TRICO BANCSHARES

1988 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, and Siskiyou, as well as portions of Tehama and Lassen. 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.

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 business of 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, and most of the Bank's deposits are attracted from individuals and business-related sources. 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.

MARKET MAKERS FOR TRICO BANCSHARES COMMON STOCK

Sutro & Co. Incorporated
31416 Agoura Road, Suite 180
Westlake Village, CA 91361-4671
(800) 888-0929
(818) 706-2929

Troy Norlander
Mert Norlander

Hoefer & Arnett, Incorporated
100 Pine Street, Suite 575
San Francisco, CA 94111
(800) 346-5544
(415) 362-7111

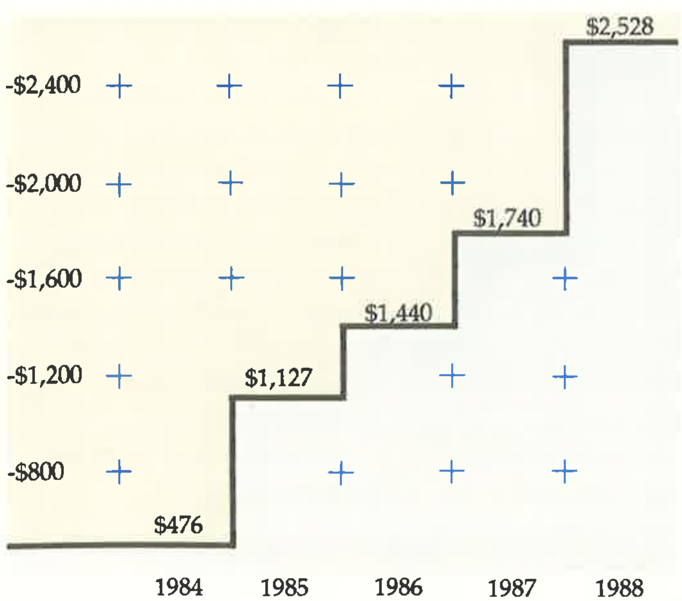
Marc Arnett
Philip Economopoulos

FINANCIAL HIGHLIGHTS

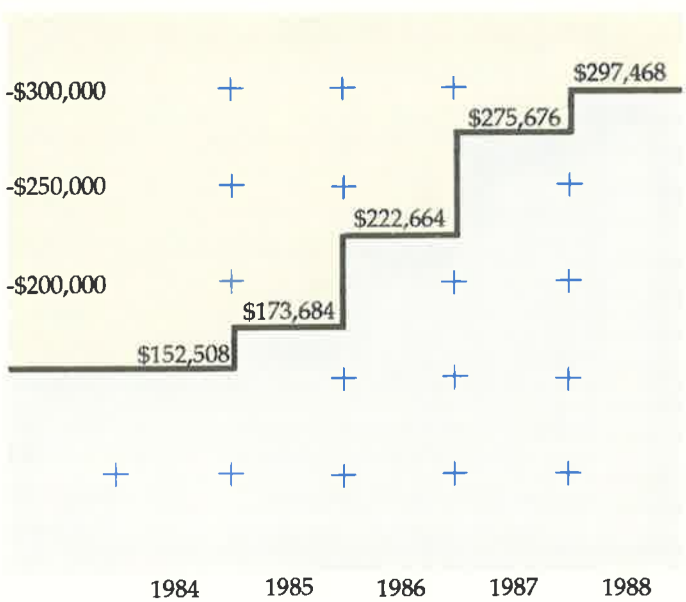
(In thousands, except earnings
per common share and dividends per common share)

Years ended December 31,	1988	1987	1986	1985	1984
Assets	**$297,468**	$275,676	$222,664	$173,684	$152,508
Investment Securities	**62,494**	67,719	41,430	29,422	22,310
Loans, net	**185,339**	165,856	140,361	108,352	90,985
Deposits	**272,004**	252,859	200,314	152,260	132,800
Shareholders' equity	**19,822**	14,164	12,900	11,756	8,177
Interest income	**25,514**	21,627	19,072	17,051	15,675
Interest expense	**13,553**	11,564	9,939	9,559	9,047
Net income	**2,528**	1,740	1,440	1,127	476
Earnings per common share	**$ 1.78**	$ 1.20	$ .93	$ .81	$ .42
Cash dividends per common share	**$ 0.30**	$ 0.275	$ .25	--	--
Stock dividends per common share	**28.00%**	--	5.00%	5.00%	5.00%
Return on average assets	**.89%**	0.73%	0.76%	0.71%	0.36%
Return on common shareholders' equity	**16.22%**	13.01%	11.66%	11.31%	6.04%

NET INCOME
(In thousands)



TOTAL ASSETS
(In thousands)



PRESIDENT'S MESSAGE

Robert H. Steveson, President and Director (left), and Robert J. Stern, Director (right), visit the new Chico Mall Office. This facility includes an ATM and makes our bank services available to thousands of mall shoppers. There are now thirteen offices in Tri Counties Bank Country.

Dear Shareholder:

TriCo Bancshares continues to grow. Our performance continues to improve. 1988 was our best year ever.

1988 earnings per share increased 48% to $1.78 from $1.20, restated for the year's 8% and 20% common stock dividends. Cash dividends during the year totalled 30 cents per share outstanding. Retained earnings, increased reserves and a $4,000,000 sale of 10-1/2% Series B preferred stock gave us a 30% increase in primary capital. A $3,500,000 bank loan was repaid. Year-end assets were $297,468,000, up from $275,676,000 last year.

Tri Counties Bank, our wholly-owned subsidiary, opened a thirteenth office near the Sears entrance to the 500,000 square foot Chico Mall. The Bank's new Credit Card Department now offers VISA, MasterCard and Gold MasterCard to Tri Counties Bank customers on competitive terms. These Cards, as well as our ATM Access Card, will allow customers to use our machines and the machines of the nationwide Cirrus, Instant Teller, Star System and Exchange ATM networks. The Bank's new Personal Financial Planning Department provides impartial, fee-based financial counsel to higher-income Bank customers.

TCB Real Estate's Philadelphia Square project is progressing well. This complex, which will total forty-one Colonial style office buildings when completed, is a spectacular sight viewed from Highway 99 entering Chico from the North.

Our repossessed real estate holdings from previous years have largely been sold.

In addition to the Philadelphia Square project, your Bank continues to finance local businesses, farmers, homeowners and consumers. We do not risk your money in leveraged buyouts, foreign countries, Texas condos or Oklahoma oil wells. We invest in Tri Counties Bank Country, California's Upper Third.

Our territory is growing and we are growing with it.

Sincerely,

Robert H. Steveson

Robert H. Steveson,
President &
Chief Executive Officer

Alex A. Vereschagin, Jr., Chairman of the Board (left), and Larry B. Hall, Vice President & Manager, Data Processing (right), inspect the Bank's IBM System 38 central processor. The Bank now processes 70,000 customer account relationships, 24 hours a day, six days a week, including 90,000 checks nightly.

Everett B. Beich, Vice Chairman of the Board (left) and Joan Jones, Executive Vice President (right), check progress at our Philadelphia Square project. Culp & Tanner, prominent engineers, are building their new headquarters here, a 23,000 square foot, two-story building on 1-1/2 landscaped acres.

Donald E. Murphy, Director (left), with Paul Camusi, President, Sierra Nevada Brewery, and Fred W. Hignell III, Secretary of the Board and Director (center), with Ken Grossman, Vice President, Sierra Nevada Brewery, at the firm's new Chico brewhouse. Sierra Nevada Brewery is an accountholder at the Park Plaza Branch of Tri Counties Bank.

