



Tri Counties Bank
Annual Report
Nineteen Seventy Nine



Dear Shareholder:

1979 was another good year for Tri Counties Bank and for its Shareholders. We opened our fourth office in Orland and started our soon-to-be-completed Park Plaza Office in Chico. In addition we successfully completed installing our own Data Processing facility, which gives us much better control of our work processing and should be a real cost savings in the years to come.

Our Bank reported a profit of \$214,879 on Total Assets of \$34,062,774, for the year ended December 31, 1979. We believe this to be a very creditable performance when considering our rapid expansion and the attendant start-up costs

and training expenses incurred in our first four years and nine months of operations.

Perhaps it would be good to review the significant events during our first years:

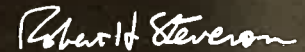
- March, 1975 — Bank commenced operations and opened the Pillsbury Road Office - Chico
- May, 1977 — Opened Willows Office
- March, 1978 — Opened Durham Office
- July, 1979 — Installed our Data Processing Facility
- August, 1979 — Opened Orland Office
- March, 1980 — Open Park Plaza Office - Chico

At the present time we desire to open our next banking office in Oroville. We have taken the preliminary steps toward

this goal during 1980 by applying to the State Banking Department for permission to open an Oroville branch office.

Our commitment is to deliver outstanding banking service to the communities we serve. We endeavor to be a good citizen in each community where we are represented. We believe that our Directors, Officers and Staff represent our Bank in an outstanding manner, resulting in both excellent growth and profitable operations.

Sincerely yours,



Robert H. Steveson
President & Chief Executive Officer

Comparative Statistics

	1975	1976	1977	1978	1979
	\$ 5,712,965	\$10,867,863	\$15,995,548	\$22,609,147	\$29,954,050
Deposits					
	4,111,204	7,177,571	12,625,326	16,067,532	21,686,398
Loans					
	6,574,991	11,893,719	18,081,688	25,822,992	34,062,774
Assets					
	829,123	980,970	1,492,444	2,997,016	3,211,885
Equity					

Board of Directors



1
Wayne Meeks,
Retired Owner
Automobile
Dealership, Chico

2
**DeWayne
Caviness,**
Physician and
Surgeon, Chico

3
Fred Hignell III,
Principal Partner
Real Estate
Investment &
Development
Company, Chico

4
**Gerald
Compton,**
President
Agricultural
Flying Service,
Richvale

5
George Hacke,
Investment
Account
Executive, Chico

6
Everett Beich,
Owner Mobile
Home Sales,
Chico

7
Vernon Fish,
President
Development
Company, Chico

8
**Sankey M. Hall,
Jr.,** Partner
Funeral Home
Services and local
cemetery
operations, Chico

9
Donald Murphy,
Vice-President &
General Manager
Ranch Operation,
Nelson

10
Donald Casey,
Retired Physician,
Chico

11
**Wendell
Lundberg,** Vice-
Chairman of the
Board, Owner Rice
and Grain
Operations,
Richvale

12
**Alex
Vereschagin, Jr.,**
Secretary of the
Board, Secretary/
Treasurer
Petroleum
Distribution
Company, Orland

13
**Robert
Stevenson,**
President
Tri Counties Bank,
Chico

14
Robert Stern,
Chairman of the
Board, President
Retail Store
Chain, Oroville

J. Herod Hall,
Physician and
Surgeon, Chico
(Not pictured)



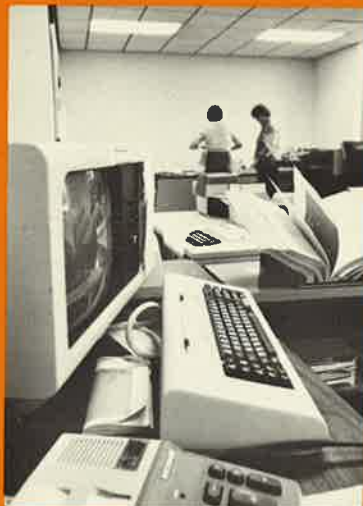
Park Plaza, our most recent branch has opened. This 24 month project celebrated its Grand Opening in early March, 1980.

