1990

TriCo Bancshares
Annual Report

TriCo Bancshares

TriCo Bancshares (the "Company") is a bank holding company incorporated at the direction of the Board of Directors of Tri Counties Bank (the "Bank") on October 13, 1981. Pursuant to a corporate reorganization on September 7, 1982, the shareholders of the Bank became shareholders of the Company and the Bank became the wholly-owned subsidiary of the Company. The Bank currently is the only subsidiary of the Company, and the Company has not yet commenced any business operations independent of the Bank.

The Bank engages in the general commercial banking business in the California counties of Butte, Glenn, Shasta, Siskiyou and Sutter, as well as portions of Tehama, Lassen and Yuba. It opened its first banking office in Chico, California, in 1975, followed by branch offices in Willows, Durham and Orland, California. A second branch office in Chico opened in 1980. In 1981, the Bank acquired the assets of Shasta County Bank through a merger of that bank with and into the Bank, adding six additional offices in the communities of Bieber, Burney, Cottonwood, Fall River Mills, Palo Cedro and Redding, California. In 1987, the Bank acquired certain assets of the Wells Fargo Bank branch office in Yreka, California, thereby extending its service area into Siskiyou County. In 1988, the Bank opened a third Chico branch office in the new Chico Mall, a regional shopping center. In 1990, the Bank opened a branch office in Yuba City, the first to serve Sutter and Yuba counties.

Market Makers for TriCo Bancshares Common Stock

Sutro & Co. Incorporated
31416 Agoura Road, Suite 180
Westlake Village, California 91361-4671
Troy Norlander (800) 288-2811
Mert Norlander
(800) 888-0929 (818) 706-2929

Hoefer & Arnett Incorporated
100 Pine Street, Suite 470
San Francisco, California 94111
Marc Arnett/Curtis Heinz
(800) 346-5544 (415) 362-7111

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

The majority of the Bank's loans are direct loans made to individuals and businesses in the area. Most of the Bank's deposits are attracted from individuals and business-related sources within the Bank's service area. The Bank relies substantially on local promotional activity; personal contacts by its officers, directors, employees and shareholders; extended hours; personalized service and its reputation in the communities it serves to compete with other financial institutions.

PRESIDENT'S MESSAGE

1990 was a year of mixed operating results. Net income for 1990 was $2,565,000 versus $3,155,000 for 1989. The sale of Tri Counties Bank's interest in a widely held real estate limited partnership, which had significantly decreased in value due to economic conditions in the areas of that partnership's operations, adversely impacted otherwise improved operating results. In addition, in light of the projected economic downturn, the Bank's provision for loan losses was increased. Management believes the Bank is well positioned to show substantial improvement in 1991.

Assets increased 6.1% to $376,244,000 and shareholders' equity increased to $27,334,000. Our primary capital, the total of equity and loss reserves, continues to be 8.0% of assets.

◆ **Dividends**

Cash dividends of $.40 per common share were paid to shareholders during 1990, up from the $.30 paid in 1989. A 20% common stock dividend was also paid in 1990. Dividends totalling $944,000 were paid on our Series A, Series B and Series C preferred stock.

◆ **New Branch Office**

The Bank's new Yuba City Branch office serving Sutter and Yuba counties opened for business on September 10, 1990 and is doing well.

◆ **VISA/MasterCard Department**

The Bank's VISA/MasterCard Department which opened in February 1989 is profitable with 4,000 accounts and $3,500,000 in outstanding balances. We plan to promote our VISA and MasterCards aggressively during 1991.

◆ **Lending Policy**

Due to softness in the real estate market, we intend to reduce our exposure to real estate construction lending. We will continue to focus on loans to small businesses, and on retail consumer loans and deposits.

◆ **Merger Cancelled**

TriCo Bancshares, its wholly-owned subsidiary Tri Counties Bank, and Butte Savings and Loan Association mutually agreed to withdraw their pending merger application from state and federal regulatory agencies. A lack of encouragement from a broad range of regulators made it impossible to complete the transaction at this time.

◆ **New Director**

Rodney W. (Rick) Peterson, a Durham area farmer and holder of both common and preferred stock, joined the TriCo Bancshares Board of Directors on May 15, 1990.

◆ **In Memorium**

With profound sorrow, we regret to report the passing of two Founding Directors of Tri Counties Bank: Mr. Vernon E. Fish on December 13, 1990 and Mr. Wayne Meeks on January 13, 1991. Mr. Fish became a Director Emeritus in 1983. Mr. Meeks was an active member of the Board. Their wise counsel will be greatly missed.

Your Directors and Management thank you for your continued support.

Sincerely,

Robert H Steveson

Robert H. Steveson,
President &
Chief Executive Officer

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheet of TriCo Bancshares and Subsidiary as of December 31, 1990 and 1989, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of TriCo Bancshares and Subsidiary as of December 31, 1988, were audited by other auditors whose report dated January 20, 1989, expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TriCo Bancshares and Subsidiary as of December 31, 1990 and 1989, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

Arthur Andersen & Co.

San Francisco, California
January 29, 1991

CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	December 31, 1990	1989
◆ASSETS		
Cash and due from banks	**$ 22,218**	$ 16,859
Federal funds sold	**19,200**	28,000
Investment securities (approximate market value $54,905 and $55,790)	**56,172**	57,638
Loans:		
Commercial	**134,623**	125,191
Consumer	**46,486**	37,748
Real estate mortgages	**55,197**	55,933
Real estate construction	**22,575**	11,144
	258,881	230,016
Less: Allowance for loan losses	**3,102**	2,267
Net loans	**255,779**	227,749
Premises and equipment, net	**9,985**	7,922
Investment in real estate properties	**4,634**	5,115
Investment in real estate limited partnership	**—**	4,493
Other real estate owned	**10**	380
Accrued interest receivable	**3,764**	3,325
Deferred income tax	**1,032**	—
Other assets	**3,450**	3,207
Total assets	**$376,244**	$354,688
◆ LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing demand	**$ 63,824**	$ 67,277
Interest-bearing demand	**93,173**	80,364
Savings	**35,153**	31,206
Time certificates, $100,000 and over	**6,969**	5,281
Other time certificates	**142,349**	137,552
Total deposits	**341,468**	321,680
Accrued interest payable	**4,000**	3,951
Other liabilities	**1,952**	1,732
Deferred income tax	**—**	16
Debt guarantee for Employee Stock Ownership Plan	**360**	480
Long-term debt	**1,130**	586
Total liabilities	**348,910**	328,445
Commitments and contingencies (Note M)		
Shareholders' equity:		
Preferred stock, no par value: Authorized 1,000,000 shares;		
Series A, issued and outstanding 26,724 shares	**2,544**	2,544
Series B, issued and outstanding 8,000 shares	**3,899**	3,899
Series C, issued and outstanding 16,900 shares	**2,187**	2,187
Common stock, no par value: Authorized 20,000,000 shares; issued and outstanding 1,599,047 shares	**18,145**	18,145
Retained earnings (deficit)	**919**	(52)
Debt guarantee for Employee Stock Ownership Plan	**(360)**	(480)
Total shareholders' equity	**27,334**	26,243
Total liabilities and shareholders' equity	**$376,244**	$354,688

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except earnings per share)

	Years Ended December 31, 1990	1989	1988
Interest income:			
Interest and fees on loans	**$30,721**	$25,106	$20,676
Interest on federal funds sold	**502**	664	126
Interest on investment securities—taxable	**3,269**	3,277	3,912
Interest on investment securities—tax exempt	**1,319**	1,095	800
Total interest income	**35,811**	30,142	25,514
Interest expense:			
Interest on interest-bearing demand deposits	**5,154**	4,505	4,716
Interest on savings	**1,766**	1,687	1,644
Interest on time certificates of deposit	**11,553**	9,404	6,396
Interest on time certificates of deposit, $100,000 and over	**521**	364	247
Interest on short-term borrowing	**67**	397	74
Interest on long-term debt	**99**	158	476
Total interest expense	**19,160**	16,515	13,553
Net interest income	**16,651**	13,627	11,961
Provision for loan losses	**2,450**	1,000	780
Net interest income after provision for loan losses	**14,201**	12,627	11,181
Other income:			
Service charges and fees	**2,879**	2,561	2,536
Other income	**760**	412	758
Investment securities (losses), net	**(134)**	(186)	(5)
Total other income	**3,505**	2,787	3,289
Other expenses:			
Salaries and related expenses	**6,144**	5,739	5,165
Other	**7,706**	4,844	5,308
Total other expenses	**13,850**	10,583	10,473
Net income before income taxes	**3,856**	4,831	3,997
Income taxes	**1,291**	1,676	1,469
Net income	**$ 2,565**	$ 3,155	$ 2,528
Preferred stock dividends	**944**	736	461
Net income available to common shareholders	**$ 1,621**	$ 2,419	$ 2,067
Earnings per common share	**$ 1.01**	$ 1.71	$ 1.48

