UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

for the quarterly period ended: June 30, 2019

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

for the transition period from __________ to __________.

Commission File Number: 000-10661

TriCo Bancshares
(Exact Name of Registrant as Specified in Its Charter)

CALIFORNIA	94-2792841
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

63 Constitution Drive
Chico, California 95973
(Address of Principal Executive Offices)(Zip Code)

(530) 898-0300
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	TCBK	NASDAQ Global Select

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "accelerated filer", "large accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

☒ Large accelerated filer	☐ Accelerated filer
☐ Non-accelerated filer	☐ Smaller reporting company
☐ Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

Indicate the number of shares outstanding for each of the issuer's classes of common stock, as of the latest practical date:

Common stock, no par value: 30,509,637 shares outstanding as of August 5, 2019

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

TRICO BANCSHARES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data; unaudited)

	At June 30, 2019	At December 31, 2018
Assets:		
Cash and due from banks	$ 106,939	$ 119,781
Cash at Federal Reserve and other banks	68,643	107,752
Cash and cash equivalents	175,582	227,533
Investment securities:		
Marketable equity securities	2,952	2,874
Available for sale debt securities	1,133,994	1,115,036
Held to maturity debt securities	412,524	444,936
Restricted equity securities	17,250	17,250
Loans held for sale	5,875	3,687
Loans	4,103,687	4,022,014
Allowance for loan losses	(32,868)	(32,582)
Total loans, net	4,070,819	3,989,432
Premises and equipment, net	88,534	89,347
Cash value of life insurance	116,606	117,318
Accrued interest receivable	20,990	19,412
Goodwill	220,972	220,972
Other intangible assets, net	26,418	29,280
Operating leases, right-of-use	30,030	—
Other assets	72,626	75,364
Total assets	$6,395,172	$ 6,352,441
Liabilities and Shareholders' Equity:		
Liabilities:		
Deposits:		
Noninterest-bearing demand	$1,780,339	$ 1,760,580
Interest-bearing	3,561,834	3,605,886
Total deposits	5,342,173	5,366,466
Accrued interest payable	2,665	1,997
Operating lease liability	29,434	—
Other liabilities	74,590	83,724
Other borrowings	13,292	15,839
Junior subordinated debt	57,132	57,042
Total liabilities	5,519,286	5,525,068
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Preferred stock, no par value: 1,000,000 shares authorized, zero issued and outstanding at June 30, 2019 and December 31, 2018	—	—
Common stock, no par value: 50,000,000 shares authorized; 30,502,757 and 30,417,223 issued and outstanding at June 30, 2019 and December 31, 2018, respectively	542,939	541,762
Retained earnings	335,145	303,490
Accumulated other comprehensive loss, net of tax	(2,198)	(17,879)
Total shareholders' equity	875,886	827,373
Total liabilities and shareholders' equity	$6,395,172	$ 6,352,441

See accompanying notes to unaudited condensed consolidated financial statements.

TRICO BANCSHARES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data; unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Interest and dividend income:				
Loans, including fees	$55,491	$39,304	$109,889	$77,353
Investments:				
Taxable securities	10,457	7,438	21,012	14,760
Tax exempt securities	1,061	1,042	2,134	2,083
Dividends	305	298	665	634
Interest bearing cash at Federal Reserve and other banks	866	396	1,937	769
Total interest and dividend income	68,180	48,478	135,637	95,599
Interest expense:				
Deposits	2,999	1,234	5,718	2,330
Other borrowings	37	586	50	928
Junior subordinated debt	829	789	1,684	1,486
Total interest expense	3,865	2,609	7,452	4,744
Net interest income	64,315	45,869	128,185	90,855
Provision for (reversal of) loan losses	537	(638)	(1,063)	(874)
Net interest income after provision for (benefit from reversal of) loan losses	63,778	46,507	129,248	91,729
Noninterest income:				
Service charges and fees	10,128	9,228	19,198	18,584
Gain on sale of loans	575	666	987	1,292
Asset management and commission income	739	810	1,381	1,686
Increase in cash value of life insurance	746	656	1,521	1,264
Other	1,390	814	2,355	1,638
Total noninterest income	13,578	12,174	25,442	24,464
Noninterest expense:				
Salaries and related benefits	26,719	21,453	51,847	43,105
Other	20,133	16,417	40,518	32,927
Total noninterest expense	46,852	37,870	92,365	76,032
Income before provision for income taxes	30,504	20,811	62,325	40,161
Provision for income taxes	7,443	5,782	16,538	11,222
Net income	$23,061	$15,029	$ 45,787	$28,939
Earnings per share:				
Basic	$ 0.76	$ 0.65	$ 1.50	$ 1.26
Diluted	$ 0.75	$ 0.65	$ 1.49	$ 1.24

See accompanying notes to unaudited condensed consolidated financial statements.

TRICO BANCSHARES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands; unaudited)

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Net income	$ 23,061	$ 15,029	$ 45,787	$ 28,939
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on available for sale securities arising during the period	6,729	(3,998)	15,681	(15,024)
Change in minimum pension liability	—	80	—	160
Other comprehensive income (loss)	6,729	(3,918)	15,681	(14,864)
Comprehensive income	$ 29,790	$ 11,111	$ 61,468	$ 14,075

See accompanying notes to unaudited condensed consolidated financial statements.

TRICO BANCSHARES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands, except share and per share data; unaudited)

	Shares of Common Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at March 31, 2019	30,432,419	$ 542,340	$ 319,865	$ (8,927)	$ 853,278
Net income			23,061		23,061
Other comprehensive income				6,729	6,729
Stock option vesting					—
Stock options exercised	116,000	1,853			1,853
RSU vesting		289			289
PSU vesting		129			129
RSUs released	25,856				—
PSUs released	22,237				—
Repurchase of common stock	(93,755)	(1,672)	(1,988)		(3,660)
Dividends paid ($ 0.19 per share)			(5,793)		(5,793)
Three months ending June 30, 2019	30,502,757	$ 542,939	$ 335,145	$ (2,198)	$ 875,886
Balance at January 1, 2019	30,417,223	$ 541,762	$ 303,490	$ (17,879)	$ 827,373
Net income			45,787		45,787
Other comprehensive income				15,681	15,681
Stock option vesting					—
Stock options exercised	157,000	2,500			2,500
RSU vesting		567			567
PSU vesting		248			248
RSUs released	26,211				—
PSUs released	22,237				—
Repurchase of common stock	(119,914)	(2,138)	(2,557)		(4,695)
Dividends paid ($ 0.38 per share)			(11,575)		(11,575)
Six months ending June 30, 2019	30,502,757	$ 542,939	$ 335,145	$ (2,198)	$ 875,886

See accompanying notes to unaudited condensed consolidated financial statements.