The largest of five branches, this two story facility accommodates a second branch office on the ground floor, with Administrative Personnel, Computer Center and Board Room situated on the mezzanine level that looks out over the banking activity below.

At the time of these photographs, the flurry of last minute details is evident in anticipation of the arrival of the remaining staff.

Just prior to the Grand Opening, finishing details were discussed in the main lobby by: (L to R) Don Carter, Senior Vice President & Cashier; Bill Mauck, Construction Superintendent; and Lou Chrysler, Contractor.

Computer Center personnel Ruth Hodsdon (L) and Evelyn Saunders were among the first to move into the new facility.



Administrative Offices are located on the mezzanine, where visitors are greeted by Bobbi Robinson, Administrative Secretary.



Computer terminals like this one being installed, give all tellers fast and direct access to information concerning customer accounts.



Preparing to open to the public is a busy affair. Seen here in the main level branch office area are: (L to R) Judy Brown, Secretary; Mary Allen, Loan Secretary; Jim

Burnell, Assistant Manager; and Keith Orme, Manager.

**To the Board of Directors
Tri Counties Bank
Chico, California**

We have examined the balance sheets of Tri Counties Bank as of December 31, 1979 and 1978, and the related statements of income, changes in stockholders' equity, and changes in financial position for the years then ended. 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 financial position of Tri Counties Bank as of December 31, 1979 and 1978, and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand

Sacramento, California

January 25, 1980, except as to Note 1 - (earning per share) and Note 11, for which the date is February 1, 1980.

**Tri Counties Bank
Balance Sheets
December 31, 1979
and 1978**

Assets	1979	1978
Cash and due from banks	\$ 1,320,964	\$ 1,160,201
Federal funds sold	700,000	1,800,000
Investment securities:		
U.S. Treasury	2,512,836	1,558,031
Other U.S. government agencies	3,611,973	2,354,785
State and local agencies	784,874	784,857
Tax-exempt municipal obligations	646,160	648,853
Total investment securities	7,555,843	5,346,526
Loans:		
Consumer installment	7,046,039	4,798,003
Commercial	6,775,446	5,533,612
Real estate	8,378,992	6,636,703
	22,200,477	16,968,318
Unearned discount	(438,069)	(860,621)
Allowance for loan losses	(76,010)	(40,165)
Net loans	21,686,398	16,067,532
Premises and equipment, net	1,878,084	990,241
Accrued interest receivable and other assets	921,485	458,492
Total Assets	\$34,062,774	25,822,992

**Liabilities and
Stockholders' Equity**

	1979	1978
Deposits:		
Demand	\$10,296,791	\$ 8,063,532
Savings and time	13,220,166	11,047,494
Public time	3,252,721	2,342,121
Time deposits, \$100,000 and over	3,184,372	1,156,000
Total deposits	29,954,050	22,609,147
Accrued interest payable and other liabilities	666,928	93,608
Accrued income taxes, including deferred amounts of \$119,784 in 1979 and \$107,920 in 1978	229,911	123,221
Total liabilities	30,850,889	22,825,976
Commitments (Note 6)		
Stockholders' equity:		
Common stock, no par value (\$5 in 1978); authorized - 1,000,000 shares; issued and outstanding, 1979 and 1978 - 293,152 shares	2,843,510	2,843,510
Undivided profits	368,375	153,506
Total stockholders' equity	3,211,885	2,997,016
	\$34,062,774	\$25,822,992

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

Tri Counties Bank
Statements of Income
for the years ended
December 31, 1979
and 1978

