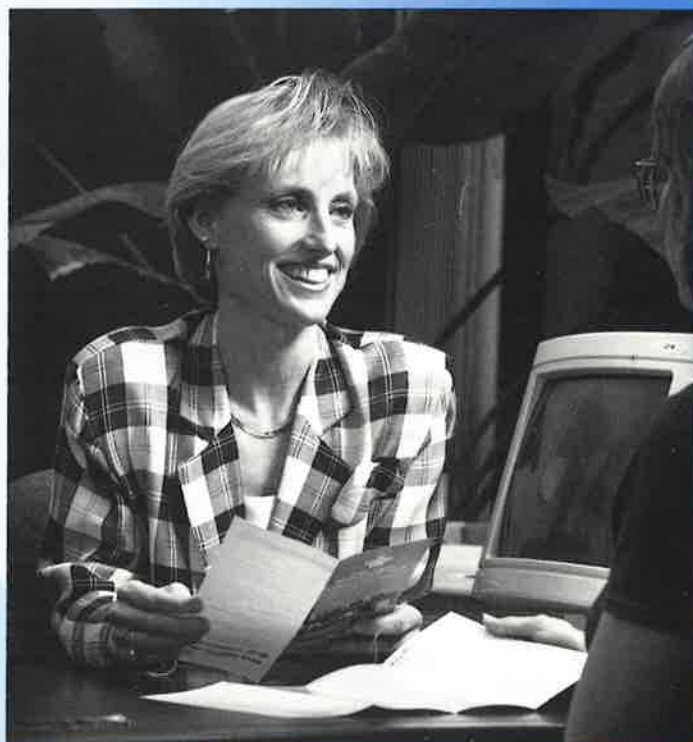




TRICO BANCSHARES 1995 ANNUAL REPORT



OUR PEOPLE MAKE
THE DIFFERENCE

TRICO BANCSHARES

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

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

branch office in the Chico Mall, a regional shopping center. In 1990, the Bank opened a branch office in Yuba City, the first to serve Sutter and Yuba Counties. In 1994, the bank opened four supermarket branches, one each in Red Bluff and Yuba City, California, and two in Redding, California. Also in 1994, the Company acquired Country National Bank and merged it into the Bank, thus adding an additional office in Redding, California. In 1995, the bank opened a fifth supermarket branch in Chico, California.

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

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



MARKET MAKERS FOR TRICO BANCSHARES COMMON STOCK

Sutro & Co. Incorporated

P.O. Box 1688
Big Bear Lake, CA
92315-1688
Troy Norlander
(800) 288-2811
(909) 866-8966

Hoefler & Arnett Incorporated

353 Sacramento St. 10th Fl.
San Francisco, CA 94111
Marc Arnett
(800) 346-5544
(415) 362-7111

Van Kasper & Company

600 California St. Suite 1700
San Francisco, CA
94108-2704
Richard Hennig
(800) 652-1747
(415) 954-0646

Piper Jaffray, Inc.

222 South Ninth Street
Minneapolis, MN
55402
Jeff Adamson
(612) 342-6200

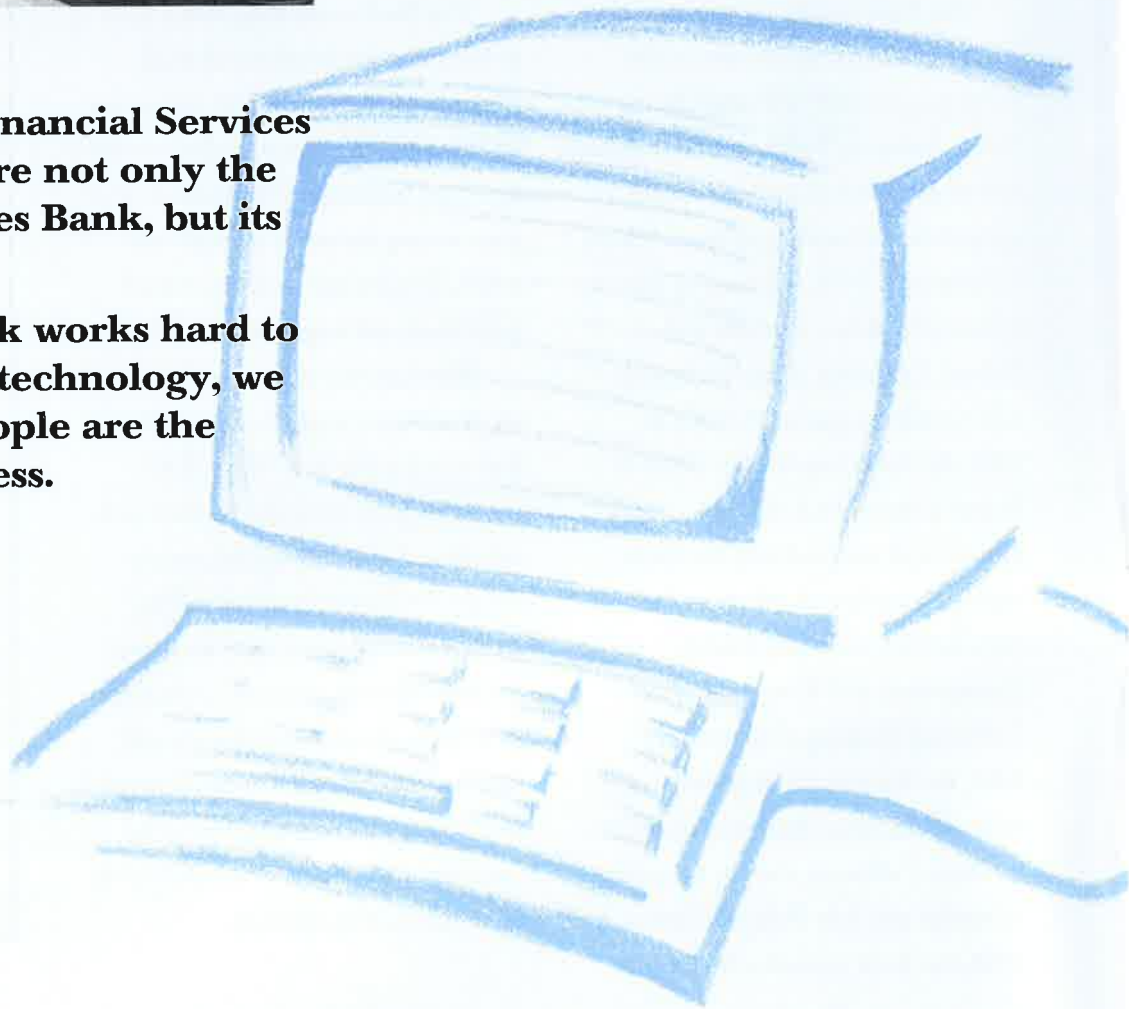


OUR PEOPLE ARE THE KEY



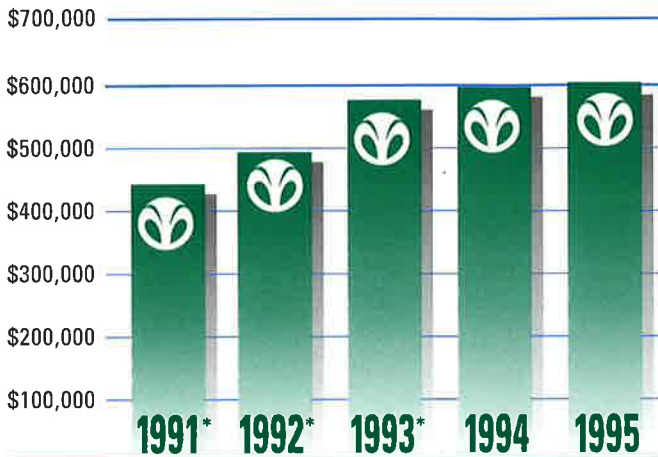
Our Tellers and Financial Services Representatives are not only the face of Tri Counties Bank, but its heart and soul.

Although the Bank works hard to maintain current technology, we know that our people are the secret to our success.



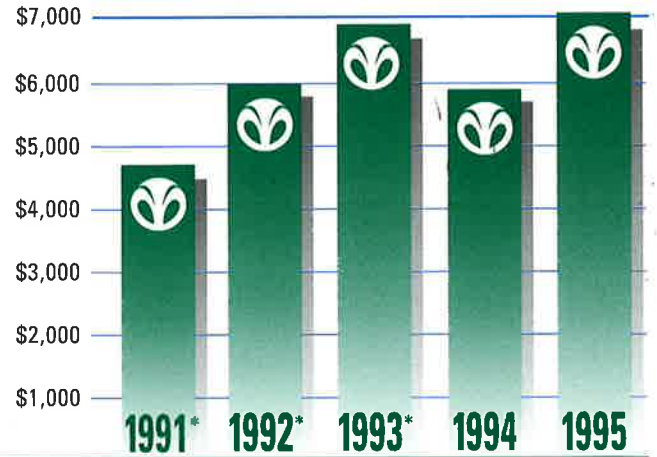
TOTAL ASSETS

IN THOUSANDS



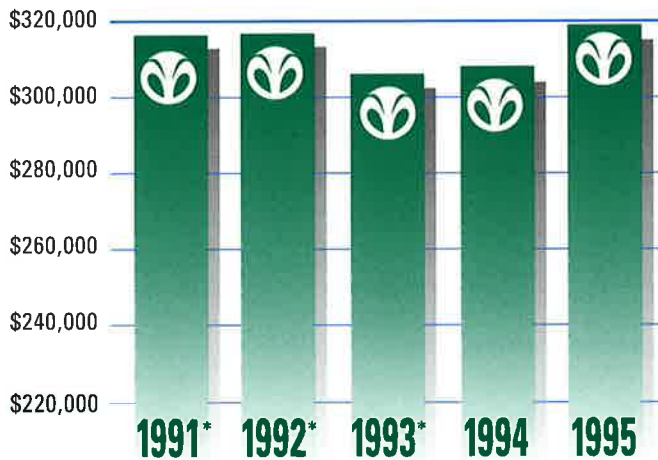
NET INCOME

IN THOUSANDS



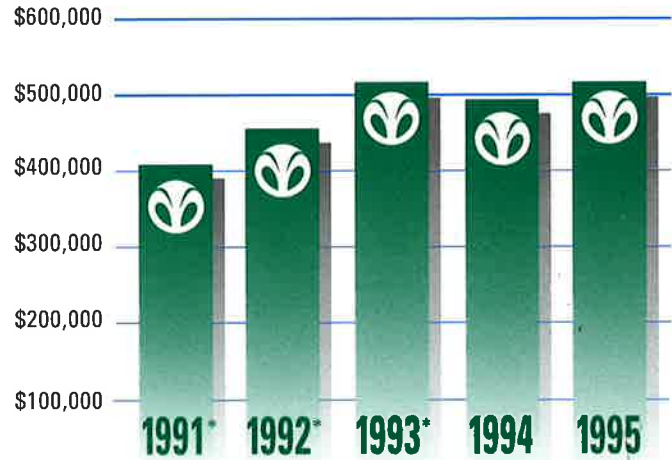
TOTAL LOANS

IN THOUSANDS

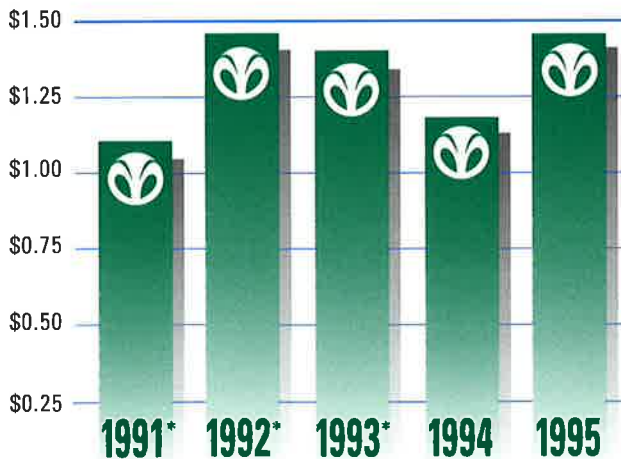


TOTAL DEPOSITS

IN THOUSANDS



FULLY DILUTED EARNINGS PER SHARE



NET INTEREST INCOME

IN THOUSANDS



*Restated on an historical basis to reflect the July 21, 1994 acquisition of Country National Bank on a pooling-of-interests basis.



FIVE YEAR SELECTED FINANCIAL DATA

IN THOUSANDS, EXCEPT SHARE DATA

	1995	1994	1993 ⁵	1992 ⁵	1991 ⁵
STATEMENT OF OPERATIONS DATA:¹					
Interest income	\$ 46,011	\$ 43,240	\$ 40,947	\$ 40,272	\$ 40,451
Interest expense	17,988	15,680	13,996	15,600	18,988
Net interest income	28,023	27,560	26,951	24,672	21,463
Provision for loan losses	335	316	1,858	2,101	1,531
Net interest income after provision for loan losses	27,688	27,244	25,093	22,571	19,932
Noninterest income	5,933	5,025	6,726	5,572	4,965
Noninterest expense	21,661	22,058	20,225	18,031	17,045
Income before income taxes	11,960	10,211	11,594	10,112	7,852
Provision for income taxes	4,915	4,350	4,779	4,112	3,031
Net income	\$ 7,045	\$ 5,861	\$ 6,815	\$ 6,000	\$ 4,821
SHARE DATA:²					
Primary earnings per share	\$ 1.46	\$ 1.18	\$ 1.42	\$ 1.46	\$ 1.10
Cash dividend paid per share	0.37	0.32	0.31	0.28	0.24
Common shareholders' equity at year end	11.92	10.10	10.05	8.46	7.25
BALANCE SHEET DATA:					
Total loans, gross	\$318,766	\$307,103	\$305,902	\$317,518	\$316,397
Total assets	603,554	593,834	575,897	492,404	439,358
Total deposits	516,193	491,172	515,999	451,346	400,479
Total shareholders' equity	53,213	48,231	47,068	36,545	34,822
SELECTED FINANCIAL RATIOS:					
Return on average assets	1.22%	.99%	1.25%	1.25%	1.15%
Return on average common shareholders' equity	13.95%	12.42%	15.81%	19.48%	15.69%
Leverage ratio ³	8.92%	8.75%	8.18%	7.39%	7.97%
Total risk-based capital ratio	15.17%	14.65%	14.02%	11.94%	11.49%
Net interest margin ⁴	5.36%	5.18%	5.49%	5.76%	5.87%
Allowance for loan losses to total loans outstanding at end of year	1.75%	1.83%	1.95%	1.51%	1.31%

¹Tax-exempt securities are presented on an actual yield basis.

²Retroactively adjusted to reflect 5-for-4 stock split effected in 1995, and the 12%, 15%, and 15% stock dividends declared in 1993, 1992 and 1991, respectively.

³Tier 1 capital divided by total ending assets.

⁴Calculated on a tax equivalent basis.

⁵Restated on an historical basis to reflect the July 21, 1994 acquisition of Country National Bank on a pooling-of-interests basis.



BANKING IS CHANGING



Supermarket banking is one of the most exciting new developments in retail banking.