TRICO BANCSHARES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands, except share and per share data; unaudited)

	Shares of Common Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at March 31, 2018	22,956,323	$ 256,226	$ 266,235	$ (17,205)	$ 505,256
Net income			15,029		15,029
Adoption ASU 2016-01					
Adoption ASU 2018-02					
Other comprehensive loss				(3,918)	(3,918)
Stock option vesting		17			17
Stock options exercised	14,500	223			223
RSU vesting		233			233
PSU vesting		81			81
RSUs released	24,904				—
PSUs released	25,512				—
Repurchase of common stock	(17,086)	(190)	(477)		(667)
Dividends paid ($ 0.17 per share)			(3,910)		(3,910)
Three months ending June 30, 2018	23,004,153	$ 256,590	$ 276,877	$ (21,123)	$ 512,344
Balance at January 1, 2018	22,955,963	$ 255,836	$ 255,200	$ (5,228)	$ 505,808
Net income			28,939		28,939
Adoption ASU 2016-01			(62)	62	—
Adoption ASU 2018-02			1,093	(1,093)	—
Other comprehensive loss				(14,864)	(14,864)
Stock option vesting		54			54
Stock options exercised	14,500	223			223
RSU vesting		471			471
PSU vesting		197			197
RSUs released	25,398				—
PSUs released	25,512				—
Repurchase of common stock	(17,220)	(191)	(480)		(671)
Dividends paid ($ 0.34 per share)			(7,813)		(7,813)
Six months ending June 30, 2018	23,004,153	$ 256,590	$ 276,877	$ (21,123)	$ 512,344

See accompanying notes to unaudited condensed consolidated financial statements.

TRICO BANCSHARES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands; unaudited)

	For the six months ended June 30, 2019	For the six months ended June 30, 2018
Operating activities:		
Net income	$ 45,787	$ 28,939
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of premises and equipment, and amortization	3,582	3,229
Amortization of intangible assets	2,862	678
Reversal of provision for loan losses	(1,063)	(874)
Amortization of investment securities premium, net	1,186	1,340
Originations of loans for resale	(46,936)	(43,389)
Proceeds from sale of loans originated for resale	45,407	45,437
Gain on sale of loans	(987)	(1,292)
Change in market value of mortgage servicing rights	1,197	(75)
Provision for losses on foreclosed assets	62	90
Gain on transfer of loans to foreclosed assets	(97)	—
Gain on sale of foreclosed assets	(199)	(388)
Loss on disposal of fixed assets	80	54
Increase in cash value of life insurance	(1,521)	(1,264)
Gain on life insurance death benefit	(728)	—
(Gain) loss on marketable equity securities	(78)	70
Equity compensation vesting expense	815	722
Change in:		
Interest receivable	(1,578)	(481)
Interest payable	668	245
Other assets and liabilities, net	(14,592)	(97)
Net cash from operating activities	33,867	32,944
Investing activities:		
Proceeds from maturities of securities available for sale	39,845	32,906
Proceeds from maturities of securities held to maturity	31,938	36,587
Purchases of securities available for sale	(37,253)	(81,300)
Loan origination and principal collections, net	(80,440)	(131,073)
Proceeds from sale of other real estate owned	1,082	2,150
Proceeds from sale of premises and equipment	11	36
Purchases of premises and equipment	(2,586)	(4,119)
Net cash from investing activities	(47,403)	(144,813)
Financing activities:		
Net change in deposits	(24,293)	68,091
Net change in other borrowings	(2,547)	30,673
Repurchase of common stock, net	—	(448)
Dividends paid	(11,575)	(7,813)
Net cash used by financing activities	(38,415)	90,503
Net change in cash and cash equivalents	(51,951)	(21,366)
Cash and cash equivalents and beginning of year	227,533	205,428
Cash and cash equivalents at end of year	$ 175,582	$ 184,062
Supplemental disclosure of noncash activities:		
Unrealized gain (loss) on securities available for sale	$ 22,263	$ (21,304)
Loans transferred to foreclosed assets	116	—
Market value of shares tendered in-lieu of cash to pay for exercise of options and/or related taxes	4,695	671
Obligations incurred in conjunction with leased assets	156	—
Supplemental disclosure of cash flow activity:		
Cash paid for interest expense	6,982	4,499
Cash paid for income taxes	22,000	8,525

See accompanying notes to unaudited condensed consolidated financial statements.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 –Summary of Significant Accounting Policies

Description of Business and Basis of Presentation

TriCo Bancshares (the "Company" or "we") is a California corporation organized to act as a bank holding company for Tri Counties Bank (the "Bank"). The Company and the Bank are headquartered in Chico, California. The Bank is a California-chartered bank that is engaged in the general commercial banking business in 29 California counties. The Company has five capital subsidiary business trusts (collectively, the "Capital Trusts") that issued trust preferred securities, including two organized by the Company and three acquired with the acquisition of North Valley Bancorp.

The consolidated financial statements are prepared in accordance with accounting policies generally accepted in the United States of America and general practices in the banking industry. All adjustments necessary for a fair presentation of these consolidated financial statements have been included and are of a normal and recurring nature. The financial statements include the accounts of the Company. All inter-company accounts and transactions have been eliminated in consolidation. For financial reporting purposes, the Company's investments in the Capital Trusts of $1,716,000 are accounted for under the equity method and, accordingly, are not consolidated and are included in other assets on the consolidated balance sheet. The subordinated debentures issued and guaranteed by the Company and held by the Capital Trusts are reflected as debt on the Company's consolidated balance sheet.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidtated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018 (the "2018 Annual Report"). The Company believes that the disclosures made are adequate to make the inforamtion not misleading.

Segment and Significant Group Concentration of Credit Risk

The Company grants agribusiness, commercial, consumer, and residential loans to customers located throughout northern and central California. The Company has a diversified loan portfolio within the business segments located in this geographical area. The Company currently classifies all its operation into one business segment that it denotes as community banking.

Geographical Descriptions

For the purpose of describing the geographical location of the Company's operations, the Company has defined northern California as that area of California north of, and including, Stockton to the east and San Jose to the west; central California as that area of the state south of Stockton and San Jose, to and including, Bakersfield to the east and San Luis Obispo to the west; and southern California as that area of the state south of Bakersfield and San Luis Obispo.

Cash and Cash Equivalents

Net cash flows are reported for loan and deposit transactions and other borrowings. For purposes of the consolidated statement of cash flows, cash, due from banks with original maturities less than 90 days, interest-earning deposits in other banks, and Federal funds sold are considered to be cash equivalents.