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 1990, 1989 and 1988
(In thousands, except share amounts)

	Series A Preferred Stock		Series B Preferred Stock		Series C Preferred Stock		Common Stock				
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Retained Earnings (Deficit)	Debt Guarantee for ESOP	Total
Balance, January 1, 1988	26,724	$2,544	—	$ —	—	$ —	899,178	$ 7,878	$ 3,742	$ —	$14,164
8% Common Stock dividend, less cash paid for fractional shares	—	—	—	—	—	—	71,295	1,034	(1,043)	—	(9)
20% Common Stock dividend, less cash paid for fractional shares	—	—	—	—	—	—	193,541	2,903	(2,911)	—	(8)
Series B Preferred Stock issued	—	—	8,000	3,899	—	—	—	—	—	—	3,899
Series A Preferred Stock cash dividends	—	—	—	—	—	—	—	—	(295)	—	(295)
Series B Preferred Stock cash dividends	—	—	—	—	—	—	—	—	(166)	—	(166)
Common Stock cash dividends	—	—	—	—	—	—	—	—	(291)	—	(291)
Net income	—	—	—	—	—	—	—	—	2,528	—	2,528
Balance, December 31, 1988	26,724	2,544	8,000	3,899	—	—	1,164,014	11,815	1,564	—	19,822
Common Stock issued	—	—	—	—	—	—	169,000	2,672	—	—	2,672
20% Common Stock dividend declared January 9, 1990	—	—	—	—	—	—	266,033	3,658	(3,658)	—	—
Series C Preferred Stock issued	—	—	—	—	16,900	2,187	—	—	—	—	2,187
Series A Preferred Stock cash dividends	—	—	—	—	—	—	—	—	(295)	—	(295)
Series B Preferred Stock cash dividends	—	—	—	—	—	—	—	—	(421)	—	(421)
Series C Preferred Stock cash dividends	—	—	—	—	—	—	—	—	(20)	—	(20)
Common Stock cash dividends	—	—	—	—	—	—	—	—	(377)	—	(377)
Net income	—	—	—	—	—	—	—	—	3,155	—	3,155
Debt guarantee for ESOP	—	—	—	—	—	—	—	—	—	(480)	(480)
Balance, December 31, 1989	26,724	2,544	8,000	3,899	16,900	2,187	1,599,047	18,145	(52)	(480)	26,243
Series A Preferred Stock cash dividends	—	—	—	—	—	—	—	—	(295)	—	(295)
Series B Preferred Stock cash dividends	—	—	—	—	—	—	—	—	(420)	—	(420)
Series C Preferred Stock cash dividends	—	—	—	—	—	—	—	—	(229)	—	(229)
Common Stock cash dividends	—	—	—	—	—	—	—	—	(650)	—	(650)
Net income	—	—	—	—	—	—	—	—	2,565	—	2,565
Reduction of ESOP debt	—	—	—	—	—	—	—	—	—	120	120
Balance, December 31, 1990	26,724	$2,544	8,000	$3,899	16,900	$2,187	1,599,047	$18,145	$ 919	$ (360)	$27,334

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Years ended December 31, 1990	1989	1988
Operating activities:			
Net income	**$ 2,565**	$ 3,155	$ 2,528
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	**2,450**	1,000	780
Provision for losses on investment real estate properties	**129**	146	160
Provision for depreciation and amortization	**1,200**	996	1,040
Amortization of investment security discounts	**245**	75	108
Deferred income taxes	**(1,173)**	(500)	(144)
Investment security (gains) losses	**134**	186	(5)
Investment in real estate properties (gains) losses	**(73)**	(319)	80
Loss on sale of real estate limited partnership	**1,493**	—	—
Increase in interest receivable	**(439)**	(684)	(199)
Increase in interest payable	**49**	1,287	191
Decrease in other real estate owned	**370**	562	641
Increase (decrease) in other operating assets and liabilities	**(325)**	415	95
Net cash provided by operating activities	**6,625**	6,319	5,275
Investing activities:			
Maturities of investment securities	**18,106**	16,598	3,973
Sales of investment securities	**10,616**	16,833	68,697
Purchases of investment securities	**(27,635)**	(28,836)	(67,553)
Net increase in loans	**(30,480)**	(43,411)	(20,263)
Purchases of premises and equipment	**(2,240)**	(1,468)	(831)
Proceeds from sale of investment in real estate properties	**3,005**	6,495	2,668
Purchases and additions to investment in real estate properties	**(2,632)**	(4,727)	(2,426)
Return of investment in real estate limited partnership	**250**	250	257
Sale of investment in real estate limited partnership	**2,750**	—	—
Net cash used by investing activities	**(28,260)**	(38,266)	(15,478)
Financing activities:			
Net increase (decrease) in noninterest-bearing demand deposits	**(3,453)**	9,467	10,446
Net increase (decrease) in interest-bearing demand deposits, and savings accounts	**16,756**	(5,602)	6,968
Net increase in time certificates of deposit	**6,485**	45,810	1,732
Proceeds from sale of common stock	**—**	2,672	—
Proceeds from sale of preferred stock	**—**	2,187	3,899
Cash dividends — preferred	**(944)**	(736)	(461)
Cash dividends — common	**(650)**	(375)	(291)
Term loan retired	**—**	—	(3,500)
Subordinated debt retired	**—**	(865)	(393)
Net cash provided by financing activities	**18,194**	52,558	18,400
Increase in cash and cash equivalents	**(3,441)**	20,611	8,197
Cash and cash equivalents at beginning of year	**44,859**	24,248	16,051
Cash and cash equivalents at end of year	**$41,418**	$44,859	$24,248
Supplemental information			
Cash paid for taxes	**$ 2,664**	$ 1,825	$ 1,380
Cash paid for interest expense	**$19,111**	$14,672	$13,375
Non-cash debt guarantee for ESOP	**$ (120)**	$ 480	$ —
Non-cash capital lease obligation incurred	**$ 621**	$ —	$ —

See Notes to Consolidated Financial Statements

◆ NOTE A - GENERAL SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Principles of Consolidation

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

Investment Securities

Investment securities are carried at cost, adjusted for the accretion of discounts and amortization of premiums using the interest method. Amortization and accretion are recognized as adjustments to interest income. Gains and losses (determined on a specific identification method) on sales of investment securities are presented separately in the statements of income. The Bank intends to hold investment securities to maturity and, therefore, a valuation allowance is not provided for the excess of carrying value over market value at December 31, 1990 and 1989, respectively.

Loans

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

Loan origination and commitment fees and certain direct loan origination costs are being deferred, and the net amount 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 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.

Direct finance leases are carried net of unearned income. Income from these leases is recognized on a basis which generally produces a level yield on the outstanding balances receivable.

Allowance for Loan Losses

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

Premises and Equipment

Premises (including those acquired under capital lease) and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization expenses are computed using the straight-line method over the estimated useful life of the asset or lease term. Asset lives range from 5-10 years for furniture and equipment and 15-30 years for land improvements and buildings.

Investment in Real Estate Properties

Investment in real estate is stated at the lower of cost or market and consists of properties either acquired directly or transferred from other real estate owned for the purpose of development or to be held as income-earning assets.

Subsequent to acquisition or transfer, properties included in the investment in real estate account are periodically appraised. Any decline in value below the carrying amount of a property is included in other expenses. Income and expenses on the investment in real estate are included in other expenses.

Investment in Real Estate Limited Partnership

An investment in a real estate limited partnership which was carried at a cost of $4,243,000, net of cumulative cash distributions of $757,000, was sold at the end of 1990. The resulting loss of $1,493,000 is included in other expenses.

Other Real Estate Owned

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

Income Taxes

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

In December 1987, Statement of Financial Accounting Standard No. 96 "Accounting for Income Taxes" was issued. Adoption of this Standard is required by 1992. At this time, the Company does not expect that the implementation of the Standard would have a material impact on its financial position or results of operations.

Intangible Assets

Intangible assets (included in other assets) represent the purchased deposit account base (core deposits) acquired in connection with the acquisition of Shasta County Bank. Core deposits represent the present value of the expected future benefits to be realized from the acquired bank's deposit base, comprised principally of demand and savings deposits. Core deposits are amortized over 10 years.

Earnings Per Common Share

Earnings per common share was computed based on the weighted average number of shares of common stock outstanding. The weighted average number of shares used in the computation of earnings per common share are: 1,599,047 for 1990; 1,416,263 for 1989; and 1,396,817 for 1988.

Other

Certain reclassifications have been made to the prior years' financial statements in order to conform with the classifications of the December 31, 1990 financial statements.