Wayne Meeks, Director (left), and James Mabry, Senior Vice President & Loan Administrator (right), supervise the move-in at the Bank's new credit card center. Tri Counties Bank now issues its own VISA cards, MasterCards and Gold MasterCards. Our competitive rate, terms and supplemental benefits are attracting many customers.

DeWayne E. Caviness, M.D., Director (left), and Ron Bee, INVEST Manager (right), discuss the stocks, bonds, mutual funds and investment advisory services available from our INVEST registered broker/dealer franchise. We are one of 500 financial franchisees of this nationwide investment service. Member SIPC.

Rudy Taube, M.B.A., Financial Planning Manager (left), explains his department's personal financial planning services to Donald J. Casey, M.D., Director (right). Services include plans for retirement, investments, estates, education funding, insurance and budgeting. Dr. Casey is our largest individual shareholder.

Sankey M. Hall, Jr., Director (left), and David Raven, Vice President & Regional Loan Specialist (right), inspect wood chips and sawdust used to fuel the 25 million watt Redding Power project. We are the bank-on-site co-lender with the U.S. subsidiary of National Westminster Bank, London, Great Britain's largest bank.

Wendell J. Lundberg, Director (left), and Beverly K. London, Manager, Purchasing & Printing (right), examine output from the Bank's IBM desk-top publishing system. The TCB in-house print shop produced 95% of the Bank's 1988 printing, including this Annual Report you are reading. Savings are substantial.

Carroll Taresh, Senior Vice President (left), and Daniel Herbert, Vice President & Cashier (right), at a Tri Counties Bank 24-hour automatic teller machine. Tri Counties Bank is a member of four major ATM networks. This enables Tri Counties Bank customers to transact banking business nationwide.

Bud Keeney (left) and Cliff Taylor, Tri Counties Bank loan officer (right), admire the blossoms on a nine-year-old stand of almonds at Keeney & Son Farm, Durham. The Keeney Family is a shareholder of TriCo Bancshares and a charter depositor of Tri Counties Bank. Keeney & Son is also a co-owner of Pine Creek Orchards northwest of Chico.

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Shareholders
TriCo Bancshares and Subsidiaries
Chico, California

We have audited the accompanying consolidated balance sheets of TriCo Bancshares and subsidiaries as of December 31, 1988 and 1987, and the related consolidated statements of income and changes in shareholders' equity for each of the three years in the period ended December 31, 1988, the consolidated statement of cash flows for the year ended December 31, 1988, and the consolidated statement of changes in financial position for each of the two years in the period ended December 31, 1987. 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.

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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of TriCo Bancshares and subsidiaries as of December 31, 1988 and 1987, and the results of their operations for each of the three years in the period ended December 31, 1988, their cash flows for the year ended December 31, 1988, and their changes in financial position for each of the two years in the period ended December 31, 1987, in conformity with generally accepted accounting principles.

As discussed in Note A to the financial statements, the Company has presented a consolidated statement of cash flows for the year ended December 31, 1988, and a consolidated statement of changes in financial position for the years ended December 31, 1987 and 1986.

Touche Ross & Co.

Certified Public Accountants
San Francisco, California
January 20, 1989

CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

ASSETS

	December 31, 1988	December 31, 1987
Cash and due from banks	$ 22,248	$ 11,051
Federal funds sold	2,000	5,000
Investment securities (approximate market value $58,209 and $62,814)	62,494	67,719
Loans:		
Commercial	99,483	91,410
Consumer installment	38,285	33,909
Real estate mortgages	40,209	37,290
Real estate construction	9,253	4,765
	187,230	167,374
Less: Allowance for loan losses	1,891	1,518
Net loans	185,339	165,856
Premises and equipment, net	7,137	6,949
Investment in real estate properties	6,710	7,098
Investment in real estate limited partnership	4,743	5,000
Other real estate owned	942	1,743
Accrued interest receivable	2,641	2,442
Other assets	3,214	2,818
Total assets	**$297,468**	$275,676

LIABILITIES AND SHAREHOLDERS' EQUITY

	1988	1987
Deposits:		
Noninterest-bearing demand	$ 57,809	$ 47,363
Interest-bearing demand	84,204	83,493
Savings	32,968	26,711
Time certificates, $100,000 and over	3,253	4,363
Other time certificates	93,770	90,929
Total deposits	272,004	252,859
Accrued interest and other liabilities	3,675	2,650
Deferred income taxes	516	660
Long-term debt	1,451	5,343
Total liabilities	277,646	261,512
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	-
Common stock, no par value: Authorized 20,000,000 shares; issued and outstanding 1,164,014 and 899,178 shares	11,815	7,878
Retained earnings	1,564	3,742
Total shareholders' equity	19,822	14,164
Total liabilities and shareholders' equity	**$297,468**	$275,676

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except earnings per share)

	Years Ended December 31, 1988	1987	1986
Interest income:			
Interest and fees on loans	**$20,676**	$17,505	$16,781
Interest on federal funds sold	**126**	365	331
Interest on investment securities --taxable	**3,912**	3,238	1,155
Interest on investment securities--tax exempt	**800**	519	805
Total interest income	**25,514**	21,627	19,072
Interest expense:			
Interest on money market, savings and time certificates of deposit	**12,756**	10,791	8,928
Interest on time certificates of deposit $100,000 and over	**247**	262	424
Interest on short-term borrowing	**74**	42	6
Interest on long-term debt	**476**	469	581
Total interest expense	**13,553**	11,564	9,939
Net interest income	**11,961**	10,063	9,133
Provision for loan losses	**780**	480	878
Net interest income after provision for loan losses	**11,181**	9,583	8,255
Other income:			
Service charges and fees	**2,536**	2,016	1,646
Other income	**758**	349	278
Investment securities gains (losses)	**(5)**	179	1,013
Total other income	**3,289**	2,544	2,937
Other expenses:			
Salaries and related expenses	**5,165**	4,415	3,989
Other	**5,308**	5,042	5,013
Total other expenses	**10,473**	9,457	9,002
Net income before income taxes	**3,997**	2,670	2,190
Income taxes	**1,469**	930	750
Net income	**$ 2,528**	$ 1,740	$ 1,440
Net income applicable to common stock	**$ 2,067**	$ 1,445	$ 1,145
Earnings per common share	**$ 1.78**	$ 1.20	$ .93

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 1988, 1987 and 1986

(In thousands, except share amounts)

	Series A Preferred Stock		Series B Preferred Stock		Common Stock			
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Retained Earnings	Total
Balance, January 1, 1986	26,724	$2,544	--	$ --	833,773	$ 7,155	$2,057	$11,756
5% Common Stock dividend, less cash paid for fractional shares	--	--	--	--	41,003	431	(438)	(7)
Common Stock issued	--	--	--	--	18,884	226	--	226
Series A Preferred Stock cash dividends	--	--	--	--	--	--	(295)	(295)
Common Stock cash dividends	--	--	--	--	--	--	(220)	(220)
Net income	--	--	--	--	--	--	1,440	1,440
Balance, December 31, 1986	26,724	2,544	--	--	893,660	7,812	2,544	12,900
Capital Notes converted to Common Stock	--	--	--	--	5,518	66	--	66
Series A Preferred Stock cash dividends	--	--	--	--	--	--	(295)	(295)
Common Stock cash dividends	--	--	--	--	--	--	(247)	(247)
Net income	--	--	--	--	--	--	1,740	1,740
Balance, December 31, 1987	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

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

(In thousands)