Each in-store branch is exposed weekly to the foot traffic of approximately 18,000 individuals.

The branches are part of a high-energy environment that requires a decidedly “unbankerly,” fun and clever approach to grab the consumer’s attention.

Our in-store branch managers meet frequently to share marketing ideas and discuss the effect of various events.

And the results show...in 1995 the five supermarket branches brought in \$15 million out of the Bank’s total \$25 million increase in deposits.





TriCo Bancshares net earnings for 1995 were \$7,045,000. This is a record and a 20% increase over 1994. It represents earnings of \$1.45 per share versus \$1.18 per share in 1994, as adjusted for the five-for-four stock split effected as a stock dividend in September 1995.

TriCo Bancshares Series B Preferred Stock was redeemed August 1, 1995 as scheduled. The \$4,000,000 in capital represented by this issue was no longer needed. Earnings formerly accrued to pay the 10.5% annual dividend became available to common shareholders. In the fourth quarter, dividends on the Common Stock were increased 62% from 8¢/share to 13¢/share (on a post split basis.)

During a year when giant banks were growing through mergers to cut costs, our subsidiary Tri Counties Bank continued to broaden its customer base and increase deposits through internal growth. Personal customer service has not been replaced by impersonal cost-cutting technology. We believe operations

should be "technology supported" rather than "technology driven."

Costs are best controlled by constantly guarding against overstaffing. Salaries and benefits are a bank's principal noninterest expense item. For this reason, we now outsource four major functions: Loan review, investments, internal auditing/compliance, and marketing.

We also continue a policy of consistent, broadly directed risk rather than succumbing to tempting current fads, such as mortgage banking, where rapid growth is often followed by expensive mass layoffs.

Your Bank is expanding in areas where we have experience and knowledge. Supermarket branches have proven highly effective in generating core deposits at low cost. Our fifth supermarket branch was opened November 15, 1995 inside Albertson's, Chico, and more in-store branches are planned. A Loan Production Office was opened in Bakersfield, California.

Tri Counties Bank started in a trailer

1995: A BANNER YEAR

twenty years ago with \$1,000,000 in capital. We now have twenty offices and \$53,000,000 in shareholder's equity. Total assets are over \$600,000,000. Those who accomplished this growth are now relinquishing many responsibilities to a second generation of senior management. In accord with our succession plan, Richard P. Smith, 38, has been promoted to Senior Vice President, Customer and Employee Support, and Richard B. O'Sullivan, 38, has been promoted to Senior Vice President, Customer Sales and Service.

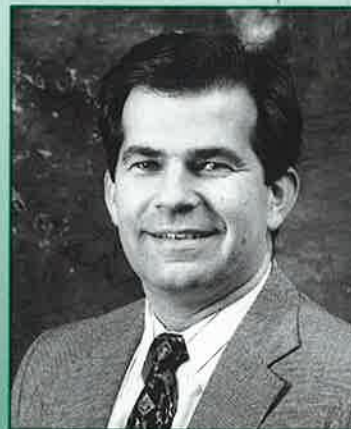
Your confidence and support are much appreciated.

Sincerely,

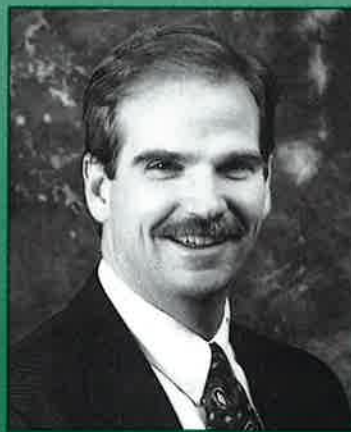


Robert H. Steveson

President & Chief Executive Officer

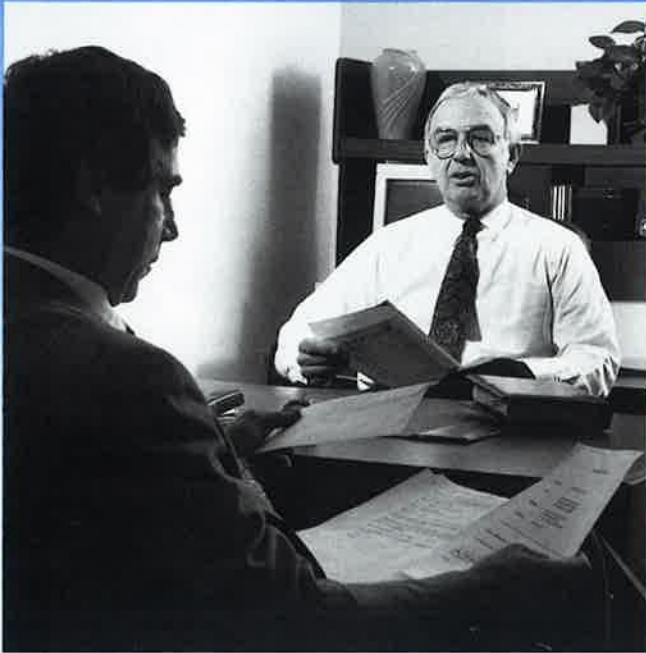


Richard P. Smith,
Senior Vice President,
Customer & Employee Support



Richard B. O'Sullivan,
Senior Vice President,
Customer Sales & Service

SMALL BUSINESS IS BIG BUSINESS



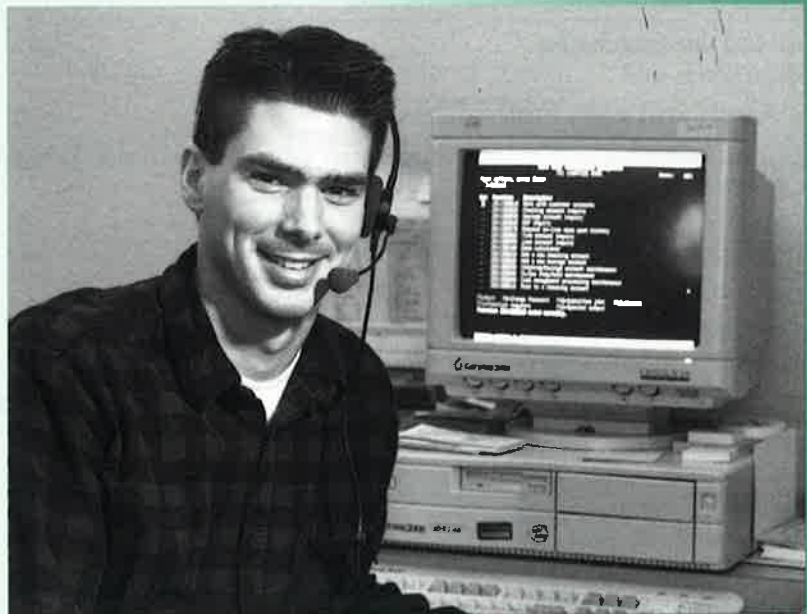
We still acquire our business loans the old-fashioned way: one loan at a time.

The hard work and personal service of our business bankers has resulted in a healthy loan portfolio.

In fact, the Small Business Administration's Office of Advocacy recently released a study showing Tri Counties Bank to be the most "small-business friendly" bank in California.

Our aim is to strengthen our community by successfully supporting enterprise. After all, it wasn't so long ago that Tri Counties Bank was a small business, too.

CUSTOMER SUPPORT



Our newly re-vamped 24 hour telephone banking system is another way for our customers to perform most common banking functions without entering a branch.

For many of our customers, the telephone will be the most advanced banking technology they will ever use themselves.

And yet, the most important button on that phone is "0".

The customer must not be cast adrift in the electronic world without ready rescue by a live banking representative.





CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

ASSETS	December 31,	
	1995	1994
Cash and due from banks	\$ 39,673	\$ 39,709
Federal funds sold	25,600	—
Cash and cash equivalents	65,273	39,709
Securities held-to-maturity (approximate fair value \$116,576 and \$131,649)	116,865	143,788
Securities available-for-sale	76,246	74,706
Loans:		
Commercial	152,173	153,957
Consumer	64,445	58,471
Real estate mortgages	81,888	76,673
Real estate construction	20,260	18,002
	318,766	307,103
Less: Allowance for loan losses	5,580	5,608
Net loans	313,186	301,495
Premises and equipment, net	13,189	13,198
Investment in real estate properties	1,173	1,173
Other real estate owned	631	2,124
Accrued interest receivable	4,609	4,748
Deferred income taxes	3,106	5,445
Other assets	9,276	7,448
Total assets	\$603,554	\$593,834
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing demand	\$ 90,308	\$ 88,957
Interest-bearing demand	84,314	80,657
Savings	161,479	190,800
Time certificates, \$100,000 and over	13,439	1,118
Other time certificates	166,653	129,640
Total deposits	516,193	491,172
Repurchase agreements	—	30,457
Accrued interest payable	3,162	1,760
Other liabilities	4,694	3,715
Long-term debt	26,292	18,499
Total liabilities	550,341	545,603
Commitments and contingencies (Note G)		
Shareholders' equity:		
Preferred stock, no par value: Authorized 1,000,000 shares; Series B, issued and outstanding none (0) and 8,000 shares, respectively	—	3,899
Common stock, no par value: Authorized 20,000,000 shares; issued and outstanding 4,464,828 and 3,513,707 shares, respectively	44,315	43,552
Retained earnings	9,548	4,488
Unrealized loss on securities available-for-sale, net	(650)	(3,708)
Total shareholders' equity	53,213	48,231
Total liabilities and shareholders' equity	\$603,554	\$593,834

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except earnings per share)



Years Ended December 31,

	1995	1994	1993
Interest income:			
Interest and fees on loans	\$ 33,776	\$ 30,641	\$ 31,795
Interest on investment securities—taxable	11,706	12,247	8,585
Interest on investment securities—tax exempt	158	229	238
Interest on federal funds sold	371	123	329
Total interest income	46,011	43,240	40,947
Interest expense:			
Interest on interest-bearing demand deposits	2,000	2,066	3,362
Interest on savings	5,167	6,442	5,046
Interest on time certificates of deposit	8,736	5,333	4,343
Interest on time certificates of deposit, \$100,000 and over	328	61	255
Interest on short-term borrowing	526	719	739
Interest on long-term debt	1,231	1,059	251
Total interest expense	17,988	15,680	13,996
Net interest income	28,023	27,560	26,951
Provision for loan losses	335	316	1,858
Net interest income after provision for loan losses	27,688	27,244	25,093
Noninterest income:			
Service charges and fees	4,163	3,570	3,558
Other income	1,780	1,478	1,747
Securities gains (losses), net	(10)	(23)	1,421
Total noninterest income	5,933	5,025	6,726
Noninterest expenses:			
Salaries and related expenses	10,787	10,550	9,072
Other, net	10,874	11,508	11,153
Total noninterest expenses	21,661	22,058	20,225
Net income before income taxes	11,960	10,211	11,594
Income taxes	4,915	4,350	4,779
Net income	\$ 7,045	\$ 5,861	\$ 6,815
Preferred stock dividends	245	420	630
Net income available to common shareholders	\$ 6,800	\$ 5,441	\$ 6,185
Primary earnings per common share	\$ 1.46	\$ 1.18	\$ 1.42
Fully diluted earnings per common share	\$ 1.45	\$ 1.18	\$ 1.40

See Notes to Consolidated Financial Statements



CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 1995, 1994 and 1993 (in thousands, except share amounts)

	Series B Preferred Stock		Series C Preferred Stock		Common Stock		Retained Earnings	Unrealized Loss on Securities	Debt Guarantee for ESOP	Total
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount				
Balance, December 31, 1992	8,000	\$ 3,899	16,900	\$ 2,187	2,571,096	\$29,002	\$ 1,578	\$ —	\$ (120)	\$36,546
Redemption of Preferred Stock	—	—	(16,900)	(2,187)	—	—	(95)	—	—	(2,282)
Common Stock issued	—	—	—	—	529,000	7,734	—	—	—	7,734
12% Common Stock Dividend declared	—	—	—	—	319,848	5,917	(5,917)	—	—	—
Exercise of Common Stock options	—	—	—	—	16,310	165	—	—	—	165
Series B Preferred Stock cash dividends	—	—	—	—	—	—	(420)	—	—	(420)
Series C Preferred Stock cash dividends	—	—	—	—	—	—	(210)	—	—	(210)
Common Stock cash dividends	—	—	—	—	—	—	(1,400)	—	—	(1,400)
Net income	—	—	—	—	—	—	6,815	—	—	6,815
Reduction of ESOP debt	—	—	—	—	—	—	—	—	120	120
Balance, December 31, 1993	8,000	3,899	—	—	3,436,254	42,818	351	—	—	47,068
Exercise of Common Stock options	—	—	—	—	77,453	403	—	—	—	403
Series B Preferred Stock cash dividends	—	—	—	—	—	—	(420)	—	—	(420)
Common Stock cash dividends	—	—	—	—	—	—	(1,304)	—	—	(1,304)
Cumulative effect of change in accounting method for investment securities	—	—	—	—	—	—	—	270	—	270
Change in unrealized loss on securities	—	—	—	—	—	—	—	(3,978)	—	(3,978)
Stock option amortization	—	—	—	—	—	331	—	—	—	331
Net income	—	—	—	—	—	—	5,861	—	—	5,861
Balance, December 31, 1994	8,000	3,899	—	—	3,513,707	43,552	4,488	(3,708)	—	48,231
Redemption of Preferred Stock	(8,000)	(3,899)	—	—	—	—	(101)	—	—	(4,000)
Exercise of Common Stock options	—	—	—	—	72,694	554	—	—	—	554
5-for-4 Common Stock split	—	—	—	—	878,427	—	—	—	—	—
Series B Preferred Stock cash dividends	—	—	—	—	—	—	(245)	—	—	(245)
Common Stock cash dividends	—	—	—	—	—	—	(1,639)	—	—	(1,639)
Change in unrealized loss on securities	—	—	—	—	—	—	—	3,058	—	3,058
Stock option amortization	—	—	—	—	—	209	—	—	—	209
Net income	—	—	—	—	—	—	7,045	—	—	7,045
Balance, December 31, 1995	—	\$ —	—	\$ —	4,464,828	\$44,315	\$ 9,548	\$ (650)	\$ —	\$53,213

See Notes to Consolidated Financial Statements



CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)



