Dear Fellow Shareholders:

Almost fifty years ago, a group of farmers and businessmen who were frustrated by the lack of attention and the antics of the big banks (some things never change) got together to start a new bank in Chico, California. With a lot of enthusiasm, determination, a single branch, and a capital raise of just $1 million, they opened Tri Counties Bank in March 1975 and became ***one of the more than 14,000 banks competing in the US*** at that time. To say that our communities, customers and our Company have seen much change and challenges over the past fifty years is, of course, a vast understatement. We hope each of you views this as a testament to the central role that Tri Counties Bank has played in supporting our customers, communities and employees and just as importantly, that our ability to weather business cycles continues to give you confidence in our future. During our almost 50 years in business, our Company has had only two CEOs and we view this continuity and consistency as an important and strategic asset.

In last year's letter, I briefly touched on the dramatic rise in interest rates that was underway following the COVID pandemic. While most investors and industry pundits have moved on to the next headline event, I recall it now only because I believe there are story lines that have not yet fully played out. Many have dismissed or forgotten the proximate cause of those higher rates: underlying inflation driven by billions of dollars of US Government spending and economic stimulus payments. As the Federal Reserve remains committed to battling inflation and pursuing a soft landing, the lingering effects of higher interest rates are being manifested across the economy and the banking industry. The full resolution will likely take years. Let's all remember that there are generations of bank customers who've never seen a 5.00% rate on a certificate of deposit or the prime rate at 8.50% (for historical perspective, the last time the prime rate was 8.50% was more than 20 years ago).

Below are a few areas where both borrowers and depositors – our customers – are adapting to higher interest rates.

<u>Lingering Impact of Rising Rates – A Challenging Market . . . But Opportunity</u>

The dramatic increase in interest rates in 2022 and 2023 was driven by an equally dramatic increase in inflation. Food, energy, wages and virtually every commodity pushed costs higher for consumers and businesses. Fortunately, real estate values and overall employment continue to be resilient and are important signs of economic vitality. Some sectors will continue to be challenged as the effects of higher interest rates take hold, but these challenges also hold opportunity for TriCo.

Housing affordability, for example, continues to be a struggle in most communities across California and is an even more pressing challenge for first-time buyers and families. There's no question that one of the most valuable assets a consumer can have today is a 3%, 30-year mortgage; and deciding to move up to a bigger or newer house with mortgage rates at 7% or more quickly becomes financially untenable for many consumers. As the bank for communities both large and small across California, we are ardent supporters of growth in the supply of housing; it is a key foundational element of all strong communities.

Since the initial outbreak of COVID in 2020, the continuing pivot to a remote or hybrid workforce simply means fewer people in the office on any given day – particularly in large, metro areas. As the need for large office space decreases, there could be downward pressure on rents and, ultimately, on commercial real estate (CRE) values, particularly in urban markets. Fortunately, community banks are not the primary source of financing for large office properties, and while a decline in office building values in large cities can depress values in other CRE segments, we believe our well-diversified portfolio (across a variety of segments and California geographies) will continue to perform well.

For the first time in several years, bank depositors faced choices that weren't solely driven by convenience. Bank failures in March of 2023 and short-term interest rate increases of more than 500 basis points resulted in a shift in consumer awareness and behavior. Suddenly, the idea of bank safety and earning a return on their funds became their primary concerns. These forces continue to affect bank balance sheets by driving deposit costs higher. While margins will likely be under some pressure until each bank's balance sheet adjusts to higher rates, comparatively, we believe our historically strong deposit franchise will continue to shine. More importantly, our deposit base is a significant source of strength and positions us well for future organic growth and acquisition opportunities.

While higher interest rates will create challenges and reveal opportunities for TriCo over the next few years, it's impossible to ignore the potential impact of government deficits on both the cost and availability of capital for the private sector. We are hopeful that a more rational fiscal perspective lies ahead.