	Year ended December 31, 1988
Operating activities:	
Net income	$ 2,528
Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for loan losses	780
Provision for losses on other real estate	160
Provision for depreciation and amortization	1,040
Amortization of investment security discounts	108
Deferred income taxes	(144)
Realized and unrealized investment security gains	(5)
Increase in interest receivable	(199)
Increase in interest payable	191
Decrease in other real estate owned	641
Increase in other operating assets and liabilities	95
Net cash provided by operating activities	5,195
Investing activities:	
Proceeds from sales of trading and investment securities	72,670
Purchases of trading and investment securities	(67,553)
Principal collected on loans	61,431
Loans originated or acquired	(81,694)
Purchases of premises and equipment	(831)
Proceeds from sale of investment properties	2,748
Purchases and additions to investment in real estate properties	(2,426)
Return of investment in real estate limited partnership	257
Net cash used by investing activities	(15,398)
Financing activities:	
Net increase in noninterest-bearing demand deposits	10,446
Net increase in interest-bearing demand deposits, NOW accounts, and savings accounts	6,968
Proceeds from sales of certificates of deposit	90,132
Payments for maturing certificates of deposit	(88,400)
Proceeds from sale of preferred stock	3,899
Cash dividends -- preferred	(461)
Cash dividends -- common	(291)
Term loan retired	(3,500)
Subordinated debt retired	(393)
Net cash provided by financing activities	18,400
Increase in cash and cash equivalents	8,197
Cash and cash equivalents at beginning of year	16,051
Cash and cash equivalents at end of year	$24,248

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(In thousands)

	Years Ended December 31, 1987	1986
Financial resources were provided by (applied to):		
Operations:		
Net income	$ 1,740	$ 1,440
Noncash items:		
Depreciation and amortization	797	831
Provision for loan losses	480	878
Deferred income taxes	(3)	353
Financial resources provided by operations	3,014	3,502
Preferred stock, cash dividend	(295)	(295)
Common stock, cash dividend	(247)	(220)
Net financial resources provided by operations	2,472	2,987
Deposits and other financing activities:		
Deposits:		
Interest-bearing	50,580	36,065
Noninterest-bearing	1,965	11,989
	52,545	48,054
Other financing activities:		
Issuance of common stock	66	226
Long-term debt borrowings	3,500	1,000
Long-term debt retired	(1,636)	(154)
Subordinated debt retired	(1,791)	(243)
Net effect of stock dividend	--	(7)
	139	822
Other activities:		
Cash and due from banks	3,244	(2,784)
Premises and equipment, net	(985)	(214)
Other real estate owned, net	108	(192)
Other, net	(2,122)	(1,411)
	245	(4,601)
Increase in financial resources invested in earning assets	$ 55,401	$ 47,262
Increase (decrease) in earning assets:		
Interest-bearing deposits	$ 550	$ --
Federal funds sold	(200)	5,200
Investment securities	26,289	12,008
Loans held for sale	(2,134)	134
Loans, net	25,975	32,887
Investment in real estate properties	(79)	(2,967)
Investment in real estate limited partnership	5,000	--
Increase (decrease) in earning assets	$ 55,401	$ 47,262

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 1988, 1987 and 1986

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 prevailing practices within the banking industry. The Company carries its assets and liabilities principally on the historical cost basis and follows the accrual method of accounting.

Basis of Presentation

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 material 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 is recognized as an adjustment 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.

Loans

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

The Bank adopted the Statement of Accounting Standards No. 91 (FASB No. 91), "Accounting for Nonrefundable Fees and Costs Associated With Originating or Acquiring Loans and Initial Direct Costs of Leases," beginning January 1, 1988. Accordingly, 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. In prior periods, loan fees have been recognized as income to the extent that they represent reimbursement of loan origination costs. This accounting change is prospective, since it is not practicable to restate prior periods. The effect of the adoption of FASB No. 91 on income and earnings per share for the year ended December 31, 1988, compared to the year ended December 31, 1987, is a reduction of net income in 1988 of $123,000 and earnings per share of $.11.

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 against the allowance for loan losses. 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.

Renegotiated loans are those loans on which concessions in terms have been granted because of a borrower's financial difficulty. Interest is generally accrued on such loans in accordance with the new terms.

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 expenses. 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 volume of the portfolio, overall portfolio quality, loan concentrations, specific problem loans, commitments, and current and anticipated economic conditions that may affect the borrower's ability to pay.

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 using the straight-line method.

Investment in Real Estate Limited Partnership

An investment in real estate limited partnership of $4,743,000 is carried at cost. Since a ready market does not exist for these investments, the market value was estimated to be at cost by management.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Years ended December 31, 1988, 1987 and 1986

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 shorter of the estimated useful life of the asset or lease term.

Investment in Real Estate Properties

Investment in real estate is stated at the lower of cost or market and consists of properties either acquired 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 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, if 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, Financial Accounting Standard No. 96, "Accounting for Income Taxes" was issued. Adoption of this standard is required by 1990. 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.

Earnings Per Common Share

Earnings per common share are computed based on the weighted average number of shares of common stock and common stock equivalents assumed outstanding during each year adjusted retroactively. The assumed conversion of the convertible capital notes results in elimination of the related interest expense, net of income tax effect, in the computation of earnings per common share in 1987 and 1986. The weighted average number of shares used in the computation of earnings per common share was 1,164,014, 1,217,473 and 1,323,982 for 1988, 1987 and 1986. Fully diluted earnings per common share are not presented because such amounts would not differ materially from the reported earnings per common share amounts in any of the years presented.

Other

Certain reclassifications have been made to the prior year's financial statements in order to conform with the classifications of December 31, 1988, financial statements.

In 1988, the Company adopted Statement of Financial Accounting Standard No. 95 on cash flow reporting. The statement of changes in financial position for earlier years has not been restated, as permitted under the statement. For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold. Financial Accounting Standard No. 95 requires the following supplemental disclosures of cash flow information:

Cash paid for interest - $13,375,000
Cash paid for income taxes - $ 1,380,000

NOTE B - RESTRICTED CASH BALANCES

Reserves (in the form of deposits with the Federal Reserve Bank) of $600,000 and $900,000 were maintained to satisfy Federal regulatory requirements at December 31, 1988 and December 31, 1987.

NOTE C - INVESTMENT SECURITIES

The carrying amount and estimated market values of investment securities are summarized as follows:

	December 31, 1988		December 31, 1987	
	Carrying Amount	Market Value	Carrying Amount	Market Value
	(in thousands)			
U.S. Treasury and other:				
U.S. government agencies and corporations	$45,296	$41,508	$44,827	$40,839
State and political subdivisions	15,390	14,952	11,146	10,736
Mutual funds:				
U.S. government agencies and corporations	–	–	4,000	3,902
State and political subdivisions	51	41	3,000	2,987
Other investments	1,757	1,708	4,746	4,350
	$62,494	$58,209	$67,719	$62,814

Investment securities with an aggregate carrying amount of $910,000 and $1,308,000 at December 31, 1988 and 1987, were pledged as collateral for public deposits as required by law.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Years ended December 31, 1988, 1987 and 1986

The Bank generally intends to hold investment securities to maturity and, therefore, a valuation allowance is not provided for the excess of carrying amount over market value at December 31, 1988.

NOTE D - ALLOWANCE FOR LOAN LOSSES

Transactions in the allowance for loan losses were as follows:

	1988	1987	1986
	Years Ended December 31, (in thousands)		
Balance, beginning of year	**$1,518**	$1,350	$1,121
Provision charged to operations	**780**	480	878
Loans charged off	**(521)**	(488)	(855)
Recoveries of loans previously charged off	**114**	176	206
Balance, end of year	**$1,891**	$1,518	$1,350

Loans classified as nonaccrual amounted to approximately $701,000, $533,000 and $1,698,000 at December 31, 1988, 1987 and 1986. If interest on those loans had been accrued , such income would have approximated $86,000, $97,000 and $131,000 in 1988, 1987 and 1986.

