TriCo Bancshares
Annual Report
1982

Dear Shareholder:

1982 was a rough year for the United States, California, agriculture, construction, and for TriCo Bancshares and Tri Counties Bank. Our profits, while not up to past performances, were reasonable when we take into consideration a troubled national economy, unprecedented high interest rates and the associated problems that troubled agriculture, real estate construction and small business in general.

Our Company did not show significant gains in growth of assets and actually reflected a decrease in net profit after taxes from the previous year. Several factors could be cited as contributing to our difficulties during 1982, but I believe it is appropriate to identify one specific segment of our bank as the significant problem. Our concentration in real estate construction and real estate development loans in our recently acquired Redding Office was the primary contributor to lower than anticipated earnings.

That's enough explaining of a difficult year and the lack of earnings. Let's move on to the more positive and forward-thinking issues facing TriCo Bancshares. A national economic recovery should occur in 1983, and I believe we are ready to take advantage of the situation. We are establishing a lease entity to provide investment tax credits to shelter our earnings and increase your return on investment. If the conventional real estate market becomes more active this year, we may increase our commitment to that market.

Banking laws continue to change rapidly and we are following each new regulatory and legal change closely. Our intention is to take advantage of each profit opportunity as it becomes available. The first of the new changes—the Money Market Investment Account—has already reversed the outflow of investor and saving dollars to the Money Market Mutual Funds. While this resolves one problem—that of limited deposit growth—it creates the need for a skilled and well-qualified banking team to employ our new funds safely and profitably. We believe our officers are capable of this task and look forward to 1983 year end results so that we can share our experience with you.

1983 and 1984 are going to be exciting and profitable years for TriCo Bancshares and Tri Counties Bank. We have had nearly two years to absorb Shasta County Bank and the "Shakedown Cruise" is over. New banking laws and regulations are creating a more competitive environment. The national economy and interest rates also appear favorable to our continued growth in assets and earnings. Our Holding Company is now in place and allows more flexibility and opportunity than our previous business structure.

As in the past our marketing efforts continue to focus on individual and small business banking services in Northern California. We are—as always—very optimistic about our ability to serve these two excellent markets. Our company is a sound financial service institution with experienced management. We are committed to being a leader in Northern California independent banks. We are not a national company with regional headquarters in Sacramento, San Francisco or Los Angeles. We are the hometown locally-owned independent banking institution—TriCo Bancshares and Tri Counties Bank.

Watch us grow and become more profitable during 1983!!

Sincerely yours,

Robert H Steveson

Robert H. Steveson
President & Chief
Executive Officer

TriCo Bancshares is a one bank holding company for Tri Counties Bank. The Bank is locally owned and operates eleven offices in four Northern California counties.

A group of Richvale farmers gather around to discuss the economic outlook for 1983.

What Means This Tale of Woe?

In keeping with our commitment to the communities we serve, Tri Counties Bank presented a "1983 Economic Forecast" to groups of business people throughout the North Valley. The commentary on these pages is taken from these presentations. The photos were taken at the most recent presentation at the Richvale Cafe in Richvale.

For the past several years the American economy has been taking a beating. Unemployment steadily worsens; as of January 1983, one out of every ten Americans who wanted to work could not find a job. Inflation has finally dropped to tolerable levels, but interest rates remain higher than they have been since the Civil War. Major corporations once thought to be rock-solid have tottered or fallen: Chrysler, International Harvester, Braniff.

What does this pattern of upset and dislocation mean? Are we witnessing the beginnings of another Great Depression? Or are these changes evidence of something else altogether?

How the 1980s Differ From the 1930s

On the face of it, the problems now affecting us look much like the hard times that befell this country in the 1930s. Televised reports of long, sad lines of unemployed men and women raise the haunting spectre of the soup kitchens and shantytowns that symbolized the Great Depression.

But if you look deeper at what's happening to America, some contradictory facts emerge:

- Despite unemployment, working Americans now number almost 100 million—only 1.3 million less than the all-time employment peak in 1981.
- In 1982, personal disposable income reached the highest figure yet.
- Last year, movie receipts were higher than any previous year.
- In 1982, firms in the United States advertised more than ever—at a time when Americans were said to be afraid to buy.
- Today the U.S. economy remains high while in the 1930s the Gross National Product fell.

Bob Steveson discusses **"How We Got Here" — Changing Attitudes** *and later in the program,* **"Changes in Banking and Their Implications" — A Plan.**

Other members of the panel seated left to right include Don Carter, Executive Vice President; Keith Orme, Leasing Manager; and William Carson, Account Executive with Birr Wilson & Co., Inc.

The Nature of the Economy Is Changing

Our current woes arise not from a depression, but from what economists call a "structural change." That is, the American economy is shifting from one industrial composition to another. The change isn't simple; it causes disruptions and problems. But it also means that the economy is resilient enough to rise to a new set of challenges.

America's economic power was once based on primacy in heavy industry. America meant bustling factories, tall smokestacks, flashing steel mills, and noisy shipyards. It meant a growing demand for energy and an ever-expanding appetite for consumer goods.

Things are different now. The change began with increased energy prices in the 1970s, which led to new ways of using people, resources, and capital in industry. In the past five years, the Ford Motor Company has eliminated almost 1,000 pounds from the average car. With gasoline consumption down, oil tankers weighing 90 million tons have been scrapped and 23 oil refineries and over 100,000 service stations have been closed. These changes have affected ancillary industries, too, such as rubber, steel, glass, and aluminum.

At the same time, new industries have sprung up and grown with enormous speed. Ten years ago microelectronics, robotics, advanced telecommunications, lasers, fiber optics, semiconductors, bioengineered pharmaceuticals, and microcomputers were fantasies. Today, these industries employ millions of workers and generate billions of dollars in corporate and personal income.

The American economy is changing scale and shifting gears. But it remains strong and vital.

William Carson, Account Executive with Birr Wilson & Co., Inc. discusses national indicators to determine **"What the Market Is Really Saying."**

Tri Counties is Bullish on Northern California

As the changing economy grows and prospers, emerging industries will seek out new locations. Northern California has much to recommend it. The climate is inviting, schools and medical facilities are excellent, housing prices are reasonable, major metropolitan areas are close by, and transportation connections are convenient and flexible.

In addition, Northern California has already shown its ability to sustain growth. Consider Butte County. In 1960, the population was only 82,000; by 1980, it had reached 144,000. The result is an ample reservoir of talented managers and workers and a growing local market.

Northern California is ready to grow, ready to accept the new industries developing in this country. Hewlett-Packard, ranked as the number-two American corporation by Fortune magazine, has opened a 4,000-employee facility in Roseville. Blue Shield, the Chabin Corporation, and Pacific Express/West Air have all located in Chico, bringing jobs and revenues with them.

We predict that this sort of growth will continue. We see an expanding population, with the number of workers in manufacturing, construction, services, and retail trade increasing steadily.

Tri Counties Positioned to Profit from Northern California's Growth

Financial services will be central to Northern California's growth, and Tri Counties has the resources and skills to hold a strong position in this widening marketplace. Our confidence is based on several factors.

A mature, well-developed financial institution. Tri Counties has been serving this market for eight years now, providing us with important experience and understanding from the teller line to the Board of Directors. With branches in Chico, Orland, Willows, Durham, Big Valley (Bieber), Redding, Burney, Fall River Mills, Palo Cedro, and Cottonwood, we can readily serve the whole area.

Jim Mabry, Loan Administrator and a Vice President of Tri Counties Bank, and Dan Herbert, Manager of our Durham Branch, listen intently to what the business people in agriculture have to say.