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

◆ NOTE B - RESTRICTED CASH BALANCES

Reserves (in the form of deposits with the Federal Reserve Bank) of $5,767,000 and $6,122,000 were maintained to satisfy Federal regulatory requirements at December 31, 1990 and December 31, 1989.

◆ NOTE C - INVESTMENT SECURITIES

The amortized cost and estimated market values of investments in debt securities at December 31, 1990 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
	(in thousands)			
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$14,578	$ 44	$ (78)	$14,544
Obligations of states and political subdivisions	18,486	48	(77)	18,457
Debt securities issued by foreign governments	865	—	(12)	853
Mortgage-backed securities	21,258	—	(1,064)	20,194
Other securities	985	—	(128)	857
Totals	$56,172	$ 92	$(1,359)	$54,905

The amortized cost and estimated market value of debt securities at December 31, 1990 by contractual maturity are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Market Value
	(in thousands)	
Due in one year	$11,440	$11,379
Due after one year through five years	22,579	22,452
Due after five years through ten years	895	880
	34,914	34,711
Mortgage-backed securities	21,258	20,194
	$56,172	$54,905

Proceeds from sales of investments in debt securities during 1990 were $10,616,000. Gross gains of $27,000 and gross losses of $161,000 were realized on those sales.

The carrying amount and estimated market values of investment securities at December 31, 1989 are summarized below:

	December 31, 1989 Carrying Value	Market Value
	(in thousands)	
U.S. Treasury, U.S. government agencies and corporations	$32,302	$31,006
State and political subdivisions	24,010	23,842
Other investments	1,326	942
	$57,638	$55,790

Investment securities with an aggregate carrying value of $1,007,000 and $2,486,000 at December 31, 1990 and 1989, respectively, were pledged as collateral for public deposits as required by law.

◆ NOTE D - ALLOWANCE FOR LOAN LOSSES

Transactions in the allowance for loan losses were as follows:

	Years Ended December 31, **1990**	1989	1988
	(in thousands)		
Balance, beginning of year	**$2,267**	$1,891	$1,518
Provision charged to operations	**2,450**	1,000	780
Loans charged off	**(1,725)**	(794)	(521)
Recoveries of loans previously charged off	**110**	170	114
Balance, end of year	**$3,102**	$2,267	$1,891

Loans classified as nonaccrual amounted to approximately $437,000, $403,000, and $701,000 at December 31, 1990, 1989 and 1988. If interest on those loans had been accrued, such income would have approximated $90,264, $68,000, and $86,000 in 1990, 1989 and 1988, respectively.

◆ NOTE E - PREMISES AND EQUIPMENT

Premises and equipment are comprised of:

	December 31, **1990**	1989
	(in thousands)	
Premises (including $831,000 acquired under capital lease)	**$7,840**	$7,006
Furniture and equipment (including $621,000 acquired under capital leases)	**5,425**	3,910
	13,265	10,916
Less:		
Accumulated depreciation	**(4,626)**	(4,016)
Accumulated amortization of capital leases	**(347)**	(274)
	8,292	6,626
Land	**1,693**	1,296
	$9,985	$7,922

Depreciation and amortization of premises and equipment amounted to $721,000, $711,000, and $643,000 in 1990, 1989 and 1988, respectively.

NOTE F - INCOME TAXES

The provision (credit) for income taxes is comprised of:

	Years Ended December 31, 1990	1989	1988
	(in thousands)		
Current:			
Federal	**$ 1,720**	$1,557	$1,116
State	**744**	619	497
	2,464	2,176	1,613
Deferred:			
Federal	**(842)**	(354)	(140)
State	**(331)**	(146)	(4)
	(1,173)	(500)	(144)
	$ 1,291	$1,676	$1,469

Deferred income tax expense resulted from the following:

	Years Ended December 31, 1990	1989	1988
	(in thousands)		
Increase (decrease) deferred income taxes:			
Difference between cash and accrual basis of accounting	**$ (36)**	$ (36)	$ (36)
Provision for loan losses	**(374)**	(176)	(173)
Provision for loss on other real estate	**17**	39	(61)
Amortization of core deposits	**(109)**	(110)	(110)
Use of accelerated depreciation methods for tax purposes	**56**	(6)	32
Leases	**(1)**	(39)	(24)
Leveraged leases	**(94)**	(257)	255
Real estate limited partnership	**(853)**	339	256
Retirement compensation	**(123)**	(75)	(62)
Loss on investment in real estate	**15**	(66)	—
Deferred loan fees	**80**	(139)	(177)
Other differences	**249**	26	(44)
	$ (1,173)	$ (500)	$ (144)

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

	Years Ended December 31, 1990	1989	1988
Federal statutory income tax rate	**34.0%**	34.0%	34.0%
State income taxes, net of federal tax benefit	**7.1**	7.1	8.2
Tax-exempt interest on municipal obligations	**(9.6)**	(7.7)	(5.7)
Other	**2.0**	1.3	.3
Effective Tax Rate	**33.5%**	34.7%	36.8%

NOTE G - LONG-TERM DEBT

Long-term debt is as follows:

	December 31, 1990	1989
	(in thousands)	
Capital lease obligation on equipment, effective rate of 8.3% payable monthly through August 7, 1995	**$ 544**	$ —
Capital lease obligation on premises, effective interest rate of 13% payable monthly in varying amounts through December 1, 2009.	**586**	586
	$1,130	$ 586

NOTE H - OTHER OPERATING EXPENSES

The components of other operating expenses are as follows:

	Years Ended December 31, 1990	1989	1988
	(in thousands)		
Equipment and data processing	**$ 1,149**	$ 990	$ 1,029
Occupancy	**1,071**	917	814
Advertising	**427**	285	178
Net other real estate owned expense	**14**	(95)	316
Net (gains) losses on investment in real estate	**(73)**	(86)	56
Net loss in real estate limited partnership	**1,493**	—	—
Professional fees	**361**	310	441
Assessments	**387**	227	194
Other	**2,877**	2,296	2,280
	$ 7,706	$ 4,844	$ 5,308

NOTE I - RETIREMENT PLANS

Substantially all employees with at least one year of service are covered by a discretionary employee stock ownership plan. Contributions are made to the plan at the discretion of the Board of Directors. Contributions to the plan of $222,000 in 1990, $222,000 in 1989 and $192,000 in 1988 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 ($1,329,000 and $870,000 at December 31, 1990 and 1989, respectively) to pay the retirement obligations.

The following table sets forth the plans' status:

	December 31, 1990	1989	1988
	(in thousands)		
Actuarial present value of benefit obligations:			
Vested benefit obligation	**$ (877)**	$ (694)	$ (534)
Accumulated benefit obligation	**$ (877)**	$ (694)	$ (565)
Projected benefit obligation for service rendered to date	**$ (1,028)**	$ (940)	$ (659)
Plan assets at fair value	**$ —**	$ —	$ —
Projected benefit obligation in excess of plan assets	**$ (1,028)**	$ (940)	$ (659)
Unrecognized net (gain) loss from past experience different from that assumed and effects of changes in assumptions	**11**	68	(80)
Prior service cost not yet recognized in net periodic pension cost	**15**	2	—
Unrecognized net obligation at transition	**495**	530	565
Accrued pension cost included in other liabilities	**$ (507)**	$ (340)	$ (174)
Net pension cost included the following components:			
Service cost-benefits earned during the period	**$ 58**	$ 57	$ 41
Interest cost on projected benefit obligation	**85**	70	54
Actual return on plan assets	**—**	—	—
Net amortization and deferral	**40**	39	30
Net periodic pension cost	**$ 183**	$ 166	$ 125

The net periodic pension cost was determined using a discount rate assumption of 8.5% for 1990 and 1989, and 9% for prior years. The rates of increase in compensation used were 0% to 7%.

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.

In 1989, the Company adopted two stock option plans covering key employees and directors. Options for 120,000 shares at $13.75 per share were available and granted under the plans in 1989. Options vest 20% annually and terminate 10 years from the date of the grant.