Accounting Standards Adopted in 2019

The Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02, *Leases (Topic 842)*. ASU 2016-02, which among other things, requires lessees to recognize most leases on-balance sheet, increasing reported assets and liabilities. Lessor accounting remains substantially similar to current U.S. GAAP. The FASB has issued incremental guidance to Topic 842 standard through ASU No. 2018-11, 2018-20, and 2019-01. The Company has elected to use the transition relief approach as provided in ASU 2018-11, which permits the Company to use January 1, 2019 as both the application date and the adoption date, rather than the modified retrospective approach which would have required an application date of January 1, 2017 and adoption date of January 1, 2019. The Company also elected certain relief options offered within the new standard, which include the package of practical expedients, the option not to recognize a right-of-use asset (ROUA) and lease liability that arise from short-term leases (i.e. leases with terms of 12 months or less), and the option of hindsight when determining lease term. Substantially all of the Company's lease agreements are considered operating leases and were not previously recognized on the Company's balance sheets. As of January 1, 2019, the Company recorded a ROUA and corresponding lease liability for all applicable operating leases. While the guidance increased the Company's gross assets and liabilities, the adoption of ASU 2016-02 did not have a material impact on the consolidated statements of income or the consolidated statements of cash flows. See Note 6 for more information.

The FASB issued ASU 2017-08, *Receivables - Nonrefundable Fees and Other Costs (Topic 310).* ASU 2017-08 shortens the amortization period for certain callable debt securities held at a premium to require such premiums to be amortized to the earliest call date unless applicable guidance related to certain pools of securities is applied to consider estimated prepayments. Under prior guidance, entities were generally required to amortize premiums on individual, non-pooled callable debt securities as a yield adjustment over the contractual life of the security. ASU 2017-08 does not change the accounting for callable debt securities held at a discount. ASU 2017-08 was effective for the Company on January 1, 2019, and did not have an impact on the Company's consolidated financial statements.

Accounting Standards Pending Adoption

The FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. ASU 2016-13 is the final guidance on the new current expected credit loss (''CECL'') model. ASU 2016-13, among other things, requires the incurred loss impairment methodology in current GAAP be replaced with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to estimate future credit loss estimates. As CECL encompasses all financial assets carried at amortized cost, the requirement that reserves be established based on an organization's reasonable and supportable estimate of expected credit losses extends to held to maturity (''HTM'') debt securities. ASU 2016-13 amends the accounting for credit losses on available-for-sale securities (''AFS''), whereby credit losses will be presented as an allowance as opposed to a write-down. In addition, CECL will modify the accounting for purchased loans with credit deterioration since origination, so that reserves are established at the date of acquisition for purchased loans. Lastly, ASU 2016-13 requires enhanced disclosures on the significant estimates and judgments used to estimate credit losses, as well as on the credit quality and underwriting standards of an organization's portfolio. These disclosures require organizations to present the currently required credit quality disclosures disaggregated by the year of origination or vintage. ASU 2016-13 allows for a modified retrospective approach with a cumulative effect adjustment to the balance sheet upon adoption (charge to retained earnings instead of the income statement). ASU 2016-13 will be effective for the Company on January 1, 2020, and early adoption is permitted. While the Company is currently evaluating the provisions of ASU 2016-13 to determine the potential impact the new standard will have on the Company's consolidated financial statements, it has taken steps to prepare for the implementation when it becomes effective, such as forming an internal task force, gathering pertinent data, consulting with outside professionals, and evaluating its current IT systems. While detailed modeling efforts are ongoing, the validation of expected credit loss estimates will likely not be available until late in 2019. Management expects to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the first reporting period in which the new standard is effective, but cannot yet estimate the magnitude of the one-time adjustment or the overall impact of the new guidance on the Company's financial position, results of operations or cash flows.

FASB issued ASU No. 2017-04, *Intangibles—Goodwill and Other: Simplifying the Test for Goodwill Impairment (Topic 350):* ASU 2017-04 eliminates step two of the goodwill impairment test (the hypothetical purchase price allocation used to determine the implied fair value of goodwill) when step one (determining if the carrying value of a reporting unit exceeds its fair value) is failed. Instead, entities simply will compare the fair value of a reporting unit to its carrying amount and record goodwill impairment for the amount by which the reporting unit's carrying amount exceeds its fair value. ASU 2017-04 will be effective for the Company on January 1, 2020 and is not expected to have a significant impact on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *"Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement."* This ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements. Among the changes, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU No. 2018-13 is effective for interim and annual reporting periods beginning after December 15, 2019; early adoption is permitted. Entities are also allowed to elect early adoption the eliminated or modified disclosure requirements and delay adoption of the new disclosure requirements until their effective date. As ASU No. 2018-13 only revises disclosure requirements, it will not have a significant impact on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-14, *"Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans*."
This ASU makes minor changes to the disclosure requirements for employers that sponsor defined benefit pension and/or other postretirement benefit plans. ASU 2018-14 is effective for fiscal years ending after December 15, 2020; early adoption is permitted. As ASU 2018-14 only revises disclosure requirements, it will not have a significant impact on the Company's consolidated financial statements.

Note 2 - Business Combinations

Merger with FNB Bancorp

On July 6, 2018, the Company completed the acquisition of FNB Bancorp ("FNBB") for an aggregate transaction value of $291,132,000. FNBB was merged into the Company, and the Company issued 7,405,277 shares of common stock to the former shareholders of FNBB. FNBB's subsidiary, First National Bank of Northern California, merged into the Bank on the same day. The Company also paid $6.7 million to settle and retire all FNBB stock options outstanding as of the acquisition date. Upon the consummation of the merger, the Company added 12 branches within San Mateo, San Francisco, and Santa Clara counties.

In accordance with accounting for business combinations, the Company recorded $156,661,000 of goodwill and $27,605,000 of core deposit intangibles on the acquisition date. The core deposit intangibles will be amortized over the weighted average remaining life of 6.2 years with no significant residual value. For tax purposes, purchase price accounting adjustments including goodwill are all non-taxable and /or non-deductible. Acquisition related costs of $601,000 and $1,077,000 are included in the consolidated statements of income for the three and six months ended June 30, 2018. There have been no acquisition costs incurred during the six months ended June 30, 2019.

The acquisition was consistent with the Company's strategy to expand into the Bay Area market. The acquisition offers the Company the opportunity to increase profitability by introducing existing products and services to the acquired customer base as well as add new customers in the expanded region. Goodwill arising from the acquisition consisted largely of the estimated cost savings resulting from the combined operations.

The following table summarizes the consideration paid for FNBB and the amounts of assets acquired and liabilities assumed that were recorded at the acquisition date (in thousands).