NOTE E - PREMISES AND EQUIPMENT

Premises and equipment are comprised of:

	1988	1987
	December 31, (in thousands)	
Premises (including $831,000 acquired under capital lease)	**$6,260**	$5,831
Furniture and equipment	**3,220**	2,870
	9,480	8,701
Less:		
Accumulated depreciation	**(3,393)**	(2,829)
Accumulated amortization of capital leases	**(246)**	(219)
	5,841	5,653
Land	**1,296**	1,296
	$7,137	$6,949

Depreciation and amortization of premises and equipment amounted to $643,000, $553,000 and $582,000 in 1988, 1987 and 1986.

NOTE F - INCOME TAXES

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

	1988	1987	1986
	Years Ended December 31, (in thousands)		
Current:			
Federal	**$1,116**	$671	$118
State	**497**	262	279
	1,613	933	397
Deferred:			
Federal	**(140)**	4	397
State	**(4)**	(7)	(44)
	(144)	(3)	353
	$1,469	$930	$750

Deferred income tax expense resulted from the following:

	1988	1987	1986
	(in thousands)		
Increase (reduce) deferred income taxes:			
Tax credits	**$ –**	$ 62	$515
Difference between cash and accrual basis of accounting	**(36)**	(41)	(145)
Provision for loan losses	**(173)**	(95)	3
Provision for loss on other real estate	**(61)**	18	134
Amortization of core deposits	**(110)**	(219)	(168)
Use of accelerated depreciation methods for tax purposes	**32**	61	113
Capitalized leases	**(12)**	(14)	(20)
Direct financing leases	**(12)**	(35)	(35)
Leveraged leases	**255**	300	–
Provision for limited partnership tax benefit	**256**	–	–
Provision for retirement compensation	**(62)**	–	–
Provision for deferred loan fees	**(177)**	–	–
Other differences	**(44)**	(40)	(44)
	$ (144)	$ (3)	$353

The cash basis of accounting is not available after 1986 because of changes in tax laws.

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

	1988	1987	1986
Federal statutory income tax rate	**34.0%**	40.0%	46.0%
State income taxes, net of federal tax benefit	**8.2**	5.7	5.9
Tax-exempt interest on municipal obligations	**(5.7)**	(6.6)	(15.4)
Other	**.3**	(4.3)	(2.3)
Effective Tax Rate	**36.8%**	34.8%	34.2%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Years ended December 31, 1988, 1987 and 1986

NOTE G -- LONG-TERM DEBT

Long-term debt is as follows:

	December 31, 1988	1987
	(in thousands)	
14-1/4 % subordinated capital notes due on July 1, 1992, with interest payable monthly. Notes may be prepaid in whole or in part anytime after July 1, 1988.	$ 865	$ 1,257
Capital lease obligation on premises, effective interest rate of 12% payable monthly in varying amounts through December 1, 2009.	586	586
Term loan agreement retired August 15, 1988.	--	3,500
	$ 1,451	$ 5,343

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

	(in thousands)
1989	$ --
1990	--
1991	--
1992	865
1993	--
Thereafter	--
	$ 865

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

	(in thousands)
1989	$ 76
1990	77
1991	78
1992	79
1993	80
Thereafter	1,408
Net minimum lease payments	1,798
Less amount representing interest	1,212
Present value of net minimum lease payments	$ 586

NOTE H -- OTHER OPERATING EXPENSES

The components of other operating expenses are as follows:

	Years Ended December 31, 1988	1987	1986
	(in thousands)		
Equipment and data processing	$ 1,029	$ 923	$ 826
Occupancy	814	759	777
Advertising	178	259	241
Net other real estate expense	316	180	440
Losses and expenses, net of income on investment in real estate	56	201	534
Legal	306	220	231
Other	2,609	2,500	1,964
	$ 5,308	$ 5,042	$ 5,013

NOTE I -- RETIREMENT PLANS

Substantially all employees with at least one year of service are covered by discretionary employee stock ownership and discretionary profit-sharing plans. Contributions are made to each plan at the discretion of the Board of Directors. A contribution to the discretionary employee stock ownership plan of $192,000 in 1988 and 1987 is included in salary expense for both years. No contributions were approved to the discretionary profit-sharing plan in 1988 or 1987.

In 1987, the Company adopted the supplemental retirement plan for directors and the supplemental executive retirement plan covering key executives. The plans are nonqualified benefit plans and are unsecured and unfunded. The cost of the plans is being defeased through corporate-owned insurance on the lives of the participants.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Years ended December 31, 1988, 1987 and 1986

The following table sets forth the plan's status and amounts recognized in the Company's December 31, 1988, consolidated balance sheet, as follows:

	Supplemental Retirement Plan for Directors	Supplemental Executive Retirement Plan
	(in thousands)	
Actuarial present value of benefit obligations:		
Projected benefit obligation for service rendered to date	$304	$355
Plan assets at fair value	$ –	$ –
Projected benefit obligation in excess of plan assets	$304	$355
Unrecognized net (gain) loss from past experience different from that assumed and effects of changes in assumptions	(32)	112
Prior service cost not yet recognized in net periodic pension cost	–	–
Unrecognized net obligation at May 1, 1987, being recognized over 17 and 18 years	(203)	(362)
Prepaid pension cost included in other liabilities	$ 69	$105
Net pension cost for 1988 included the following components:		
Service cost-benefits earned during the period	$ 14	$ 27
Interest cost on projected benefit obligation	25	29
Actual return on plan assets	–	–
Net amortization and deferral	13	17
Net periodic pension cost	$ 52	$ 73

The net periodic pension cost was determined using a 9.00% discount rate assumption.

Also in 1987, the Company adopted the Executive Deferred Compensation Plan under which directors and key executives designated by the Board of Directors of the Company may defer a portion of their compensation.

NOTE J -- PREFERRED STOCK

On August 10, 1988 the Company issued 8,000 shares of 10-1/2% Cumulative Series B Preferred Stock. The Company may redeem the preferred stock in whole or in part at its option on or after August 1, 1995 at $500 per share plus accrued and unpaid dividends. The preferred stock is nonvoting, has a dividend preference and a liquidation preference of $500 per share plus accrued and unpaid dividends.

On July 31, 1985, the Company issued 26,724 shares of 11% Cumulative Series A Preferred Stock. The Company may redeem the preferred stock in whole or in part at its option on or after July 1, 1988 at $100 per share plus accrued and unpaid dividends. The preferred stock is nonvoting, has a dividend preference and a liquidation preference of $100 per share plus accrued and unpaid dividends. As of December 31, 1988, no shares had been redeemed by the Company.

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 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 and distributions paid during such period. Under this regulation, the Bank may pay dividends without prior approval amounting to $3,953,000 as of December 31, 1988.

NOTE L -- RELATED PARTY TRANSACTIONS

Certain directors and officers and companies with which they are associated were customers of, and had banking transactions with, the Company 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 $3,776,000 and $3,643,000 at December 31, 1988 and 1987.

NOTE M -- COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities that are not presented in the accompanying financial statements. The commitments and contingent liabilities include various guarantees, commitments to extend credit, and standby letters of credit. At December 31, 1988, undisbursed commercial and real estate loans amounted to $26,234,000 and $4,232,000. Standby letters of credit and guarantees totaled $3,263,000 at December 31, 1988. The Bank does not anticipate any material losses as a result of the commitments and contingent liabilities.