◆ NOTE J - PREFERRED STOCK

The Company has three series of cumulative nonvoting preferred stock outstanding. Each series carries a redemption date after which time the Company, at its option, may redeem all or part of the series upon the payment of the redemption value plus accrued and unpaid dividends. The following table summarizes the three issues:

Series	Dividend Rate	Shares	Redemption Date	Per Share Liquidation Value
A	11.0%	26,724	Jul 1, 1988	$100
B	10.5%	8,000	Aug 1, 1995	$500
C	10.0%	16,900	Nov 28, 1993	$135

◆ NOTE K - DIVIDEND RESTRICTIONS

Dividends from the Bank may be paid to the Company to finance operations. The Bank is regulated by the Federal Deposit Insurance Corporation (FDIC) and the California State Banking Department. California banking laws limit dividends to the lesser of (1) retained earnings or (2) net income for the last three fiscal years, less cash distributions paid during such period. Under this regulation, as of December 31, 1990, the Bank may pay dividends of $4,175,000. The Bank entered into an agreement with the FDIC which places further restrictions on dividend payments. Under this agreement the ratio of adjusted primary capital to adjusted total assets of the Bank cannot be less than 7.5% after payment of dividends. At December 31, 1990 this ratio was 8.0% and dividends of $1,950,000 could have been paid under this provision. Additionally, the declaration and payment of dividends must be approved in advance, in writing, by the FDIC Regional Director.

◆ NOTE L - 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. These loans totaled $6,253,000 and $5,731,000 at December 31, 1990 and 1989, respectively.

NOTE M - COMMITMENTS AND CONTINGENCIES (See also Note N)

The Bank has available unused lines of credit totaling $19,000,000 for federal funds transactions.

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

At December 31, 1990, future minimum commitments under noncancellable operating and capital leases with initial or remaining terms of one year or more are as follows:

	Capital Leases	Operating Leases
	(in thousands)	
1991	$ 222	$ 430
1992	228	395
1993	229	294
1994	230	250
1995	141	154
Thereafter	1,260	2,225
Future minimum lease payments	2,310	$ 3,748
Less amount representing interest	1,180	
Present value of future lease payments	$ 1,130	

Rent expense under operating leases was $465,000 in 1990, $433,000 in 1989 and $449,000 in 1988.

NOTE N - FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

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

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

	Contractual Amount	
	1990	1989
	(in thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit:		
Commercial loans	**$27,150**	$20,378
Real estate loans	**15,962**	9,986
Other	**6,955**	5,903
Standby letters of credit	**5,436**	3,855

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

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

NOTE O - CONCENTRATION OF CREDIT RISK

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

◆ NOTE P - EMPLOYEE STOCK OWNERSHIP PLAN

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

During 1989, the ESOP arranged financing with a bank of $600,000. The loan is to be repaid over a five-year period with interest at 90% of prime. The obligation of this plan to repay these borrowings is guaranteed by the Company. Current financial reporting practice requires this contingent liability to be recorded as debt with a corresponding charge to shareholders' equity. The Bank will make contributions to the ESOP sufficient to pay the interest and principal on the loan. The outstanding loan balance as of December 31, 1990 was $360,000.

NOTE Q - TRICO BANCSHARES FINANCIAL STATEMENTS

TriCo Bancshares (Parent Only) Balance Sheets

Assets	December 31, 1990	1989
	(in thousands)	
Cash	**$ 125**	$ 367
Loans	**284**	300
Investment in Tri Counties Bank	**27,284**	26,285
Other assets	**20**	22
Total assets	**$27,713**	$26,974
Liabilities and shareholders' equity		
Liabilities:		
ESOP debt guarantee	**$ 360**	$ 480
Deferred taxes	**1**	14
Other liabilities	**18**	237
Shareholders' equity:		
Preferred stock, no par value:		
Authorized 1,000,000 shares;		
Series A, issued and outstanding 26,724 shares	**2,544**	2,544
Series B, issued and outstanding 8,000 shares	**3,899**	3,899
Series C, issued and outstanding 16,900 shares	**2,187**	2,187
Common stock, no par value:		
Authorized 20,000,000 shares; issued and outstanding 1,599,047 shares	**18,145**	18,145
Retained earnings (deficit)	**919**	(52)
ESOP debt guarantee	**(360)**	(480)
Total shareholders' equity	**27,334**	26,243
Total liabilities and shareholders' equity	**$27,713**	$26,974

See Notes to Consolidated Financial Statements

Statements of Income

	Years Ended December 31, 1990	1989	1988
	(in thousands)		
Interest income	**$ 32**	$ 49	$ 37
Interest expense on long-term debt	**—**	82	400
Administration expense	**113**	138	10
Total expense	**113**	220	410
Loss before equity in net income of Tri Counties Bank	**(81)**	(171)	(373)
Equity in net income of Tri Counties Bank	**2,615**	3,243	2,746
Income tax credits	**31**	83	155
Net income	**$2,565**	$3,155	$2,528

Statements of Cash Flows

	Years ended December 31, 1990	1989	1988
	(in thousands)		
Operating activities:			
Net income	**$ 2,565**	$3,155	$2,528
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed equity in Tri Counties Bank	**(999)**	(1,168)	(1,993)
Provision for depreciation and amortization	**—**	7	8
Deferred income taxes	**(13)**	1	22
Increase in other operating assets and liabilities	**(217)**	147	87
Net cash provided by operating activities	**1,336**	2,142	652
Investing activities:			
Principal collected on loan	**16**	50	—
Capital contributed to Tri Counties Bank	**—**	(4,900)	—
Net cash used by investing activities	**16**	(4,850)	—
Financing activities:			
Issuance of common stock	**—**	2,672	—
Issuance of preferred stock	**—**	2,187	3,899
Long-term debt incurred	**—**	—	—
Cash dividends — preferred	**(944)**	(737)	(461)
Cash dividends — common	**(650)**	(376)	(291)
Term loan retired	**—**	—	(3,500)
Subordinated debt retired	**—**	(865)	(393)
Net cash provided by financing activities	**(1,594)**	2,881	(746)
Increase in cash and cash equivalents	**(242)**	173	(94)
Cash and cash equivalents at beginning of year	**367**	194	288
Cash and cash equivalents at end of year	**$ 125**	$ 367	$ 194

COMMON STOCK INFORMATION

◆ **Market Information.** The Common Stock of the Company is not listed on any exchange nor is it listed with NASDAQ. There is only a limited trading market in the Company's Common Stock. Since August 15, 1986, Sutro & Co. Incorporated has been a market-maker in the Common Stock of the Company and since December 1, 1988, Hoefer & Arnett Incorporated has been a market-maker in the Company's Common Stock. The following table summarizes those trades of which the Company has knowledge, setting forth the approximate high ask and low bid prices for the periods indicated. The prices indicated below may not necessarily represent actual transactions.

	Prices of the Company's Common Stock		Approximate Trading Volume
Quarter Ended:[1,2]	High	Low	(in shares)
March 31, 1989	$ 14.17	$ 12.50	84,046
June 30, 1989	14.17	13.33	33,258
September 30, 1989	14.17	12.92	46,485
December 31, 1989	14.17	12.92	14,722
March 31, 1990	14.50	13.00	72,463
June 30, 1990	15.00	14.00	18,839
September 30, 1990	17.00	14.25	68,557
December 31, 1990	17.00	14.75	40,961

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

[2] Adjusted to reflect the 20% stock dividend paid on February 15, 1990 to holders on record January 25, 1990.

◆ **Holders.** As of December 31, 1990, there were approximately 1,563 holders of record of the Company's Common Stock.

◆ **Dividends.** On each of March 30, June 30, September 28 and December 31, 1990, the Company paid cash dividends of $.10 per share of Common Stock. On each of March 31 and December 31, 1988, and June 30 and December 29, 1989, the Company paid cash dividends of $.15 per share of Common Stock. The Company has paid no other cash dividends during the last three fiscal years, but on March 31, 1988, and December 31, 1988, the Company paid stock dividends of 8% and 20%, respectively. A 20% stock dividend was also paid on February 15, 1990. The holders of Common Stock of the Company are entitled to receive cash dividends when and as declared by the Board of Directors, out of funds legally available therefor, subject to the restrictions set forth in the California General Corporation Law (the "Corporation Law"), and the dividend rights of the holders of the Series A, Series B and Series C Preferred Stock.

The Certificate of Determination of Preferences of the Series A, Series B and Series C Preferred Stock prohibits the payment of dividends to the holders of Common Stock if the Company is not current in its payments of dividends to the Preferred Stock shareholders. The Corporation Law provides that a corporation may make a distribution to its shareholders if the corporation's retained earnings equal at least the amount of the proposed distribution.