	FNB Bancorp July 6, 2018
Fair value of consideration transferred:	
Fair value of shares issued	$ 284,437
Cash consideration	6,695
Total fair value of consideration transferred	291,132
Assets acquired:	
Cash and cash equivalents	37,308
Securities available for sale	335,667
Restricted equity securities	7,723
Loans	834,683
Premises and equipment	30,522
Cash value of life insurance	16,817
Core deposit intangible	27,605
Other assets	16,214
Total assets acquired	1,306,539
Liabilities assumed:	
Deposits	991,935
Other liabilities	15,133
Short-term borrowings - Federal Home Loan Bank	165,000
Total liabilities assumed	1,172,068
Total net assets acquired	134,471
Goodwill recognized	$ 156,661

A summary of the estimated fair value adjustments resulting in the goodwill recorded in the FNB Bancorp acquisition are presented below (in thousands):

	FNB Bancorp July 6, 2018
Value of stock consideration paid to FNB Bancorp Shareholders	$ 284,437
Cash consideration	6,695
Less:	
Cost basis net assets acquired	114,030
Fair value adjustments:	
Investments	(1,081)
Loans	(22,390)
Premises and equipment	21,590
Core deposit intangible	27,327
Deferred income taxes	(6,394)
Other	1,389
Goodwill	$ 156,661

The fair value of net assets acquired includes fair value adjustments to certain loans that were not considered impaired (PNCI loans) as of the acquisition date. The fair value adjustments were determined using discounted contractual cash flows. As such, these loans were not considered impaired at the acquisition date and were not subject to the guidance relating to purchased credit impaired loans (PCI loans), which have shown evidence of credit deterioration since origination. The gross contractual amounts receivable and fair value for PNCI loans as of the acquisition date was $866,189,000 and $833,381,000, respectively. The gross contractual amounts receivable and fair value for PCI loans as of the acquisition date was $1,683,000 and $1,302,000, respectively. At the acquisition date, the Company was unable to estimate the expected contractual cash flows to be collected from the purchased credit impaired loans.

Note 3 - Investment Securities

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

	June 30, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Debt Securities Available for Sale				
Obligations of U.S. government agencies	$ 627,996	$ 5,193	$ (2,278)	$ 630,911
Obligations of states and political subdivisions	123,626	2,462	(108)	125,980
Corporate bonds	4,407	114	—	4,521
Asset backed securities	376,676	252	(4,346)	372,582
Total debt securities available for sale	$ 1,132,705	$ 8,021	$ (6,732)	$ 1,133,994
Debt Securities Held to Maturity				
Obligations of U.S. government agencies	$ 398,714	$ 3,661	$ (1,199)	$ 401,176
Obligations of states and political subdivisions	13,810	290	—	14,100
Total debt securities held to maturity	$ 412,524	$ 3,951	$ (1,199)	$ 415,276

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Debt Securities Available for Sale				
Obligations of U.S. government agencies	$ 647,288	$ 771	$ (18,078)	$ 629,981
Obligations of states and political subdivisions	128,890	294	(3,112)	126,072
Corporate bonds	4,381	97	—	4,478
Asset backed securities	355,451	73	(1,019)	354,505
Total debt securities available for sale	$ 1,136,010	$ 1,235	$ (22,209)	$ 1,115,036
Debt Securities Held to Maturity				
Obligations of U.S. government agencies	$ 430,343	$ 327	$ (7,745)	$ 422,925
Obligations of states and political subdivisions	14,593	82	(230)	14,445
Total debt securities held to maturity	$ 444,936	$ 409	$ (7,975)	$ 437,370

There were no sales of investment securities during the six months ended June 30, 2019 and 2018. Investment securities with an aggregate carrying value of $569,296,000 and $597,591,000 at June 30, 2019 and December 31, 2018, respectively, were pledged as collateral for specific borrowings, lines of credit or local agency deposits.

The amortized cost and estimated fair value of debt securities at June 30, 2019 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. At June 30, 2019, obligations of U.S. government corporations and agencies with a cost basis totaling $1,026,710,000 consist almost entirely of residential real estate mortgage-backed securities whose contractual maturity, or principal repayment, will follow the repayment of the underlying mortgages. For purposes of the following table, the entire outstanding balance of these mortgage-backed securities issued by U.S. government corporations and agencies is categorized based on final maturity date. At June 30, 2019, the Company estimates the average remaining life of these mortgage-backed securities issued by U.S. government corporations and agencies to be approximately 5.1 years. Average remaining life is defined as the time span after which the principal balance has been reduced by half.

Debt Securities	Available for Sale		Held to Maturity	
(In thousands)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year	$ 2,415	$ 2,421	$ —	$ —
Due after one year through five years	14,287	14,636	1,254	1,269
Due after five years through ten years	44,325	45,235	21,922	22,166
Due after ten years	1,071,678	1,071,702	389,348	391,841
Totals	$ 1,132,705	$ 1,133,994	$ 412,524	$ 415,276

Gross unrealized losses on debt securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
			(in thousands)			
June 30, 2019						
Debt Securities Available for Sale						
Obligations of U.S. government agencies	$ —	$ —	$ 247,286	$ (2,278)	$ 247,286	$ (2,278)
Obligations of states and political subdivisions	5,208	(108)	—	—	5,208	(108)
Corporate Bonds	—	—	—	—	—	—
Asset backed securities	340,012	(4,346)	—	—	340,012	(4,346)
Total debt securities available for sale	$ 345,220	$ (4,454)	$ 247,286	$ (2,278)	$ 592,506	$ (6,732)
Debt Securities Held to Maturity						
Obligations of U.S. government agencies	$ —	$ —	$ 110,702	$ (1,199)	$ 110,702	$ (1,199)
Obligations of states and political subdivisions	—	—	—	—	—	—
Total debt securities held to maturity	$ —	$ —	$ 110,702	$ (1,199)	$ 110,702	$ (1,199)

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
			(in thousands)			
December 31, 2018						
Debt Securities Available for Sale						
Obligations of U.S. government agencies	$ 171,309	$ (3,588)	$ 394,630	$ (14,490)	$ 565,939	$ (18,078)
Obligations of states and political subdivisions	63,738	(1,541)	20,719	(1,571)	84,457	(3,112)
Asset backed securities	101,386	(1,019)	—	—	101,386	(1,019)
Total debt securities available for sale	$ 336,433	$ (6,148)	$ 415,349	$ (16,061)	$ 751,782	$ (22,209)
Debt Securities Held to Maturity						
Obligations of U.S. government agencies	$ 223,810	$ (2,619)	$ 158,648	$ (5,126)	$ 382,458	$ (7,745)
Obligations of states and political subdivisions	5,786	(114)	4,042	(116)	9,828	(230)
Total debt securities held to maturity	$ 229,596	$ (2,733)	$ 162,690	$ (5,242)	$ 392,286	$ (7,975)

Obligations of U.S. government agencies: Unrealized losses on investments in obligations of U.S. government agencies are caused by interest rate increases. The contractual cash flows of these securities are guaranteed by U.S. Government Sponsored Entities (principally Fannie Mae and Freddie Mac). It is expected that the securities would not be settled at a price less than the amortized cost of the investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell and more likely than not will not be required to sell, these investments are not considered other-than-temporarily impaired. At June 30, 2019, 46 debt securities representing obligations of U.S. government agencies had unrealized losses with aggregate depreciation of (1.0%) from the Company’s amortized cost basis.