The Bank has available unused lines of credit totaling $6,000,000 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Years ended December 31, 1988, 1987 and 1986

At December 31, 1988, minimum commitments under noncancellable operating leases with initial or remaining terms of one year or more are as follows:

	(in thousands)
1989	$ 334
1990	281
1991	277
1992	217
1993	154
Thereafter	2,652
	$3,915

Rent expense under operating leases was $449,000, $432,000 and $452,000 in 1988, 1987 and 1986.

NOTE N -- TRICO BANCSHARES FINANCIAL STATEMENTS

TriCo Bancshares (Parent Only) Balance Sheets

Assets	December 31, 1988	1987
	(in thousands)	
Cash	$ 194	$ 288
Loans	350	350
Investment in Tri Counties Bank	20,217	18,224
Other assets	60	97
Income tax benefit	–	9
Total assets	$20,821	$18,968

Liabilities and Shareholders' Equity	December 31, 1988	1987
	(in thousands)	
Liabilities:		
Long-term debt	$ 865	$ 4,758
Deferred taxes	13	–
Other liabilities	121	46
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	–
Common stock, no par value:		
Authorized 20,000,000 shares; issued and outstanding 1,164,014 and 899,178 shares	11,815	7,878
Retained earnings	1,564	3,742
Total shareholders' equity	19,822	14,164
Total liabilities and shareholders' equity	$ 20,821	$ 18,968

Statements of Income

	Years Ended December 31, 1988	1987	1986
	(in thousands)		
Interest income	$ 37	$ 32	$ 13
Interest expense on long-term debt	400	350	256
Administration expense	10	12	17
Total expense	410	362	273
Loss before equity in net income of Tri Counties Bank	373	330	260
Equity in net income of Tri Counties Bank	2,746	1,922	1,565
Income tax credits	(155)	(148)	(135)
Net income	$2,528	$1,740	$1,440

Statements of Cash Flows

	Years ended December 31, 1988	1987	1986
	(in thousands)		
Operating activities:			
Net income	$2,528	$1,740	$1,440
Adjustments to reconcile net income to net cash provided by operating activities			
Undistributed equity in Tri Counties Bank	(1,993)	(1,478)	(640)
Provision for depreciation and amortization	8	7	13
Deferred income taxes	22	442	(135)
Increase in interest receivable	(4)	–	–
Increase in interest payable	(13)	–	–
Increase in other operating assets and liabilities	104	(66)	(14)
Net cash provided by operating activities	652	645	664
Investing activities:			
Loans originated	–	–	(350)
Capital contributed to Tri Counties Bank	–	(2,400)	(600)
Net cash used by investing activities	–	(2,400)	(950)
Financing activities:			
Issuance of common stock	–	66	226
Issuance of preferred stock	3,899	–	–
Long-term debt incurred	–	3,500	1,000
Cash dividends – preferred	(461)	(295)	(295)
Cash dividends – common	(291)	(247)	(220)
Term loan retired	(3,500)	(1,260)	(147)
Subordinated debt retired	(393)	–	–
Net cash provided by financing activities	(746)	1,764	564
Increase in cash and cash equivalents	(94)	9	278
Cash and cash equivalents at beginning of year	288	279	1
Cash and cash equivalents at end of year	$ 194	$ 288	$ 279

See Notes to Consolidated Financial Statements

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[1,2]		Approximate Trading Volume
Quarter Ended:	High	Low	(in shares)
March 31, 1987	$ 10.72	$ 8.58	40,975
June 30, 1987	10.72	10.00	25,394
September 30, 1987	11.08	10.37	14,059
December 31, 1987	11.08	10.00	22,266
March 31, 1988	11.38	10.61	19,318
June 30, 1988	12.50	11.67	11,570
September 30, 1988	12.92	11.67	15,381
December 31, 1988	12.92	12.08	21,993

[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]Figures adjusted to reflect the 8% stock dividend paid on March 31, 1988 to holders on record February 1, 1988, and the 20% stock dividend paid on December 30, 1988 to holders on record November 30, 1988.

Holders. As of December 31, 1988, there were approximately 1,472 holders of record of the Company's Common Stock.

Dividends. On each of March 31 and December 31, 1988, the Company paid a cash dividend of $.15 per share of Common Stock. On December 10, 1987, the Company paid a cash dividend of $.275 per share of Common Stock. The Company has paid no other cash dividends during the last two fiscal years, but on March 31, 1988, and December 31, 1988, the Company paid stock dividends of 8% and 20%, respectively. 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 and Series B Preferred Stock. The Certificate of Determination of Preferences of the Series A and Series B 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. The Bank paid cash dividends in the aggregate amount of $752,000 in 1988.

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, 1988 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,				
	1988	1987[1]	1986[1]	1985[1]	1984[1]
	(in thousands, except earnings per share amounts)				
Interest income:					
Interest and fees on loans	$ 20,676	$ 17,505	$ 16,781	$ 14,868	$ 13,505
Interest on investment securities (taxable)	3,912	3,238	1,155	1,172	1,920
Interest on investment securities (tax free)[2]	1,192	867	1,489	1,538	126
Interest on time deposits and federal funds sold	126	365	331	183	187
Total interest income	25,906	21,975	19,756	17,761	15,738
Interest expense:					
Interest on deposits	13,003	11,053	9,352	8,850	8,335
Interest on short-term borrowing	74	42	6	45	56
Interest on long-term debt	476	469	581	664	656
Total interest expense	13,553	11,564	9,939	9,559	9,047
Net interest income	12,353	10,411	9,817	8,202	6,691
Less provision for loan losses	780	480	878	698	750
Net interest income after provision for loan losses	11,573	9,931	8,939	7,504	5,941
Other income:					
Gain on security transactions	(5)	179	1,013	515	70
Service charges and other	3,294	2,365	1,924	1,537	1,529
Total other income	3,289	2,544	2,937	2,052	1,599
Other expenses:					
Salaries and employee benefits	5,165	4,415	3,989	3,720	3,449
Other operating expenses .	5,308	5,042	5,013	3,728	3,731
Total other expenses	10,473	9,457	9,002	7,448	7,180
Income before provision for income taxes	4,389	3,018	2,874	2,108	360
Provision (credit) for income taxes-actual	1,469	930	750	271	(179)
Tax equivalent adjustment	392	348	684	710	63
Net income	$ 2,528	$ 1,740	$ 1,440	$ 1,127	$ 476
Earnings per common share	$ 1.78	$ 1.20	$ .93	$ .81	$ .42
Selected Balance Sheet Information					
Total Assets	$297,468	$275,676	$222,664	$173,684	$152,508
Long-term Obligations	$ 1,451	$ 5,343	$ 5,270	$ 4,667	$ 5,772
Preferred Stock	$ 6,443	$ 2,544	$ 2,544	$ 2,544	--

[1]Certain reclassifications have been made in the 1987, 1986, 1985 and 1984 summary of operations to conform to classifications in 1988.
[2]Interest on tax-free securities is reported on a tax equivalent basis of 1.49 for 1988; 1.67 for 1987; 1.85 for 1986, 1985 and 1984.

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

(A) RESULTS OF OPERATIONS
(Continued)

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. Net interest income increased 19% to $12,353,000 in 1988. This increase in net interest income resulted from an increase in the volume of interest-earning assets partly offset by an increase in interest-bearing liabilities. Net interest income in 1987 increased $594,000 due to an increase in the volume of interest-earning assets offset by an increase in interest-bearing liabilities and a decrease in the net interest margin on earning assets.