Commitment to growing market segments. Two parts of the market will grow most rapidly. The first is small business, particularly manufacturing and service firms with 100 to 300 employees. These companies will require banking services especially tailored to their needs. The second important market segment is families with moderate to high incomes. Today's high interest rates have made these retail customers very sophisticated in their use of financial products—they have become investors rather than savers. TriCo Bancshares and Tri Counties are committed to providing services to both groups.

New products. Tri Counties has developed financial services designed to meet the needs of our clientele. Examples are the MoneyFacts Service, the Small Business Guaranteed Loan package, the Photo Check Guarantee Card, and the Money Market Investment Account. We're now focusing our energies on new services, such as leasing, that can both serve the marketplace and return substantial earnings to the bank and the holding company and its shareholders.

A strong sales orientation. We do more than create good services: we sell them. All our employees are trained in discussing financial needs with our customers and showing them how Tri Counties can help. Studies show that potential customers prefer a strong community bank with informed, talented employees. We make sure they find what they're looking for at Tri Counties.

Remembering who we serve. Tri Counties isn't one of the big chain banks. We don't have to follow bureaucratic policies handed down by corporate headquarters in San Francisco or Los Angeles. The Tri Counties service area isn't simply our market. It's where we live, where we work, where we raise our families. This is our community, too, and we're committed to it.

Come Grow with Us

Tri Counties Bank and its parent company TriCo Bancshares are bullish on Northern California. We're convinced that as the American economy changes, this region will enjoy a bright future. We'll be here to help bring that future into being.

The information contained in the "1983 Economic Forecast" presentations was compiled from several sources including Forbes Magazine and the Butte County Census figures.

Coopers
&Lybrand

certified public accountants

ACCOUNTANTS' REPORT

To the Board of Directors and Shareholders
TriCo Bancshares and Subsidiary
Chico, California

We have examined the consolidated balance sheets of TriCo Bancshares and Subsidiary as of December 31, 1982 and 1981, and the related consolidated statements of income, changes in shareholders' equity, and changes in financial position for each of the three years in the period ended December 31, 1982. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of TriCo Bancshares and Subsidiary as of December 31, 1982 and 1981, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1982, in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand

Sacramento, California
January 28, 1983

CONSOLIDATED BALANCE SHEETS

December 31, 1982 and 1981

Assets	1982	1981
	(in thousands)	
Cash and due from banks	$ 6,553	$ 5,948
Federal funds sold	3,400	—
Investment securities (approximate market value: 1982 - $9,743; 1981 - $9,689)	9,798	10,369
Loans:		
Commercial	33,805	30,981
Consumer installment	19,021	16,288
Real estate mortgages	15,215	14,892
Real estate construction	4,214	5,334
	72,255	67,495
Allowance for loan losses	(1,092)	(626)
Net loans	71,163	66,869
Premises and equipment, net	6,415	6,553
Accrued interest receivable	1,922	2,100
Other real estate	3,721	638
Other assets	3,144	4,236
Total assets	$106,116	$96,713

Liabilities and Shareholders' Equity	1982	1981
Deposits:		
Demand, including interest-bearing accounts	$ 40,008	$27,120
Savings	17,289	20,002
Time certificates of deposit	22,929	25,294
Time deposits, $100,000 and over	5,848	3,282
Public time	7,000	7,857
Total deposits	93,074	83,555
Accrued interest payable and other liabilities	1,657	1,798
Deferred income taxes	434	423
Long-term debt	4,014	4,862
Contingent liabilities and commitments (Note 12)		
Total liabilities	99,179	90,638
Shareholders' equity:		
Common stock, no par value; authorized shares, 1982—20,000,000; 1981—1,333,333; issued and outstanding shares, 1982—738,063; 1981—685,852	5,932	5,288
Retained earnings	1,005	787
Total shareholders' equity	6,937	6,075
Total liabilities and shareholders' equity	$106,116	$96,713

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF INCOME
for the years ended December 31, 1982, 1981 and 1980

	1982	1981	1980
Interest Income	(in thousands, except per share amounts)		
Interest and fees on loans	**$11,269**	$ 9,660	$3,443
Interest on investment securities	**1,032**	1,169	643
Interest on federal funds sold	**53**	101	140
Total interest income	**12,354**	10,930	4,226
Interest Expense			
Interest on deposits:			
Demand (including interest-bearing accounts)	**288**	173	—
Savings	**1,036**	946	518
Time certificates	**3,308**	2,745	732
Time certificates, $100,000 and over	**669**	548	440
Public time	**968**	987	447
Total interest on deposits	**6,269**	5,399	2,137
Interest on short-term borrowings	**87**	182	25
Interest on long-term debt	**419**	312	—
Total interest expense	**6,775**	5,893	2,162
Net interest income	**5,579**	5,037	2,064
Provision for loan losses	**860**	530	61
Net interest income after provision for loan losses	**4,719**	4,507	2,003
Other income:			
Service charges	**1,120**	667	302
Gain on sale of loans	**—**	300	—
Gain on sale of other real estate, net	**244**	—	—
Total other income	**1,364**	967	302
Other expenses:			
Salaries and employee benefits	**3,133**	2,430	1,055
Other operating expenses	**2,920**	2,438	1,052
Total other expenses	**6,053**	4,868	2,107
Income before provision for income taxes and securities transactions	**30**	606	198
Credit (provision) for income taxes	**60**	(113)	(19)
Income before securities transactions	**90**	493	179
Securities transactions, less applicable income taxes of $140 in 1982, $47 in 1981 and $35 in 1980	**128**	42	32
Net income	**$ 218**	$ 535	$ 211
Earnings per share:			
Income before securities transactions	**$ .12**	$ .70	$ .32
Securities transactions, less applicable income taxes	**.18**	.05	.06
Net income	**$ .30**	$ .75	$ .38

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
for the years ended December 31, 1982, 1981 and 1980

	Common Stock			
	Number of Shares	Amount	Retained Earnings	Total
		(in thousands, except number of shares)		
Balance, January 1, 1980	293,152	$2,844	$ 368	$3,212
Four-for-three stock split, less cash paid for fractional shares	97,437		(5)	(5)
Exercise of stock options	10,649	53		53
25% stock dividend*, less cash paid for fractional shares	99,939		(5)	(5)
Common stock subscribed	67,945	1,291		1,291
Net income for the year			211	211
Balance, December 31, 1980	569,122	4,188	569	4,757
Sale of common stock (including receipts applicable to stock subscribed at December 31, 1980), less issue costs of $99,990	42,055	699		699
Exercise of stock options	12,700	92		92
10% stock dividend, less cash paid for fractional shares	61,975	309	(317)	(8)
Net income for the year			535	535
Balance, December 31, 1981	685,852	5,288	787	6,075
Capital notes converted to common stock	41,211	570		570
Exercise of stock options	11,000	74		74
Net income for the year			218	218
Balance, December 31, 1982	738,063	$5,932	$1,005	$6,937