Obligations of states and political subdivisions: The unrealized losses on investments in obligations of states and political subdivisions were caused by increases in required yields by investors in these types of securities. It is expected that the securities would not be settled at a price less than the amortized cost of the investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell and more likely than not will not be required to sell, these investments are not considered other-than-temporarily impaired. At June 30, 2019, 13 debt securities representing obligations of states and political subdivisions had unrealized losses with aggregate depreciation of (2.0%) from the Company's amortized cost basis.

Asset backed securities: The unrealized losses on investments in asset backed securities were caused by increases in required yields by investors in these types of securities. At the time of purchase, each of these securities was rated AA or AAA and through June 30, 2019 has not experienced any deterioration in credit rating. The Company continues to monitor these securities for changes in credit rating or other indications of credit deterioration. Because management believes the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell and more likely than not will not be required to sell, these investments are not considered other-than-temporarily impaired. At June 30, 2019, 28 asset backed securities had unrealized losses with aggregate depreciation of (1.3%) from the Company's amortized cost basis.

Marketable equity securities: All unrealized losses recognized during the reporting period were for equity securities still held at June 30, 2019.

Note 4 – Loans

A summary of loan balances follows (in thousands):

	June 30, 2019			
	Originated	PNCI	PCI	Total
Mortgage loans on real estate:				
Residential 1-4 family	$ 348,737	$ 155,872	$ 1,440	$ 506,049
Commercial	2,005,985	660,737	5,959	2,672,681
Total mortgage loan on real estate	2,354,722	816,609	7,399	3,178,730
Consumer:				
Home equity lines of credit	294,541	35,231	1,128	330,900
Home equity loans	29,041	2,875	429	32,345
Other	53,340	17,802	1	71,143
Total consumer loans	376,922	55,908	1,558	434,388
Commercial	248,523	24,984	2,538	276,045
Construction:				
Residential	148,432	9,083	—	157,515
Commercial	56,289	720	—	57,009
Total construction	204,721	9,803	—	214,524
Total loans, net of deferred loan fees and discounts	$ 3,184,888	$ 907,304	$ 11,495	$ 4,103,687
Total principal balance of loans owed, net of charge-offs	$ 3,193,938	$ 940,627	$ 17,975	$ 4,152,540
Unamortized net deferred loan fees	(9,050)	—	—	(9,050)
Discounts to principal balance of loans owed, net of charge-offs	—	(33,323)	(6,480)	(39,803)
Total loans, net of unamortized deferred loan fees and discounts	$ 3,184,888	$ 907,304	$ 11,495	$ 4,103,687
Allowance for loan losses	$ (32,273)	$ (585)	$ (10)	$ (32,868)

	December 31, 2018			
	Originated	PNCI	PCI	Total
Mortgage loans on real estate:				
Residential 1-4 family	$ 343,796	$ 169,792	$ 1,674	$ 515,262
Commercial	1,910,981	708,401	8,456	2,627,838
Total mortgage loan on real estate	2,254,777	878,193	10,130	3,143,100
Consumer:				
Home equity lines of credit	284,453	40,957	1,167	326,577
Home equity loans	32,660	3,585	439	36,684
Other	34,020	21,659	42	55,721
Total consumer loans	351,133	66,201	1,648	418,982
Commercial	228,635	45,468	2,445	276,548
Construction:				
Residential	90,703	30,593	—	121,296
Commercial	56,208	5,880	—	62,088
Total construction	146,911	36,473	—	183,384
Total loans, net of deferred loan fees and discounts	$2,981,456	$1,026,335	$14,223	$4,022,014
Total principal balance of loans owed, net of charge-offs	$2,991,324	$1,062,655	$21,265	$4,075,244
Unamortized net deferred loan fees	(9,868)	—	—	(9,868)
Discounts to principal balance of loans owed, net of charge-offs	—	(36,320)	(7,042)	(43,362)
Total loans, net of unamortized deferred loan fees and discounts	$2,981,456	$1,026,335	$14,223	$4,022,014
Allowance for loan losses	$ (31,793)	$ (667)	$ (122)	$ (32,582)

The following is a summary of the change in accretable yield for PCI during the periods indicated (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Change in accretable yield:				
Balance at beginning of period	$ 5,747	$ 6,022	$ 6,059	$ 6,137
Accretion to interest income	(109)	(261)	(410)	(516)
Reclassification (to) from nonaccretable difference	(320)	110	(331)	250
Balance at end of period	$ 5,318	$ 5,871	$ 5,318	$ 5,871

Note 5 – Allowance for Loan Losses

The following tables summarize the activity in the allowance for loan losses, and ending balance of loans, net of unearned fees for the periods indicated.

	Allowance for Loan Losses – Three Months Ended June 30, 2019				
(in thousands)	Beginning Balance	Charge-offs	Recoveries	Provision (benefit)	Ending Balance
Mortgage loans on real estate:					
Residential 1-4 family	$ 2,500	$ (2)	$ 3	$ 75	$ 2,576
Commercial	12,330	—	10	(241)	12,099
Total mortgage loans on real estate	14,830	(2)	13	(166)	14,675
Consumer:					
Home equity lines of credit	6,015	—	183	(339)	5,859
Home equity loans	1,286	—	171	(215)	1,242
Other	1,040	(153)	108	456	1,451
Total consumer loans	8,341	(153)	462	(98)	8,552
Commercial	6,078	(138)	85	720	6,745
Construction:					
Residential	2,408	—	—	130	2,538
Commercial	407	—	—	(49)	358
Total construction	2,815	—	—	81	2,896
Total	$ 32,064	$ (293)	$ 560	$ 537	$ 32,868

	Allowance for Loan Losses – Six Months Ended June 30, 2019				
(in thousands)	Beginning Balance	Charge-offs	Recoveries	Provision (benefit)	Ending Balance
Mortgage loans on real estate:					
Residential 1-4 family	$ 2,676	$ (2)	$ 5	$ (103)	$ 2,576
Commercial	12,944	—	1,391	(2,236)	12,099
Total mortgage loans on real estate	15,620	(2)	1,396	(2,339)	14,675
Consumer:					
Home equity lines of credit	6,042	—	278	(461)	5,859
Home equity loans	1,540	—	258	(556)	1,242
Other	793	(360)	183	835	1,451
Total consumer loans	8,375	(360)	719	(182)	8,552
Commercial	6,090	(657)	253	1,059	6,745
Construction:					
Residential	1,834	—	—	704	2,538
Commercial	663	—	—	(305)	358
Total construction	2,497	—	—	399	2,896
Total	$ 32,582	$ (1,019)	$ 2,368	$ (1,063)	$ 32,868