The Company, as sole shareholder of the Bank, is entitled to dividends when and as declared by the Bank's Board of Directors, out of funds legally available therefor, subject to the powers of the Federal Deposit Insurance Corporation (the "FDIC") and the restrictions set forth in the California Financial Code (the "Financial Code"). The Financial Code provides that a bank may not make any distributions in excess of the lessor of: (i) the bank's retained earnings, or (ii) the bank's net income for the last three fiscal years, less the amount of any distributions made by the bank to its shareholders during such period. However, a bank may, with the prior approval of the California Superintendent of Banks (the "Superintendent"), make a distribution to its shareholders of up to the greater of (A) the bank's retained earnings, (B) the bank's net income for its last fiscal year, or (C) the bank's net income for its current fiscal year. If the Superintendent determines that the shareholders' equity of a bank is inadequate or that a distribution by the bank to its shareholders would be unsafe or unsound, the Superintendent may order a bank to refrain from making a proposed distribution. The FDIC may also order a bank to refrain from making a proposed distribution when, in its opinion, the payment of such would be an unsafe or unsound practice. Under an agreement between the Bank and the FDIC, the payment of dividends is restricted such that the ratio of adjusted primary capital to adjusted total assets of the Bank cannot be less than 7.5% after the payment of such dividends. Additionally, the declaration and payment of dividends must be approved in advance, in writing, by the FDIC Regional Director. The Bank paid cash dividends to the Company in the aggregate amount of $1,615,000 in 1990.

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 the Company has not commenced any business operations independent of the Bank, its only subsidiary, the following discussion pertains primarily to the activities of the Bank.

◆ (A) RESULTS OF OPERATIONS

The following is a summary of operations for the five years ended December 31, 1990 and Management's discussion and analysis of the significant changes in income and expense accounts presented therein for the most recent two years — each as compared with its respective prior period. This information should be read in conjunction with the financial statements and notes related thereto appearing elsewhere in this Annual Report.

	Years Ended December 31,				
	1990	1989[1]	1988[1]	1987[1]	1986[1]
	(in thousands, except earnings per share amounts)				
Interest income:					
Interest and fees on loans	**$ 30,721**	$ 25,106	$ 20,676	$ 17,505	$ 16,781
Interest on investment securities—taxable	**3,269**	3,277	3,912	3,238	1,155
Interest on investment securities—tax free[2]	**1,966**	1,631	1,192	867	1,489
Interest on federal funds sold	**502**	664	126	365	331
Total interest income	**36,458**	30,678	25,906	21,975	19,756
Interest expense:					
Interest on deposits	**18,994**	15,960	13,003	11,053	9,352
Interest on short-term borrowing	**67**	397	74	42	6
Interest on long-term debt	**99**	158	476	469	581
Total interest expense	**19,160**	16,515	13,553	11,564	9,939
Net interest income	**17,298**	14,163	12,353	10,411	9,817
Less provision for loan losses	**2,450**	1,000	780	480	878
Net interest income after provision for loan losses	**14,848**	13,163	11,573	9,931	8,939
Other income:					
Gain (loss) on security transactions	**(134)**	(186)	(5)	179	1,013
Service charges and other	**3,639**	2,973	3,294	2,365	1,924
Total other income	**3,505**	2,787	3,289	2,544	2,937
Other expenses:					
Salaries and employee benefits	**6,144**	5,739	5,165	4,415	3,989
Other operating expenses	**7,706**	4,844	5,308	5,042	5,013
Total other expenses	**13,850**	10,583	10,473	9,457	9,002
Income before provision for income taxes	**4,503**	5,367	4,389	3,018	2,874
Provision (credit) for income taxes—actual	**1,291**	1,676	1,469	930	750
Tax equivalent adjustment	**647**	536	392	348	684
Net income	**$ 2,565**	$ 3,155	$ 2,528	$ 1,740	$ 1,440
Earnings per common share	**$ 1.01**	$ 1.71	$ 1.48	$ 1.00	$ .78
Selected Balance Sheet Information					
Total Assets	**$376,244**	$354,688	$297,468	$275,676	$222,664
Long-term Obligations	**$ 1,130**	$ 586	$ 1,451	$ 5,343	$ 5,270
Preferred Stock	**$ 8,630**	$ 8,630	$ 6,443	$ 2,544	$ 2,544

[1]Certain reclassifications have been made in the 1989, 1988, 1987 and 1986 summary of operations to conform to classifications in 1990.
[2]Interest on tax-free securities is reported on a tax equivalent basis of 1.49 for 1990, 1989 and 1988; 1.67 for 1987; and 1.85 for 1986.

(A) RESULTS OF OPERATIONS (Continued)

Net Interest Margin/Net Interest Income

Net interest income and net interest margin are the most significant indicators of the quality of the Bank's earnings. Both of these indicators showed improvement in 1990. Net interest margin, which measures the spread between interest income and interest expense as a percent of earning assets, increased from 5.23% to 5.38%. Management was able to improve this ratio by changing the mix of the Bank's earning assets to have a higher percentage of loans and lowering the percentage of investment securities and federal funds sold. This action resulted in a very slight increase in interest income as a percent of earning assets even though rates on interest-earning assets decreased during the year. Due to lower rates on interest-bearing liabilities, interest expense decreased from 6.10% of earning assets in 1989 to 5.96% in 1990.

In 1989 net interest margin increased .15%. The change resulted from an increased ratio of interest-earning assets to interest-bearing liabilities partially offset by interest rates. Interest rates on interest-bearing liabilities increased more than the rates on interest-earning assets.

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

	1990			1989			1988		
Assets	**Average Balance[1]**	**Income/ Expense**	**Yield/ Rate**	Average Balance[1]	Income/ Expense	Yield/ Rate	Average Balance[1]	Income/ Expense	Yield/ Rate
				(amounts in thousands)					
Earning assets:									
Loans[2,3]	**$253,546**	**$30,721**	**12.12 %**	$202,946	$25,106	12.37 %	$179,381	$20,676	11.53 %
Investment securities[4]	**61,664**	**5,235**	**8.49 %**	60,424	4,908	8.12 %	62,062	5,104	8.22 %
Federal funds sold	**6,308**	**502**	**7.96 %**	7,415	664	8.95 %	1,686	126	7.47 %
Total earning assets	**321,518**	**36,458**	**11.34 %**	270,785	30,678	11.33 %	243,129	25,906	10.66 %
Cash and due from banks	**20,984**			17,471			15,581		
Premises and equipment	**9,093**			7,788			7,178		
Other assets	**16,248**			19,822			20,883		
Less: Allowance for loan losses	**(2,559)**			(2,064)			(1,673)		
Total	**$365,284**			$313,802			$285,098		
Liabilities and shareholders' equity									
Interest-bearing liabilities:									
Demand deposits (interest-bearing)	**$ 89,977**	**5,154**	**5.73 %**	$ 76,153	4,505	5.92 %	$ 85,993	4,716	5.48 %
Savings deposits	**32,511**	**1,766**	**5.43 %**	31,112	1,687	5.42 %	30,419	1,644	5.40 %
Time deposits	**149,058**	**12,074**	**8.10 %**	116,353	9,768	8.40 %	93,587	6,643	7.10 %
Federal funds purchased	**769**	**67**	**8.71 %**	4,180	397	9.50 %	886	74	8.35 %
Long-term debt	**797**	**99**	**12.42 %**	1,161	158	13.61 %	4,126	476	11.54 %
Total interest-bearing liabilities	**273,112**	**19,160**	**7.02 %**	228,959	16,515	7.21 %	215,011	13,553	6.30 %
Demand deposits (noninterest-bearing)	**59,303**			58,031			49,497		
Other liabilities	**5,785**			6,127			3,839		
Shareholders' equity	**27,084**			20,685			16,751		
Total	**$365,284**			$313,802			$285,098		
Net interest income		**$17,298**			$14,163			$12,353	
Net interest margin on earning assets[5]		**5.38 %**			5.23 %			5.08 %	

[1] Average balances are computed principally on the basis of daily balances.
[2] Nonaccrual loans are included.
[3] Interest income on loans includes fees on loans of $1,399,000 in 1990, $730,000 in 1989, and $666,000 in 1988.
[4] Interest income is stated on a tax equivalent basis of 1.49 in 1990, 1989 and 1988.
[5] Net interest margin on earning assets is computed by dividing net interest income by total interest-earning assets. Net interest income is the difference between the total interest earned and the total interest incurred.

(A) RESULTS OF OPERATIONS (Continued)

Net interest income represents the excess of interest and fees earned on interest-earning assets (loans, investment securities and federal funds sold) over the interest paid on deposits and borrowed funds. Net interest income in 1990 increased $3,135,000 to $17,298,000 for a 22% gain over 1989. In 1989 net interest income increased 15% over 1988.