*Accounted for as a stock split

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

for the years ended December 31, 1982, 1981 and 1980

	1982	1981	1980
		(in thousands)	
Resources provided:			
Operations:			
Net Income	**$ 218**	$ 535	$ 211
Noncash items:			
Depreciation and amortization	**669**	563	110
Provision for loan losses	**860**	530	61
Provision for deferred income taxes	**11**	164	124
Gain on sale of loans and other real estate	**(244)**	(300)	—
Provided by operations	**1,514**	1,492	506
Increase in liabilities and shareholders' equity:			
Deposits	**9,519**	5,184	9,722
Long-term debt incurred to acquire Shasta County Bank	—	3,718	—
Other long-term obligation	—	—	586
Proceeds from common stock transactions:			
Capital notes converted to common stock	**570**	—	—
Common stock issued and subscribed, net	—	699	1,291
Exercise of stock options and other, net	**74**	84	43
Decrease in assets:			
Federal funds sold	—	2,000	—
Time certificates of deposit	—	700	—
Investment securities	**571**	2,635	—
Sale of other real estate	**1,576**	—	—
Accrued interest receivable and other assets	**1,049**	—	—
	$14,873	$16,512	$12,148
Resources used:			
Acquisition of Shasta County Bank:			
Loans, net	**$ —**	$32,449	$ —
Premises and equipment	—	4,131	—
Investment securities	—	4,126	—
Deposits	—	(38,696)	—
Other assets and liabilities, net	—	3,226	—
	—	5,236	—
Increase in assets:			
Cash and due from banks	**605**	1,324	1,825
Time certificates of deposit	—	—	700
Federal funds sold	**3,400**	—	1,300
Investment securities	—	—	1,322
Loans, net	**5,219**	7,709	5,665
Premises and equipment	**245**	348	586
Acquisition of other real estate	**4,415**	—	—
Accrued interest receivable and other assets	—	1,353	498
Decrease in liabilities:			
Accrued interest payable and other liabilities	**141**	542	252
Repayment of long-term debt	**848**	—	—
	$14,873	$16,512	$12,148

The accompanying notes are an integral part of the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Summary of Significant Accounting Policies:

Basis of Presentation

On September 7, 1982, the Company completed a plan of corporate reorganization, whereby Tri Counties Bank became a wholly owned subsidiary of TriCo Bancshares, a newly-formed bank holding company. To effect the reorganization, each share of the Bank's outstanding common stock was converted into one share of TriCo Bancshares common stock.

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

Investment Securities

Investment securities are carried at cost, increased by accretion of discounts and decreased by amortization of premiums. Gains and losses (determined on a specific identification basis) on sales and exchanges of investment securities are presented, net of applicable income taxes, separately in the statement of income.

Loans

Loans are stated net of undisbursed funds. Interest on loans is accrued principally on a simple-interest basis. Interest on designated loans is not accrued if, in management's judgment, principal amounts are considered doubtful of collection.

Loans with an aggregate unpaid principal balance of $5,312,000 and $428,000 at December 31, 1982 and 1981, respectively, were pledged as collateral for public deposits.

Allowance for Loan Losses

The allowance for loan losses represents management's recognition of the assumed risks of extending credit and its evaluation of the overall quality of the loan portfolio. Although it is not possible to anticipate loan losses with complete accuracy, the evaluation of the quality of the loan portfolio includes such factors as the borrower's financial condition and repayment history, the value of any existing collateral, and the existence of third-party guarantees. Other factors considered by management include past loan loss experience and external business and economic conditions beyond the borrower's control.

The allowance for loan losses is increased by provisions for loan losses charged to operating expense and recoveries of previously charged-off loans, and is reduced for actual loans charged-off.

Intangible Assets

Intangible assets (included in other assets) are comprised of "core deposits" and the unallocated excess purchase price over fair value of net assets 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 using the straight-line method. Management believes that the life of the unallocated excess purchase price arising from the acquisition is indeterminate, and therefore, is being amortized over 40 years using the straight-line method.

Premises and Equipment

Premises (including those acquired under capital lease) and equipment are stated at cost less accumulated depreciation and amortization. Land is carried at cost. Depreciation and amortization expense is computed using the straight-line method over the following estimated useful lives:

Premises	40 years
Furniture and equipment	3 to 10 years

Improvements and major renewals are capitalized, and maintenance and repairs are charged to operating expenses. Gains and losses from disposal of furniture and equipment are included in current operations.

Premises under capital lease are amortized over the lease term, excluding renewal options.

Other Real Estate

Other real estate is stated at cost and consists of properties acquired through foreclosure or in satisfaction of borrower obligations. These assets are recorded at the lower of the obligation satisfied or the property's fair market value determined as of the date of acquisition. Any required write-down to fair market value at the date of acquisition is charged to the allowance for loan losses.

Subsequent to acquisition, other real estate is periodically appraised and compared to the applicable carrying amount. Any decline in value below the applicable carrying amount of a property is charged to current operations by provision to an allowance for other real estate losses.

A valuation allowance for such decline of $90,000 was established during 1982. Prior to 1982, a valuation allowance was not required to be established.

Net gains and losses realized on the disposition of other real estate are included in other income or expense as appropriate. Net expenses incurred during the period prior to disposition are included in other operating expenses.

Income Taxes

The provision for income taxes includes amounts attributable to all significant timing differences between revenues and expenses reported for financial statement purposes and for income tax purposes, after excluding nontaxable revenues and nondeductible expenses. The principal timing differences result from the use of the cash method of accounting for tax purposes, recognition of gain or loss on sales of participation loans, and differences in the method of calculating or timing of the provision for loan and other real estate losses.

Earnings Per Share

Earnings per share are computed based on the weighted average number of shares of common stock and common stock equivalents (convertible capital notes, stock options, and common stock subscribed) assumed outstanding during each year. The assumed conversion of the convertible capital notes results in elimination of the related interest expense, net of tax effect, in the computation of earnings per share. During 1982, the conversion of the capital notes was not assumed for computation purposes because the effect of such conversion would be antidilutive. The weighted average number of shares used in the computation of earnings per share were 718,769, 888,678 and 561,130 for 1982, 1981, and 1980, respectively. Fully diluted earnings per share are not presented because the effects of such computations are not material in any of the years presented.

Note 2—Investment Securities:

Comparative book and market values of investment securities at December 31, 1982 and 1981 were as follows:

	1982		1981	
	Book Value	**Market Value**	Book Value	Market Value
	(in thousands)			
U.S. Treasury and other U.S. Government agencies and corporations	**$9,355**	**$9,318**	$9,016	$8,407
State and political subdivisions	**443**	**425**	1,353	1,282
	$9,798	**$9,743**	$10,369	$9,689

Investment securities with an aggregate book value of $4,793,000 and $9,279,000 at December 31, 1982 and 1981, respectively, were pledged to secure public deposits as required by law.

The Bank generally intends to hold investment securities to maturity, and therefore, a valuation allowance has not been provided for the excess of adjusted book value over market value.

Note 3—Allowance for Loan Losses:

Transactions in the allowance for loan losses were as follows:

	1982	1981	1980
	(in thousands)		
Balance, beginning of year	**$626**	$ 73	$ 76
Provision charged to operations	**860**	530	61
Allowance for losses on loans acquired from Shasta County Bank	**—**	350	—
Loans charged off	**(551)**	(357)	(89)
Recoveries of loans previously charged off	**157**	30	25
Balance, end of year	**$1,092**	$ 626	$ 73

Loans classified as nonaccrual amounted to approximately $746,000, $402,000 and $32,000 at December 31, 1982, 1981, and 1980, respectively.

Note 4—Premises and Equipment:

Premises and equipment are comprised of:

	1982	1981
	(in thousands)	
Premises (including $831,188 acquired under capital lease)	**$4,567**	$4,542
Furniture and equipment	**1,630**	1,419
	6,197	5,961
Less accumulated:		
Depreciation	**(818)**	(472)
Amortization of capital lease	**(80)**	(52)
	5,299	5,437
Land	**1,116**	1,116
	$6,415	$6,553

Depreciation and amortization of premises and equipment amounted to $383,000, $281,000 and $110,000 in 1982, 1981, and 1980, respectively.