Interest Income:	<u>1979</u>	<u>1978</u>
Interest, fees, and profits from loans	\$ 2,466,110	\$ 1,732,887
Interest on investment securities:		
U.S. Treasury	138,623	107,743
U.S. government agencies	187,710	128,571
State and local agencies	62,889	62,814
Tax-exempt municipal obligations	28,145	15,548
Interest on time deposits and federal funds sold	81,892	87,438
Total interest income	<u>2,965,369</u>	<u>2,135,001</u>
 Interest Expense:		
Interest on deposits:		
Interest on savings deposits	482,311	428,684
Interest on time certificates of deposit	444,161	115,006
Interest on public time deposits	266,656	169,134
	<u>1,193,128</u>	<u>712,824</u>
Interest on short-term borrowings	29,061	13,077
Total interest expense	<u>1,222,189</u>	<u>725,901</u>
Net interest income	1,743,180	1,409,100
Provision for loan losses	78,000	44,000
Net interest income after provision for loan losses	<u>1,665,180</u>	<u>1,365,100</u>
Other income - service charges and other	176,337	140,634
 Other expenses:		
Salaries and employee benefits	789,224	594,656
Occupancy expense	89,610	83,917
Equipment and data processing expense	201,258	150,651
Other operating expenses	404,553	323,338
	<u>1,484,645</u>	<u>1,152,562</u>
Income before provision for income taxes and securities transactions	356,872	353,172
Provision for income taxes	142,003	145,795
Income before securities transactions	214,869	207,377
Securities transactions less applicable income taxes of \$38,795 in 1978	—	(32,343)
Net income	<u>\$ 214,869</u>	<u>\$ 175,034</u>
 Income per share:		
Primary earnings per share:		
Income before securities transactions	\$.52	\$.55
Securities transactions, less related income taxes	—	(.08)
Net income	<u>\$.52</u>	<u>\$.47</u>
Earnings per share, assuming full dilution:		
Income before securities transactions	\$.52	\$.53
Securities transactions, less related income taxes	—	(.08)
Net income	<u>\$.52</u>	<u>\$.45</u>

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

**Tri Counties Bank
Statements of Changes
in Stockholders' Equity
for the years ended
December 31, 1979
and 1978**

	Common Stock		Capital Surplus	Undivided Profits	Total
	Number of Shares	Amount			
Balance, January 1, 1978	176,798	\$ 883,990	\$ 555,974	\$ 52,480	\$1,492,444
Net income for the year	—	—	—	175,034	175,034
Sale of common stock	102,722	513,610	821,776	—	1,335,386
5% stock dividend, less cash paid for fractional shares	13,632	68,160	—	(74,008)	(5,848)
Balance, December 31, 1978	293,152	1,465,760	1,377,750	153,506	2,997,016
Transfer of capital surplus to common stock account	—	1,377,750	(1,377,750)	—	—
Net income for the year	—	—	—	214,869	214,869
Balance, December 31, 1979	293,152	\$2,843,510	\$ —	\$368,375	\$3,211,885

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

**Tri Counties Bank
Statements of Changes in
Financial Position for the
years ended December
31, 1979 and 1978**

	1979	1978
Resources provided:		
Operations:		
Net Income	\$ 214,869	\$ 175,034
Noncash items:		
Depreciation and amortization	62,565	41,162
Provision for loan losses and deferred income taxes	89,868	124,195
Provided by operations	367,302	340,391
Increase in liabilities:		
Deposits	7,344,903	6,613,599
Proceeds from sale of common stock	—	1,335,386
Accrued interest payable and other liabilities	668,142	42,938
Decrease in assets:		
Federal funds sold	1,100,000	—
	\$9,480,347	\$8,332,314

Tri Counties Bank
Statements of Changes in
Financial Position for the
years ended December
31, 1979 and 1978,
Continued:

Resources used:	1979	1978
Costs associated with issuance of stock dividend	\$ —	\$ 5,848
Increase in assets:		
Cash and due from banks	160,763	408,280
Federal funds sold	—	1,800,000
Investment securities	2,209,317	1,418,338
Loans, net	5,696,866	3,486,206
Premises and equipment	950,408	540,732
Accrued interest receivable and other assets	462,993	172,910
Decrease in liabilities:		
Federal funds purchased	—	500,000
	\$9,480,347	\$8,332,314

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

**Tri Counties Bank
Notes to Financial
Statements**

**Summary of Significant
Accounting Policies:
Note #1**

The accounting policies of the Bank conform to generally accepted accounting principles and to general practices of the banking industry. The following is a summary of the more significant policies:

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 commercial and real estate loans is accrued principally on a simple-interest basis. Interest on installment loans made prior to July 1978 is recognized principally using the sum-of-the-months-digits method. Interest on installment loans made commencing in July 1978 and thereafter is accrued on a simple-interest basis. The effect of this change was not material to the Bank's income in 1978.