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

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

	1990 over 1989			1989 over 1988		
	Volume	**Yield/ Rate [4]**	**Total**	Volume	Yield/ Rate [4]	Total
			(in thousands)			
Increase (decrease) in interest income:						
Loans[1,2]	**$6,128**	**$ (513)**	**$5,615**	$2,915	$1,515	$4,430
Investment securities[3]	**105**	**222**	**327**	(133)	(63)	(196)
Federal funds sold	**(88)**	**(74)**	**(162)**	513	25	538
Total	**6,145**	**(365)**	**5,780**	3,295	1,477	4,772
Increase (decrease) in interest expense:						
Demand deposits (interest bearing)	**792**	**(143)**	**649**	(582)	371	(211)
Savings deposits	**76**	**3**	**79**	38	5	43
Time deposits	**2,649**	**(343)**	**2,306**	1,911	1,214	3,125
Federal funds purchased	**(297)**	**(33)**	**(330)**	313	10	323
Long-term borrowings	**(45)**	**(14)**	**(59)**	(404)	86	(318)
Total	**3,175**	**(530)**	**2,645**	1,276	1,686	2,962
Increase (decrease) in net interest income	**$2,970**	**$ 165**	**$3,135**	**$2,019**	**$ (209)**	**$1,810**

[1] Nonaccrual loans are included.
[2] Interest income on loans includes fees on loans of $1,399,000 in 1990, $730,000 in 1989, and $666,000 in 1988.
[3] Interest income is stated on a tax equivalent basis of 1.49 in 1990, 1989 and 1988.
[4] The rate/volume variance has been included in the rate variance.

(A) RESULTS OF OPERATIONS (Continued)

Interest Income

Interest income increased 19% to $36,458,000 in 1990 compared to an 18% growth rate in 1989. This increase can mainly be attributed to a 19% increase in earning assets and the emphasis placed on increasing loans as a percent of the earning assets. Yields on loans and federal funds sold were down from 1989, but the net overall yield remained flat at 11.3% due to the change in the mix of the earning assets.

In 1989 interest income increased 18% to $30,678,000 which was equal to the percentage increase in 1988. The 1989 increase can be attributed to an 11% increase in average earning assets and an increase in the yield on loans.

For the past three years the Bank has experienced a growth in interest income of approximately 18% per year. Much of this growth resulted from the Bank's ability to attract new deposits and to put these funds to work in the form of loans. The current economic and bank regulatory environment will probably preclude attainment of similar growth rates for the ensuing year.

Interest Expense

Interest expense increased 16% in 1990 primarily due to the increased volume of interest-bearing deposits. Interest expense was favorably impacted by declining rates paid on those deposits and an 82% reduction in federal funds borrowed. The largest increase occurred in the interest paid on time deposits. The average balance of time deposits increased 28% in 1990 and the interest paid on these accounts only increased 24%, as the average rate paid on time deposits decreased from 8.4% to 8.1%. Average time deposits increased to 45% of deposits in 1990 compared to 41% in 1989.

Interest expense increased 22% in 1989 primarily due to the increased volume of time deposits with higher interest rates and increased interest rates on interest-bearing demand deposits offset partially by a reduction of long-term debt. Average interest-bearing demand deposits decreased 11%. Interest on federal funds increased primarily due to an increased amount of federal funds purchased. The mix of deposits also changed substantially. Average time deposits increased to 41% of deposits in 1989 compared to 36% in 1988. Interest-bearing demand deposits decreased to 27% of deposits in 1989 compared to 33% in 1988. Average savings deposits remained at 11% of deposits. Noninterest-bearing deposits increased to 21% in 1989 compared to 19% in 1988.

Retirement of $865,000 of 14-1/4% subordinated debt on August 31, 1989 resulted in decreased interest expense for the remainder of 1989.

Provision for Loan Losses

The provision for loan losses in 1990 is $2,450,000 which is an increase of 145% over 1989. Two major factors contributed to the increase. Because of the uncertainty of the economic conditions facing the Bank in 1991, Management increased the general allowance for loan losses as a percent of loans outstanding by .2%. This change accounted for an increase of $492,000. The actual net write off of loans increased $991,000 over the previous year. One commercial loan in which the Bank was a participant in a consortium was responsible for 75% of this increase. The balance of the increase was due to increased loan volume.

In 1989 the provision for loan losses was $1,000,000 which was an increase of 28% over 1988. The loan losses and increase in the provision were directly related to the growth in the loan portfolio.

Service Charges and Fees and Other Income

Service charges and fees on deposit accounts increased 11% to $1,937,000 in 1990 from $1,740,000 in 1989. Most of the increase was due to an increase in rates and, to a lesser extent, an increase in volume. In 1989 service charges and fees increased 5% from 1988 levels. This increase was mainly due to increased volume of accounts. Other service charges in 1990 were $943,000 versus $821,000 in 1989. Most of the income growth in this category is attributed to fees on credit cards and automated teller machines (ATMs). Credit cards were a new product in 1988 and installation of ATMs began at the end of 1989 and continued into 1990. Since both of these are relatively new services of the Bank, Management expects income from them to continue to grow.

(A) RESULTS OF OPERATIONS (Continued)

Securities Transactions

There was a net loss of $134,000 and $186,000 from securities transactions in 1990 and 1989. The Bank does not actively trade in the securities market, but does elect, for liquidity purposes, to sell certain securities when it is to its advantage during periods of declining interest rates or to adjust the composition of the securities portfolio.

Salaries and Benefits

Salary and benefit expenses increased 7% in 1990 versus an 11% increase in 1989. Staffing requirements for the new Yuba City Branch and inflationary increases contributed to the 1990 change. Salary expenses increased in 1989 primarily due to increased staff, benefit costs and incentive payments.

Other Expenses

Other operating expenses increased 59% in 1990. Over half of the increase is attributable to the loss of $1,493,000 incurred in the sale of the Bank's interest in a syndicated real estate limited partnership. The two major commercial properties that the partnership held were in areas that were overbuilt. As a result the partnership continued to sustain significant operating losses in 1990. Consideration of the partnership's past operating results and the forecasted economic conditions in its operating area led Management to conclude that it was in the best interest of the Bank to dispose of that investment.

In general, increases in the other expenses were reflective of the Bank's growth in 1990. The construction and opening of the Yuba City Branch caused increased costs in the occupancy, equipment and advertising categories. The project to install ATMs at each branch location was completed in 1990. This project contributed to the increase in the equipment and data processing expense. Advertising expense increased 50% to $427,000 in 1990. The Bank used television and print media to introduce two new products in its service area. The Bank incurred a 70% increase of $160,000 for FDIC and State assessments. This increase was the result of deposit growth and higher assessment rates. Due to announced rate changes, this expense will increase significantly in 1991.

In 1990 the Bank incurred costs related to the proposed acquisition and merger of Butte Savings and Loan Association. Since the proposed merger application was withdrawn in December 1990, these costs are included in other expenses in 1990. Other operating expenses in 1989 had decreased 9% as compared to 1988.

Provision for Income Taxes

The effective tax rate on income was 33.5% in 1990. The effective tax rate is greater than the federal statutory tax rate due to state tax expense of $413,000 offset by tax-free interest of $1,319,000 from investment securities. Similarly, the effective tax rate in 1989 was 34.7% due to state tax expense of $473,000 offset by tax-free interest of $1,095,000.

Return on Average Assets and Equity

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

	1990	1989	1988
Return on assets	**.70%**	1.01%	.89%
Return on shareholders' equity	**9.47%**	15.25%	15.09%
Return on common shareholders' equity	**8.78%**	17.20%	16.22%
Shareholders' equity to assets	**7.41%**	6.59%	5.88%
Common shareholders' equity to assets	**5.05%**	4.48%	4.47%
Common shareholders' dividend payout ratio	**39.60%**	14.63%	16.84%

The return on average assets of .7% for 1990 was impacted by both a 16% growth in average assets and a 19% decrease in earnings. This ratio was 1.01% for 1989 after a 10% growth in average assets and a 17% growth in earnings.

The return on shareholders' equity in 1990 decreased due to the reduction in earnings and a 31% increase in the average shareholders' equity during the year. The high increase in the average shareholders' equity is reflective of the full year affect of the Series C Preferred Stock and additional common stock that was issued in November 1989 plus the 1990 earnings. The return on shareholders' equity in 1989 increased primarily due to increased income offset by increased shareholders' equity.

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

◆ (A) RESULTS OF OPERATIONS (Continued)

The return on common shareholders' equity decreased to 8.8% in 1990 from 17.2% in 1989. This ratio was impacted by the full year affect of the additional common stock issued in November 1989 and the lower 1990 earnings. In 1989 the return on common shareholders' equity increased as a result of higher earnings offset by the sale of additional common stock.

Total shareholders' equity to assets increased in 1990. The full year impact of the preferred and common stock issued in November 1989 contributed to the change in this ratio. In 1989 this ratio increased as a result of increased earnings and the sale of the stock.

Common shareholders' equity to assets ratio increased in 1990 as a result of the full year impact of the sale of common stock in 1989. For 1989 this ratio had remained flat because the increase in earnings was offset by the increase in average assets and preferred shareholders' dividends.