	Years ended December 31,		
	1995	1994	1993
Operating activities:			
Net income	\$ 7,045	\$ 5,861	\$ 6,815
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	335	316	1,858
Provision for losses on other real estate owned	99	53	642
Depreciation and amortization	1,600	1,405	1,030
(Accretion) amortization of investment security (discounts) premiums, net	117	450	1,643
Deferred income taxes	(134)	(90)	1,126
Investment security (gains) losses, net	10	23	(1,453)
(Gain) loss on sale of loans	(56)	(173)	(294)
(Gain) loss on sale of investments in real estate properties, net	(78)	54	(17)
Origination of loans held for sale	(9,666)	(8,943)	(75,552)
Proceeds from loan sales	9,835	8,186	77,299
Amortization of stock options	209	331	—
(Increase) decrease in interest receivable	139	(1,106)	770
Increase (decrease) in interest payable	1,402	30	(695)
(Increase) decrease in other assets and liabilities	(876)	(1,777)	180
Net cash provided by operating activities	9,981	4,620	13,352
Investing activities:			
Proceeds from maturities of securities held-to-maturity	19,516	15,374	—
Purchases of securities held-to-maturity	(2,740)	(22,439)	—
Proceeds from maturities of securities available-for-sale	12,427	23,282	63,940
Proceeds from sales of securities available-for-sale	6,993	36,490	182,092
Purchases of securities available-for-sale	(5,638)	(74,619)	(327,531)
Net (increase) decrease in loans	(12,529)	(1,968)	6,323
Purchases of premises and equipment	(1,335)	(2,025)	(1,861)
Proceeds from sale of real estate properties	1,862	2,408	262
Net cash provided (used) by investing activities	18,556	(23,497)	(76,775)
Financing activities:			
Net increase (decrease) in deposits	25,021	(24,827)	64,654
Borrowings (payments) under repurchase agreements	(30,457)	30,457	—
Borrowings under long-term debt agreements	9,828	11,400	52,005
Payments of principal on long-term debt agreements	(2,035)	(45)	(45,768)
Redemption of Preferred Stock	(4,000)	—	(2,282)
Cash dividends — Preferred	(245)	(420)	(630)
Cash dividends — Common	(1,639)	(1,304)	(1,400)
Issuance of Common Stock	554	403	7,899
Net cash provided (used) by financing activities	(2,973)	15,664	74,478
Increase (decrease) in cash and cash equivalents	25,564	(3,213)	11,055
Cash and cash equivalents at beginning of year	39,709	42,922	31,867
Cash and cash equivalents at end of year	\$ 65,273	\$ 39,709	\$ 42,922
Supplemental information			
Cash paid for taxes	\$ 5,240	\$ 3,809	\$ 5,431
Cash paid for interest expense	\$ 16,586	\$ 15,650	\$ 13,365
Non-cash debt guarantee for ESOP	\$ —	\$ —	\$ (120)
Non-cash assets acquired through foreclosure	\$ 390	\$ 1,016	\$ 3,187
Non-cash transfers of OREO to fixed assets	\$ —	\$ —	\$ 504

See Notes to Consolidated Financial Statements



NOTE A - General Summary of Significant Accounting Policies

The accounting and reporting policies of TriCo Bancshares (the "Company") conform to generally accepted accounting principles and general practices within the banking industry. The following are descriptions of the more significant accounting and reporting policies. Certain reclassifications have been made to the prior years' financial statements in order to conform with the classifications of the December 31, 1995 financial statements.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary, Tri Counties Bank (the "Bank"), and the wholly-owned subsidiaries of the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation. All data has been restated on a historical basis to reflect the July 21, 1994 acquisition of Country National Bank on a pooling-of-interests basis.

Nature of Operations

The Company operates fourteen branch offices and six in-store branches in the California counties of Butte, Glenn, Shasta, Siskiyou, Sutter, Tehama, and Lassen. 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.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Securities

The Company classifies its debt and marketable equity securities into one of three categories: trading, available-for-sale or held-to-maturity. Trading securities are bought and held principally for the purpose of selling in the near term. Held-to-maturity securities are those securities which the Company has the ability and intent to hold until maturity.

All other securities not included in trading or held-to-maturity are classified as available-for-sale. In 1995 and 1994 the Company did not have any securities classified as trading.

Available-for-sale securities are recorded at fair value. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts. Unrealized gains and losses, net of the related tax effect, on available-for-sale securities are reported as a separate component of shareholders' equity until realized.

Premiums and discounts are amortized or accreted over the life of the related investment security as an adjustment to yield using the effective interest method. Dividend and interest income are recognized when earned. Realized gains and losses for securities are included in earnings and are derived using the specific identification method for determining the cost of securities sold.

The Company adopted the provisions of Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS 115) as of January 1, 1994. The effect of adopting SFAS 115 was to recognize an unrealized gain (net of tax) of \$270,000 as an increase in shareholders' equity.

Loans

Loans are reported at the principal amount outstanding, net of unearned income and the allowance for loan losses.

Loan origination and commitment fees and certain direct loan origination costs are deferred, and the net amount is amortized as an adjustment of the related loan's yield over the estimated life of the loan.

Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. Accrual of interest on loans is generally discontinued either when reasonable doubt exists as to the full, timely collection of interest or principal or when a loan becomes contractually past due by 90 days or more with respect to interest or principal. When loans are 90 days past due, but in Management's judgment are well secured and in the process of collection, they are not classified as nonaccrual. When a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed. Income on such loans is then recognized only to the extent that cash is received and where the future collection of principal is probable. Interest accruals are resumed on such loans only when they are brought fully current with respect to interest and principal and when, in the judgment of Management, the loans are estimated to be fully collectible as to both principal and interest.





NOTE A - (continued)

Allowance for Loan Losses

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

The Company adopted SFAS 114, Accounting by Creditors for Impairment of a Loan, and SFAS 118, Accounting by Creditors for Impairment of a Loan-Income Recognition and Disclosures, as of January 1, 1995. Under this statement, a loan is impaired when it is probable the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. SFAS 114 requires that certain impaired loans be measured based on the present value of expected future cash flows discounted at the loan's original effective interest rate. As a practical expedient, impairment may be measured based on the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through a valuation allowance.

The Company had previously measured the allowance for loan losses using methods similar to those prescribed in SFAS 114. As a result of adopting these statements, no additional allowance for loan losses was required as of January 1, 1995.

Mortgage Operations

The Company sold substantially all of its conforming long term residential mortgage loans originated during 1995, 1994 and 1993 for cash proceeds equal to the fair value of the loans. These loans were originated through Bank branches and not obtained from mortgage brokers. Servicing rights were retained on all of the loans sold, for which the Company receives a servicing fee. Because the amounts are not

significant, the Company does not capitalize excess servicing fees, which represent the present value of the spread between the face rate of the loan and the rate paid to the investor net of the amount required to cover the cost of servicing the loan plus a profit margin given the expected life of the loans. Gain or loss on the sale of loans represents the difference between the cash proceeds received and the carrying value of the loans sold. The carrying value is the original value of the loan adjusted for loan origination fees and costs. At December 31, 1995, mortgage loans held for sale totaled \$783,000. The Company had entered into commitments to sell all of these loans at year end. At December 31, 1995 and 1994, the Company serviced real estate mortgage loans for others of \$136 million and \$139 million, respectively.

Premises and Equipment

Premises and equipment, including those acquired under capital lease, are stated at cost less accumulated depreciation and amortization. Depreciation and amortization expenses are computed using the straight-line method over the estimated useful lives of the related assets or lease terms. Asset lives range from 3-10 years for furniture and equipment and 15-30 years for land improvements and buildings.

Investment in Real Estate Properties

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

Subsequent to acquisition or transfer, properties included in the investment in real estate properties account are periodically evaluated. 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 properties are 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 value of the real estate to be acquired by a charge to the allowance for loan losses, when necessary. Any subsequent write-downs are recorded as a valuation allowance with a charge to other expenses in the income statement. Expenses of such properties, net of related income, and gains and losses on their disposition, are included in other expenses.



NOTE A - (continued)

Income Taxes

The Company's accounting for income taxes is based on an asset and liability approach. The Company recognizes the amount of taxes payable or refundable for the current year, and deferred tax assets and liabilities for the future tax consequences that have been recognized in its financial statements or tax returns. The measurement of tax assets and liabilities is based on the provisions of enacted tax laws.

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 outstanding. The weighted average number of shares used in the computation of primary earnings per common share were: 4,656,893 for 1995, 4,641,384 for 1994 and 4,338,255 for 1993. The weighted average number of shares used in the computation of fully diluted earnings per common share were: 4,693,188 for 1995, 4,642,197 for 1994 and 4,416,135 for 1993. These shares have been adjusted for the 1994 merger with Country National Bank and the 1995 five-for-four stock split. Common stock equivalent shares consist of options outstanding under the Company's qualified and non-qualified stock option plans.

Cash Flows

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

NOTE B - Restricted Cash Balances

Reserves (in the form of deposits with the Federal Reserve Bank) of \$7,909,000 and \$7,181,000 were maintained to satisfy Federal regulatory requirements at December 31, 1995 and December 31, 1994. These reserves are included in cash and due from banks in the accompanying balance sheet.

NOTE C - Investment Securities

The amortized cost and estimated fair values of investments in debt securities are summarized in the following tables:

	December 31, 1995			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
(in thousands)				
Securities Held-to-Maturity				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 29,744	\$ 588	\$ (34)	\$ 30,298
Obligations of states and political subdivisions	849	—	(9)	840
Mortgage-backed securities	86,272	493	(1,327)	85,438
Totals	\$116,865	\$ 1,081	\$ (1,370)	\$116,576
Securities Available-for-Sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 42,038	\$ 225	\$ (45)	\$ 42,218
Obligations of states and political subdivisions	1,700	42	—	1,742
Mortgage-backed securities	29,076	28	(486)	28,618
Other securities	3,668	—	—	3,668
Totals	\$ 76,482	\$ 295	\$ (531)	\$ 76,246



NOTE C - (continued)

	December 31, 1994			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
	(in thousands)			
Securities Held-to-Maturity				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 45,631	\$ 9	\$ (1,982)	\$ 43,658
Obligations of states and political subdivisions	1,098	1	(49)	1,050
Mortgage-backed securities	97,059	—	(10,118)	86,941
Totals	\$143,788	\$ 10	\$(12,149)	\$131,649

Securities Available-for-Sale

U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 37,865	\$ —	\$ (1,583)	\$ 36,282
Obligations of states and political subdivisions	2,321	18	(33)	2,306
Mortgage-backed securities	36,374	—	(3,745)	32,629
Other securities	3,489	—	—	3,489
Totals	\$ 80,049	\$ 18	\$(5,361)	\$ 74,706

The amortized cost and estimated fair value of debt securities at December 31, 1995 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
	(in thousands)	
Securities Held-to-Maturity		
Due in one year	\$ 3,142	\$ 3,152
Due after one year through five years	27,635	28,114
Due after five years through ten years	11,494	11,529
Due after ten years	74,594	73,781
Totals	\$116,865	\$116,576
Securities Available-for-Sale		
Due in one year	\$ 16,890	\$ 16,883
Due after one year through five years	24,949	25,167
Due after five years through ten years	432	448
Due after ten years	30,543	30,080
	72,814	72,578
Other Securities	3,668	3,668
Totals	\$ 76,482	\$ 76,246

Proceeds from sales of investments in debt securities:

For the Year	Gross Proceeds	Gross Gains	Gross Losses
	(in thousands)		
1995	\$ 6,993	\$ 40	\$ 50
1994	\$ 36,490	\$ 117	\$ 140

On November 17, 1995, the Company adopted the FASB Special Report concerning the implementation of SFAS 115 and it elected to transfer certain treasury securities with an amortized cost of \$10,062,266 and an unrealized gain of \$1,034,922 from the held-to-maturity to the available-for-sale category.

Investment securities with an aggregate carrying value of \$35,930,000 and \$35,243,000 at December 31, 1995 and 1994, respectively, were pledged as collateral.

NOTE D - Allowance for Loan Losses

Activity in the allowance for loan losses was as follows:

	Years Ended December 31,		
	1995	1994	1993
	(in thousands)		
Balance, beginning of year	\$ 5,608	\$ 5,973	\$ 4,798
Provision charged to operations	335	316	1,858
Loans charged off	(581)	(1,050)	(1,275)
Recoveries of loans previously charged off	218	369	592
Balance, end of year	\$ 5,580	\$ 5,608	\$ 5,973

Loans classified as nonaccrual amounted to approximately \$2,213,000, \$1,122,000, and \$1,595,000 at December 31, 1995, 1994 and 1993, respectively. If interest on those loans had been accrued, such income would have been approximately \$166,000, \$123,000 and \$60,000 in 1995, 1994 and 1993, respectively.



NOTE D - (continued)

As of December 31, the Company's recorded investment in impaired loans and the related valuation allowance calculated under SFAS 114 were as follows:

	1995	
	Recorded Investment	Valuation Allowance
Impaired loans -		
Valuation allowance required	\$ 552	\$ 380
No valuation allowance required	4,534	—
Total impaired loans	\$5,086	\$ 380

This valuation allowance is included in the allowance for loan losses shown above.

The average recorded investment in impaired loans for the year ended December 31, 1995 was \$3,579,000. The Company recognized interest income on impaired loans of \$345,000 for the year ended December 31, 1995.

NOTE E - Premises and Equipment

Premises and equipment were comprised of:

	December 31,	
	1995	1994
	(in thousands)	
Premises	\$10,366	\$ 9,948
Furniture and equipment	9,118	8,620
	19,484	18,568
Less:		
Accumulated depreciation and amortization	(8,964)	(8,047)
	10,520	10,521
Land and land improvements	2,669	2,677
	\$13,189	\$13,198

Depreciation and amortization of premises and equipment amounted to \$1,344,000, \$1,202,000 and \$1,030,000 in 1995, 1994 and 1993, respectively.

NOTE F - Long-Term Debt and Other Borrowings

Long-term debt is as follows:

	December 31,	
	1995	1994
	(in thousands)	
FHLB loan, fixed rate of 4.56% payable on March 21, 1995	\$ —	\$ 2,000
FHLB loan, fixed rate of 5.14% payable on March 21, 1996	2,000	2,000
FHLB loan, fixed rate of 5.53% payable on March 21, 1997	3,000	3,000
FHLB loan, effective rate of 4.38% payable on April 28, 1998	5,000	5,000
FHLB loan, fixed rate of 5.62% payable on February 4, 1999	400	400
FHLB loan, fixed rate of 6.14% payable on March 21, 1999	3,000	3,000
FHLB loan, fixed rate of 5.84% payable on November 6, 2000	1,500	1,500
FHLB loan, fixed rate of 5.90% payable January 16, 2001	1,000	1,000
FHLB repurchase agreements, fixed rate of 5.85% payable on July 17, 1997	9,828	—
Capital lease obligations on equipment, effective rate of 8.8% payable monthly through August 7, 1995	—	26
Capital lease obligation on premises, effective rate of 13% payable monthly in varying amounts through December 1, 2009	564	573
Total long-term debt	\$26,292	\$18,499

The Bank maintains a collateralized line of credit with the Federal Home Loan Bank of San Francisco. Based on the FHLB stock requirements at December 31, 1995, this line provided for maximum borrowings of \$32,197,000 of which \$15,900,000 was outstanding, leaving \$16,297,000 available. The maximum month-end outstanding balances of repurchase agreements in 1995 and 1994 were \$25,475,000 and \$30,457,000, respectively. The Bank has available unused lines of credit totaling \$33,000,000 for Federal funds transactions.



NOTE G - Commitments and Contingencies (See also Note O)

At December 31, 1995, future minimum commitments under non-cancellable capital and operating leases with initial or remaining terms of one year or more are as follows:

	Capital Leases	Operating Leases
	(in thousands)	
1996	\$ 83	\$ 598
1997	84	458
1998	85	457
1999	86	349
2000	87	287
Thereafter	829	2,463
Future minimum lease payments	1,254	\$ 4,612
Less amount representing interest	690	
Present value of future lease payments	\$ 564	

Rent expense under operating leases was \$887,000 in 1995, \$767,000 in 1994, and \$530,000 in 1993.