	Allowance for Loan Losses – As of June 30, 2019			
(in thousands)	Loans pooled for evaluation	Individually evaluated for impairment	Loans acquired with deteriorated credit quality	Total allowance for loan losses
Mortgage loans on real estate:				
Residential 1-4 family	$ 2,522	$ 54	$ —	$ 2,576
Commercial	12,015	84	—	12,099
Total mortgage loans on real estate	14,537	138	—	14,675
Consumer:				
Home equity lines of credit	5,764	85	10	5,859
Home equity loans	1,181	61	—	1,242
Other	1,433	18	—	1,451
Total consumer loans	8,378	164	10	8,552
Commercial	4,605	2,140	—	6,745
Construction:				
Residential	2,538	—	—	2,538
Commercial	358	—	—	358
Total construction	2,896	—	—	2,896
Total	$ 30,416	$ 2,442	$ 10	$ 32,868

(in thousands)	Loans, Net of Unearned fees – As of June 30, 2019 Loans pooled for evaluation	Individually evaluated for impairment	Loans acquired with deteriorated credit quality	Total loans, net of unearned fees
Mortgage loans on real estate:				
Residential 1-4 family	$ 500,304	$ 4,305	$ 1,440	$ 506,049
Commercial	2,655,692	11,030	5,959	2,672,681
Total mortgage loans on real estate	3,155,996	15,335	7,399	3,178,730
Consumer:				
Home equity lines of credit	327,726	2,046	1,128	330,900
Home equity loans	29,860	2,056	429	32,345
Other	70,986	156	1	71,143
Total consumer loans	428,572	4,258	1,558	434,388
Commercial	268,405	5,102	2,538	276,045
Construction:				
Residential	157,515	—	—	157,515
Commercial	57,009	—	—	57,009
Total construction	214,524	—	—	214,524
Total	$ 4,067,497	$ 24,695	$ 11,495	$ 4,103,687

(in thousands)	Allowance for Loan Losses – Year Ended December 31, 2018 Beginning Balance	Charge-offs	Recoveries	Provision (benefit)	Ending Balance
Mortgage loans on real estate:					
Residential 1-4 family	$ 2,317	$ (77)	$ —	$ 436	$ 2,676
Commercial	11,441	(15)	68	1,450	12,944
Total mortgage loans on real estate	13,758	(92)	68	1,886	15,620
Consumer:					
Home equity lines of credit	5,800	(277)	846	(327)	6,042
Home equity loans	1,841	(24)	297	(574)	1,540
Other	586	(783)	288	702	793
Total consumer loans	8,227	(1,084)	1,431	(199)	8,375
Commercial	6,512	(1,188)	541	225	6,090
Construction:					
Residential	1,184	—	—	650	1,834
Commercial	642	—	—	21	663
Total construction	1,826	—	—	671	2,497
Total	$ 30,323	$ (2,364)	$ 2,040	$ 2,583	$ 32,582

(in thousands)	Allowance for Loan Losses – As of December 31, 2018 Loans pooled for evaluation	Individually evaluated for impairment	Loans acquired with deteriorated credit quality	Total allowance for loan losses
Mortgage loans on real estate:				
Residential 1-4 family	$ 2,620	$ 56	$ —	$ 2,676
Commercial	12,737	91	116	12,944
Total mortgage loans on real estate	15,357	147	116	15,620
Consumer:				
Home equity lines of credit	5,838	198	6	6,042
Home equity loans	1,486	54	—	1,540
Other	779	14	—	793
Total consumer loans	8,103	266	6	8,375
Commercial	4,309	1,781	—	6,090
Construction:				
Residential	1,834	—	—	1,834
Commercial	663	—	—	663
Total construction	2,497	—	—	2,497
Total	$ 30,266	$ 2,194	$ 122	$ 32,582

(in thousands)	Loans, Net of Unearned fees – As of December 31, 2018 Loans pooled for evaluation	Individually evaluated for impairment	Loans acquired with deteriorated credit quality	Total loans, net of unearned fees
Mortgage loans on real estate:				
Residential 1-4 family	$ 509,267	$ 4,321	$ 1,674	$ 515,262
Commercial	2,606,819	12,563	8,456	2,627,838
Total mortgage loans on real estate	3,116,086	16,884	10,130	3,143,100
Consumer:				
Home equity lines of credit	322,764	2,646	1,167	326,577
Home equity loans	33,142	3,103	439	36,684
Other	55,483	196	42	55,721
Total consumer loans	411,389	5,945	1,648	418,982
Commercial	268,885	5,218	2,445	276,548
Construction:				
Residential	121,296	—	—	121,296
Commercial	62,088	—	—	62,088
Total construction	183,384	—	—	183,384
Total	$ 3,979,744	$ 28,047	$ 14,223	$ 4,022,014

(in thousands)	Allowance for Loan Losses – Three Months Ended June 30, 2018 Beginning Balance	Charge-offs	Recoveries	Provision (benefit)	Ending Balance
Mortgage loans on real estate:					
Residential 1-4 family	$ 2,170	$ (51)	$ —	$ (128)	$ 1,991
Commercial	11,495	(15)	21	106	11,607
Total mortgage loans on real estate	13,665	(66)	21	(22)	13,598
Consumer:					
Home equity lines of credit	5,412	(24)	317	(657)	5,048
Home equity loans	1,736	—	23	(227)	1,532
Other	570	(174)	66	95	557
Total consumer loans	7,718	(198)	406	(789)	7,137
Commercial	6,392	(54)	80	(40)	6,378
Construction:					
Residential	1,351	—	—	83	1,434
Commercial	847	—	—	130	977
Total construction	2,198	—	—	213	2,411
Total	$ 29,973	$ (318)	$ 507	$ (638)	$ 29,524

(in thousands)	Allowance for Loan Losses – Six Months Ended June 30, 2018 Beginning Balance	Charge-offs	Recoveries	Provision (benefit)	Ending Balance
Mortgage loans on real estate:					
Residential 1-4 family	$ 2,317	$ (52)	$ —	$ (274)	$ 1,991
Commercial	11,441	(15)	36	145	11,607
Total mortgage loans on real estate	13,758	(67)	36	(129)	13,598
Consumer:					
Home equity lines of credit	5,800	(104)	526	(1,174)	5,048
Home equity loans	1,841	—	37	(346)	1,532
Other	586	(368)	144	195	557
Total consumer loans	8,227	(472)	707	(1,325)	7,137
Commercial	6,512	(259)	130	(5)	6,378
Construction:					
Residential	1,184	—	—	250	1,434
Commercial	642	—	—	335	977
Total construction	1,826	—	—	585	2,411
Total	$ 30,323	$ (798)	$ 873	$ (874)	$ 29,524