The common shareholders' dividend payout ratio of 39.6% for 1990 is a significant increase over the 14.6% realized in 1989. Four factors which contributed to the increase are: Sale of common stock in November 1989; 20% common stock dividend in January 1990; $ .10 per share increase in the dividend rate; and the reduction in 1990 earnings. In 1989 the payout ratio decreased from the prior year as increased earnings offset the affect of the shares issued in November. Cash dividends were $ .40, $ .30 and $ .30 in 1990, 1989 and 1988 respectively.

◆ (B) BALANCE SHEET ANALYSIS

Loans

The Bank continued to increase its loan portfolio during 1990. At year end, outstanding loans were $28,865,000 higher than at December 31, 1989. This is a 13% increase over 1989. This increase was achieved despite the sale of $18,000,000 in real estate loans in December 1990. The growth would have been 20% if these loans had not been sold. In 1989 loans increased 23% over the previous year.

There was some change in the loan mix as Management sought to improve interest yields. Commercial loans remained constant at 52% of loans outstanding. Consumer loans increased from 16% to 18%. Real estate mortgage loans decreased from 24% to 21% as a result of the loan sale. Real estate construction increased from 5% to 9%. Banker's acceptances outstanding at December 31, 1989, matured or were sold in 1990 and the Bank discontinued purchasing these instruments.

Management does not foresee making significant changes to the loan mix in the coming year. Real estate construction loans are expected to decrease. The current drought in California could affect 1991 agricultural loan demand and performance. Agricultural loans totalled $18,277,000 at year end. The effect of the drought could also affect other business loan demand.

Loan Portfolio Composite

	December 31,				
	1990	1989	1988	1987	1986
	(in thousands)				
Commercial, financial and agricultural	**$134,623**	$119,860	$ 98,513	$ 82,902	$ 65,423
Consumer installment	**46,486**	37,748	32,741	30,538	32,703
Real estate mortgage	**55,197**	55,933	45,753	40,661	35,123
Real estate construction	**22,575**	11,144	9,253	4,765	8,462
Banker's acceptances and commercial paper	**—**	5,331	970	8,508	—
Total loans	**$258,881**	$230,016	$187,230	$167,374	$141,711

Nonaccrual, Past Due and Restructured Loans

The table below sets forth the nonaccrual loans and loans carried on an accrual basis but past due more than 90 days.

	December 31,				
	1990	1989	1988	1987	1986
	(in thousands)				
Nonaccrual loans	**$ 437**	$ 403	$ 701	$ 533	$ 1,689
Past due loans (90 days or more)	**881**	352	338	1,292	1,598
Restructured debt	**243**	285	340	346	415
Total	**$ 1,561**	$ 1,040	$ 1,379	$ 2,171	$ 3,702

(B) BALANCE SHEET ANALYSIS (Continued)

Nonperforming loans had a slight increase from .5% of total loans in 1989 to .6% of loans in 1990. In 1989 nonperforming loans had decreased from .7% in 1988. Past due loans (over 90 days) accounted for most of the 1990 increase. They were reflective of the softer economy. Approximately $90,264 of additional interest income would have been recorded if loans classified as nonaccrual had been current in 1990.

Commercial, real estate (other than 1-4 single family dwellings), 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 doubtful by internal auditors or bank regulatory agencies, or a portion of the principal balance has been charged-off. The reclassification of loans as nonperforming does not necessarily reflect Management's judgment as to collectibility.

Allowance for Loan Losses Activity

In determining the adequacy of the loan loss allowance, Management relies primarily on its ongoing review of the loan portfolio, both to ascertain whether there are probable losses to be written off and to assess the loan portfolio in the aggregate. Problem loans are examined on an individual basis to determine estimated probable loss. In addition, Management considers current and projected loan mix and loan volumes, historical net loan loss experience for each loan category, and current and anticipated economic conditions affecting each loan category. Based on the softening economy and some increase in the loan delinquency rate at year end 1990, Management increased the allowance for loan losses an additional .2%. It is anticipated the Bank will continue to provide for loan losses at this higher level until the economy recovers.

The Bank's net charge-off ratio for 1990 increased to .64% compared to .31% in 1989. As mentioned in the Provision for Loan Losses section, one commercial loan accounted for about 75% of the increase. Consumer installment loan losses decreased and there were no losses in real estate mortgage loans. It is not expected that net charge-offs will increase in 1991. In 1989 the net charge-off ratio had increased from .23% in 1988.

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

	December 31,				
	1990	1989	1988	1987	1986
	(amounts in thousands)				
Balance, beginning of year	**$ 2,267**	$ 1,891	$ 1,518	$ 1,350	$ 1,121
Provision charged to operations	**2,450**	1,000	780	480	878
Loans charged off:					
Commercial, financial and agricultural	**(1,483)**	(546)	(353)	(283)	(590)
Consumer installment	**(242)**	(248)	(158)	(191)	(241)
Real estate mortgage	—	—	(10)	(14)	(24)
Real estate construction	—	—	—	—	—
Total loans charged-off	**(1,725)**	(794)	(521)	(488)	(855)
Recoveries:					
Commercial, financial and agricultural	**62**	122	47	118	108
Consumer installment	**48**	48	67	58	98
Real estate mortgage	—	—	—	—	—
Real estate construction	—	—	—	—	—
Total recoveries	**110**	170	114	176	206
Net loans charged-off	**(1,615)**	(624)	(407)	(312)	(649)
Balance, year end	**$ 3,102**	$ 2,267	$ 1,891	$ 1,518	$ 1,350
Average total loans	**$253,546**	$202,946	$179,381	$150,385	$125,527
Ratios:					
Net charge-offs during period to average loans outstanding during period	**.64%**	.31%	.23%	.21%	.52%
Provison for loan losses to average loans outstanding	**.97%**	.49%	.43%	.32%	.70%
Allowance to loans at year end[1]	**1.20%**	1.01%	1.02%	.96%	.95%

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

(B) BALANCE SHEET ANALYSIS (Continued)

Investment in Real Estate Properties

At December 31, 1990, $4,634,000 of property was held by a subsidiary of the Bank for the purposes of development or to be held as income-earning assets. Sales of $3,005,000 offset by acquisition and development costs of $2,632,000 contributed to a reduction in investment properties of $481,000. Similarly the decrease of $1,595,000 in 1989 resulted from sales of $6,495,000 offset by acquisition and development costs of $4,727,000.

Investment in Real Estate Limited Partnership

As discussed under Other Expenses, in December 1990 the Bank sold its investment in a real estate limited partnership. In 1989 the investment had been carried at a cost of $4,493,000 which was the original value less total returns of capital of $507,000.

Other Real Estate Owned

The reduction in Other Real Estate Owned (O.R.E.O.) continued in 1990 due to a favorable real estate market in the Bank's service area. O.R.E.O. declined by $370,000 to $10,000. In 1989 O.R.E.O. declined $562,000.

Deposits

Total deposits increased 6% in 1990 to $341,468,000. The mix of deposits changed slightly. Interest-bearing demand deposits increased $12,809,000 in 1990, primarily due to a new interest-bearing transaction account called Leisure Line, targeted to customers over age 50. Noninterest-bearing deposits decreased slightly to 19% of deposits. The mix of savings deposits and time deposits remained at 10% and 44%, respectively.

Total deposits increased 18% in 1989 to $321,680,000. The major increase in deposits resulted from an increase in time deposits of $45,810,000. Noninterest-bearing demand deposits increased $9,468,000. However, interest-bearing demand deposits and savings each decreased 5%. This changes the mix of deposits. Time deposits increased to 44% of deposits at December 31, 1989 from 36% at December 31, 1988. Interest-bearing demand deposits decreased to 25% at December 31, 1989 compared to 31% at December 31, 1988. Similarly, savings deposits decreased to 10% at December 31, 1989 from 12% at December 31, 1988. Noninterest-bearing demand deposits continued to be 21% of total deposits.

Long-Term Debt

In 1990, the Bank incurred $621,000 in lease obligations for leases on new data processing and automated teller equipment. The lease payments are payable monthly through August 1995.

In August 1989, the Company retired $865,000 of 14-1/4% Subordinated Capital Notes.

Equity

The primary capital of the Company, as defined by Federal Reserve Board guidelines, was 8.0% at December 31, 1990 and December 31, 1989. Effective December 31, 1990 the Federal Reserve Board guidelines implemented new risk-based capital ratio requirements. The Company's risk-based capital ratio at December 31, 1990 was 10.7% compared to a required ratio of 7.25%.

The Company completed an offering of Common Stock and Series C Preferred Stock on November 28, 1989. The Company contributed $4,900,000 of the proceeds to the Bank as a capital contribution.

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

Liquidity and Interest Rate Sensitivity

Liquidity relates to the ability of the Company and the Bank to generate adequate cash to meet their respective needs. The principal cash requirements of the Bank are to meet the demands of its customers for loans and deposit withdrawals.