In 1995, the Bank entered into license agreements to rent space in two supermarkets. These are twenty year agreements with five year renewals.

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.

NOTE H - Preferred Stock

At December 31, 1994 the Company had one series of cumulative nonvoting preferred stock outstanding. This preferred stock was redeemed on August 1, 1995. The following table summarizes the terms of the issue at December 31, 1994.

Series	Dividend Rate	Shares	Redemption Date	Per Share Liquidation Value
B	10.5%	8,000	Aug. 1, 1995	\$500

NOTE I - Dividend Restrictions

The Bank paid to the Company cash dividends in the aggregate amounts of \$3,200,000, none (\$0) and \$500,600 in 1995, 1994 and 1993. The Bank is regulated by the Federal Deposit Insurance Corporation (FDIC) and the California State Banking Department. California banking laws limit the Bank's ability to pay dividends to the lesser of (1) retained earnings or (2) net income for the last three fiscal years, less cash distributions paid during such period. Under this regulation, at December 31, 1995, the Bank may pay dividends of \$16,237,000.

NOTE J - Stock Options

In May 1995, the Company adopted the TriCo Bancshares 1995 Incentive Stock Option Plan ('95 Plan) covering key employees. Under the '95 Plan 150,000 shares were reserved for issuance. The option price cannot be less than the fair market value of the Common Stock at the date of grant. Options for the '95 Plan expire on the tenth anniversary of the grant date.

The Company also has outstanding options under one plan approved in 1993 and two plans approved in 1989. Options under the 1993 plan vest over a six year period. Options under the 1989 plan vest 20% annually. Unexercised options for the 1993 and 1989 plans terminate 10 years from the date of the grant.

Stock option activity is summarized in the following table:

	Number of Shares*	Option Price Per Share*
Outstanding at December 31, 1993	663,755	\$ 5.74 to \$ 7.86
Country National Bank		
Options exchanged for shares	(35,587)	
Options exercised	(61,228)	5.74 to 7.86
Options cancelled	(6,666)	7.43 to 7.43
Outstanding at December 31, 1994	560,274	7.43 to 7.86
Options granted	31,250	7.86 to 13.20
Options exercised	(72,694)	7.43 to 7.86
Outstanding at December 31, 1995	518,830	\$ 7.43 to \$13.20

*Adjusted for 5-for-4 stock split effected September 22, 1995.



NOTE K - Other Operating Expenses and Income

The components of other operating expenses were as follows:

	Years Ended December 31,		
	1995	1994	1993
	(in thousands)		
Equipment and data processing	\$ 2,508	\$ 2,497	\$ 1,790
Occupancy	1,573	1,469	1,413
Advertising	563	650	555
Net other real estate owned expense	201	190	845
Net losses on investment			
in real estate	25	17	153
Professional fees	593	1,172	1,190
Assessments	727	1,199	1,114
Postage	405	335	413
Other	4,279	3,979	3,680
Total other operating expenses	\$10,874	\$11,508	\$11,153

Commissions on sales of annuities and mutual funds in the amounts of \$900,000, \$988,000 and \$927,000 for the years 1995, 1994 and 1993 are included in other income.

NOTE L - Income Taxes

The current and deferred components of the income tax provision were comprised of:

	Years Ended December 31,		
	1995	1994	1993
	(in thousands)		
Current Tax Provision:			
Federal	\$ 3,640	\$ 3,189	\$ 4,331
State	1,409	1,251	1,462
Total current	5,049	4,440	5,793
Deferred Tax Benefit:			
Federal	(36)	(21)	(738)
State	(98)	(69)	(276)
Total deferred	(134)	(90)	(1,014)
Total income taxes	\$ 4,915	\$ 4,350	\$ 4,779

Taxes recorded directly to stockholders' equity are not included in the preceding table. Taxes and tax benefits relating to changes in the unrealized gains and losses on available-for-sale investment securities amounting to \$2,473,000 in 1995 and (\$2,697,000) in 1994 were recorded directly to shareholders' equity.

The provisions for income taxes applicable to income before taxes for the years ended December 31, 1995, 1994 and 1993 differ from amounts computed by applying the statutory Federal income tax rates to income before taxes.

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

	Years Ended December 31,		
	1995	1994	1993
Federal statutory income tax rate	34.2%	34.0%	34.0%
State income taxes, net of federal tax benefit	7.4	8.0	7.4
Tax-exempt interest on municipal obligations	(.4)	(.8)	(.7)
Merger expenses not deductible for tax purposes	—	1.5	.4
Other	(.1)	(.1)	.1
Effective Tax Rate	41.1%	42.6%	41.2%

The components of the net deferred tax asset of the Company as of December 31, were as follows:

	1995	1994
	(in thousands)	
Deferred Tax Assets:		
Loan losses	\$ 2,151	\$ 2,146
Unrealized loss on securities	500	2,697
Deferred compensation	1,348	1,100
OREO write downs	178	170
Capital leases	—	158
Loss on investment in real estate	228	229
Other	162	72
Total deferred tax assets	4,567	6,572
Deferred Tax Liabilities:		
Depreciation	(608)	(718)
Capital leases	(78)	—
Securities accretion	(273)	(126)
Other	(502)	(283)
Total deferred tax liability	(1,461)	(1,127)
Net deferred tax asset	\$ 3,106	\$ 5,445





NOTE M - Retirement Plans

Substantially all employees with at least one year of service are covered by a discretionary employee stock ownership plan (ESOP). Contributions are made to the plan at the discretion of the Board of Directors. Country National Bank had an ESOP which was merged into the TriCo plan during 1995. Contributions to the plan(s) totaling \$432,000 in 1995, \$378,000 in 1994 and \$384,000 in 1993 are included in salary expense.

The Company has a supplemental retirement plan for directors and a supplemental executive retirement plan covering key executives. These plans are nonqualified defined benefit plans and are unsecured and unfunded. The Company has purchased insurance on the lives of the participants and intends to use the cash values of these policies (\$3,926,000 and \$3,444,000 at December 31, 1995 and 1994, respectively) to pay the retirement obligations.

The following table sets forth the plans' status:

	December 31,		
	1995	1994	1993
	(in thousands)		
Actuarial present value of benefit obligations:			
Vested benefit obligation	\$(2,795)	\$(1,780)	\$(1,893)
Accumulated benefit obligation	(2,795)	(1,780)	(1,893)
Projected benefit obligation for service rendered to date	(2,795)	(1,973)	(2,167)
Plan assets at fair value	\$ —	\$ —	\$ —
Projected benefit obligation in excess of plan assets	\$(2,795)	\$(1,973)	\$(2,167)
Unrecognized net loss from past experience different from that assumed and effects of changes in assumptions	664	67	392
Prior service cost not yet recognized in net periodic pension cost	123	120	128
Unrecognized net obligation at transition	322	357	518
Accrued pension cost included in other liabilities	\$(1,686)	\$(1,429)	\$(1,129)
Net pension cost included the following components:			
Service cost-benefits earned during the period	\$ 100	\$ 114	\$ 100
Interest cost on projected benefit obligation	159	158	134
Net amortization and deferral	46	69	58
Net periodic pension cost	\$ 305	\$ 341	\$ 292

The net periodic pension cost was determined using a discount rate assumption of 7.0% for 1995, 7.75% for 1994, and 7.0% for 1993. The rates of increase in compensation used were 0% to 5%.

The Company has an Executive Deferred Compensation Plan which allows directors and key executives designated by the Board of Directors of the Company to defer a portion of their compensation. The Company has purchased insurance on the lives of the participants and intends to use the cash values of these policies to pay the compensation obligations. At December 31, 1995 and 1994 the cash values exceeded the recorded liabilities.

NOTE N - Related Party Transactions

Certain directors, officers, and companies with which they are associated were customers of, and had banking transactions with, the Company or its Subsidiary in the ordinary course of business. It is the Company's policy that all loans and commitments to lend to officers and directors be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other borrowers of the Bank.

The following table summarizes the activity in these loans for 1995.

Balance December 31, 1994	Advances/ New Loans	Payments	Balance December 31, 1995
(in thousands)			
\$ 9,252	\$ 1,361	\$ 2,141	\$ 8,472



NOTE O - Financial Instruments With Off-Balance Sheet Risk

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

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

Contractual Amount	
December 31,	
1995	1994
(in thousands)	

Financial instruments whose contract amounts represent credit risk:

Commitments to extend credit:		
Commercial loans	\$27,763	\$30,449
Consumer loans	39,114	43,205
Real estate mortgage loans	335	146
Real estate construction loans	10,815	7,715
Standby letters of credit	414	451

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

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

NOTE P - Concentration of Credit Risk

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

NOTE Q - Disclosure of Fair Value of Financial Instruments

Cash & Short-Term Investments

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Securities

For all securities, fair values are based on quoted market prices or dealer quotes. See footnote C for further analysis.

Loans

The fair value of variable rate loans is the current carrying value. These loans are regularly adjusted to market rates. The fair value of other types of fixed rate loans is estimated by discounting the future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings for the same remaining maturities. Fair value for nonaccrual loans is reported at carrying value and is included in the net loan total. Since the allowance for loan losses exceeds any potential adjustment for nonaccrual valuation, no further valuation adjustment has been made.





NOTE Q - (continued)

Accrued Interest Receivable

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Deposit Liabilities and Long-Term Debt

The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. These values do not consider the estimated fair value of the Company's core deposit intangible, which is a significant unrecognized asset of the Company. The fair value of time deposits and debt is based on the discounted value of contractual cash flows.

Other Liabilities

Other liabilities represent short-term instruments. The carrying amount is a reasonable estimate of fair value.

Commitments to Extend Credit and Standby Letters of Credit

The fair value of letters of credit and standby letters of credit is not significant.

Accrued Interest Payable

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

The estimated fair values of the Company's financial instruments are as follows:

	December 31, 1995	
	Carrying Amount	Fair Value
Financial assets:		
	(In thousands)	
Cash and short-term investments	\$ 65,273	\$ 65,273
Securities:		
Held-to-maturity	116,865	116,576
Available-for-sale	76,246	76,246
Loans, net	313,186	316,764
Accrued interest receivable	4,609	4,609
Financial liabilities:		
Deposits	516,193	516,653
Accrued interest payable	3,162	3,162
Other liabilities	4,694	4,694
Long-term borrowings	26,292	26,430

	December 31, 1994	
	Carrying Amount	Fair Value
Financial assets:		
	(In thousands)	
Cash and short-term investments	\$ 39,709	\$ 39,709
Securities:		
Held-to-maturity	143,788	131,649
Available-for-sale	74,706	74,706
Loans, net	301,495	297,367
Accrued interest receivable	4,748	4,748
Financial liabilities:		
Deposits	491,172	490,802
Accrued interest payable	1,760	1,760
Other liabilities	3,715	3,715
Long-term borrowing	18,499	18,441

NOTE R - Acquisition

On July 21, 1994, the Company issued approximately 490,000 shares of its common stock in exchange for all of the outstanding common stock of Country National Bank, Redding, California. This business transaction was accounted for as a pooling-of-interests combination and accordingly, the consolidated financial statements and financial data for periods prior to the combination have been restated to include the accounts and results of operations of Country National Bank. Certain reclassifications have been made to Country National Bank to conform to TriCo Bancshares' presentation.

The results of operations previously reported by the separate enterprises and the combined amounts presented in the accompanying consolidated financial statements are summarized as follows:

	Year ended December 31, 1993
	(in thousands)
Net interest income:	
TriCo Bancshares	\$24,208
Country National Bank	2,743
Combined	\$26,951
Net income:	
TriCo Bancshares	\$ 6,339
Country National Bank	476
Combined	\$ 6,815
Net income per share:	
TriCo Bancshares*	\$ 1.89
Country National Bank*	1.28
Combined	\$ 1.78

*As originally reported.





NOTE S - Future Financial Accounting Standards

In May 1995, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 122, Accounting for Mortgage Servicing Rights, which is effective for fiscal years beginning after December 15, 1995. This statement requires, under certain circumstances, entities to recognize as a separate asset an amount related to the right to service mortgage loans. The Company will adopt this statement on January 1, 1996 and does not expect that it will have a material impact on its financial position or results of operations.

In October 1995, the FASB issued Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123), which is effective for transactions entered into for fiscal years beginning after December 15, 1995. The statement defines a fair value based method of accounting for stock-based compensation. As permitted by SFAS 123, the Company will not change its method of accounting for stock options but will provide the additional required disclosures beginning in fiscal 1996.

NOTE T - TriCo Bancshares Financial Statements

TriCo Bancshares (Parent Only) Balance Sheets

Assets	December 31,	
	1995	1994
	(in thousands)	
Cash	\$ 134	\$ 2,527
Investment in Tri Counties Bank	52,868	45,590
Other assets	303	185
Total assets	\$ 53,305	\$ 48,302
Liabilities and shareholders' equity		
Total liabilities	\$ 92	\$ 71
Shareholders' equity:		
Preferred stock, no par value:		
Authorized 1,000,000 shares;		
Series B, issued and outstanding none (0) and 8,000 shares	—	3,899
Common stock, no par value:		
Authorized 20,000,000 shares; issued and outstanding 4,464,828 and 3,513,707 shares, respectively	44,315	43,552
Retained earnings	9,548	4,488
Unrealized loss on securities available-for-sale, net	(650)	(3,708)
Total shareholders' equity	53,213	48,231
Total liabilities and shareholders' equity	\$ 53,305	\$ 48,302

Statements of Income

	Years Ended December 31,		
	1995	1994	1993
	(in thousands)		
Interest income	\$ —	\$ —	\$ —
Administration expense	282	334	199
Loss before equity in net income of Tri Counties Bank	(282)	(334)	(199)
Equity in net income of Tri Counties Bank:			
Distributed	3,200	—	808
Undistributed	4,010	6,103	6,124
Income tax credits	117	92	82
Net income	\$ 7,045	\$ 5,861	\$ 6,815

Statements of Cash Flows

	Years ended December 31,		
	1995	1994	1993
	(in thousands)		
Operating activities:			
Net income	\$ 7,045	\$ 5,861	\$ 6,815
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed equity in Tri Counties Bank	(4,010)	(6,103)	(6,124)
Deferred income taxes	(117)	(92)	(82)
Increase (decrease) in other operating assets and liabilities	19	(168)	205
Net cash provided by (used for) operating activities	2,937	(502)	814
Investing activities:			
Capital contributed to Tri Counties Bank	—	(183)	—
Net cash provided by (used for) investing activities	—	(183)	—
Financing activities:			
Issuance of common stock	554	403	7,899
Redemption of preferred stock	(4,000)	—	(2,282)
Cash dividends — preferred	(245)	(420)	(630)
Cash dividends — common	(1,639)	(1,304)	(1,400)
Net cash provided by (used for) financing activities	(5,330)	(1,321)	3,587
Increase (decrease) in cash and cash equivalents	(2,393)	(2,006)	4,401
Cash and cash equivalents at beginning of year	2,527	4,533	132
Cash and cash equivalents at end of year	\$ 134	\$ 2,527	\$ 4,533



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

We have audited the accompanying consolidated balance sheets of TriCo Bancshares (a California corporation) and Subsidiary as of December 31, 1995 and 1994, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 1995. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Country National Bank, a company acquired during 1994 in a transaction accounted for as a pooling-of-interests, as discussed in Note R to the consolidated financial statements. Such statements are included in TriCo Bancshares' consolidated statements of income, changes in shareholders' equity and cash flows for the year ended December 31, 1993 and reflect 7% of consolidated net income in 1993. These statements were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to amounts included for Country National Bank, is based solely upon the report of the other auditors.