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

	1988			1987			1986		
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]	**$179,381**	**$20,676**	**11.53 %**	$150,385	$17,505	11.64 %	$125,527	$16,781	13.37 %
Investment securities[4]	**62,062**	**5,104**	**8.22 %**	49,984	4,105	8.21 %	26,212	2,644	10.09 %
Federal funds sold	**1,686**	**126**	**7.47 %**	5,395	365	6.77 %	5,165	331	6.41 %
Total earning assets	**243,129**	**25,906**	**10.66 %**	205,764	21,975	10.67 %	156,904	19,756	12.59 %
Cash and due from banks	**15,581**			11,320			8,435		
Premises and equipment	**7,178**			7,300			7,230		
Other assets	**20,883**			15,849			18,193		
Less: Allowance for loan losses	**(1,673)**			(1,558)			(1,228)		
Total	**$285,098**			$238,675			$189,534		
Liabilities and shareholders' equity									
Interest-bearing liabilities:									
Demand deposits (interest-bearing)	**$ 85,993**	**4,716**	**5.48 %**	$ 73,993	4,267	5.77 %	$ 54,207	3,286	6.06 %
Savings deposits	**30,419**	**1,644**	**5.40 %**	20,560	1,129	5.50 %	13,755	751	5.46 %
Time deposits	**93,587**	**6,643**	**7.10 %**	80,331	5,657	7.04 %	66,283	5,315	8.02 %
Federal funds purchased	**886**	**74**	**8.35 %**	571	42	7.36 %	88	6	6.82 %
Long-term debt and mortgages	**4,126**	**476**	**11.54 %**	4,122	469	11.38 %	4,769	581	12.18 %
Total interest-bearing liabilities	**215,011**	**13,553**	**6.30 %**	179,577	11,564	6.44 %	139,102	9,939	7.15 %
Demand deposits (noninterest-bearing)	**49,497**			41,242			34,596		
Other liabilities	**3,839**			4,217			3,473		
Shareholders' equity	**16,751**			13,639			12,363		
Total	**$285,098**			$238,675			$189,534		
Net interest income		**$12,353**			$10,411			$ 9,817	
Net interest margin on earning assets[5]		**5.08 %**			5.06 %			6.26 %	

[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 $666,000 in 1988, $588,000 in 1987, and $1,352,000 in 1986.
[4]Interest income is stated on a tax equivalent basis of 1.49 in 1988, 1.67 in 1987 and 1.85 in 1986.
[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 paid.

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

(A) RESULTS OF OPERATIONS
(Continued)

The accompanying tables analyze the changes in net interest income for 1988, 1987 and 1986. The first table 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 paid and average rates earned and paid; and the net interest margin on earning assets. The second table 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

	1988 over 1987			1987 over 1986		
	Volume	Yield/ Rate [4]	Total	Volume	Yield/ Rate [4]	Total
			(in thousands)			
Increase (decrease) in interest income:						
Loans[1,2]	$3,343	$ (172)	$3,171	$2,893	$(2,169)	$ 724
Investment securities[3]	993	6	999	1,952	(491)	1,461
Federal funds sold	(277)	38	(239)	16	18	34
Total	4,059	(128)	3,931	4,861	(2,642)	2,219
Increase (decrease) in interest expense:						
Demand deposits (interest bearing)	658	(209)	449	1,141	(160)	981
Savings deposits	533	(18)	515	379	(1)	378
Time deposits	941	45	986	1,040	(698)	342
Federal funds purchased	26	6	32	40	(4)	36
Long-term borrowings	--	7	7	(74)	(38)	(112)
Total	2,158	(169)	1,989	2,526	(901)	1,625
Increase (decrease) in net interest income	$1,901	$ 41	$1,942	$2,335	$(1,741)	$ 594

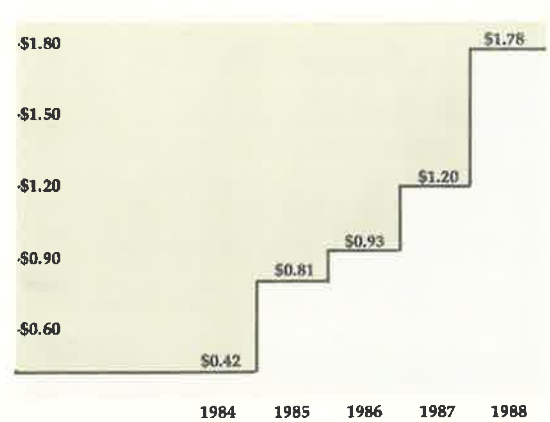
[1] Nonaccrual loans are included.
[2] Interest income on loans includes fees on loans of $666,000 in 1988, $588,000 in 1987 and $1,352,000 in 1986.
[3] Interest income is stated on a tax equivalent basis of 1.49 in 1988; 1.67 in 1987 and 1.85 in 1986.
[4] The rate/volume variance has been included in the rate variance.

Interest Income

Interest income increased 18% to $25,906,000 in 1988 compared to an 11% growth rate in 1987. This increase is attributed primarily to a 18% increase in average earning assets, offset by declining interest rates for loans and securities, and a slight decrease in loan fees resulting from the implementation of the Statement of Accounting Standards No. 91 (FASB No. 91), "Accounting for Nonrefundable Fees and Costs Associated With Originating or Acquiring Loans and Initial Direct Costs of Leases."

The Bank's loan portfolio experienced continued growth in 1988, increasing 12% in 1988 and 20% in 1987. Interest income on loans increased 18% in 1988 reflecting this increased volume of loans, offset by declining interest rates and reduced loan fees. Interest income on loans increased in 1987 primarily as a result of an increased volume of loans partly offset by declining interest rates.

Earnings Per Share



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

(A) RESULTS OF OPERATIONS
(Continued)

The securities portfolio decreased 8% in 1988 from the balance at December 31, 1987. This followed a growth of 63% in 1987. Approximately $10,000,000 in funds received from the purchase of the Yreka Branch in November 1987 were invested in investment securities at the end of 1987, as a temporary increase pending increased loan demand.

Rates on securities in 1988 were lower than 1987 primarily due to declining interest rates and a decrease in the tax equivalency rate from tax-free-security income. This tax benefit was $392,000 in 1988 with a tax equivalency of 1.49 compared to $348,000 in 1987 with a tax equivalency of 1.67.

Interest Expense

Interest expense in 1988 increased 17% to $13,553,000. This increase is primarily due to the increased volume of deposits and an increase in rates on time deposits partly offset by declining rates for interest-bearing demand deposits and a change in the mix of deposits. The average interest-bearing demand deposits, noninterest-bearing deposits and savings deposits increased more than time deposits. Primarily as a result of a marketing campaign to increase savings deposits in 1988 and 1987, average savings deposits increased 48% in 1988 and 49% in 1987. Total average deposits increased 20% in 1988. Average noninterest-bearing deposits increased 20% in 1988, similar to the increase of 19% in 1987. Average time deposits increased 17% in 1988 compared to 21% in 1987.

Interest Income

The increased expense resulting from federal funds purchased resulted from an increase in the average funds purchased and an increased rate.

Retirement of $3,500,000 of a term loan in August 1988 resulted in a reduced interest expense for the remainder of the year. Interest expense on the remaining subordinated debt is expected to result in interest on long-term debt of $123,000 in 1989 compared to interest on long-term debt of $476,000 in 1988 and $469,000 in 1987.

Net Interest Margin on Earning Assets

The net interest margin on earning assets increased to 5.08% in 1988 from 5.06% in 1987. This change resulted primarily from decreased interest rates on interest-bearing liabilities. This decrease in rate on interest -bearing liabilities resulted from a decrease in the rate on interest-bearing demand deposits plus an increase in the volume of demand deposits and savings deposits with lower rates, offset partly by an increase in rates on time deposits.