Financial Highlights

TriCo Bancshares reported net earnings of $117.4 million, or $3.52 per diluted share for 2023. This compares with net earnings of $125.4 million and $3.83 per diluted share in 2022. The rise in interest rates that began in 2022 and continued into 2023 caused a dramatic increase in the cost of deposits for all banks, including Tri Counties Bank. The main driver of our financial performance and that of most banks, is net interest income, which is the result of the rate we earn on loans and securities (or interest income), less interest expense (or the rate we pay for deposits and funds we borrow). In 2023, our top line revenue, or total interest and dividend income increased 23.3% to more than $356 million, driven primarily by increasing interest rates. Net interest income, however, increased only 3.1% over 2022 as a result of rising rates on the cost of deposits and borrowed funds. As interest rates stabilize and as we contemplate the Federal Reserve maintaining interest rates at a level that is "higher for longer", we will likely continue to see pressure on our funding costs and ultimately, our net interest income. Our results in 2023 were not what we would expect from ourselves in an ordinary environment but, at the same time, they reflect the core operating strengths and extraordinary potential of our banking franchise and our conservative banking philosophy.

As I mentioned previously, the changing workplace continues to keep bank investors on edge as they attempt to understand the impact of real estate value changes on bank loan portfolios. In addition, interest rates on much of the CRE-related debt on bank balance sheets will likely reset higher – that is, the interest rates will adjust to current rates over the next two to three years. We continue to underwrite conservatively and consider the impact of higher rates and the variability of the real estate market in our assessment of each borrower. While the broader real estate market is showing an increase in borrower stress in certain segments, we are not seeing signs of systemic deterioration either in our portfolio or across the banking industry. Our net charge-offs, for example, were just 10 basis points in 2023 and are indicative of what most bankers would describe as "lower than normal" for a non-recessionary environment. However, as a reflection of our continued caution, we continue to maintain an allowance for credit losses of 1.79% of total loans, up from 1.64% at the end of 2022 and a level that continues to exceed our peer banks. We remain committed to our philosophy of broad geographic and industry diversification along with strong controls, reserves, and portfolio management.

Always Positioning Ourselves For Our Future

In February of this year, we raised our quarterly dividend to $0.33 per share. This represents an increase of 10% over the prior quarter and was the 138th consecutive quarterly dividend paid by TriCo. Dividends have continued to grow consistently – increasing, on average, more than 10% annually over the last ten years.

TriCo Bancshares Dividend Growth

A few years ago, I wrote to you that our Company had crossed two important milestones – net earnings of more than $100 million in a single year and, just as important, total shareholders' equity of more than $1 billion, both for the first time in our history. The pandemic and economic volatility over the past few years continue to reinforce the importance and value of staying power. We've continued to grow our capital base – in fact, our growth in shareholders' equity has exceeded 16.0% annually for the past ten years to $1.16 billion at the end of 2023. Our stewardship of this critical resource is fundamental to success in our business, whether it be through our dividend policy or retaining earnings for future growth and is always top of mind. TriCo's management continues to ensure that we have adequate capital and liquidity resources to fund growth and have the staying power to stand alongside our customers and communities during difficult economic periods.

Humble Beginnings and Continued Determination

While the changes since our founding in 1975 have been numerous – ***the number of banks in the US now numbers just over 4,000*** - our team is just as enthusiastic about the opportunity of our mission in 2024 and the years ahead. From a single office on Pillsbury Road in 1975 to now serving more than 250,000 customers across 28 counties in California, we are well aware that having our customers recognize us as the #1 community bank in California is the cornerstone of everything we do. We have the best employees in the business and are fortunate to have had the trust of our customers and the communities we serve for almost fifty years. We look forward to celebrating our 50th anniversary with all of you in March 2025.

As always, and on behalf of our more than 1,200 employees and our board of directors, I thank you for your continued confidence in, and ongoing support of, TriCo Bancshares.

Richard P. Smith
Chairman, President & Chief Executive Officer