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, and the report of the other auditors, provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of TriCo Bancshares and Subsidiary as of December 31, 1995 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1995 in conformity with generally accepted accounting principles.

As discussed in Note A to the consolidated financial statements, effective January 1, 1994, the Corporation changed its method of accounting for certain investments in debt and equity securities as required by Statement of Financial Accounting Standards No. 115.

Arthur Andersen LLP

San Francisco, California
January 23, 1996

Market Information

The Common Stock of the Company trades on the NASDAQ National Market under the symbol "TCBK." The shares were first listed in the NASDAQ Stock Market in April 1993. The active market makers on NASDAQ include: Hoefler & Arnett, Incorporated, Piper Jaffray Companies Inc., Sutro & Co. Inc. and Van Kasper & Co. Inc.

The following table summarizes the Common Stock high and low trading prices and volume of shares traded by quarter as reported by NASDAQ. The prices have been adjusted to reflect the five-for-four stock split effected as a stock dividend in September 1995.

Quarter Ended: ^{1,2}	Prices of the Company's Common Stock		Approximate Trading Volume (in shares)
	High	Low	
March 31, 1994	\$ 19.60	\$ 14.80	227,560
June 30, 1994	16.00	13.60	131,258
September 30, 1994	15.20	12.20	69,651
December 31, 1994	13.20	11.00	139,441
March 31, 1995	12.80	10.80	118,010
June 30, 1995	13.20	12.20	213,026
September 30, 1995	16.60	12.00	535,140
December 31, 1995	16.40	14.50	236,821

¹ Quarterly trading activity has been compiled from NASDAQ trading reports.

² Adjusted to reflect the 5-for-4 stock split effected on September 22, 1995.

Holders

As of December 31, 1995, there were approximately 1,787 holders of record of the Company's Common Stock.

Dividends

The Company has paid quarterly dividends since March 1990. After giving effect to the September 1995 five-for-four stock split, dividends had been paid at the rate of \$.08 per share. In December 1995, the Company raised the quarterly dividend to \$.13 per share. In addition to the cash dividends, the Company has periodically paid stock dividends. In 1993 the Company paid a stock dividend of 12%. 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"). 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 therefore, 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 lesser 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 dividends totaling \$3,200,000 to the Company in 1995. As of December 31, 1995 and subject to the limitations and restrictions under applicable law, the Bank had funds available for dividends in the amount of \$16,237,000.

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.



As TriCo Bancshares (the "Company") has not commenced any business operations independent of Tri Counties Bank (the "Bank"), the following discussion pertains primarily to the Bank. Average balances, including such balances used in calculating certain financial ratios, are generally comprised of average daily balances for the Company. Unless otherwise stated, interest income and net interest income are presented on a tax equivalent basis.

All financial information has been restated on a historical basis to reflect the July 21, 1994 merger with Country National Bank (CNB) accounted for on a pooling-of-interests basis.

Overview

As reported last year, the groundwork began in 1993 for establishing the base for future growth of the Bank. In 1994 the opening of four supermarket branches and the acquisition of Country National Bank laid the foundation for solidifying the Bank's community bank leadership in its market area. The Bank's external and internal structures continued to build and develop in 1995. The Bank opened a branch in Albertson's Chico store in November and another is scheduled to open in Albertson's Grass Valley store in March 1996. A loan production office was opened in Bakersfield, California in December and the Bank is planning to open one in Sacramento in the first quarter of 1996. These are relatively low cost ways to expand the Bank's service area. Changes in the organizational structure, coupled with new and upgraded product delivery systems, are helping the Bank remain competitive in the ever changing California banking environment.

Management continues to believe the Bank's establishment of the supermarket branches was well timed. Tri Counties Bank is one of few community banks that is employing in-store branches as part of a service delivery strategy. It is apparent from their actions that in-store branches will continue to play an important role in long term service delivery strategies for the two major California banks. The aggressive position taken by those two banks to tie up contracts with the major store chains has presented Management with a challenge to obtain desirable locations for our expansion plans. Management still hopes to expand the Bank's service area by adding two to four in-store branches in each of the next several years.

Net income of \$7,045,000 for 1995 was a record for the Company. Income increased \$1,184,000 or 20.2% over 1994 and is attributable to several factors. Net interest income increased \$463,000 (not tax adjusted) as the increase of \$2,771,000 in interest income was offset in part by an increase of \$2,308,000 in interest expense. Interest rates received on earning assets and rates paid on interest-bearing

liabilities both increased in 1995. The net interest margin improved to 5.36% in 1995 from 5.18% in 1994. Noninterest income increased \$908,000 of which \$593,000 was due to service charge and fee income as the result of both rate changes and increased volumes. Noninterest expenses decreased \$397,000. Major favorable impacts to these expenses resulted from a decrease in FDIC insurance of \$380,000, or 35.8%, and the elimination of the one time costs of approximately \$840,000 relating to the 1994 acquisition of Country National Bank. The full year effect of the expenses related to the four supermarket branches which were opened during 1994, as well as other cost increases, offset these cost reductions in part. The Company's 1995 income tax rate decreased 1.5% to 41.1% due to the reduction in non-deductible acquisition costs which were incurred in 1994.

Assets of the Company totaled \$603,554,000 at December 31, 1995, which was an increase of \$9,720,000 from 1994 ending balances. Loan balances increased \$11,673,000 to \$318,766,000.

During 1995 the treasury yield curve flattened. That is, rates earned on short term investments were within 100 to 150 basis points of the 30 year bond rates. Consequently, Management decided not to reinvest funds received from maturing instruments or prepayments of principal from mortgage backed securities in longer term securities. As a result, the securities portfolio decreased about \$25,383,000 or 11.6% from year ago balances. At December 31, 1995, the Company had \$25,600,000 invested in overnight Federal funds versus none at year end 1994.

Net income for 1994 decreased to \$5,861,000 from \$6,815,000 in 1993. Contributing factors to the decrease included: costs associated with the CNB acquisition including investment banking fees, legal and accounting fees, as well as costs associated with converting CNB to the banking systems at Tri Counties Bank; startup costs and expenses related to the four new supermarket branches. Significant gains of \$1,421,000 on the sale of securities realized in 1993 versus a small loss in 1994. These unfavorable impacts on earnings were offset in part by a \$609,000 (2.3%) (not tax adjusted) increase in net interest income. Also, other income was down slightly. The quality of the Bank's loan portfolio allowed Management to reduce the provision for loan losses by \$1,542,000 in 1994 which helped to offset the adverse factors.

Management's goal for the Bank is to deliver a full array of competitive products to its customers while maintaining the personalized customer service of a community bank. We believe this strategy will provide growth and above average returns for our shareholders.



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

(A) RESULTS OF OPERATIONS

	Years Ended December 31,				
	1995	1994	1993 ¹	1992 ¹	1991 ¹
Interest income:	(in thousands, except earnings per share amounts)				
Interest and fees on loans	\$ 33,776	\$ 30,641	\$ 31,795	\$ 33,695	\$ 35,852
Interest on investment securities—taxable	11,706	12,247	8,585	6,170	3,192
Interest on investment securities—tax exempt ²	272	401	426	489	1,347
Interest on federal funds sold	371	123	329	129	530
Total interest income	46,125	43,412	41,135	40,483	40,894
Interest expense:					
Interest on deposits	16,231	13,902	13,006	15,427	18,849
Interest on short-term borrowing	526	719	739	65	20
Interest on long-term debt	1,231	1,059	251	108	119
Total interest expense	17,988	15,680	13,996	15,600	18,988
Net interest income	28,137	27,732	27,139	24,883	21,906
Provision for loan losses	335	316	1,858	2,101	1,531
Net interest income after provision for loan losses	27,802	27,416	25,281	22,782	20,375
Noninterest income:					
Service charges, fees and other	5,943	5,048	5,304	5,205	4,926
Investment securities gains (losses), net	(10)	(23)	1,421	367	39
Total noninterest income	5,933	5,025	6,725	5,572	4,965
Noninterest expenses:					
Salaries and employee benefits	10,787	10,550	9,072	8,460	8,035
Other, net	10,874	11,508	11,152	9,570	9,010
Total noninterest expenses	21,661	22,058	20,224	18,030	17,045
Net income before income taxes	12,074	10,383	11,782	10,324	8,295
Income taxes	4,915	4,350	4,779	4,113	3,031
Tax equivalent adjustment ²	114	172	188	211	443
Net income	\$ 7,045	\$ 5,861	\$ 6,815	\$ 6,000	\$ 4,821
Primary earnings per common share³	\$ 1.46	\$ 1.18	\$ 1.42	\$ 1.46	\$ 1.10
Fully diluted earnings per common share³	\$ 1.45	\$ 1.18	\$ 1.40	\$ 1.46	\$ 1.10
Selected Balance Sheet Information					
Total Assets	\$603,554	\$593,834	\$575,897	\$492,404	\$439,358
Long-term Debt	26,292	18,499	7,144	907	1,027
Preferred Stock	—	3,899	3,899	6,086	8,630

¹Restated on a historical basis to reflect the July 21, 1994 acquisition of Country National Bank on a pooling-of-interests basis.

²Interest on tax-free securities is reported on a tax equivalent basis of 1.72 for 1995, 1.75 for 1994, 1.79 for 1993, 1.76 for 1992, and 1.49 for 1991.

³Restated on a historical basis to reflect the 5-for-4 stock split effected September 22, 1995.





(A) RESULTS OF OPERATIONS *(continued)*

Net Interest Income/Net Interest Margin

Net interest income represents the excess of interest and fees earned on interest-earning assets (loans, securities and federal funds sold) over the interest paid on deposits and borrowed funds. Net interest margin is net interest income expressed as a percentage of average earning assets.

In 1995 net interest income increased \$405,000 (1.5%) to \$28,137,000. The interest income component increased \$2,713,000 (6.3%) to \$46,125,000. Rates received on loans in 1995 averaged 10.95% which was 85 basis points higher than rates received in 1994. The higher rates accounted for the majority of the increase in interest income. Average loans outstanding also increased modestly in 1995 as did rates received on securities and Federal Funds sold. These increases were offset in part by an 8.1% (\$18,411,000) decrease in average balances of investment securities which resulted in a reduction of \$1,052,000 to interest income.

For 1995 the interest expense component increased \$2,308,000 (14.7%) to \$17,988,000 over 1994. Most of this increase can be attributed to higher rates paid on time certificates of deposit in 1995. The average rate paid on time certificates increased 133 basis points or 32% over the 1994 average. This large increase was due to the local competitive market environment. During part of the year, Management did not raise the rates to meet the local competition and as a result some deposit runoff was experienced. For the year, average balances on interest-bearing deposits decreased \$9,118,000 (2.2%). The higher rates on time certificates also caused customers to shift some funds from savings to time certificates. Average balances in savings accounts decreased \$44,572,000 (21.1%) as time certificate balances increased \$35,179,000 (27.1%). The effect of the changes in the net interest income and the average balances of the interest earning assets and the interest-bearing liabilities resulted in an overall increase of 18 basis points in net interest margin. Net interest margin for 1995 was 5.36% versus 5.18% in 1994.

The net interest income for 1994 of \$27,732,000 was an increase of \$593,000 (2.2%) over 1993. Interest income increased 5.5% as the growth in investment securities and slightly higher yields on securities offset lower average loan balances. The net interest income in 1994 was adversely affected by a 12.0% increase in interest expense as both the volume of interest-bearing liabilities and rates paid on them increased. Even though net interest income increased, net interest margin in 1994 decreased 31 basis points to 5.18%. The net interest margin reflected a 22 basis point decline in

the average yield received on earning assets coupled with a 9 basis point increase in the average rates paid on interest-bearing liabilities. Because loan demand remained relatively soft throughout most of 1994, asset growth was in investment securities which have lower yields than loans.

Interest income in 1994 increased \$2,277,000 or 5.5% over 1993. Growth in the securities portfolio from an average balance of \$167,244,000 in 1993 to \$228,616,000 in 1994 coupled with a 20 basis point increase in security yields resulted in an increase of \$3,637,000 to interest income. This increase was offset by a decrease in loan interest income due to lower volumes. Overall yield on the earning assets decreased 22 basis points as the increased volume of earning assets was in the securities which have lower yields than loans.

Interest expense increased \$1,684,000 to \$15,680,000 in 1994. Most of the increase was due to the volume of interest-bearing liabilities as average rates paid increased just 10 basis points from 1993 levels. While rates paid on the full year basis within the deposit category were not significantly changed from the prior year, time deposits in the fourth quarter reflected a jump of 62 basis points from the 1993 levels.

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



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

(A) RESULTS OF OPERATIONS *(continued)*

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

Assets	1995			1994			1993		
	Average Balance ¹	Income	Yield/Rate	Average Balance ¹	Income	Yield/Rate	Average Balance ¹	Income	Yield/Rate
(dollars in thousands)									
Earning assets:									
Loans ^{2,3}	\$308,473	\$33,776	10.95 %	\$303,497	\$30,641	10.10 %	\$314,691	\$31,795	10.10 %
Securities - taxable	207,163	11,706	5.65 %	224,447	12,247	5.46 %	163,322	8,585	5.26 %
Securities - nontaxable ⁴	3,042	272	8.93 %	4,169	401	9.62 %	3,922	426	10.86 %
Federal funds sold	6,702	371	5.54 %	3,727	123	3.30 %	12,394	329	2.65 %
Total earning assets	525,380	46,125	8.78 %	535,840	43,412	8.10 %	494,329	41,135	8.32 %
Cash and due from banks	29,150			31,935			30,546		
Premises and equipment	13,206			13,151			11,749		
Other assets, net	19,537			19,240			14,479		
Less: Unrealized loss on securities	(3,156)			(3,538)			—		
Less: Allowance for loan losses	(5,636)			(5,917)			(5,731)		
Total assets	\$578,481			\$590,711			\$545,372		
Liabilities and shareholders' equity									
Interest-bearing demand deposits	\$ 81,408	2,000	2.46 %	\$ 81,133	2,066	2.55 %	\$ 71,751	1,885	2.63 %
Savings deposits	166,637	5,167	3.10 %	211,209	6,442	3.05 %	206,975	6,523	3.15 %
Time deposits	164,965	9,064	5.49 %	129,786	5,394	4.16 %	114,649	4,598	4.01 %
Federal funds purchased	1,953	120	6.14 %	3,726	174	4.67 %	1,760	59	3.35 %
Repurchase agreements	6,696	406	6.06 %	10,727	545	5.08 %	20,104	680	3.38 %
Long-term debt	21,416	1,231	5.75 %	20,637	1,059	5.13 %	4,440	251	5.65 %
Total interest-bearing liabilities	443,075	17,988	4.06 %	457,218	15,680	3.43 %	419,679	13,996	3.33 %
Noninterest-bearing deposits	76,184			79,776			74,812		
Other liabilities	8,196			6,014			6,141		
Shareholders' equity	51,026			47,703			44,740		
Total liabilities and shareholders' equity	\$578,481			\$590,711			\$545,372		
Net interest rate spread ⁵			4.72 %			4.67 %			4.99 %
Net interest income/net interest margin ⁶		\$28,137	5.36 %		\$27,732	5.18 %		\$27,139	5.49 %

¹ Average balances are computed principally on the basis of daily balances.