Note 5—Income Taxes:

The provisions (credit) for income taxes included in the statements of income are comprised of:

	1982	1981 (in thousands)	1980
Taxes applicable to income before securities transactions, net of tax credits:			
Federal	**$ (71)**	$ 53	$ (13)
State	**11**	60	32
	(60)	113	19
Taxes applicable to securities transactions	**140**	47	35
	$ 80	$160	$ 54
Current:			
Federal	**$ —**	$ (5)	$ (70)
State	**69**	1	—
	69	(4)	(70)
Deferred:			
Federal	**38**	95	88
State	**(27)**	69	36
	11	164	124
	$ 80	$160	$ 54

The components of deferred income tax expense are as follows:

	1982	1981 (in thousands)	1980
Items applied to reduce deferred income taxes:			
Net operating loss	**$ —**	$(346)	$ —
Tax credits	**—**	(91)	(32)
Accrual income deferred for tax purposes, net	**45**	551	140
Provision for loan losses	**(193)**	(108)	15
Provision for loss on other real estate	**(47)**	—	—
Gain (loss) on sale of participation loans, net	**(9)**	134	(5)
Use of accelerated depreciation methods for tax purposes	**56**	30	—
Restoration of deferred taxes, applicable to utilization of prior year's net operating loss	**162**	—	—
Other differences	**(3)**	(6)	6
	$ 11	$164	$124

A reconciliation of the federal statutory income tax rate to the Company's consolidated effective tax rate is as follows:

	1982	1981	1980
Federal statutory income tax rate	**46.0%**	46.0%	46.0%
State income taxes, net of federal tax benefit	**6.3**	6.3	6.3
Investment tax credits	**(4.5)**	(13.1)	(14.1)
Amortization of excess tax basis on assets acquired in merger	**(4.8)**	(8.5)	—
Tax-exempt interest on municipal obligations	**(19.4)**	(5.9)	(7.9)
Tax bracket rate differential	**(6.6)**	(5.5)	(7.2)
Amortization of goodwill	**8.1**	2.3	—
Other	**1.7**	1.4	(2.6)
Effective tax rate	**26.8%**	23.0%	20.5%

Investment tax credits utilized to reduce the provision for federal income tax expense for the years ended December 31, 1982, 1981 and 1980 were $13,000, $91,000 and $38,000, respectively.

The Company has a net operating loss carryforward of approximately $275,000 and tax credit carryforwards of $265,000 available to offset future federal income taxes on its federal income tax returns. The net operating loss carryforward expires in 1986. The tax credit carryforwards expire in varying amounts between 1990 and 1997.

Note 6—Long-term Debt:

Long-term debt at December 31, 1982 and 1981 consisted of:

	1982	1981
	(in thousands)	
9½% convertible subordinated capital notes payable in annual installments of $458,000, including interest; balance due March 27, 1988. Notes are convertible into common stock of the Company at $13.82 per share (subject to certain adjustments as defined in the Note agreement). Notes may be prepaid in whole or in part at par value any time prior to maturity, subject to the holder's prior right of conversion.	**$2,874**	$3,718
9% subordinated capital notes due April 1, 1989, with interest payable semiannually. Notes may be prepaid in whole or in part at any time.	**150**	150
10% mortgage payable in monthly installments of $4,000, including interest, through December 1, 2003, collateralized by a first deed of trust on certain bank premises.	**401**	406
Capital lease obligation on premises; effective interest rate of 12%; payable monthly in varying amounts through December 1, 2009.	**589**	588
	$4,014	$4,862

The aggregate maturities of long-term debt, excluding the capital lease obligation, are as follows:

	(in thousands)
1983	$ 208
1984	228
1985	250
1986	274
1987	300
1988 and after	2,165

Annual principal payments under the 9½% convertible subordinated capital notes are subject to the maintenance of certain capitalization levels and prior consent of the Bank's regulatory authorities under the laws of the California Financial Code and Federal Deposit Insurance Act. During 1982, approval for payment of the first installment of principal on the 9½% convertible subordinated capital notes was received and such payment for $90,000 was made. The remaining principal reduction resulted from retirement of capital notes in connection with the settlement of a loan and conversions of notes into shares of common stock.

Future minimum annual lease payments remaining under the capital lease obligation are as follows:

	(in thousands)
1983	$ 74
1984	74
1985	74
1986	75
1987	75
1988 and after	1,883
Net minimum lease payments	2,255
Less: amount representing interest	1,666
Present value of net minimum lease payments	$ 589

Note 7—Other Operating Expenses:

The components of other operating expenses are as follows:

	1982	1981	1980
		(in thousands)	
Equipment and data processing	**$ 631**	$ 686	$ 246
Occupancy	**374**	377	204
Advertising	**242**	160	37
Stationery and supplies	**281**	306	167
Correspondent bank charges	**152**	—	—
Postage	**147**	110	51
Other	**1,093**	799	347
	$2,920	$2,438	$1,052

Note 8—Pension Plan:

The Company has a defined benefit pension plan for the benefit of substantially all of its employees. The Company's policy is to fund pension costs accrued. Total pension expense in 1982, 1981 and 1980 was approximately $79,000, $65,000 and $60,000, respectively, which includes amortization of past service cost over 30 years. The plan was amended effective January 1, 1981, in connection with the acquisition of Shasta County Bank. During 1981, the formula for future service benefits was changed, and certain actuarial assumptions were revised to more accurately reflect the plan's actual and anticipated experience. The combined effect of these changes was to reduce the provision for pension expense from approximately 15% of covered payroll in 1980 to approximately 5% of covered payroll in 1981.

Accumulated plan benefits and plan net assets at January 1, 1982, the latest plan valuation date, are summarized below:

	(in thousands)
Actuarial present value of accumulated plan benefits:	
Vested	$ 24
Nonvested	33
Total	$ 57
Net assets available for plan benefits	$182

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was six percent.

Note 9—Stock Option Plan:

The Company has a stock option plan which provides for the granting of options to key employees, entitling them to purchase shares of the Company's common stock at fair market value on the date the option is granted. The options are exercisable no later than five years from the date of grant and are non-transferable. No charges to income are made in connection with this plan. During 1982, certain amendments were made to the stock option plan to qualify it as an incentive stock option plan under the Internal Revenue Code.

Stock option transactions in 1982 and 1981 were as follows:

	Shares Available for Grant	Options Outstanding Shares	Price Per Share	Total
Balance, January 1, 1981	3,288	38,032	$5.38–$13.82	$346,285
Options exercised in 1981	—	(13,970)	5.38– 13.82	(91,500)
Options terminated in 1981	688	(688)	13.82	(9,500)
Balance, December 31, 1981	3,976	23,374	6.76– 13.82	245,285
Options exercised in 1982	—	(11,000)	6.76	(74,285)
Options terminated in 1982	688	(688)	13.82	(9,500)
Balance, December 31, 1982	4,664	11,686*	$13.82	$161,500

*All exercisable at December 31, 1982.

Note 10—Stock Dividend:

In December 1981, the Bank declared a 10% stock dividend to its stockholders. To capitalize this dividend, a transfer from retained earnings to common stock was made equal to $5 for each share to be issued in payment thereof.

Note 11—Related Party Transactions:

Certain directors and officers and companies with which they are associated were customers of, and had banking transactions with, the Bank in the ordinary course of business. It is the Bank'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. The total amount of outstanding loans to these parties aggregated approximately $1,404,000 and $1,184,000 as of December 31, 1982 and 1981, respectively.