The net interest margin on earning assets declined to 5.06% in 1987 from 6.26% in 1986. This change resulted primarily from interest rates on earning assets declining more than interest rates on interest-bearing liabilities.

Service Charges

Income on service charges and fees continued to increase, primarily due to an increase in demand deposit account charges and fees. Income from service charges and fees on demand deposit accounts increased 26% to $1,661,000 in 1988 compared to a 32% increase in 1987. Commissions from a personal investment services program initiated in December 1986 totaled $255,000 in 1988 and $307,000 in 1987. The decrease in 1988 was due to a decline in investment services activity.

Other Income

The increase in other income resulted primarily from the gain on sales of loans and lease equipment in December 1988. Real estate loans of $4,020,000 and SBA loans totaling $2,050,000 were sold at gains of $145,000 and $98,000. Leased equipment was sold at a gain of $250,000.

Securities Transactions

There was a net loss of $5,000 from securities transactions in 1988. Net gains from security transactions were $179,000 and $1,013,000 in 1987 and 1986. 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.

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

(A) RESULTS OF OPERATIONS
(Continued)

Salaries and Benefits

Salary expenses increased 13.4% in 1988 compared to 1987. An increase of 3.6% is attributable to the acquisition of the Yreka Branch in November 1987, which resulted in an increased number of employees. An increase of 3.0% represented the increase to fixed salaries and an increase of 6.8% was due to the implementation of an incentive pay program in 1988.

Other Expenses

Other operating expenses increased 5% in 1988 following a slight increase in 1987. General and administrative expenses increased as a result of the growth of the Bank. Expenses on Other Real Estate Owned increased in 1988 following a decrease in 1987. Losses and expenses on Investment in Real Estate continued to decrease in 1988.

Provision (Credit) for Income Taxes

The effective tax rate on income was 36.8% in 1988. The effective tax rate is less than the statutory tax rate due to tax-free interest of $800,000 from investment securities with a tax equivalency of 1.49. Similarly, the effective tax rate in 1987 was 34.8% due to tax-free interest of $519, 000 from investment securities with a tax equivalency of 1.67.

Return on Assets and Equity

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

	1988	1987	1986
Return on assets	.89 %	.73 %	.76 %
Return on shareholders' equity	15.09 %	12.75 %	11.65 %
Return on common shareholders' equity	16.22 %	13.01 %	11.66 %
Shareholders' equity to assets	5.88 %	5.71 %	6.52 %
Common shareholders' equity to assets	4.47 %	4.65 %	5.16 %
Common shareholders' dividend payout ratio	14.08 %	17.11 %	20.83 %

A 45% increase in income offset by a 20% growth in average assets resulted in a 22% increase in return on average assets. In 1987, the return on average assets decreased slightly, primarily due to an increase of average assets.

The return on shareholders' equity increased in 1988 and 1987 as a result of the Bank's increased earnings.

The return on common shareholders' equity also increased in 1988 and 1987 as a result of the Bank's increased earnings.

Total shareholders' equity to assets increased in 1988 as a result of a preferred stock issue and increased earnings. Total shareholders' equity to assets increased in 1987 as a result of the Bank's increased earnings partly offset by an increase in average assets. However, common shareholders' equity decreased because the increase in common shareholders' earnings was more than offset by the increase in average assets and increased preferred shareholders' cash dividends.

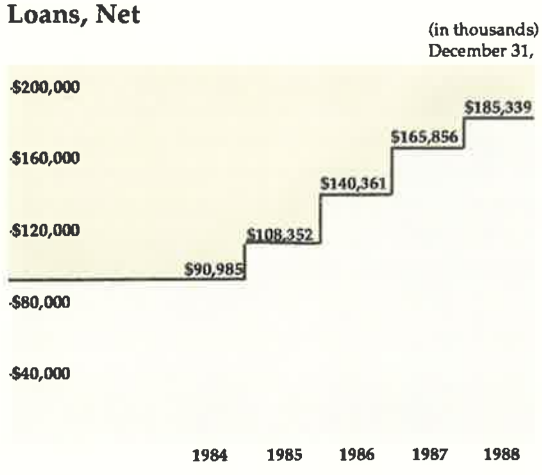
The common shareholders' cash dividends have increased in 1988 and 1987, however the payout dividend rate has decreased as a result of increased earnings per share. Cash dividends were $.30, $.275, and $.25 in 1988, 1987 and 1986.

(B) BALANCE SHEET ANALYSIS

Loans

Total loans increased $19,856,000, an increase of 12% in 1988 compared to an increase of 18% in 1987. Growth was reflected in all loan categories in 1988 except banker's acceptances. The largest growth continues in commercial loans, $15,611,000 in 1988 and $17,479,000 in 1987. Consumer installment loans increased $4,376,000 in 1988 compared to a decrease of $856,000 in 1987. Consumer installment loans are expected to continue to increase in 1989, partly resulting from a new credit card program. Real estate construction loans increased $4,488,000 in 1988 compared to a decrease of $3,697,000 in 1987. The Bank sold $4,000,000 of mortgage loans in 1988, however, real estate mortgage loans increased $2,919,000 in 1988 compared to an increase of $2,517,000 in 1987. In 1987, banker's acceptances totalling $8,508,000 were purchased with proceeds from the purchase of the Yreka Branch as a temporary increase pending increased loan demand. Banker's acceptances totaled $970,000 at December 31, 1988.

Loans, Net



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

(B) BALANCE SHEET ANALYSIS
(Continued)

Loan Portfolio Composite

	December 31,				
	1988	1987	1986	1985	1984
	(in thousands)				
Commercial, financial and agricultural	**$ 98,513**	$ 82,902	$ 65,423	$ 50,336	$ 38,992
Consumer installment	**38,285**	33,909	33,053	32,500	29,178
Real estate mortgage	**40,209**	37,290	34,773	19,259	20,007
Real estate construction	**9,253**	4,765	8,462	7,378	3,753
Banker's acceptances	**970**	8,508	--	--	--
Total loans	**$187,230**	$167,374	$141,711	$109,473	$ 91,930

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. There were no loans, the terms of which had been restructured, prior to December 31, 1986.

	December 31,				
	1988	1987	1986	1985	1984
	(in thousands)				
Nonaccrual loans	**$ 701**	$ 533	$ 1,689	$ 2,086	$ 1,515
Past due loans (90 days or more)	**338**	1,292	1,598	1,812	1,475
Restructured debt	**340**	346	415	--	--
Total	**$ 1,379**	$ 2,171	$ 3,702	$ 3,898	$ 2,990

Nonperforming loans continued to decrease in 1988 to .7% of total loans compared to 1.3% in 1987. This results from a combination of stronger credit policy and a strong local economy. Approximately $86,000 of additional interest income would have been recorded if loans classified as nonaccrual had been current in 1988. Approximately $40,000 of interest income was earned on restructured loans.

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.

The Bank's net charge-off ratio for 1988 increased slightly in 1988. The Bank's total net charge-offs increased 7% in 1988, primarily in commercial loans. This follows a decrease of 52% in net charge-offs in 1987. Net charge-offs are expected to remain constant in 1989, with more charge-offs continuing to be in commercial loans. The provision for loan losses increased in 1988 due to the increase in the loan portfolio. The provision for loan losses is expected to continue to increase in 1989 due to the continued increase in the loan portfolio. The decreased provision requirement in 1987 resulted from a significant decrease in net charge-offs in 1987 and an improved loan delinquency rate.