² Nonaccrual loans are included.

³ Interest income on loans includes fees on loans of \$1,676,000 in 1995, \$1,701,000 in 1994 and \$2,241,000 in 1993.

⁴ Interest income is stated on a tax equivalent basis of 1.72 for 1995, 1.75 for 1994 and 1.79 for 1993.

⁵ Net interest rate spread represents the average yield earned on interest-earning assets less the average rate paid on interest-bearing liabilities.

⁶ Net interest margin is computed by dividing net interest income by total average earning assets.

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



(A) RESULTS OF OPERATIONS *(continued)*

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

	1995 over 1994			1994 over 1993		
	Volume	Yield/ Rate ⁴	Total	Volume	Yield/ Rate ⁴	Total
(dollars in thousands)						
Increase (decrease) in interest income:						
Loans ^{1,2}	\$ 502	\$ 2,633	\$ 3,135	\$ (1,131)	\$ (23)	\$(1,154)
Investment securities ³	(1,052)	382	(670)	3,240	397	3,637
Federal funds sold	98	150	248	(230)	24	(206)
Total	(452)	3,165	2,713	1,879	398	2,277
Increase (decrease) in interest expense:						
Demand deposits (interest-bearing)	7	(73)	(66)	246	(65)	181
Savings deposits	(1,359)	84	(1,275)	133	(214)	(81)
Time deposits	1,462	2,208	3,670	607	189	796
Federal funds purchased	(83)	29	(54)	66	49	115
Repurchase agreements	(205)	66	(139)	(317)	182	(135)
Long-term borrowings	40	132	172	916	(108)	808
Total	(138)	2,446	2,308	1,651	33	1,684
Increase (decrease) in net interest income	\$ (314)	\$ 719	\$ 405	\$ 228	\$ 365	\$ 593

¹ Nonaccrual loans are included.

² Interest income on loans includes fees on loans of \$1,676,000 in 1995, \$1,701,000 in 1994 and \$2,241,000 in 1993.

³ Interest income is stated on a tax equivalent basis of 1.72 for 1995, 1.75 for 1994 and 1.79 for 1993.

⁴ The rate/volume variance has been included in the rate variance.

Provision for Loan Losses

The 1995 provision for loan losses of \$335,000 was a slight increase over the 1994 provision. This provision essentially maintained the allowance for loan losses at a constant level as the provision and loan recoveries were just \$28,000 less than the loans charged off. Net charge-offs for the year were only .12% of average loans outstanding which was reflective of the continuing quality of the loan portfolio. Nonperforming loans were .76% of total loans at year end versus .37% in 1994. The allowance for loan losses to nonperforming loans was 226% versus 489% at the end of 1994. These two ratios for the Bank compare to averages of about 3.2% and 82% respectively, for California peer banks. (See balance sheet analysis "Allowance for Loan Losses" for further discussion.)

The Bank reduced its provision for loan losses in 1994 to \$316,000 for a decrease of 82% from 1993. The provision was reduced from prior year levels as loan quality remained very good with net charge-offs equaling just .22% of average loans outstanding. Nonperforming loans were .37% of total loans at year end versus .56% in 1993. The allowance for loan losses to nonperforming loans was 489% versus 347% at the end of 1993.

Service Charges and Fees and Other Income

Service charge and fee income grew by 16.6% to \$4,163,000 in 1995. Most of the increase came from fee increases on returned checks coupled with volume increases. The 20.4% or \$302,000 increase in other income resulted from a mixture of changes within the category and nonrecurring items. Gains on the sale of loans was down for the second straight year as origination of mortgage loans continued to be soft. Commissions on the sales of mutual funds and annuities decreased 5% to 8% as sales were soft in the first part of 1995.

In 1994 service charge and fee income was relatively flat versus 1993. No accounts within the category had a year over year variance exceeding 2% of the category. Other income decreased \$269,000 to \$1,478,000 in 1994. Gains on the sale of loans decreased \$274,000 or 61% from the 1993 level. Origination of mortgage loans were off significantly due to the higher interest rates. Commissions from the sale of investment products increased a modest 1.9% to \$945,000 in 1994. However, due to the stock market conditions during 1994, commissions from the sale of mutual funds decreased \$114,000 (56.8%) while commissions on the sale of annuities increased \$156,000 (26.9%). Other categories did not have any significant changes.



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

(A) RESULTS OF OPERATIONS *(continued)*

Securities Transactions

The Bank had very few securities transactions in 1995. It realized a total net loss of \$10,000 for the year on sales of securities. The flat yield curve present for most of 1995 presented few opportunities to invest at rates attractive to Bank Management. The current investment strategy consists of allowing the investment portfolio to shrink as securities mature or prepayments are received. These funds will be invested in short term instruments until they can be deployed into loans or until the yield curve for intermediate term securities improves.

Sales activity from the available-for-sale securities in 1994 was significantly reduced from the 1993 levels. The Bank realized a total net loss of \$23,000 as compared to a gain of \$1,421,000 in 1993 as a result of restructuring the investment portfolio. During 1993, the continuing decline of interest rates had presented Management with an on-going challenge to maintain an acceptable yield on its investment securities while maintaining reasonable interest rate risk. Because of this decline, Management elected to make greater use of Collateralized Mortgage Obligations (CMO's) which paid higher rates of interest than equivalent maturity U.S. Treasuries or Agencies. By the end of 1993, the Bank had mostly completed restructuring its investment portfolio for both improved yields and in preparation for adoption of SFAS 115 on January 1, 1994.

Salaries and Benefits

Salary and benefit expenses increased 2.25% or \$237,000 in 1995. Base salaries increased \$259,000 (3.6%) and were reflective of the full year effect of staffing for the in-store branches and normal salary reviews. Management incentive payments for 1995 were less than those for 1994, as approximately \$245,000 in one time bonus and termination payments were made to Country National Bank employees in 1994. Group insurance expenses decreased 10.0% mostly due to a one time premium refund. These expenses are not expected to increase significantly in 1996.

In 1994, salaries and benefits increased \$1,478,000 or 16.3%. Of the increase \$745,000 was attributable to base salaries which included the effect for supermarket staffing, a new in-house legal department, a new collections department and normal salary increases. In addition approximately \$245,000 of the increase was due to the payments to Country National Bank employees discussed above. The balance of the increase was due to increases in employee incentive pay and employee benefits including payroll taxes.



Preparing the teller staff goes far beyond teaching money counting skills.

In this technical world, they must be trained in a variety of computer operating systems.

And to keep up with the increasingly competitive world of financial lending, they must also become skilled salespeople.



(A) RESULTS OF OPERATIONS *(continued)*

Other Expenses

Other expenses decreased \$634,000 or 5.5% in 1995. In September the FDIC significantly reduced deposit insurance premiums retroactive to June 1995. For the year, the lower insurance premium and lower average deposits resulted in a favorable change of \$478,000 from 1994. Greater savings will be realized in 1996 as the FDIC has reduced the deposit insurance premium to zero (\$0) for well capitalized banks as long as its insurance fund maintains the prescribed level. The absence of the one time merger costs of approximately \$840,000 incurred in 1994 also favorably impacted other expenses in 1995. A 9.0% (\$302,000) increase in premise and equipment expenses which were mostly due to the full year effect of the in-store branches partially offset these large decreases. Net increases in various other expenses totaled approximately \$380,000 with no single expense classification being significant.

In 1994 other expenses increased \$355,000 or 3.2% to \$11,508,000. Within the overall category there were some large variances. For the following categories of expense, most of the variances were related to either increased business activity at the new supermarket branches or the acquisition of CNB: amortization of leasehold improvements increased \$36,000 or 70.8%; depreciation on equipment increased \$187,000 or 30.3%; purchase of customer checks increased \$75,000 or 74%; outside data processing services increased \$88,000 or 47% due to conversion costs for CNB; communication costs increased \$114,000 or 37%; advertising costs increased \$48,000 or 11.4%; promotion expenses increased \$43,000 or 91.5%; professional fees increased \$329,000 or 100% and were mostly merger related. Other large variances occurred in the following accounts: service charges for the automated teller machines (ATM) increased \$81,000 or 126% as costs were incurred to change the vendor that provided the ATM network services; amortization for market discount on stock options was \$124,000 as this was the first year for this charge; FDIC assessment increased \$71,000 due to higher deposit volumes. Significant decreases occurred in the following categories: postage decreased \$76,000 or 18% in part due to consolidating mailings; provision for OREO losses decreased \$663,000 or 93% as OREO activity decreased during the year; legal fees for loan collection decreased \$236,000 or 57% as this function was brought in house after the first quarter.

Provision for Taxes

The effective tax rate on income was 41.1%, 42.6% and 41.2% in 1995, 1994, and 1993. The effective tax rate was greater than the federal statutory tax rate due to state tax expense of \$1,311,000, \$1,182,000 and \$1,186,000 in these years. Tax-free income of \$158,000, \$229,000 and \$238,000

from investment securities in these years helped to reduce the effective tax rate. In both 1994 and 1993 nondeductible expenses related to the CNB merger were incurred which increased the effective tax rate.

Return on Average Assets and Equity¹

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

	1995	1994	1993
Return on assets	1.22%	.99%	1.25%
Return on shareholders' equity	13.81%	12.29%	15.23%
Return on common shareholders' equity	13.95%	12.42%	15.81%
Shareholders' equity to assets	8.82%	8.06%	8.21%
Common shareholders' equity to assets	8.82%	7.42%	7.17%
Common shareholders' dividend payout ratio	24.10%	23.97%	22.64%

Return on assets rebounded in 1995 to 1.22% from the 0.99% achieved in 1994. The higher return was achieved through improved earnings applied to average assets which were \$12,230,000 lower in 1995. Return on assets of 0.99% in 1994 was down from 1.25% attained in the prior year. The lower ROA achieved in 1994 was reflective of the compounding of an increase in average assets of 8.3% and a decrease in net income of 14%.

The return on shareholder's equity improved to 13.8% in 1995 versus the 12.3% return achieved in 1994. The improved ROE for 1995 was reflective of both increased earnings and higher average shareholders' equity. Return on shareholders' equity fell to 12.3% in 1994 from 15.2% in 1993. Average capital due to earnings increased 6.6% while net income decreased.

In the past two years the difference between the return on Common shareholders' equity and return on shareholders' equity has been narrowing. This change is due to the reduction of the dividend amounts paid for preferred stock dividends. In August of 1995, the Company redeemed its Series B Preferred Stock and in December of 1993, it had redeemed its Series C Preferred Stock. The annual dividend requirements for these two issues were \$420,000 and \$229,000 respectively. Since all of the Company's preferred shares have now been redeemed, from 1996 forward there will not be any requirements for preferred dividends.

The total shareholders' equity to asset ratio increased in 1995 to 8.8% from 8.1%. This reflects the combination of the reduction in average assets, the increased earnings and the redemption of the Series B Preferred Stock. In 1994 there was just a .1% increase from 1993. The December 1993 redemption of the Series C Preferred Stock coupled with the growth in assets contributed to this change.



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

(A) RESULTS OF OPERATIONS *(continued)*

The Common shareholders' equity to assets ratio increased from 7.2% in 1993 to 7.4% in 1994 and 8.4% in 1995. These ratios are impacted by the same factors as the total equity ratios except for the direct effect of reduction in total capital for the redemption of the preferred stock issues.

In 1995, dividends paid to Common shareholders totaled \$1,639,000 as compared to \$1,304,000 in 1994. The resulting Common shareholders' dividend payout ratio of 24.1% was .1% higher than the payout for 1994. The increase in dividends paid matched the earnings growth. Common shareholders' dividend payout ratio increased to 24.0% in 1994 from 22.6% in 1993 even though total dividend distributions to Common shareholders decreased to \$1,304,000 from \$1,400,000. The payout ratio increased as the 6.9% decrease in cash dividends paid was offset by the 12.0% decrease in income available for Common shareholders.

(B) BALANCE SHEET ANALYSIS

Loans

The Company concentrates its lending activities in four principal areas: commercial loans (including agricultural loans); consumer loans; real estate mortgage loans (residential and commercial loans and mortgage loans originated for sale); and real estate construction loans. At December 31, 1995, these four categories accounted for approximately 48%, 20%, 26% and 6%, respectively, of the Company's loan portfolio. The interest rates charged for the loans made by the Company vary with the degree of risk, the size and maturity of the loans, the borrower's relationship with the Company and prevailing money market rates indicative of the Company's cost of funds.

The majority of the Company's loans are direct loans made to individuals, farmers and local businesses. The Company relies substantially on local promotional activity, personal contacts by bank officers, directors and employees to compete with other financial institutions. The Company makes loans to borrowers whose applications include a sound purpose, a viable repayment source and a plan of repayment established at inception and generally backed by a secondary source of repayment.

Loan activity, while not robust in 1995, reflected some improvements over 1994 as average loans outstanding increased 1.6% to \$308,473,000 and year end balances increased 3.8% to \$318,766,000. The average loan to deposit ratio in 1995 was 63.1% versus 60.7% in 1994. Management anticipates that the higher year end loan balances will provide a good platform for growth in 1996. As mentioned in the Overview section of this report, the Bank has opened a loan

production office in Bakersfield, California and plans to open a similar office in Sacramento, in 1996. Management's goal is to replace maturing investment securities with loans.

Loan demand was soft in 1994 as average loan balances decreased 3.6% from 1993 levels. The 1994 year end loan balances of \$307,103,000 were up slightly from 1993 ending balances. The average loan to deposit ratio for 1994 was down 6.5% from the 1993 average of 67.2%.

In 1993 the Bank installed a new software system which resulted in some changes in the loan classifications. The prior year classifications were not restated in the following table, but in general there was not a significant change in the loan mix. Over the five year period real estate construction loans have decreased as the result of economic conditions and de-emphasis of this loan type by the Bank. Commercial loans have generally increased as a percent of loans and this increase has offset the decrease in construction loan percent.

Management does not foresee any significant changes occurring in the loan mix in the coming year.