Note 12—Contingent Liabilities and Commitments:

In January, 1983, the Bank was named as a defendant in a lawsuit alleging fraud, breach of fiduciary duty and breach of an implied covenant of good faith in connection with the foreclosure of certain real property owned by the plaintiffs by a third party financial institution holding the first mortgage on such property. The complaint seeks general damages in excess of $1,000,000 and unspecified punitive damages. Management, in consultation with outside legal counsel, believes the lawsuit is without merit and intends to vigorously defend the action. Management further intends to file a cross-complaint for recovery of the loan balance which, prior to the foreclosure, was collateralized by the Bank's second mortgage on the property.

Since it is not possible at this time to determine the ultimate outcome nor to estimate the amount or range of any possible loss to the Bank as a result of this litigation, no provision has been made in the accompanying financial statements. Management is of the opinion that the ultimate aggregate liability, if any, resulting from this proceeding will not have a material adverse effect on the Company's financial position.

In the normal course of business, the Bank has various commitments to extend credit under standby letters of credit which are not reflected in the accompanying consolidated financial statements. Letters of credit in the approximate amount of $2,625,000 and $1,800,000 were outstanding at December 31, 1982 and 1981, respectively.

COMMON STOCK INFORMATION

The Common Stock of TriCo Bancshares (the "Common Stock") is not listed on any exchange nor is it listed with the National Association of Securities Dealers Automatic Quotation System. There has been a limited trading market in the Common Stock since the formation of the holding company. TriCo Bancshares (the "Company") is not aware of any securities dealer which makes a market in the Common Stock of the Company.

The following table summarizes dividend information and those trades of the Company's Common Stock of which the Company has knowledge, setting forth the high ask and low bid prices for the periods indicated. The prices indicated below may not necessarily represent actual transactions. The amounts have been adjusted to reflect the 10% stock dividend declared in December 1981. No cash dividends have been paid to date by the Company. As there was no market for the Company's stock prior to the formation of the holding company and as the Company is merely a holding company for the Bank, the table includes trades in the Bank's Common Stock which occurred prior to the formation of the holding company. As the Bank is now a wholly-owned subsidiary of the Company, there is no longer a market for the Bank's Common Stock.

	Prices of the Company's Common Stock		**Stock Dividends**
Quarter Ended:	**High**	**Low**	
March 31, 1981	17.28	17.28	
June 30, 1981	17.28	16.37	
September 30, 1981	17.28	16.82	
December 31, 1981	17.28	15.91	61,975 shares (10% stock dividend)
March 31, 1982	18.00	16.00	
June 30, 1982	19.00	14.50	
September 30, 1982	19.00	13.00	
December 31, 1982	16.00	13.00	

The approximate number of holders of record of the Common Stock of the Company at December 31, 1982 was 1,500.

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

As the Company has not commenced any business operations independent of Tri Counties Bank (the "Bank"), the following discussion pertains primarily to the Bank.

On March 27, 1981, Shasta County Bank merged with and into the Bank. This event is referred to in the following discussion as the "Merger."

(A) Results of Operations.

The following is a summary of operations for the five years ended December 31, 1982 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.

	Year Ended December 31, (in thousands, except per share amounts)				
	1982	**1981**	**1980**	**1979**	**1978**
Interest Income:					
Interest and fees on loans	$11,269	$9,660	$3,443	$2,466	$1,733
Interest on investment securities	1,032	1,169	643	417	315
Interest on time deposits and federal funds sold	53	101	140	82	87
Total interest income	12,354	10,930	4,226	2,965	2,135
Interest Expense:					
Interest on deposits	6,269	5,399	2,137	1,193	713
Interest on short-term borrowings	87	182	25	29	13
Interest on long-term debt	419	312	—	—	—
Total interest expense	6,775	5,893	2,162	1,222	726
Net interest income	5,579	5,037	2,064	1,743	1,409
Provision for loan losses	860	530	61	78	44
Net interest income after provision for loan losses	4,719	4,507	2,003	1,665	1,365
Other income	1,364	967	302	176	141
Other expenses	(6,053)	(4,868)	(2,107)	(1,484)	(1,153)
Income before provision for income taxes and securities transactions	30	606	198	357	353
Credit (provision) for income taxes	60	(113)	(19)	(142)	(146)
Income before securities transactions	90	493	179	215	207
Securities transactions, less applicable income taxes	128	42	32	—	(32)
Net income	$ 218	$ 535	$ 211	$ 215	$ 175

	1982	**1981**	**1980**	**1979**	**1978**
Earnings per share:*					
Income before securities transactions	$ .12	$ .70	$ .32	$ .38	$ .40
Securities transactions, less applicable income taxes	.18	.05	.06	—	(.06)
Net income	$ .30	$ .75	$ .38	$ .38	$ .34

*Amounts are stated after retroactive adjustments for stock splits and stock dividends.

Selected Balance Sheet Information

	(in thousands)				
	1982	**1981**	**1980**	**1979**	**1978**
Total assets	$106,116	$96,713	$45,788	$34,063	$25,823
Long term obligations	$ 4,014	$ 4,862	$ 586	—	—

Net Interest Income.

Net interest income is the most significant contributor to the Bank's earnings. 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. The increase in net interest income of $542,000 in 1982 over 1981 reflects a combination of improvement in interest rate differentials and in the volume of both interest-earning assets and interest-bearing liabilities.

The following table sets forth the average balance outstanding for each balance sheet category of the Company and, for each category of interest-earning assets and interest-bearing liabilities, the interest and fees earned or paid and the average yield or rate paid on such balances, during 1982 and 1981:

	1982			1981		
Assets	**Average Balance(1)**	**Income/ Expense**	**Yield/ Rate**	Average Balance	Income/ Expense	Yield/ Rate
			(amounts in thousands)			
Earning assets:						
Loans	**$67,924**	**$11,269**	**16.59%**	$59,777	$ 9,660	16.16%
Federal funds sold	**438**	**53**	**12.10%**	531	101	19.02%
Investment securities	**9,751**	**1,032**	**10.58%**	11,408	1,169	10.25%
Total earning assets	**78,113**	**12,354**	**15.82%**	71,716	10,930	15.24%
Cash and due from banks	**5,323**			3,766		
Premises and equipment	**6,484**			5,386		
Other assets	**9,903**			4,972		
Less: Allowance for loan losses	**(695)**			(212)		
Total	**$99,128**			$85,628		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Demand deposits (interest-bearing)	**$ 5,403**	**$ 288**	**5.33%**	$ 3,295	$ 173	5.25%
Savings deposits	**19,435**	**1,036**	**5.33%**	17,827	946	5.31%
Time deposits	**38,649**	**4,945**	**12.79%**	31,543	4,280	13.57%
Short-term borrowings	**681**	**87**	**12.78%**	1,035	182	17.58%
Long-term debt	**4,293**	**419**	**9.76%**	3,284	312	9.50%
Total interest-bearing liabilities	**68,461**	**6,775**	**9.90%**	56,984	5,893	10.34%
Demand deposits	**21,945**			20,087		
Other liabilities	**2,166**			2,831		
Shareholders' equity	**6,556**			5,726		
Total	**$99,128**			$85,628		
Net interest income		**$5,579**			$5,037	
Net yield on earning assets(2)			**7.14%**			7.02%

(1) Average balances are computed principally on the basis of month end balances.
(2) Net yield on interest-earning assets is computed by dividing net interest earnings by total interest-earning assets.
Net interest earnings is the difference between the total interest earned and the total interest paid.