The overall liquidity of the Bank is enhanced by the sizable core deposits which provide a relatively stable funding base. The maturity distribution of certificates of deposit in denominations of $100,000 or more is set forth in the following table. These deposits are generally more rate sensitive than other deposits and therefore more likely to be withdrawn to obtain higher yields elsewhere if available.

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

	Amount as of December 31,	
	1990	1989
	(in thousands)	
Time remaining until maturity:		
Less than 3 months	**$ 3,245**	$ 2,152
3 months to 6 months	**1,644**	1,479
6 months to 12 months	**1,980**	1,419
More than 12 months	**100**	230
Total	**$ 6,969**	$ 5,280

(B) BALANCE SHEET ANALYSIS (Continued)

Loan demand also affects the Bank's liquidity position. The following tables present the maturities and sensitivity to changes in interest rates at December 31, 1990 and December 31, 1989. The Bank's loan portfolio with variable interest rates decreased to 50% of loans in 1990 compared to 55% of loans in 1989.

Loan Maturities - December 31, 1990

	Within One Year	After One But Within 5 Years	After 5 Years	Total
	(in thousands)			
Loans with predetermined interest rates:				
Commercial, financial and agricultural	$ 3,904	$18,583	$ 23,584	$ 46,071
Consumer installment	5,310	14,686	24,585	44,581
Real estate mortgage	1,643	3,301	30,625	35,569
Real estate construction	—	—	1,957	1,957
	10,857	36,570	80,751	128,178
Loans tied to Bank's base commercial loan rate:				
Commercial, financial and agricultural	37,850	14,615	36,088	88,553
Consumer installment	1,867	37	—	1,904
Real estate mortgage	109	244	19,275	19,628
Real estate construction	20,618	—	—	20,618
	60,444	14,896	55,363	130,703
Total loans	$71,301	$51,466	$136,114	$258,881

The interest rate sensitivity gap is the difference between total interest-sensitive assets and total interest-sensitive liabilities. The following repricing tables present the Bank's interest rate sensitivity position at December 31, 1990 and 1989:

Interest Rate Sensitivity - December 31, 1990

	Repricing within:				
	3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years
	(amounts in thousands)				
Interest-earning assets	$ 161,227	$ 4,047	$ 11,368	$ 61,642	$ 95,969
Interest-bearing liabilities	206,661	42,532	19,638	8,808	5
Interest sensitivity gap	$ (45,434)	$ (38,485)	$ (8,270)	$ 52,834	$ 95,964
Cumulative gap	$ (45,434)	$ (83,919)	$ (92,189)	$ (39,355)	$ 56,609
As a percentage of earning assets:					
Interest sensitivity gap	(28.18%)	(23.87%)	(5.13%)	32.77%	59.52%
Cumulative sensitivity gap	(28.18%)	(52.05%)	(57.18%)	(24.41%)	35.11%

Interest Rate Sensitivity - December 31, 1989

	Repricing within:				
	3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years
	(amounts in thousands)				
Interest-earning assets	$ 164,921	$ 3,570	$ 9,700	$ 52,437	$ 85,026
Interest-bearing liabilities	185,039	43,184	14,705	11,425	50
Interest sensitivity gap	$ (20,118)	$ (39,614)	$ (5,005)	$ 41,012	$ 84,976
Cumulative gap	$ (20,118)	$ (59,732)	$ (64,737)	$ (23,725)	$ 61,251
As a percentage of earning assets:					
Interest sensitivity gap	(12.20%)	(24.02%)	(3.03%)	24.87%	51.53%
Cumulative sensitivity gap	(12.20%)	(36.22%)	(39.25%)	(14.39%)	37.14%

Management believes that the Bank's investment portfolio, together with the Bank's lines of credit with other institutions and the surplus funds due to increased deposits, is sufficiently liquid to cover potential fluctuations in deposit accounts and loan demand. The Bank has selected maturities to provide a proper balance of liquidity and attractive yields. The maturity distribution of the investment portfolio is presented in the following table:

Investment Securities Maturities - December 31, 1990

	Within One Year	After One But Within 5 Years	After 5 But Within 10 Years	After 10 Years	Total
	(amounts in thousands)				
U.S. Treasury and other U.S. Government agencies and corporations	$ 7,047	$ 7,531	$ —	$21,258	$35,836
State and political subdivisions	3,528	14,063	895	—	18,486
Other investment securities	865	985	—	—	1,850
Total book value	$11,440	$22,579	$ 895	$21,258	$56,172
Average Yield[1]	8.93%	8.56%	9.19%	8.25%	8.52%

[1] Yields are computed on a tax equivalent basis.

The principal cash requirements of the Company are dividends on preferred stock. 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 repayment schedule.

BOARD OF DIRECTORS

ALEX A. VERESCHAGIN, JR.
Chairman of the Board
Secretary-Treasurer, Vereschagin Oil Company
Petroleum distribution company, Orland

EVERETT B. BEICH
Vice Chairman of the Board
Owner, Beich Company
Real estate development, Chico

FRED W. HIGNELL, III
Secretary of the Board
Principal Partner, Hignell & Hignell, Inc.
Investment and development company, Chico

WILLIAM J. CASEY
Health Care Consultant, Chico

DEWAYNE E. CAVINESS, M.D.
Physician and Surgeon, Chico

CRAIG S. COMPTON
President, AVAG, Inc.
Aerial application business, Richvale

SANKEY M. HALL, JR.
Retired Businessman
Colonel, U.S. Air Force Reserve (Retired), Chico

BRIAN D. LEIDIG
President, Parlay Investments, Inc.
Real estate investment and development company, Redding

WENDELL J. LUNDBERG
Owner, Wehah Farms
Rice and grain operations, Richvale

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

RODNEY W. PETERSON
President, Peterson Farming, Inc., Durham

ROBERT J. STERN
Retired President,
R.J. Stern Co., Inc., Oroville

ROBERT H. STEVESON
President and Chief Executive Officer
Tri Counties Bank and TriCo Bancshares, Chico

◆ TRICO BANCSHARES - EXECUTIVE OFFICERS

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

◆ TRI COUNTIES BANK - ADMINISTRATION

Robert H. Steveson	President & Chief Executive Officer
Joan Jones	Executive Vice President & Chief Administrative Officer & Chief Financial Officer
Carroll Taresh	Executive Vice President & Chief Operating & Lending Officer
Dan Herbert	Vice President & Cashier
Lawrence Sparks	Vice President & Loan Supervisor
Ruth Irvine	Vice President & Personnel Manager
Janet K. Hannis	Assistant Vice President & Sales Administrator
Kathleen Richardson	Executive Secretary
Fred C. Bryant	Chief Auditor
Robert Stanberry	Controller
Kimberly D. Williams	Shareholder Relations Administrator

◆ TRI COUNTIES BANK - DEPARTMENT MANAGERS

Data Processing/Chico	**Larry Hall,** Vice President & Manager
Real Estate Department/ Chico	**Kathy Allan,** Manager
INVEST/Chico & Redding	**Ron Bee,** Manager
Central Note Department/ Chico	**Karen Van Houtte,** Manager
Purchasing Department & Print Shop/Chico	**Beverly K. Larsen,** Manager
VISA/MasterCard Department/Chico	**Vickie Gibson,** Manager

◆ TRI COUNTIES BANK - LENDING SPECIALISTS

David Raven	Vice President & Loan Specialist/Chico
Ty Thresher	Vice President & Loan Specialist
Larry Lewis	Vice President & Loan Specialist/Redding
Chandler Church	Vice President & Area Manager/Yuba City

◆ TRI COUNTIES BANK - BRANCH LOCATIONS/MANAGERS

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

Pillsbury Branch
2171 Pillsbury Road
P.O. Box 1130
Chico, California 95927
(916) 898-0470
Roland Irvine
Manager

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

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

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

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

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

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

Palo Cedro Branch
3751 Deschutes Road
P.O. Box 144
Palo Cedro, California 96073
(916) 547-4494
Julie Jones
Manager

Redding Branch
1810 Market Street
P.O. Box 4738
Redding, California 96099
(916) 244-4700
Nolan C. Hawkins
Manager

Burney Branch
37093 Main Street
P.O. Box 2590
Burney, California 96013
(916) 335-2215
Vi Nelson
Manager

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

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

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

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

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

FORM 10-K

The Company will provide to any interested party, without charge, a copy of the Company's Annual Report on Form 10-K for the year ended December 31, 1990, as filed with the Securities and Exchange Commission, including the financial statements and schedules thereto. The report may be obtained by written request to: **Corporate Secretary, TriCo Bancshares, 15 Independence Circle, Chico, CA 95926.**

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

TRI COUNTIES BANK COUNTRY

Member FDIC