Loan Portfolio Composite

	December 31,				
	1995	1994	1993	1992	1991
	(dollars in thousands)				
Commercial, financial and agricultural	\$152,173	\$153,957	\$140,750	\$150,685	\$149,960
Consumer installment	64,445	58,471	55,654	47,726	51,635
Real estate mortgage	81,888	76,673	88,887	88,715	83,187
Real estate construction	20,260	18,002	20,611	30,392	31,615
Total loans	\$318,766	\$307,103	\$305,902	\$317,518	\$316,397

Nonaccrual, Past Due and Restructured Loans

Nonperforming assets at December 31, 1995 totaled \$3,064,000 which was a 6.3% decrease from 1994. The OREO component had a significant decrease from \$2,124,000 in 1994 to \$631,000 in 1995. However, this decrease was offset in great part by an increase in nonperforming loans. They increased from \$1,146,000 in 1994 to \$2,433,000 in 1995. The nonperforming loans at December 31, 1995 consisted of numerous lower value loans with the largest being about \$188,000. With this increase, the ratio of nonperforming loans to total loans was .76% as compared to .37% in 1994. While nonperforming loans are up from the prior year, management does not see a trend of increasing problem loans.



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



(B) BALANCE SHEET ANALYSIS *(continued)*

Both nonperforming loans and nonperforming assets at December 31, 1994 reflected significant decreases from 1993 year end totals. Nonperforming loans decreased 33.4% to \$1,146,000 and nonperforming assets decreased 38.8% to \$3,270,000. Bank management had emphasized improving collections during 1994 and actively sought to dispose of OREO properties. Both of these actions helped to reduce the nonperforming loans and assets. At .37% of total loans, nonperforming loans were at their lowest as a percentage of total loans in the prior five years.

Commercial, real estate 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 (unless in Management's opinion the loan is well secured and in the process of collection), the full and timely collection of additional interest or principal becomes uncertain, the loan is classified as doubtful by internal auditors or bank regulatory agencies, a portion of the principal balance has been charged off, or the Company takes possession of the collateral. The reclassification of loans as nonaccrual does not necessarily reflect Management's judgment as to whether they are collectible.

Interest income is not accrued on loans where Management has determined that the borrowers will be unable to meet contractual principal and/or interest obligations, unless the loan is well secured and in process of collection. When a loan is placed on nonaccrual, any previously accrued but unpaid interest has been reversed. Income on such loans is then recognized only to the extent that cash is received and where the future collection on 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.

Interest income on nonaccrual loans which would have been recognized during the year ended December 31, 1995, if all such loans had been current in accordance with their original terms, totaled \$166,000. Interest income actually recognized on these loans in 1995 was \$66,000.

With respect to the Company's policy of placing loans 90 days or more past due on nonaccrual status unless the loan is well secured and in the process of collection, a loan is considered to be in the process of collection if, based on a probable specific event, it is expected that the loan will be repaid or brought current. Generally, this collection period would not exceed 30 days. Loans where the collateral has been repossessed are classified as OREO or, if the collateral is personal property, the loan is classified as other assets on the Company's financial statements.

Management considers both the adequacy of the collateral and the other resources of the borrower in determining the steps to be taken to collect nonaccrual loans. Alternatives that are considered are foreclosure, collecting on guarantees, restructuring the loan or collection lawsuits.

The following table sets forth the amount of the Company's nonperforming assets as of the dates indicated.

	December 31,				
	1995	1994	1993	1992	1991
	(dollars in thousands)				
Nonaccrual loans	\$ 2,213	\$ 1,122	\$ 1,595	\$ 583	\$ 1,562
Accruing loans past due 90 days or more	220	24	126	1,611	989
Restructured loans (in compliance with modified terms)	—	—	—	—	—
Total nonperforming loans	2,433	1,146	1,721	2,194	2,551
Other real estate owned	631	2,124	3,624	1,860	1,426
Total nonperforming assets	\$ 3,064	\$ 3,270	\$ 5,345	\$ 4,054	\$ 3,977
Nonincome producing investments in real estate held by Bank's real estate development subsidiary	\$ 1,173	\$ 1,173	\$ 1,172	\$ 1,240	\$ 1,735
Nonperforming loans to total loans	.76%	.37%	.56%	.69%	.81%
Allowance for loan losses to nonperforming loans	229%	489%	347%	219%	163%
Nonperforming assets to total assets	.51%	.55%	.93%	.82%	.91%
Allowance for loan losses to nonperforming assets	182%	171%	112%	118%	105%



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

(B) BALANCE SHEET ANALYSIS *(continued)*

Allowance for Loan Losses Activity

In determining the adequacy of the allowance for loan losses, Management relies primarily on its review of the loan portfolio both to ascertain whether there are probable losses to be written off and to assess the loan portfolio in the aggregate. Problem loans are examined on an individual basis to determine estimated probable loss. In addition, Management considers current and projected loan mix and loan volumes, historical net loan loss experience for each loan category and current and anticipated economic conditions affecting each loan category. Based on the current conditions of the loan portfolio and nonperforming assets as discussed in the previous section, Management decreased the allowance for loan losses to 1.75% of outstanding loans at December 31, 1995 versus 1.83% at the prior year end. It is anticipated the Bank will continue to provide for loan losses at this level in the near term.

Management believes that the \$5,580,000 allowance for loan losses at December 31, 1995 is adequate to absorb probable losses inherent in the Bank's loan portfolio. No assurance can be given, however, that adverse economic conditions or other circumstances will not result in increased losses in the portfolio.

The primary risk elements considered by Management with respect to installment and residential real estate loans is lack of timely payment and the value of the collateral. The primary risk elements considered by Management with respect to its credit card portfolio are general economic conditions, timeliness of payments and the potential for fraud and over limit credit draws. The primary risk elements considered by Management with respect to real estate construction loans are the financial condition of borrowers, fluctuations in real estate values in the Company's market areas, fluctuations in interest rates, timeliness of payments, the availability of conventional financing, the demand for housing in the Company's market areas and general economic conditions. The primary risk elements with respect to commercial loans are the financial condition of the borrower, general economic conditions in the Company's market area, the sufficiency of collateral, the timeliness of payment and, with respect to adjustable rate loans, interest rate fluctuations.

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

	December 31,				
	1995	1994	1993	1992	1991
	(dollars in thousands)				
Balance, beginning of year	\$ 5,608	\$ 5,973	\$ 4,798	\$ 4,156	\$ 3,595
Provision charged to operations	335	316	1,858	2,101	1,531
Loans charged off:					
Commercial, financial and agricultural	(149)	(338)	(653)	(875)	(976)
Consumer installment	(432)	(712)	(622)	(719)	(446)
Real estate mortgage	—	—	—	(23)	—
Total loans charged-off	(581)	(1,050)	(1,275)	(1,617)	(1,422)
Recoveries:					
Commercial, financial and agricultural	98	205	380	106	384
Consumer installment	120	164	212	52	68
Total recoveries	218	369	592	158	452
Net loans charged-off	(363)	(681)	(683)	(1,459)	(970)
Balance, year end	\$ 5,580	\$ 5,608	\$ 5,973	\$ 4,798	\$ 4,156
Average total loans	\$308,473	\$303,497	\$314,691	\$318,839	\$305,562
Ratios:					
Net charge-offs during period to average loans outstanding during period	.12%	.22%	.22%	.46%	.32%
Provision for loan losses to average loans outstanding	.11%	.10%	.59%	.66%	.50%
Allowance to loans at year end ¹	1.75%	1.83%	1.95%	1.51%	1.31%

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

As part of its loan review process, Management has developed pools of reserves based on specific identified problem loans and historical loss data. The following tables summarize the allocation of the allowance for loan losses at December 31, 1995 and 1994.

	December 31, 1995	
	(dollars in thousands)	
	Amount	Percent of loans in each category to total loans
Balance at End of Period Applicable to:		
Commercial, financial and agricultural	\$ 3,932	47.7%
Real Estate—construction	—	6.4%
Real Estate—mortgage	355	25.7%
Installment loans to individuals	1,293	20.2%
	<u>\$ 5,580</u>	<u>100.0%</u>



(B) BALANCE SHEET ANALYSIS *(continued)*

Balance at End of Period Applicable to:	December 31, 1994 (dollars in thousands)	
	Amount	Percent of loans in each category to total loans
Commercial, financial and agricultural	\$ 3,271	50.1%
Real Estate—construction	—	5.9%
Real Estate—mortgage	407	25.0%
Installment loans to individuals	1,234	19.0%
Unallocated	696	N/A
	<u>\$ 5,608</u>	<u>100.0%</u>

Investment in Real Estate Properties

At December 31, 1995 and 1994, \$1,173,000 of property was held by a subsidiary of the Bank for the purposes of development.

Other Real Estate Owned

The December 31, 1995 balance of Other Real Estate Owned (OREO) was \$631,000 versus \$2,124,000 in 1994. Properties foreclosed in 1995 and remaining in the Bank's possession at year end were valued at \$206,000 net of a valuation allowance of \$9,000. OREO properties consist of a mixture of land, single family residences and commercial buildings. OREO had decreased \$1,500,000 in 1994.

Deposits

Deposits at December 31, 1995 were up 5.1% to \$516,193,000 over the 1994 year end balances. In-store deposits almost doubled in 1995 ending the year at \$29,605,000. There was growth in both the interest-bearing and noninterest-bearing demand deposits. However, most of the growth was attributable to time certificates of deposit (CD's). They increased \$49,334,000 or 37.7% during 1995. At the same time, savings deposits decreased \$29,321,000 (15.4%). Depositors moved funds from savings to CD's as the yields on CD's often were 200-300 basis points higher. The local market conditions dictated the high CD rates. The increase of \$12.3 million in the over \$100,000 CD category is largely attributable to a \$9.0 million deposit from the State of California. This deposit has a 90 day maturity and is renewable at the Bank's option.

In 1994 total deposits decreased \$24,880,000 or 4.8% from 1993 ending balances. Essentially all of the decrease occurred in savings accounts and time deposits. During the second half of 1993 as interest rates rose, banks and savings and loan institutions in the Bank's market area began offering higher rates on CD's. Bank Management did not choose to meet some of these rates until late in the year. Consequently, some funds moved out of the Bank's deposit base. Management believed that the Bank had sufficient liquidity



The new Consumer Credit Center processes all retail credit applications.

This centralization assures uniformity in underwriting retail loan products.

Customer service is dramatically improved as well, with approvals offered seven days a week.

Certain retail loan requests can be fulfilled in as little as an hour, from the time a customer's loan application is submitted until funding is received.



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

(B) BALANCE SHEET ANALYSIS *(continued)*

and ability to meet the loan demand so some runoff of deposits could be tolerated. At the end of 1993, the in-store branches had deposits totaling just over \$15,000,000.

Accrued Interest Payable

At December 31, 1995, the balance of accrued interest payable was \$3,162,000 which was an increase of \$1,402,000 over the 1994 year end. This increase was attributable to the higher rates and balances in time certificates of deposit. At December 31, 1994, accrued interest payable had increased \$30,000 to \$1,760,000. The increase was due to the higher rates of interest being accrued on time certificates of deposit and was offset by lower CD balances.

Long-Term Debt

During 1995 the Bank incurred long term debt in the amount of \$9,828,000 with a term of two years. This debt is in the form of a repurchase agreement. The Bank also retired \$2,000,000 of long term debt during the year.

During 1994 the Bank incurred long-term debt in the amount of \$11,400,000 with terms varying from one to seven years. These loans were used as matched funding for loans made by the Bank.

Equity

The Company and the Bank are subject to the minimum capital requirements of the Federal Reserve Board and the FDIC. Effective December 31, 1990, the Federal Reserve Board guidelines implemented new risk-based capital ratio requirements. These guidelines provide a measure of capital adequacy and are intended to reflect the degree of risk associated with both on and off balance sheet items, including residential loans sold with recourse, legally binding loan commitments and standby letters of credit. Under these regulations, financial institutions are required to maintain capital to support activities which in the past did not require capital. A financial institution's risk-based capital ratio is calculated by dividing its qualifying capital by its risk-weighted assets.

Qualifying capital is divided into two tiers. Core capital (Tier 1) consists generally of Common shareholders' equity, cumulative (up to 25% of capital) and noncumulative perpetual preferred stock and minority interest in equity capital accounts of consolidated subsidiaries. Supplementary capital (Tier 2) consists of, among other things, allowance for loan and lease losses up to 1.25% of risk-weighted assets, cumulative (not qualifying as Tier 1) and limited life preferred stock, mandatory convertible securities and subordinated debt. Tier 2 capital qualifies as a part of total capital

up to a maximum of 100% of Tier 1 capital. Amounts in excess of these limits may be issued but are not included in the calculation of the risk-based capital ratio. As of December 31, 1992, the Company and the Bank must generally have a minimum ratio of qualifying total capital to risk-weighted assets of 8%, of which 4% of qualifying total capital must be in the form of Tier 1 capital.

In addition, the regulators have promulgated capital leverage guidelines designed to supplement the risk-based capital guidelines. Banks and bank holding companies must maintain a minimum ratio of Tier 1 capital to adjusted total assets of 3% for the highest rated organizations, with all other banks and holding companies required to maintain an additional cushion of at least 100 to 200 basis points above the 3% minimum. As of December 31, 1995, the Company's Tier 1 capital was 8.9% of adjusted total assets. At December 31, 1994, this ratio was 8.7% of adjusted total assets.

The following table indicates the amounts of regulatory capital of the Company.

	Tier 1	Total Risked-	
		Based	Leverage
(dollars in thousands)			
December 31, 1995			
Company's %	13.9 %	15.2 %	8.9 %
Regulatory minimum %	4.0 %	8.0 %	4.0 %
Company's capital \$	\$ 53,863	\$ 58,700	\$ 53,863
Regulatory minimum \$	15,479	30,958	24,142
Computed excess	\$ 38,384	\$ 27,742	\$ 29,721
December 31, 1994			
Company's %	13.4 %	14.6 %	8.7 %
Regulatory minimum %	4.0 %	8.0 %	4.0 %
Company's capital \$	\$ 51,939	\$ 56,784	\$ 51,939
Regulatory minimum \$	15,505	31,011	23,753
Computed excess	\$ 36,434	\$ 25,773	\$ 28,186

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





(B) BALANCE SHEET ANALYSIS *(continued)*

Liquidity and Interest Rate Sensitivity

Liquidity refers to the Company's ability to provide funds at an acceptable cost to meet loan demand and deposit withdrawals, as well as contingency plans to meet unanticipated funding needs or loss of funding sources. These objectives can be met from either the asset or liability side of the balance sheet. Asset liquidity sources consist of the repayments and maturities of loans, selling of loans, short-term money market investments, maturities of securities and sales of securities from the available-for-sale portfolio. These activities are generally summarized as investing activities in the Consolidated Statement of Cash Flows. Net cash provided from these sources totaled approximately \$18,556,000 in 1995.

Liquidity is generated from liabilities through deposit growth and short-term borrowings. These activities are included under financing activities in the cash flow statement. In 1995 cash was used as deposits rose \$25,021,000, but was offset by the repayment of repurchase agreements totaling \$30,457,000. The Company also had available correspondent banking lines of credit totaling \$33,000,000. While these sources are expected to continue to provide significant amounts of funds in the future, their mix, as well as the possible use of other sources, will depend on future economic and market conditions.

Liquidity is also provided or used through the results of operating activities. Net cash of \$9,981,000 was provided from operating activities in 1995. In 1994 \$4,620,000 had been provided from operating activities.