Interest is not accrued if, in management's judgment, principal amounts are considered doubtful of collection. Loans placed in nonaccrual status amounted to approximately \$21,000 at December 31, 1978. There were no loans classified as nonaccrual as of December 31, 1979.

**Allowance for Loan
Losses**

The allowance for loan losses represents management's recognition of the assumed risks of extending credit and 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 considers such factors as the borrower's financial condition and repayment history, the value of any existing collateral, and third-party guarantees. In management's judgment, other factors considered include past loan loss experience and external business and economic conditions beyond the borrower's control.

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

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Land is carried at cost. Depreciation expense is computed using the straight-line method over the following estimated useful lives:

Bank premises	40 years
Furniture and equipment	3 to 10 years
Land improvements	10 years

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

**Tri Counties Bank
Notes to Financial
Statements, Continued**

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 investment and new jobs tax credits in different reporting periods, and differences in the method of calculating the provision for loan losses.

Investment and new jobs tax credits are applied to reduce the provision for federal income taxes in the year the credits arise.

Earnings Per Share

Earnings per share computations for 1979 and 1978 are based on the weighted average number of shares and common equivalent shares outstanding during the year (after retroactive adjustment for stock dividend in 1978 and a four-for-three stock split effected in 1980 - see Note 11), which includes the effect of outstanding stock options (see Note 7) utilizing the treasury-stock method. Primary earnings per share are based on the average market prices (computed quarterly) for the Bank's stock. Earnings per share, assuming full dilution, are based on the greater of the ending or average market prices. Shares used in the computation of primary earnings per share for 1979 were 410,048. The effect of stock options had no effect on fully diluted earnings per share in 1979. Shares used in the computations of primary and fully dilutive earnings per share for 1978 were 375,959 and 387,699, respectively.

**Investment Securities:
Note #2**

A summary of the adjusted book and market values of investment securities is as follows:

	1979		1978	
	Adjusted Book Value	Market Value	Adjusted Book Value	Market Value
U.S. Treasury	\$2,512,836	\$2,438,947	\$1,558,031	\$1,522,152
Other U.S. government agencies	3,611,973	3,405,186	2,354,785	2,353,880
State and local agencies	784,874	784,874	784,857	784,857
Tax-exempt municipal obligations	646,160	616,661	648,853	611,224
	\$7,555,843	\$7,245,668	\$5,346,526	\$5,272,113

At December 31, 1979, securities with face and market values of \$4,550,000 and \$4,268,349, respectively, were pledged as collateral for certain public time deposits as required by law.

**Premises and Equipment:
Note #3**

Premises and equipment are comprised of:

	1979	1978
Bank premises	\$ 936,383	\$645,617
Furniture, fixtures, and equipment	383,314	300,716
Land improvements	4,497	4,497
	1,324,194	950,830
Less accumulated depreciation	(140,631)	(78,066)
	1,183,563	872,764
Land	165,813	109,602
Construction in progress (see Note 6)	528,708	7,875
	\$1,878,084	\$990,241

**Tri Counties Bank
Notes to Financial
Statements, Continued**

**Allowance for Loan
Losses:
Note #4**

Transactions in the allowance for loan losses were as follows:

	1979	1978
Balance, beginning of year	\$ 40,165	\$ 40,496
Provision charged to operations	78,000	44,000
Loans charged off	(51,914)	(47,637)
Recoveries of loans previously charged off	9,759	3,306
Balance, end of year	<u>\$ 76,010</u>	<u>\$ 40,165</u>

**Income Taxes:
Note #5**

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

	1979	1978
Taxes applicable to income before securities transactions, net of tax credits:		
Federal	\$100,360	\$100,648
State	41,643	45,147
	<u>142,003</u>	145,795
Taxes applicable to securities transactions	—	(38,795)
	<u>\$142,003</u>	<u>\$107,000</u>
Current:		
Federal	\$84,546	\$ —
State	45,589	23,189
	<u>130,135</u>	23,189
Deferred:		
Federal	15,814	70,751
State	(3,946)	13,060
	<u>11,868</u>	83,811
	<u>\$142,003</u>	<u>\$107,000</u>

The tax effects of the principal elements of timing differences which give rise to deferred income taxes are as follows:

	1979	1978
Restoration of deferred taxes, applicable to utilization of prior years' tax credits	\$23,600	\$37,600
Gain on sale of participation loans, net	(8,500)	15,800
California franchise tax	(2,600)	(13,800)
Accrual income deferred for tax purposes, net	(13,600)	29,900
Provision for loan losses	11,300	12,200
Other differences	1,668	2,111
	<u>\$11,868</u>	<u>\$83,811</u>

**Tri Counties Bank
Notes to Financial
Statements, Continued**

Income Taxes, continued: A reconciliation of the federal statutory tax rate to the effective tax rate applicable to income before securities transactions is as follows:

	<u>1979</u>	<u>1978</u>
Federal statutory income tax rate	46.0%	48.0%
State income taxes, net of federal tax benefit	6.3	6.5
New jobs and investment tax credits	(10.3)	(7.5)
Surtax exemption and other	(2.2)	(5.7)
Effective tax rate	<u>39.8%</u>	<u>41.3%</u>

Investment tax and new jobs credits utilized to reduce estimated federal income tax expense for the years ended December 31, 1979 and 1978 were \$36,836 and \$26,427 (after giving effect to the nondeductibility of federal unemployment base wages), respectively.

Commitments:

Note #6

Leases

In 1977 and the early part of 1978, the Bank leased its main office building from a partnership comprised of certain directors of the Bank. This lease contained an option for the Bank to purchase the building at its current fair market value subject to the approval of the California Superintendent of Banks. In connection with the sale of additional common stock completed in March 1978, the Bank obtained the Superintendent's approval to exercise its option and acquired the building for a purchase price of \$317,000. After this acquisition, the Bank converted the building to a branch office and moved its administrative offices to a temporary location under a short-term lease agreement which expired in July 1979 and was subsequently continued on a month-to-month basis.

Total rental expense for 1979 and 1978 under the aforementioned leases was \$21,420 and \$27,507, respectively.

In September 1978, the Bank entered into a new lease with a developer of a shopping center to relocate its main office premises to that location upon completion of construction of the new bank building on the leased property. Under the terms of this agreement, the Bank is responsible for the costs of construction of all leasehold improvements on this property for which the developer-lessor has agreed to reimburse the Bank within 60 days of completion for an amount equal to the lower of the actual costs of construction or \$400,000. Total construction cost (before reduction for the developer-lessor's allowance) under an existing contract for construction of these premises is estimated to be \$661,000, of which \$529,000 had been incurred as of December 31, 1979.

The estimated occupancy of the new building is scheduled to occur in February 1980. The obligation of the Bank to pay rental under the lease, as negotiated with the developer-lessor, commences January 1, 1980. The term of the lease from that date is 30 years with the Bank having options to renew the lease thereafter for two additional five-year periods. The total rental obligation is \$2,475,500 (excluding the renewal option periods), payable at \$73,600 per year for the first five years and with annual increases of \$500 per year for the next five years and with annual increases of \$1,000 per year for the remaining 20 years.

Bonus Plan

The Bank has a bonus plan with its president which provides for incentive payments based on certain percentages of net income levels (before calculation of the bonus) achieved. These percentages are 5% on the first \$250,000; 3% on the next \$250,000; and 2% on net income exceeding \$500,000 per year.

**Tri Counties Bank
Notes to Financial
Statements, Continued**

Commitments, continued:

**Stock Options
Note #7**

The Bank has a stock option plan covering 30,450 shares (after retroactive adjustment for the 5% stock dividend in 1978) of its common stock. The plan, which terminates in 1985, provides for the granting of options to key employees of the Bank, entitling them to purchase shares of common stock at fair market value on the date the option is granted. Optionees, option prices, and dates of grant and exercise are determined by the Board of Directors of the Bank. The options are exercisable no later than five years from the date of grant and are not transferable by the holder, other than by will or the laws of descent and distribution. The options lapse immediately upon the earlier of the termination of employment, one year after the optionee's death, or the termination date of the option.