Net interest income is primarily affected by the yields on interest-earning assets and the rates paid on interest-bearing liabilities. It is also affected by the average balances outstanding during the periods. The Bank's increased yield on interest-earning assets has resulted primarily from (i) substituting higher yielding commercial loans for lower yielding investment securities, (ii) offering new consumer investment instruments and (iii) maintaining a high core deposit base.

Interest Income.

The Bank experienced growth in the average balance of its loan portfolio during 1982. The Bank also experienced a slight increase in the yield rates for its loan portfolio during 1982 due to the high interest rates experienced during the first three quarters of 1982. These two factors served to increase the interest income on loans. Interest and fees on loans increased by 17%, from $9,660,000 in 1981 to $11,269,000 in 1982. The increase in interest and fees on loans in 1982 also reflects, in part, the inclusion on an annualized basis of the interest and fees on loans generated by the Shasta County Bank loan portfolio, which was acquired pursuant to the Merger, as compared to the inclusion of such interest and fees for only nine months in 1981. The increase between 1980 and 1981 in interest and fees on loans was much greater than the growth between 1981 and 1982. This was due in large part to the Merger which occurred in 1981 and resulted in doubling the size of the Bank's loan portfolio. Management expects that any growth in the size of the Bank's loan portfolio and any increase in loan income in the future will be generated from the Bank's operations and there will be no growth or increases in such amounts arising from the acquisition of other banks.

The Bank decreased its average holdings of investment securities during 1982 by approximately $1,657,000 and as a result the interest income generated from such declined from $1,169,000 in 1981 to $1,032,000 in 1982, a change of 11.7%. The Bank reduced the size of its investment portfolio in 1982 because a REN pool was established. The REN pool permits the Bank to use real estate mortgage loans as collateral for certain public deposits. In past years, the Bank used its securities portfolio as collateral for such deposits. Interest income on investment securities also declined in 1982 because of declining interest rates. Interest income from investment securities increased between 1980 and 1981 from $643,000 to $1,169,000 because interest rates increased in 1981 and the size of the investment portfolio also increased during such time.

The interest income from federal funds sold declined 47.5%, from $101,000 in 1981 to $53,000 in 1982, and the average balance of federal funds sold declined from $531,000 in 1981 to $438,000 in 1982. The decrease in federal funds sold in 1982 occurred in part because of higher average balances maintained by the Bank with its correspondent banks. Therefore, less funds were available for daily investment in the federal funds market. In 1983, the Bank will use the Federal Reserve Bank to provide certain services that the correspondent banks previously provided, and as a result, will maintain lower average balances with its correspondent banks. Management expects that income from federal funds sold will increase in 1983 due to anticipated increases in the funds available for this purpose.

Interest Expense.

Interest paid on deposits increased from $5,399,000 in 1981 to $6,269,000 in 1982, an increase of 16%. This increase was the result of the following:

(1) Interest paid on time certificates of deposit in amounts of $100,000 and over (excluding public time deposits) increased 22% due to an increase in such accounts and in the interest rates paid during the first nine months of 1982.

(2) Interest expense on time certificates (six-month money market accounts, 91-day money market accounts, seven-day certificates, all-savers and small saver accounts) increased from $2,745,000 in 1981 to $3,308,000 in 1982. This increase was due to the high interest rates paid during the first nine months of 1982 and the increase in average time deposits in 1982 as a result of the Merger.

(3) The average daily deposits in savings passbook accounts, bearing interest at 5¼%, increased as a result of the Merger and the interest expense on such accounts thereby increased from $946,000 in 1981 to $1,036,000 in 1982.

(4) Interest paid on demand accounts, which includes NOW accounts and the new Money Market Deposit Accounts ("MMDA" accounts), increased 66% from 1981 to 1982 principally because of the increased balances of the NOW accounts and the new funds deposited in the MMDA accounts. The Bank has offered interest rates on the MMDA accounts which are highly competitive.

Management expects that interest expense on deposit accounts will increase in 1983 because of an increase in MMDA deposits which are currently paying a higher rate of interest than most time deposit accounts and because some funds from other deposit accounts will probably shift into the MMDA accounts. Approximately 22% of the funds deposited in MMDA accounts during December 1982 were believed by management to be new deposits in the Bank.

The increase in interest expense on deposits of 153% from 1980 to 1981 occurred because interest-earning deposits increased 112% during the period as a result of the Merger with Shasta County Bank and because of higher interest rates paid in 1981.

Interest on short-term borrowings includes the interest paid on federal funds purchased and interest paid to the Federal Reserve Bank for treasury, tax and loan funds on deposit. A decline in the need to purchase federal funds reduced interest expense 52% from $182,000 in 1981 to $87,000 in 1982. Because of the forthcoming change in the daily processing of treasury, tax and loan deposits, interest expense for such funds should be reduced approximately 80% in 1983. The increase of interest expense from $25,000 in 1980 to $182,000 in 1981 was due to the Bank's purchase of federal funds when interest rates were high and the increased expense of handling the treasury, tax and loan deposits which was also a result of higher interest rates.

The 34% increase, from $312,000 in 1981 to $419,000 in 1982, in long-term debt expense occurred in large part because of the effect of a full year's interest expense on the Bank's 9½% Capital Notes in 1982, compared to such interest expense for only nine months in 1981. Management expects that interest expense on long-term debt will decline in 1983 because of the partial principal repayment on such Capital Notes made in 1982.

The following table sets forth, for the periods indicated, a summary of the changes in interest income and interest expense resulting from changes in volume and changes in rate. For purposes of this table, such changes have been allocated to change due to volume and change due to rate in proportion to the relationships of the absolute dollar amounts of the changes in each.

	1982 over 1981			1981 over 1980		
	Volume	**Yield/ Rate**	**Total**	Volume	Yield/ Rate	Total
			(amounts in thousands)			
Increase (decrease) in interest income:						
Loans	**$1,347**	**$262**	**$1,609**	$5,641	$576	$6,217
Investment securities	**(173)**	**36**	**(137)**	325	201	526
Federal funds sold	**(15)**	**(33)**	**(48)**	(70)	31	(39)
Total	**1,159**	**265**	**1,424**	5,896	808	6,704
Increase (decrease) in interest expense:						
Demand deposits (interest-bearing)	**112**	**3**	**115**	173	—	173
Savings deposits	**86**	**4**	**90**	426	2	428
Time deposits	**922**	**(257)**	**665**	2,447	214	2,661
Short-term borrowings	**(53)**	**(42)**	**(95)**	134	23	157
Long-term borrowings	**97**	**10**	**107**	312	—	312
Total	**1,164**	**(282)**	**882**	3,492	239	3,731
Increase (decrease) in net interest income	**$ (5)**	**$547**	**$ 542**	$2,404	$569	$2,973

Other Income.

Income from service charges increased from $667,000 in 1981 to $1,120,000 in 1982, or 68%, reflecting increases in the pricing of transaction services and a concerted effort by branch personnel to collect all charges due. The increased revenue demonstrates the willingness of the Bank's depositors to accept a price which recovers a greater percentage of the costs associated with providing services for their accounts. The increase in revenue from service charges from 1980 to 1981 reflects the effect of the Merger and the resulting increase in the number of active demand deposit accounts. Management expects that the income from service charges will grow at a more modest rate in the future.

In 1981, income of $300,000 was recognized on the sale of SBA loans. In 1982 the Bank had no earnings in this category.

In 1982, the Bank recognized net gains on the sale of other real estate in the amount of $244,000 arising primarily from one transaction; in 1980 and 1981, there were insignificant transactions of this type and consequently no gains were realized. The Bank acquires such real estate in settlement of or from foreclosure on loans. Management is unable to predict whether the Bank will recognize gains in the future from disposition of such real estate.