Since the adoption of SFAS 115 January 1, 1994, Management has targeted the available-for-sale portfolio (AFS) to be maintained at 35-40% of the total securities holdings. The AFS securities plus cash in excess of reserve requirements totaled \$133,610,000 which was 22.1% of total assets at year end. This was up from \$107,234,000 and 18.1% at the end of 1994.

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, are more likely to be withdrawn to obtain higher yields elsewhere if available. In 1995, \$9,000,000 of the balance is a deposit by the State of California which is renewable at the Bank's option.



The Bank's mainframe computer, the AS400, utilizes the latest state-of-the-art technology. With maximum up-time to service the needs of bank personnel, the AS400 assures seamless customer service.

The system's three high speed printers provide customer reports, notices and statements in a timely manner.



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

(B) BALANCE SHEET ANALYSIS *(continued)*

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

	Amounts as of December 31,		
	1995	1994	1993
	(in thousands)		
Time remaining until maturity:			
Less than 3 months	\$ 9,985	\$ 401	\$ 1,572
3 months to 6 months	2,909	717	2,001
6 months to 12 months	545	—	1,400
More than 12 months	—	—	450
Total	<u>\$13,439</u>	<u>\$ 1,118</u>	<u>\$ 5,423</u>

Loan demand also affects the Bank's liquidity position. The following table present the maturities of performing loans at December 31, 1995.

Loan Maturities - December 31, 1995

	After One But Within After 5			Total
	Within One Year	5 Years	Years	
	(in thousands)			
Loans with predetermined interest rates:				
Commercial, financial and agricultural	\$ 6,624	\$ 18,798	\$ 25,931	\$ 51,353
Consumer installment	3,513	9,831	8,055	21,399
Real estate mortgage	2,349	9,898	34,877	47,124
Real estate construction	6,519	88	103	6,710
	<u>19,005</u>	<u>38,615</u>	<u>68,966</u>	<u>126,586</u>
Loans with floating interest rates:				
Commercial, financial and agricultural	43,800	20,687	36,333	100,820
Consumer installment	12,389	2,611	28,046	43,046
Real estate mortgage	2,070	5,986	26,708	34,764
Real estate construction	13,550	—	—	13,550
	<u>71,809</u>	<u>29,284</u>	<u>91,087</u>	<u>192,180</u>
Total loans	<u>\$ 90,814</u>	<u>\$ 67,899</u>	<u>\$160,053</u>	<u>\$318,766</u>

Interest rate sensitivity is a function of the repricing characteristics of the Company's portfolio of assets and liabilities. These repricing characteristics are the time frames within which the interest-bearing assets and liabilities are subject to change in interest rates either at replacement, repricing or maturity. Interest rate sensitivity management focuses on the maturity of assets and liabilities and their repricing during periods of changes in market interest rates. Interest rate sensitivity is measured as the difference between the volumes of assets and liabilities in the Company's current portfolio that are subject to repricing at various time horizons. The differences are known as interest sensitivity gaps.

The following repricing tables present the Bank's interest rate sensitivity position at December 31, 1995 and 1994:

Interest Rate Sensitivity - December 31, 1995

	Repricing within:				
	3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years
	(dollars in thousands)				
Interest-earning assets:					
Securities	\$ 10,403	\$ 9,802	\$ 17,195	\$111,822	\$ 44,125
Fed funds sold	25,600	—	—	—	—
Loans	190,446	7,262	14,336	40,123	66,602
Total interest-earning assets	<u>\$ 226,446</u>	<u>\$ 17,064</u>	<u>\$ 31,531</u>	<u>\$151,945</u>	<u>\$110,727</u>
Interest-bearing liabilities:					
Transaction deposits	\$ 245,793	\$ —	\$ —	\$ —	\$ —
Time	56,402	88,906	29,263	5,520	—
Long-term borrowings	7,003	3	6	18,128	1,152
Total interest-bearing liabilities	<u>\$ 309,198</u>	<u>\$ 88,909</u>	<u>\$ 29,269</u>	<u>\$ 23,648</u>	<u>\$ 1,152</u>
Interest sensitivity gap	\$ (82,752)	\$ (71,845)	\$ 2,262	\$128,297	\$109,575
Cumulative sensitivity gap	(82,752)	(154,597)	(152,336)	(24,039)	85,537
As a percentage of earning assets:					
Interest sensitivity gap	(15.39%)	(13.36%)	0.42%	23.86%	20.38%
Cumulative sensitivity gap	(15.39%)	(28.75%)	(28.33%)	(4.47%)	15.91%

Interest Rate Sensitivity - December 31, 1994

	Repricing within:				
	3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years
	(dollars in thousands)				
Interest-earning assets:					
Securities	\$ 7,441	\$ 7,045	\$ 16,817	\$118,338	\$ 75,257
Fed funds sold	—	—	—	—	—
Loans	168,133	15,627	17,815	31,357	74,171
Total interest-earning assets	<u>\$ 175,574</u>	<u>\$ 22,672</u>	<u>\$ 34,632</u>	<u>\$149,695</u>	<u>\$149,428</u>
Interest-bearing liabilities:					
Transaction deposits	\$ 271,457	\$ —	\$ —	\$ —	\$ —
Time	24,872	67,306	36,249	2,228	103
Short-term borrowings	30,457	—	—	—	—
Long-term borrowings	7,015	15	9	8,448	3,012
Total interest-bearing liabilities	<u>\$ 333,801</u>	<u>\$ 67,321</u>	<u>\$ 36,258</u>	<u>\$ 10,676</u>	<u>\$ 3,115</u>
Interest sensitivity gap	\$ (158,227)	\$ (44,649)	\$ (1,626)	\$139,019	\$146,313
Cumulative sensitivity gap	(158,227)	(202,876)	(204,502)	(65,483)	80,830
As a percentage of earning assets:					
Interest sensitivity gap	(29.74%)	(8.39%)	(0.31%)	26.13%	27.50%
Cumulative sensitivity gap	(29.74%)	(38.13%)	(38.44%)	(12.31%)	15.19%





(B) BALANCE SHEET ANALYSIS *(continued)*

The maturity distribution and yields of the investment portfolios are presented in the following tables:

Securities Maturities and Weighted Average Yields - December 31, 1995

	Within One Year		After One Year but Through Five Years		After Five Years but Through Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
(dollars in thousands)										
Securities Held-to-Maturity										
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 3,012	6.22 %	\$ 22,519	5.81%	\$ 2,000	6.50 %	\$ 2,610	6.84 %	\$ 30,141	5.92 %
Obligations of states and political subdivisions	130	3.59 %	719	4.23%	—	—	—	—	849	4.30 %
Mortgage-backed securities	—	—	4,795	5.76%	9,606	6.09 %	72,341	5.86 %	86,742	5.70 %
Total securities held-to-maturity	\$ 3,142	6.11 %	\$ 28,033	5.76%	\$ 11,606	6.16 %	\$ 74,951	5.74 %	\$ 117,732	5.76 %
Securities Available-for-Sale										
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 16,614	5.23 %	\$ 22,855	5.88%	\$ —	—	\$ 2,539	6.70 %	\$ 42,038	5.45 %
Obligations of states and political subdivisions	247	5.70 %	1,022	5.38%	431	5.65 %	—	—	1,700	5.78 %
Mortgage-backed securities	—	—	1,072	6.93%	—	—	28,004	5.42 %	29,076	5.25 %
Other securities	—	—	—	—	—	—	3,668	—	3,668	—
Total securities available-for-sale	\$ 16,891	5.24 %	\$ 24,949	5.90%	\$ 431	5.65 %	\$ 34,211	5.53 %	\$ 76,482	5.36 %
Total all securities	\$ 20,033	5.38 %	\$ 52,982	5.83%	\$ 12,037	6.14 %	\$ 109,162	5.79 %	\$ 194,214	5.62 %
Less: unrealized loss on securities transferred from available-for-sale									\$ (867)	
Less: unrealized loss on securities available-for-sale									(236)	
Total									\$ 193,211	

The principal cash requirements of the Company are dividends on Common Stock when declared. 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 payment schedule.

Off-Balance Sheet Items

The Bank has certain ongoing commitments for operating leases. (See footnote G for the terms.) These commitments do not severely impact operating results.

As of December 31, 1995 commitments to extend credit were the sole source of financial instruments with off-balance sheet risk. The Bank has not entered into any contracts for financial derivative instruments such as futures, swaps, options etc. Loan commitments increased to \$91,276,000 from \$81,513,000 at December 31, 1994. Much of the increase relates to credit cards. The commitments represent 28.6% of the total loans outstanding at year end 1995 versus 26.5% a year ago.

Disclosure of Fair Value

The Financial Accounting Standards Board (FASB), Statement of Financial Accounting Standards Number 107, Disclosures about Fair Value of Financial Statements, requires the disclosure of fair value of most financial instruments, whether recognized or not recognized in the financial statements. The intent of presenting the fair values of financial instruments is to depict the market's assessment of the present value of net future cash flows discounted to reflect both current interest rates and the market's assessment of the risk that the cash flows will not occur.

In determining fair values, the Company used the carrying amount for cash, short-term investments, accrued interest receivable, short-term borrowings and accrued interest payable as all of these instruments are short term in nature. Securities are reflected at quoted market values. Loans and deposits have a long term time horizon which required more complex calculations for fair value determination. Loans are



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

(B) BALANCE SHEET ANALYSIS *(continued)*

grouped into homogeneous categories and broken down between fixed and variable rate instruments. Loans with a variable rate, which reprice immediately, are valued at carrying value. The fair value of fixed rate instruments is estimated by discounting the future cash flows using current rates. Credit risk and repricing risk factors are included in the current rates. Fair value for nonaccrual loans is reported at carrying value and is included in the net loan total. Since the allowance for loan losses exceeds any potential adjustment for nonaccrual valuation, no further valuation adjustment has been made.

Demand deposits, savings and certain money market accounts are short term in nature so the carrying value equals the fair value. For deposits that extend over a period in excess of four months, the fair value is estimated by discounting the future cash payments using the rates currently offered for deposits of similar remaining maturities.

At 1995 year end, the fair values calculated on the Company's assets are .5% above the carrying values versus 2.9% below the carrying values in 1994. The increase in the calculated fair values relates to the securities and loan categories and is the result of the general decrease in interest rates in 1995.



Our Visa/MasterCard Department now has a staff of five to accommodate the success of the Agent Bank/Affinity Card program.

This program allows the Bank to attain good credit customers outside of our normal market area.

Since they are no longer required to process credit applications—thanks to the new Consumer Credit Center—the staff can effectively assist this growing number of customers.



BOARD OF DIRECTORS

Alex A. Vereschagin, Jr.

Chairman of the Board

Secretary-Treasurer, Plaza Farms
and General Partner,
Vereschagin Co.,
Orland



Richard C. Guiton

President and General Manager,
Guiton's Pool Center, Inc.,
Redding

Everett B. Beich

Vice Chairman of the Board

Owner, Beich Company
Real Estate Investments
and Development,
Chico



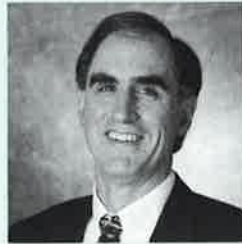
Brian D. Leidig

President,
Parlay Investments, Inc.
Real Estate Investment and
Development Company, Redding

Douglas F. Hignell

Secretary of the Board

Principal Partner,
Hignell & Hignell, Inc.
Investment and Development
Company, Chico



Wendell J. Lundberg

Owner,
Wehah Farms
Rice and Grain Operations,
Richvale

Craig S. Compton

President, AVAG, Inc.
Aerial Application Business,
Richvale

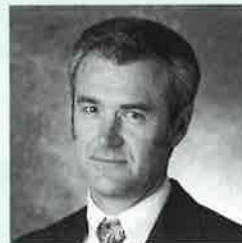


Donald E. Murphy

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

William J. Casey

Health Care Consultant,
Chico

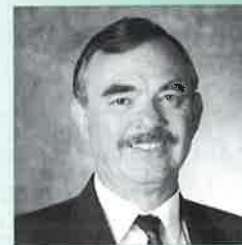


Rodney W. Peterson

President,
Peterson Farming, Inc.
Durham

**DeWayne E. Caviness,
M.D.**

Physician and Surgeon,
Chico



Robert H. Steveson

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



TRICO BANCSHARES - EXECUTIVE OFFICERS

15 Independence Circle
Chico, California 95973 (916) 898-0300 FAX: (916) 898-0310

Robert H. Steveson **President & Chief Executive Officer**
Joan Jones **Executive Vice President**
Robert Stanberry **Vice President & Chief Financial Officer**
Douglas F. Hignell **Secretary**

TRI COUNTIES BANK - EXECUTIVE OFFICERS

Robert H. Steveson **President & Chief Executive Officer**
Joan Jones **Executive Vice President**
Carroll Taresh **Executive Vice President**
Richard O'Sullivan **Senior Vice President -
Sales and Service**
Richard Smith **Senior Vice President -
Employee Support and Control**
Robert Stanberry **Vice President &
Chief Financial Officer**

TRI COUNTIES BANK IN-STORE BRANCH LOCATIONS

At Raley's
700 Onstott Road
Yuba City, California 95991
(916) 751-8415
Karen Fields, Manager

At Raley's
727 South Main Street
Red Bluff, California 96080
(916) 529-7080
Jennifer Oilar, Manager

At Albertson's
146 W. East Avenue
Chico, California 95973
(916) 898-0380
Chimene Sonsteng, Manager

At Raley's
201 Lake Boulevard
Redding, California 96003
(916) 245-4650
Diane Davis, Manager

At Raley's
110 Hartnell Avenue
Redding, California 96002
(916) 224-3430
Jerry Sax, Manager

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

TRI COUNTIES BANK TRADITIONAL BRANCH LOCATIONS

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

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

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

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

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

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

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

Palo Cedro Branch
9125 Deschutes Road
P.O. Box 144
Palo Cedro, California 96073
(916) 547-4494
Julie Jones, Manager

Redding Branch
1810 Market Street
P.O. Box 994788
Redding, California 96099
(916) 244-4700
Connie Lanham, Manager

Burney Branch
37093 Main Street
Burney, California 96013
(916) 335-2215
Vi Nelson, Manager

Fall River Mills Branch
43308 State Highway 299E
P.O. Box 758
Fall River Mills, California
96028
(916) 336-6291
Vi Nelson, Manager

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

Yuba City Branch
1441 Colusa Avenue
P.O. Box 1501
Yuba City, California 95992
(916) 671-5563
D. G. Woodward, Manager

Hilltop Branch
1250 Hilltop Drive
P.O. Box 494549
Redding, California 96049
(916) 223-3543
Guy Watson, Manager

Administration Office
40 Philadelphia Drive
Chico, California 95973
(916) 898-0331
FAX: (916) 898-0338

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, 1995, 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 95973.**



TRI COUNTIES BANK COUNTRY



**Tri Counties Bank is the largest regional
community bank North of Sacramento.**

Twenty Branches in Thirteen Cities

★ NEW BRANCH IN 1995



**TRICO
BANCSHARES**

15 Independence Circle
Chico, California 95973

(916) 898-0300

FAX (916) 898-0310