Transactions in 1979 and 1978 related to stock options were as follows:

	Shares Available for Grant	Options Outstanding		
		Shares	Price Per Share	Total
Balance, January 1, 1978	7,009	23,441	\$6.57-\$12.38	\$227,500
Options terminated	2,284	(2,284)	6.57- 9.85	(17,500)
Balance, December 31, 1978 and 1979	9,293	21,157	\$6.57-\$12.38	\$210,000
Options exercisable at December 31, 1979		14,384		

No charges to income are made in connection with transactions under this plan.

**Pension Plan:
Note #8**

In 1979, the Bank established a defined benefit pension plan for the benefit of substantially all of its employees. The Bank's policy is to fund pension costs as accrued. Total estimated pension expense accrued in 1979 was \$45,000, which includes a provision for amortization of past service cost over 30 years. The actual amount of pension expense for the year has not been finally calculated by the Bank's actuaries, but such amount is not expected to be materially different from the estimated amount charged to expense in 1979.

**Common Stock:
Note #9**

In December 1979, the Board of Directors approved a change in the par value of the Bank's common stock from \$5.00 per share to no par value. In connection with this change, the Bank's capital surplus account was transferred to and combined with its common stock account.

**Related Party
Transactions:
Note #10**

Certain directors and officers of the Bank and companies with which they are associated were customers of, and had banking transactions with, the Bank in the ordinary course of the Bank's business. In the opinion of management of the Bank, all loans and commitments to lend included in such transactions were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risk of collectibility or present other unfavorable features. As of December 31, 1979, the total amount of outstanding loans to these parties aggregated approximately \$597,000.

In May 1978, the Bank exercised an option to purchase its Chico office from a partnership comprised of certain directors of the Bank as more fully explained in Note 6.

**Subsequent Events:
Note #11**

On February 1, 1980, the Bank's Board of Directors effected a four for three split of the authorized and then issued and outstanding shares of the Bank's common stock. As a result, authorized shares were increased from 1,000,000 to 1,333,333, and issued and outstanding shares were increased from 293,152 to 390,869.

**Management's Discussion
and Analysis of
Summary of Operations**

The following is a summary of operations for the four years ended December 31, 1976 through 1979 and for the period March 11, 1975 (date operations commenced) through December 31, 1975, 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 report.

	Year Ended December 31, (Stated in thousands, except per share amounts)				
	1979	1978	1977	1976	3/11/75 to 12/31/75
Interest Income:					
Interest, fees and profits from loans	\$2,466	\$ 1,733	\$ 1,085	\$ 630	\$ 197
Interest on investment securities	417	315	260	106	45
Interest on time deposits and federal funds sold	82	87	13	75	42
Total interest income	2,965	2,135	1,358	811	284
Interest Expense:					
Interest on deposits	1,193	713	445	258	82
Interest on short-term borrowings	29	13	11	—	—
Total interest expense	1,222	726	456	258	82
Net interest income	1,743	1,409	902	553	202
Provision for loan losses	78	44	11	47	18
Net interest income after provision for loan losses	1,665	1,365	891	506	184
Other income - service charges and other	176	141	86	50	15
Other expenses:					
Salaries and employee benefits	789	595	419	241	137
Other operating expenses	695	558	371	232	151
Income (loss) before provision for income taxes, securities transactions and extraordinary item	1,484	1,153	790	473	288
Provision for income taxes	357	353	187	83	(89)
Income (loss) before securities transactions and extraordinary item	142	146	49	33	—
Securities transactions, less applicable income taxes	215	207	138	50	(89)
Income (loss) before extraordinary item	—	(32)	5	43	—
Extraordinary item - reduction of federal income taxes arising from carryforward of net operation losses	215	175	143	93	(89)
Net income (loss)	\$ 215	\$ 175	\$ 152	\$ 152	\$ (89)

**Management's Discussion
and Analysis of
Summary of Operations,
Continued**

	Year Ended December 31,				3/11/75 to 12/31/75
	(Stated in thousands, except per share amounts)				
	1979	1978	1977	1976	
Income (loss) per share:*					
Primary earnings per share:					
Income (loss) before securities transactions	\$.52	\$.55	\$.65	\$.25	\$(.44)
Securities transactions, less related income taxes	—	(.08)	.02	.21	—
Extraordinary item	—	—	.04	.29	—
Net income (loss)	\$.52	\$.47	\$.71	\$.75	\$(.44)
Earnings (loss) per share, assuming full dilution:					
Income (loss) before securities transactions	\$.52	\$.53	\$.65	\$.25	\$(.44)
Securities transactions, less related income taxes	—	(.08)	.02	.21	—
Extraordinary item	—	—	.04	.29	—
Net income (loss)	\$.52	\$.45	\$.71	\$.75	\$(.44)

*Amounts are stated after retroactive adjustments for 45% stock dividend in 1977, 5% stock dividend in 1978 and four-for-three stock split effected in 1980.