Other Expenses.

Between 1981 and 1982, salary and employee benefits expense increased from $2,430,000 to $3,133,000 or 29%. The Bank's salary expense for 1981 did not include the salaries and employee benefits of Shasta County Bank incurred prior to the Merger. The 1982 figures include the salary expense of the Shasta County Bank branches for a full year. The 1982 expenses also include $130,000 for outside consultants attributable to programming expenses necessary for the conversion of the Bank's computer software. The need to use outside computer consultants in 1983 should be minimal. The increases in salary and employee benefit expenses between 1980 and 1981 of 131% was largely due to the Merger when the number of the Bank's employees doubled and to normal increases in employee salaries.

Other operating expenses include the costs of occupancy, equipment, advertising, stationery and supplies. Total other operating expenses for 1982 were $2,920,000, an increase of 20% over the $2,438,000 incurred in 1981.

Provision for Income Taxes.

The effective tax rate on income (including securities transactions) was 26.8% in 1982, 23.0% in 1981, and 20.5% in 1980. The increase in the effective tax rate between 1981 and 1982 resulted primarily from a decrease in investment tax credits which was only partially offset by other factors. Investment tax credits declined in 1982 because there were no major acquisitions of qualifying assets during the year. Substantial investment tax credits were generated during 1981 and 1980 from the purchase of data processing equipment. Management expects the effective tax rate to increase in 1983.

Securities Transactions.

During each of the years 1980 through 1982, net gains were recorded on the sale of fixed rate securities from the Bank's investment portfolio. The Bank does not actively trade in the securities market but does elect to sell certain securities when it is to its advantage during periods of declining interest rates.

Return on Assets and Equity:

The following sets forth certain ratios for the Company for the last two years:

	1982	1981
Return on assets	**.22%**	.62%
Return on shareholders' equity	**3.33%**	9.34%
Shareholders' equity to assets	**6.61%**	6.69%

(B) Balance Sheet Analysis.

Loans.

Total loans increased from $67,495,000 in 1981 to $72,255,000 in 1982, or 7%. At the same time the mix of loans also changed. Due to low real estate construction starts, the Bank reduced real estate construction loans from 7.9% of total loans in 1981 to 5.8% of total loans in 1982 and real estate mortgage loans remained relatively unchanged at 21% in 1982 compared to 22% in 1981. Consumer installment loans increased from 24% in 1981 to 26% of total loans in 1982. Commercial loans grew from 46% in 1981 to 47% of loans in 1982. In 1983, the Bank will continue to concentrate on commercial and consumer installment loans.

Federal Funds Sold.

Federal funds sold, on December 31, 1982, were $3,400,000. These surplus funds represent an increase in customer deposits, particularly those identifiable as new MMDA accounts. Because the Bank is actively competing for the MMDA account deposits, it is anticipated federal funds will be sold on a daily basis during 1983. There were no federal funds sold on December 31, 1981. However, the Bank had considerable activity during 1981 which is evident from the interest earned from federal funds sold in 1981, as reflected on the Consolidated Statement of Income for the year ended December 31, 1981.

Premises and Equipment.

The Bank plans to build a permanent structure for the Willows branch office, and therefore management expects that there will be a capital expenditure in 1983. At this time, management expects the new branch office will require that the Bank spend approximately $325,000.

Deposits.

Deposit accounts increased from $83,555,000 in 1981 to $93,074,000 in 1982. The mix of deposits also changed during that time with the greatest change occurring in December 1982, when MMDA accounts, which are included in demand deposits, became available. These new accounts accounted for 77% of the demand deposit growth, but were also responsible in part for the decline in savings deposits and time certificates of deposit totalling $5,078,000. Management believes that some of these deposits were transferred to the MMDA accounts because such accounts allow more flexibility while earning interest at competitive rates. The trend toward shifting to MMDA accounts will continue as certificates of deposit mature and funds are available. As further deregulation of the financial industry becomes effective, the Bank will be able to compete more effectively for the funds available to increase the Bank's core deposit base, although this may also result in higher interest costs. The increase in deposit totals between 1980 and 1981 reflects the merger of Shasta County Bank with the Bank.

Capital Resources.

Inflation has affected the Bank's relative capital resources. Inflation accelerates the rate of increase of non-interest expenses, fee income, asset and deposit growth, and net interest income but does not necessarily increase the positive interest differential or the return on average assets. The higher rate of asset and deposit growth caused by inflation requires a higher rate of capital generation, if a constant ratio of capital to assets is to be maintained.

Shareholders' equity increased 28% from 1980 to 1981. This increase was due to net income in 1981 of $535,000 and proceeds from the sale of additional common stock of $791,000. Shareholders' equity increased 14% from 1981 to 1982. This increase consisted of net income in the amount of $218,000 for 1982, the exercise of stock options in the amount of $74,000, and the conversion of Capital Notes in the amount of $570,000 into Common Stock of the Company.

(C) Asset Quality.

Loans.

Average loans increased to $59,777,000 in 1981 (including the loan portfolio acquired from Shasta County Bank pursuant to the Merger) and to $67,924,000 in 1982. Growth was reflected in each loan category, except for real estate construction loans, during 1982. The composition of the loan portfolio at the end of the last three years is reflected in the following table:

Loan Portfolio Composite

	December 31,		
	1982	1981	1980
	(amounts in thousands)		
Commercial	**$33,805**	$30,981	$ 9,482
Consumer installment	**19,021**	16,288	8,134
Real estate mortgage	**15,215**	14,892	8,608
Real estate construction	**4,214**	5,334	1,397
Total loans	**$72,255**	$67,495	$27,621

Nonperforming Loans.

The following table sets forth for the years indicated the nonperforming loans of the Bank. Nonaccrual loans, loans carried on an accrual basis but past due more than 90 days, and loans, the terms of which have been renegotiated to provide a reduction or deferral of interest or principal, as of December 31, 1982 and 1981, were as follows:

Nonperforming loans, December 31,	**1982**	1981
	(in thousands)	
Nonaccrual loans	**$ 746**	$ 402
Past due loans (90 days or more)	**3,838**	3,900
Renegotiated loans	**—**	—
Total nonperforming loans	**$4,584**	$4,302

Nonperforming loans increased during 1982. Management believes that the increase in nonperforming loans stems in part from the higher interest rates in 1982 and the current economic conditions in the northern part of the Bank's service area. The reclassification of loans as nonperforming does not necessarily reflect management's judgment as to collectibility.

Allowance for Loan Losses Activity.

The allowance for loan losses represents management's recognition of the assumed risks of extending credit and its evaluation of the overall quality of the Bank's loan portfolio in the present economy. An increase in the allowance from $626,000 in 1981 to $1,092,000 in 1982 was made to recognize the increased probability of losses in the loan portfolio. In management's judgment, the increases from 1981 to 1982 were appropriate in light of higher net loan charge-offs during the period which resulted from several factors, including (i) a more aggressive loan review policy which was adopted by the Bank and implemented during the period, (ii) the adoption of a stricter loan charge-off policy, (iii) current economic conditions, and (iv) the charge-off of certain loans related to the acquisition of Shasta County Bank. The allowance for loan losses was increased in 1981 from 1980 as management determined that the allowance was not adequate in light of the growth in the loan portfolio pursuant to the Merger and the economic conditions in the service area of the former Shasta County Bank branches.