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

(B) BALANCE SHEET ANALYSIS
(Continued)

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

	December 31,				
	1988	1987	1986	1985	1984
	(amounts in thousands)				
Balance, beginning of year	$ 1,518	$ 1,350	$ 1,121	$ 945	$ 801
Provision charged to operations	780	480	878	698	750
Loans charged off:					
Commercial, financial and agricultural	(353)	(283)	(590)	(332)	(517)
Consumer installment	(158)	(191)	(241)	(292)	(379)
Real estate mortgage	(10)	(14)	(24)	(4)	(20)
Real estate construction	--	--	--	--	--
Total loans charged-off	(521)	(488)	(855)	(628)	(916)
Recoveries:					
Commercial, financial and agricultural	47	118	108	65	265
Consumer installment	67	58	98	34	45
Real estate mortgage	--	--	--	7	--
Real estate construction	--	--	--	--	--
Total recoveries	114	176	206	106	310
Net loans charged-off	(407)	(312)	(649)	(522)	(606)
Balance, year end	$ 1,891	$ 1,518	$ 1,350	$ 1,121	$ 945
Average total loans	$179,381	$150,385	$125,527	$102,709	$ 85,285
Ratios:					
Net charge-offs during period to average loans outstanding during period	.23 %	.21 %	.52 %	.51 %	.71%
Provison for loan losses to average loans outstanding	.43 %	.32 %	.70 %	.68 %	.88%
Allowance to loans at year end[1]	1.02 %	.96 %	.95 %	1.02 %	1.03%

[1]Banker's acceptances are not included.

Investment in Real Estate Properties

At December 31, 1988, $6,710,000 of property was held by a subsidiary of the Bank for the purposes of development or to be held as income-earning assets. The decrease of $388,000 resulted from the sales of $2,748,000, offset by $557,000 of property acquired in settlement of debt and $1,002,000 of added development costs. The slight reduction of property in 1987 resulted from the sale of $2,995,000 of investment property offset by the addition of $960,000 property acquired in settlement of debt and $2,035,000 of added development costs.

Investment in Real Estate Limited Partnership

An investment in a real estate limited partnership was purchased in 1987 for $5,000,000. The partnership invests in a diversified portfolio of real estate investments.

Deposits

Total deposits increased 7.6% in 1988 to $272,004,000. The major increase in deposits in 1988 resulted from a 22% increase in noninterest-bearing deposits and a 23% increase in savings deposits; this changes the mix of deposits. In 1988, noninterest-bearing demand deposit increased $10,446,000 to 21% of deposits compared to 19% of deposits in 1987. Savings deposits increased $6,257,000 to 12% of deposits compared to 11% in 1987. The slower rate of increase in interest-bearing demand deposits and time deposits caused interest-bearing demand deposits to decrease to 31% of deposits in 1988 compared to 33% in 1987 and time deposits to be reduced to 36% of deposits in 1988 compared to 38% in 1987. Noninterest-bearing deposits and savings deposits are expected to continue to increase in 1989 as the result of a continuing marketing campaign for checking and savings accounts.

Deposit accounts increased by $52,545,000 in 1987. Approximately 45% of this increase in 1987 resulted from the purchase of the Yreka Branch of Wells Fargo Bank. This purchase contributed to the change in the mix of deposits, an increase in interest-bearing deposits and a decrease in noninterest-bearing deposits. The Yreka Branch purchase also contributed to an increase in certificates of deposit under $100,000 in 1987. Certificates of deposit over $100,000 remained unchanged in 1987.

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

(B) BALANCE SHEET ANALYSIS
(Continued)

Long-Term Debt

In August, 1988, the Company retired a $3,500,000 term loan with the proceeds of a preferred stock offering. On July 1, 1988, the Company repaid $393,000 of the 14-1/4% Subordinated Capital Notes. Total long-term debt expense in 1988 remained constant due to the increased debt prior to those debt reductions. However, long-term debt expense was reduced in the last six months of 1988, and is expected to be reduced substantially in 1989.

Equity

In August 1988, the Company issued 8,000 shares of Series B Preferred Stock. The net proceeds of $3,899,000 were used to retire the Term Loan. This increased equity improves the primary and total capital equity of the Company. Management believes that the capital is adequate to meet any anticipated increasing capital requirements for banks, support anticipated growth and meet the cash dividend requirements of the Company. The primary capital of the Company, as defined by Federal Board Guidelines, increased to 7.3% at December 31, 1988, compared to 5.7% at December 31, 1987.

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. These rate sensitive deposits are 1% of total deposits in 1988, down from 2% in 1987.

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

	Amount as of December 31,	
	1988	1987
	(in thousands)	
Time remaining until maturity:		
Less than three months	**$1,884**	$2,193
3 months to 6 months	**1,007**	1,840
6 months to 12 months	**132**	100
More than 12 months	**230**	230
Total	**$3,253**	$4,363

Loan demand also affects the Bank's liquidity position. The following table presents the maturities and sensitivity to changes in interest rates at December 31, 1988. The Bank's loan portfolio with a variable interest rate tied to its base commercial loan rate has increased to 58% of loans in 1988, compared to 44% of loans in 1987. This pricing minimizes the repricing risk associated with a changing rate environment.

Loan Maturities -- December 31, 1988

	Within One Year	After One But Within 5 Years	After 5 Years	Total
	(in thousands)			
Loans with predetermined interest rates:				
Commercial, financial and agricultural	$ 2,631	$ 3,101	$ 6,345	$ 12,077
Consumer installment	1,919	18,433	20,554	40,906
Real estate mortgage	245	1,390	24,245	25,880
	4,795	22,924	51,144	78,863
Loans tied to Bank's base commercial loan rate:				
Commercial, financial and agricultural	24,851	16,454	40,662	81,967
Consumer installment	–	45	192	237
Real estate mortgage	–	–	16,910	16,910
Real estate construction	8,977	276	–	9,253
	33,828	16,775	57,764	108,367
Total loans	$38,623	$39,699	$108,908	$187,230

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

(B) BALANCE SHEET ANALYSIS
(Continued)

The interest rate sensitivity gap is the difference between total interest-sensitive assets and total interest-sensitive liabilities. The following repricing table presents the Bank's interest rate sensitivity position at December 31, 1988:

Interest Rate Sensitivity - December 31, 1988

	Repricing within:				
	3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years
	(amounts in thousands)				
Interest-earning assets	$117,933	$ 4,579	$ 10,679	$ 42,216	$ 75,956
Interest-bearing liabilities	160,919	32,900	11,221	10,020	586
Interest sensitivity gap	$ (42,986)	$ (28,321)	$ (542)	$ 32,196	$ 75,370
Cumulative gap	$ (42,986)	$ (71,307)	$ (71,849)	$ (39,653)	$ 35,717
As a percentage of earning assets:					
Interest sensitivity gap	(17.68%)	(11.65%)	(.22%)	13.24%	31.00%
Cumulative sensitivity gap	(17.68%)	(29.33%)	(29.55%)	(16.31%)	14.69%

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, 1988

	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	$11,968	$ 4,001	$ 892	$28,435	$45,296
State and political subdivisions	2,549	9,910	2,531	400	15,390
Other investment securities	51	290	985	482	1,808
Total book value	$14,568	$14,201	$4,408	$29,317	$62,494
Average Yield[1]	7.83%	8.31%	8.82%	8.28%	8.22%

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

The principal cash requirements of the Company are paying interest on the 14-1/4% Subordinated Capital Notes and 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.

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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, 1988, 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.**

TRI COUNTIES BANK COUNTRY