(in thousands)	Allowance for Loan Losses – As of June 30, 2018 Loans pooled for evaluation	Individually evaluated for impairment	Loans acquired with deteriorated credit quality	Total allowance for loan losses
Mortgage loans on real estate:				
Residential 1-4 family	$ 1,794	$ 147	$ 50	$ 1,991
Commercial	11,466	82	59	11,607
Total mortgage loans on real estate	13,260	229	109	13,598
Consumer:				
Home equity lines of credit	4,754	287	7	5,048
Home equity loans	1,340	192	—	1,532
Other	503	54	—	557
Total consumer loans	6,597	533	7	7,137
Commercial	4,228	2,127	23	6,378
Construction:				
Residential	1,434	—	—	1,434
Commercial	977	—	—	977
Total construction	2,411	—	—	2,411
Total	$ 26,496	$ 2,889	$ 139	$ 29,524

(in thousands)	Loans, Net of Unearned fees – As of June 30, 2018 Loans pooled for evaluation	Individually evaluated for impairment	Loans acquired with deteriorated credit quality	Total loans, net of unearned fees
Mortgage loans on real estate:				
Residential 1-4 family	$ 376,628	$ 6,344	$ 1,720	$ 384,692
Commercial	1,997,591	11,162	7,595	2,016,348
Total mortgage loans on real estate	2,374,219	17,506	9,315	2,401,040
Consumer:				
Home equity lines of credit	282,611	2,250	1,575	286,436
Home equity loans	38,074	2,457	455	40,986
Other	23,213	247	43	23,503
Total consumer loans	343,898	4,954	2,073	350,925
Commercial	230,395	4,751	2,473	237,619
Construction:				
Residential	73,578	—	—	73,578
Commercial	83,151	—	—	83,151
Total construction	156,729	—	—	156,729
Total	$ 3,105,241	$ 27,211	$ 13,861	$ 3,146,313

As part of the on-going monitoring of the credit quality of the Company's loan portfolio, management tracks certain credit quality indicators including, but not limited to, trends relating to (i) the level of criticized and classified loans, (ii) net charge-offs, (iii) non-performing loans, and (iv) delinquency within the portfolio.

The Company utilizes a risk grading system to assign a risk grade to each of its loans. Loans are graded on a scale ranging from Pass to Loss. A description of the general characteristics of the risk grades is as follows:

- *Pass* – This grade represents loans ranging from acceptable to very little or no credit risk. These loans typically meet most if not all policy standards in regard to: loan amount as a percentage of collateral value, debt service coverage, profitability, leverage, and working capital.
- *Special Mention* – This grade represents "Other Assets Especially Mentioned" in accordance with regulatory guidelines and includes loans that display some potential weaknesses which, if left unaddressed, may result in deterioration of the repayment prospects for the asset or may inadequately protect the Company's position in the future. These loans warrant more than normal supervision and attention.
- *Substandard* – This grade represents "Substandard" loans in accordance with regulatory guidelines. Loans within this rating typically exhibit weaknesses that are well defined to the point that repayment is jeopardized. Loss potential is, however, not necessarily evident. The underlying collateral supporting the credit appears to have sufficient value to protect the Company from loss of principal and accrued interest, or the loan has been written down to the point where this is true. There is a definite need for a well-defined workout/rehabilitation program.

- *Doubtful* – This grade represents "Doubtful" loans in accordance with regulatory guidelines. An asset classified as Doubtful has all the weaknesses inherent in a loan classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral, and financing plans.
- *Loss* – This grade represents "Loss" loans in accordance with regulatory guidelines. A loan classified as Loss is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off the loan, even though some recovery may be affected in the future. The portion of the loan that is graded loss should be charged off no later than the end of the quarter in which the loss is identified.

The following tables present ending loan balances by loan category and risk grade for the periods indicated:

	Credit Quality Indicators Originated Loans – As of June 30, 2019				
(in thousands)	Pass	Special Mention	Substandard	Doubtful / Loss	Total Originated Loans
Mortgage loans on real estate:					
Residential 1-4 family	$ 342,847	$ 1,048	$ 4,842	$ —	$ 348,737
Commercial	1,964,292	32,562	9,131	—	2,005,985
Total mortgage loans on real estate	2,307,139	33,610	13,973	—	2,354,722
Consumer:					
Home equity lines of credit	290,524	1,673	2,344	—	294,541
Home equity loans	26,265	564	2,212	—	29,041
Other	53,044	189	107	—	53,340
Total consumer loans	369,833	2,426	4,663	—	376,922
Commercial	237,025	5,194	5,993	311	248,523
Construction:					
Residential	148,178	—	254	—	148,432
Commercial	55,958	331	—	—	56,289
Total construction	204,136	331	254	—	204,721
Total loans	$ 3,118,133	$ 41,561	$ 24,883	$ 311	$ 3,184,888

	Credit Quality Indicators PNCI Loans – As of June 30, 2019				
(in thousands)	Pass	Special Mention	Substandard	Doubtful / Loss	Total PNCI Loans
Mortgage loans on real estate:					
Residential 1-4 family	$ 154,238	$ 864	$ 770	$ —	$ 155,872
Commercial	650,821	3,141	6,775	—	660,737
Total mortgage loans on real estate	805,059	4,005	7,545	—	816,609
Consumer:					
Home equity lines of credit	33,345	795	1,091	—	35,231
Home equity loans	2,727	69	79	—	2,875
Other	17,545	254	3	—	17,802
Total consumer loans	53,617	1,118	1,173	—	55,908
Commercial	24,650	1	333	—	24,984
Construction:					
Residential	9,083	—	—	—	9,083
Commercial	475	—	245	—	720
Total construction	9,558	—	245	—	9,803
Total loans	$ 892,884	$ 5,124	$ 9,296	$ —	$ 907,304

	Credit Quality Indicators Originated Loans – As of December 31, 2018				
(in thousands)	Pass	Special Mention	Substandard	Doubtful / Loss	Total Originated Loans
Mortgage loans on real estate:					
Residential 1-4 family	$ 337,189	$ 1,724	$ 4,883	$ —	$ 343,796
Commercial	1,861,627	33,483	15,871	—	1,910,981
Total mortgage loans on real estate	2,198,816	35,207	20,754	—	2,254,777
Consumer:					
Home equity lines of credit	279,491	2,309	2,653	—	284,453
Home equity loans	29,289	1,054	2,317	—	32,660
Other	33,606	341	73	—	34,020
Total consumer loans	342,386	3,704	5,043	—	351,133
Commercial	217,126	6,127	5,382	—	228,635
Construction:					
Residential	90,412	32	259	—	90,703
Commercial	55,863	345	—	—	56,208
Total construction	146,275	377	259	—	146,911
Total loans	$ 2,904,603	$ 45,415	$ 31,438	$ —	$ 2,981,456