The Bank had total charge-offs of $89,000 in 1980, of $357,000 in 1981, and of $551,000 in 1982. Of the 1982 charge-offs, 71% were loans made from former branch offices of Shasta County Bank. Management believes that the increase in loan charge-offs stems in large part from the current economic conditions in the northern portion of its service area, where a significant portion of the Bank's loan customers are located. These areas are experiencing extreme unemployment due to the reduction in housing starts and the slow-down of other wood-related industries. The Bank has been forced to foreclose on a number of loans during the years 1980 through 1982 due to these conditions and the amount of other real estate owned by the Bank has, as a result, also increased significantly, from $638,000 in 1981 to $3,721,000 in 1982. Losses recognized at the time of foreclosure of such real estate are charged to the allowance for loan losses.

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

Allowance for Loan Loss Activity Year Ended December 31,	**1982**	1981
	(in thousands)	
Balance, beginning of year	**$ 626**	$ 73
Provision charged to operations	**860**	530
Provision assumed through acquisition	**—**	350
Loans charged off:		
Commercial	**(254)**	(180)
Consumer installment	**(162)**	(177)
Real estate mortgage	**(22)**	—
Real estate construction	**(113)**	—
Total loans charged off	**(551)**	(357)
Recoveries:		
Commercial	**127**	23
Consumer installment	**29**	7
Real estate mortgage	**1**	—
Real estate construction	**—**	—
Total recoveries	**157**	30
Net loans charged-off	**(394)**	(327)
Balance, end of year	**$1,092**	$ 626
Average total loans	**$67,924**	$59,777
Ratios:		
Net charge-offs during period to average loans outstanding during period	**.58%**	.55%
Provision for loan losses to average loans outstanding	**1.27%**	.89%
Allowance to loans at year-end	**1.51%**	.93%

Liquidity.

Liquidity relates to the Bank's ability to generate adequate cash to meet its needs. The principal cash requirements of the Bank are to cover downward fluctuations in its deposit accounts and unexpected loan demand.

Another indication of potential demand on the Bank's liquidity is the maturity distribution of certificates of deposit in denominations of $100,000 or more which 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.

Time remaining until maturity as of December 31, 1982:	Amount
	(in thousands)
Less than three months	$11,112
3 months to 6 months	813
6 months to 12 months	803
More than 12 months	120
Total	$12,848

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

Investment Securities Maturities— December 31, 1982

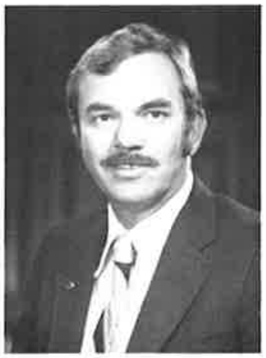
	Within One Year	After One but within 5 Years	After 5 but within 10 Years	After 10 Years	Total
		(amounts in thousands)			
U.S. Treasury and other U.S. Government agencies and corporations	$500	$6,854	$2,001	$ —	$9,355
State and political subdivisions	134	40	269	—	443
Total book value	$634	$6,894	$2,270	$ —	$9,798
Average Yield	8.12%	9.92%	10.09%	—	9.84%

Loan demand also affects the Company's liquidity position. The following table presents the maturities and sensitivity to changes in interest rates of commercial and real estate construction loans at December 31, 1982:

Loan Maturities— December 31, 1982

	Within One Year	After One but within 5 Years	After 5 Years	Total
		(amounts in thousands)		
Commercial loans	$24,030	$4,847	$4,928	$33,805
Real estate construction loans	3,892	322	—	4,214
Total	$27,922	$5,169	$4,928	$38,019
Loans with predetermined interest rates		$2,433	$2,883	
Loans tied to prime		2,736	2,045	
Total		$5,169	$4,928	

BOARD OF DIRECTORS


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


Wendell Lundberg
Chairman of the Board.
Owner, Wehah Farms,
rice and grain
operations, Richvale


Alex Vereschagin, Jr.
Vice-Chairman of the
Board. Secretary/
Treasurer, Vereschagin
Oil Company, petroleum
distribution company,
Orland


J. Herod Hall, M.D.
Secretary of the Board.
Physician and surgeon,
Chico


Robert Stern
President,
R.J. Stern Co., Inc.,
retail store,
Oroville


Everett Beich,
Owner, Beich
Companies, mobile
home park commercial
development companies,
Chico


Donald Casey, M.D.
Retired physician,
Chico


DeWayne Caviness, M.D.
Physician and surgeon,
Chico


Gerald Compton
President, Avag, Inc.,
agricultural flying
service, Richvale


Vernon Fish
President,
Vernon E. Fish
Properties, Inc.,
development company,
Chico


Sankey M. Hall, Jr.,
Co-owner,
Hall-Van Hook Funeral
Chapel, Chico Cemetery
Association, Lambert
Funeral Home, and
Hall Petroleum Company,
Chico & Roseville


Fred Hignell, III
Principal Partner
Hignell & Hignell, Inc.,
investment &
development company,
Chico


Wayne Meeks
Owner,
Wayne Meeks Red Bluff
Ford-Mercury,
Red Bluff


Donald Murphy
Vice President & General
Manager,
J.H. McKnight Ranch,
Nelson

TriCo Bancshares—Executive Officers

Robert H. Steveson	President & Chief Executive Officer
D.V. Carter	Executive Vice President—Finance (Chief Financial Officer)
J. Herod Hall, M.D.	Secretary

Administration—Tri Counties Bank

Robert H. Steveson	President & Chief Executive Officer
D.V. Carter	Executive Vice President
Joan Jones	Senior Vice President & Cashier
James Mabry	Vice President & Loan Administrator
Janet K. Hannis	Sales Administrator
Kathleen Pisani	Executive Secretary
Fred Drake	Auditor
Fred Bryant	Compliance Officer & Credit Supervisor

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, as amended, for the year ended December 31, 1982, 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, P.O. Box 2207, Chico, CA 95927.

Managers—Tri Counties Bank

Park Plaza Branch/Chico
David Raven
Manager

Pillsbury Branch/Chico
Jim Burnell
Manager

Durham Branch
Dan Herbert
Manager

Orland Branch
Jerry Allsberry
Manager

Willows Branch
Carroll Taresh
Manager

Redding Branch
James Cowee
Manager

Bieber Branch
Don Colvin
Manager

Cottonwood Branch
John Barker
Manager

Palo Cedro Branch
Betty Kryla
Operations Supervisor

Fall River Branch
Charles Parrott
Manager

Burney Branch
Robert Jones
Manager

Department Managers—Tri Counties Bank

Data Processing
Chico
Larry Hall
Manager

Leasing Department
Chico
Keith Orme
Manager

Money Facts
Redding
Berna Klein
Manager

Real Estate Department
Redding
Ron Bee
Manager

SBA Department
Redding
Terry Dobrowsky
Manager

Locations

Administrative Office
& Park Plaza Branch
780 Mangrove Avenue
P.O. Box 2207
Chico, CA 95927
(916) 345-5151

2171 Pillsbury Road
P.O. Box 1130
Chico, CA 95927
(916) 345-5151

The Midway
P.O. Box 216
Durham, CA 95938
(916) 343-3735

100 E. Walker Street
P.O. Box 188
Orland, CA 95963
(916) 865-5524

154 North Tehama Street
P.O. Box 1158
Willows, CA 95988
(916) 934-2191

3751 Deschutes Road
Palo Cedro, CA 96073
(916) 547-4494

3349 Main Street
Cottonwood, CA 96022
(916) 347-3751

1810 Market Street
Redding, CA 96001
(916) 244-4700

1275 Main Street
Burney, CA 96013
(916) 335-2215

Highway 299 East
Fall River, CA 96028
(916) 336-6291

Bridge & Market Streets
Bieber, CA 96009
(916) 294-5211

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