

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

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

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

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

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

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

Redding Branch
1845 California Street
Redding, CA 96001
(530) 245-5930

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

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

Yuba City Branch
1441 Colusa Avenue
Yuba City, CA 95993
(530) 671-5563

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

Marysville Branch
729 E Street
Marysville, CA 95901
(530) 749-1639

Chowchilla Branch
305 Trinity Avenue
Chowchilla, CA 93610
(559) 665-4868

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

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

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

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

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

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

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

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

Paradise Branch
6848 "Q" Skyway
Paradise, CA 95969
(530) 872-2992

Sacramento Branch
1760 Challenge Way
Suite 100,
Sacramento, CA 95815
(916) 648-9370

Bakersfield Branch
5201 California Avenue,
Suite 102
Bakersfield, CA 93309
(661) 325-9321

Modesto Branch
3320 Tully Road,
Modesto, CA 95350
(209) 548-4030

Visalia Branch
2914 W. Main Street,
Visalia, CA 93291
(559) 741-2940

Tri Counties Bank In-Store Branch Locations

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

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

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

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

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

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

Beale Air Force Base
17601-25th Street
Bldg 256
BAFB, CA 95902
(530) 788-7851

Tri Counties Bank Administration Office

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

FINANCIAL SUCCESS THROUGH THE TOTAL BANKING RELATIONSHIP

Customer
Gene Mullen

"There's always somebody ready to help, and that means a lot."

Raymond James Financial Services representative
Ron Bee

In his early 80s, Tri Counties Bank customer Gene Mullen recently has begun a second career as a personal fitness trainer. Gene is a valued customer who enjoys visiting his branch, and is always greeted with the respect and attention all Tri Counties Bank customers deserve.

Rick and Deb Webb own a construction company that is part of the telecommunications infrastructure. With the rapid growth in that industry, opportunities come quickly and must be acted upon immediately. The Webbs are grateful to have a responsive Relationship Manager, Doug Weigand, and a full-service banking team.

"We've had to seize the moment. Tri Counties Bank has allowed us to achieve the growth we needed to keep pace with our industry."

Raymond James Financial Services representative
Ron Bee

Customers
Rick and Deb Webb

Vice President, Relationship Manager
Doug Weigand

Financial Services Representative
Jodi McMurtrey

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