General

The changes in income and expense accounts reflect the continuing growth of the Bank and improvement in its operations. 1979 total interest income rose 39% over 1978 primarily as a result of a 42% increase in interest, fees and profits from loans based on a 35% increase in net loans outstanding. This was generally reflective of the national economic situation of increased loan demand and higher interest rates. In 1978 total interest income rose 57% over 1977 resulting from a 60% increase in interest, fees and profits from loans and a 27% increase in net loans outstanding.

Interest, Fees and Profits From Loans

Interest, fees and profits from loans increased from \$1,085,000 in 1977 to \$1,733,000 in 1978 and to \$2,466,000 in 1979. This was due principally to the increase in outstanding loans from \$12,625,000 in 1977 to \$16,068,000 in 1978 and to \$21,686,000 in 1979, and to some extent, increases in loan interest rates in general.

Interest on Time Deposits and Federal Funds Sold

Income from time deposits and on federal funds sold decreased from \$87,000 in 1978 to \$82,000 in 1979. This moderate decrease was due to a shift in the use of funds to accommodate additional loan demand and the need to maintain increased reserves. Income from time deposits and federal funds sold increased from \$13,000 in 1977 to \$87,000 in 1978. This change was due to a significant increase in time deposits in the latter half of 1978 and an increase in interest rates on federal funds.

**Management's Discussion
and Analysis of
Summary of Operations,
Continued:**

**Interest on Investment
Securities**

Total investment securities at December 31, 1979 were \$7,556,000, an increase of 41% from the December 31, 1978 total of \$5,347,000. Investment securities as of December 31, 1977 amounted to \$3,928,000. Income from interest on investment securities increased 32% in 1979 to \$417,000, as contrasted with \$315,000 in 1978. The 1978 results represent a 21% increase from the 1977 income on investment securities of \$260,000. These increases were reflective of a general overall increase in yields on investment securities and the need for the Bank to continue to strengthen its liquidity position.

Other Income

Service charges on deposit accounts and other income increased by 19% in 1979 over 1978 and by 63% in 1978 over 1977. This increase was primarily due to an increased volume in checking account customers through the opening of the Willows Office in 1977, the Durham Office in 1978 and the Orland Office in 1979.

Interest on Deposits

Interest expense on deposits increased in 1979 by 67% or \$480,000 over 1978, in part, because year-end interest-bearing deposits for 1979 increased to \$19,657,000 compared to \$14,546,000 in 1978. The remainder of the increase in interest expense was attributable to higher interest rates paid on savings and time accounts by the banking industry in general. Interest expense on deposits increased by 60% or \$267,000 in 1978 when compared to 1977 principally because year-end interest-bearing deposits in 1978 increased by \$4,877,000 over year-end 1977.

Income (Loss) Per Share

Income per share, including both primary and fully-diluted amounts decreased in 1979 and 1978 compared to 1977 due principally to the Bank's sale of additional shares of its common stock in 1977 and the completion of such sale during 1978. Per share amounts for all periods presented have been retroactively adjusted for the issuance of stock dividends in 1977 and 1978, and a four-for-three stock split effected in 1980 (see Notes 1 and 11 of Notes to Financial Statements).

Provision for Loan Losses

The provision for loan losses was \$78,000 in 1979, \$44,000 in 1978, and \$11,000 in 1977. This comparative increase corresponds to increases in the Bank's net loan portfolio which reflected year-end balances of \$12,625,000 in 1977, \$16,068,000 in 1978 and \$21,686,000 in 1979.

**Other Operating
Expenses**

Other operating expenses, including occupancy, equipment and other expenses increased 27% in 1979 over 1978 and by 54% in 1978 over 1977. These increases were due principally to the Bank's increased rate of growth and opening of the new branch offices as total assets increased by 32% in 1979 and by 43% in 1978 from the respective prior years.

Securities Transactions

There were no gains or losses arising from securities transactions in 1979. In 1978, management elected to sell certain low-yield securities and reinvest in higher quality securities with increased yields. This resulted in a \$32,000 after tax loss for 1978 as compared to a \$5,000 gain in 1977.

**Management's Discussion
and Analysis of
Summary of Operations,
Continued:**

**Provision for Income
Taxes**

The effective tax rate for federal and state income taxes was 39.8% in 1979, 41.3% in 1978 and 26.4% in 1977. In 1979, the rate was affected by a reduction in the State Franchise Tax rate of approximately 1%. In 1978 and 1977, and to a lesser extent in 1979, these percentages were affected primarily by investment tax and new jobs credits created by the opening of new branches, additions to staff and the acquisition of additional property and equipment.

Net Income

Net Income rose 23% in 1979 to \$215,000 from \$175,000 in 1978 and \$152,000 in 1977. These increases were principally caused by the various factors discussed above. The percentage gains in net income for these years were somewhat modest due largely to the effects of additional expenses incurred in opening the Durham Office in 1978, the opening of the Orland Office in 1979, the establishment of temporary administrative offices in 1978 and the installation of the Bank's own computer facility in 1979.

**Salaries and Employee
Benefits**

Salaries and Employee benefits increased from \$419,000 in 1977 to \$595,000 in 1978 and to \$789,000 in 1979. These increases were due to general staffing increases and inflationary pressures on salary and staff benefits. In 1978, the growth in staffing required by the general growth of the Bank plus the opening of the Durham Office accounted for most of the increase. Additional staffing required to accommodate the continued growth of the Bank generally plus the addition of the Bank's own computer department, the opening of the Orland Office as well as an increase in employee benefits through the establishment of a pension plan for the Bank's employees contributed to the increase in 1979 as compared to 1978.

**Stock Prices and
Dividend Information**

The following table summarizes dividend information and those trades of the Bank's common stock of which the Bank has knowledge, setting forth the high and low sales prices for the periods indicated. The prices indicated below may not necessarily represent actual transactions. The figures have been adjusted to reflect the 5% stock dividend declared in December 1978.

Quarter Ended:	Sales Price of the Bank's Common Stock		Dividend Declared on Common Stock
	High	Low	
March 31, 1978	\$12.38	\$12.38	
June 30, 1978	16.67	12.28	
September 30, 1978	16.60	16.60	
December 31, 1978	17.14	16.19	13,632 shares (dividend)
March 31, 1979	16.62	16.62	
June 30, 1979	17.25	17.25	
September 30, 1979	17.88	17.88	
December 31, 1979	18.50	18.50	

Administration

Robert H. Steveson

D.V. Carter

Joan Jones

Janet K. Hannis

**President & Chief Executive
Officer**
**Senior Vice President &
Cashier**
Vice President
Executive Secretary**Chico Offices****Park Plaza Branch**

Keith Orme

Jim Burnell

Daniel Herbert

Manager
Assistant Manager
Operations Officer**Pillsbury Branch**

George Rawson

Martin Johnson

Manager
Operations Officer**Durham Office**

Ronald Bee

Pam Wagner

Manager
Operations Supervisor**Orland Office**

Gary Jorgenson

Mark Dickman

Manager
Operations Supervisor**Willows Office**

Carroll Taresh

Larry Ruby

Manager
Operations Supervisor

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(916) 343-3735154 North Tehama Street
P.O. Box 1158
Willows, CA 95988
(916) 934-21912171 Pillsbury Road
P.O. Box 1130
Chico, CA 95927
(916) 345-5151100 E. Walker Street
P.O. Box 188
Orland, CA 95963
(916) 865-5524**Member FDIC**

Financial Reports

The Bank will provide to any interested party, without charge, a copy of the Bank's Annual Report for 1979 on Form F-2 filed with the Federal Deposit Insurance Corporation. The report may be obtained by written request to: Corporate Secretary, Tri Counties Bank, 780 Mangrove Avenue, Chico, CA. 95926