	Credit Quality Indicators PNCI Loans – As of December 31, 2018				
(in thousands)	Pass	Special Mention	Substandard	Doubtful / Loss	Total PNCI Loans
Mortgage loans on real estate:					
Residential 1-4 family	$ 167,908	$ 1,086	$ 798	$ —	$ 169,792
Commercial	701,868	3,085	3,448	—	708,401
Total mortgage loans on real estate	869,776	4,171	4,246	—	878,193
Consumer:					
Home equity lines of credit	38,780	1,124	1,053	—	40,957
Home equity loans	3,413	74	98	—	3,585
Other	21,481	173	5	—	21,659
Total consumer loans	63,674	1,371	1,156	—	66,201
Commercial	45,027	321	120	—	45,468
Construction:					
Residential	30,593	—	—	—	30,593
Commercial	5,880	—	—	—	5,880
Total construction	36,473	—	—	—	36,473
Total	$ 1,014,950	$ 5,863	$ 5,522	$ —	$ 1,026,335

Consumer loans, whether unsecured or secured by real estate, automobiles, or other personal property, are susceptible to three primary risks; non-payment due to income loss, over-extension of credit and, when the borrower is unable to pay, shortfall in collateral value. Typically, payment performance will follow general economic trends in the marketplace driven primarily by rises in the unemployment rate; non-payment is likely due to loss of employment. Loss of collateral value can be due to market demand shifts, damage to collateral itself or a combination of the two. Problem consumer loans are generally identified by payment history and current performance of the borrower (delinquency). The Bank manages its consumer loan portfolios by monitoring delinquency and contacting borrowers to encourage repayment, suggesting modifications if appropriate, and, when continued scheduled payments become unrealistic, initiating repossession or foreclosure through appropriate channels.

Commercial real estate loans generally fall into two categories, owner-occupied and non-owner occupied. Loans secured by owner occupied real estate are primarily susceptible to changes in the business conditions of the related business. This may be driven by, among other things, industry changes, geographic business changes, changes in the individual fortunes of the business owner, and general economic conditions and changes in business cycles. These same risks apply to commercial loans whether secured by equipment or other personal property or unsecured. Losses on loans secured by owner occupied real estate, equipment, or other personal property generally are dictated by the value of underlying collateral at the time of default and liquidation of the collateral. When default is driven by issues related specifically to the business owner, collateral values tend to provide better repayment support and may result in little or no loss. Alternatively, when default is driven by more general economic conditions, underlying collateral generally has devalued more and results in larger losses due to default. Loans secured by non-owner occupied real estate are primarily susceptible to risks associated with swings in occupancy or vacancy and related shifts in lease rates, rental rates or room rates. Most often these shifts are a result of changes in general economic or market conditions or overbuilding and resultant over-supply. Losses are dependent on value of underlying collateral at the time of default. Values are generally driven by these same factors and influenced by interest rates and required rates of return as well as changes in occupancy costs.

Construction loans, whether owner occupied or non-owner occupied commercial real estate loans or residential development loans, are not only susceptible to the related risks described above but the added risks of construction itself including cost over-runs, mismanagement of the project, or lack of demand or market changes experienced at time of completion. Again, losses are primarily related to underlying collateral value and changes therein as described above.

Problem commercial loans are generally identified by periodic review of financial information which may include financial statements, tax returns, rent rolls and payment history of the borrower (delinquency). Based on this information the Bank may decide to take any of several courses of action including demand for repayment, additional collateral or guarantors, and, when repayment becomes unlikely through borrower’s income and cash flow, repossession or foreclosure of the underlying collateral.

Collateral values may be determined by appraisals obtained through Bank approved, licensed appraisers, qualified independent third parties, public value information (blue book values for autos), sales invoices, or other appropriate means. Appropriate valuations or revaluations are obtained at initiation of the credit and periodically, but not less than every twelve months depending on collateral type, once repayment is questionable and the loan has been classified.

Once a loan becomes delinquent and repayment becomes questionable, a Bank collection officer will address collateral shortfalls with the borrower and attempt to obtain additional collateral. If this is not forthcoming and payment in full is unlikely, the Bank will estimate its probable loss, using a recent valuation as appropriate to the underlying collateral less estimated costs of sale, and charge the loan down to the estimated net realizable amount. Depending on the length of time until ultimate collection, the Bank may revalue the underlying collateral and take additional charge-offs as warranted. Revaluations may occur as often as every 3-12 months depending on the underlying collateral and volatility of values. Final charge-offs or recoveries are taken when collateral is liquidated and actual loss is known. Unpaid balances on loans after or during collection and liquidation may also be pursued through lawsuit and attachment of wages or judgment liens on borrower’s other assets.

The following table shows the ending balance of current and past due originated loans by loan category as of the date indicated:

	Analysis of Originated Past Due Loans - As of June 30, 2019						
(in thousands)	30-59 days	60-89 days	> 90 days	Total Past Due Loans	Current	Total	> 90 Days and Still Accruing
Mortgage loans on real estate:							
Residential 1-4 family	$ 635	$ 1,132	$ 758	$ 2,525	$ 346,212	$ 348,737	$ —
Commercial	1,022	174	901	2,097	2,003,888	2,005,985	—
Total mortgage loans on real estate	1,657	1,306	1,659	4,622	2,350,100	2,354,722	—
Consumer:							
Home equity lines of credit	1,197	557	157	1,911	292,630	294,541	—
Home equity loans	565	89	217	871	28,170	29,041	
Other	44	13	7	64	53,276	53,340	12
Total consumer loans	1,806	659	381	2,846	374,076	376,922	12
Commercial	1,154	1,560	333	3,047	245,476	248,523	10
Construction:							
Residential	151	—	—	151	148,281	148,432	—
Commercial	—	—	—	—	56,289	56,289	—
Total construction	151	—	—	151	204,570	204,721	—
Total originated loans	$ 4,768	$ 3,525	$ 2,373	$ 10,666	$ 3,174,222	$ 3,184,888	$ 22

The following table shows the ending balance of current and past due PNCI loans by loan category as of the date indicated:

	Analysis of PNCI Past Due Loans - As of June 30, 2019						
(in thousands)	30-59 days	60-89 days	> 90 days	Total Past Due Loans	Current	Total	> 90 Days and Still Accruing
Mortgage loans on real estate:							
Residential 1-4 family	$ —	$ 682	$ —	$ 682	$ 155,190	$ 155,872	$ —
Commercial	—	195	950	1,145	659,592	660,737	—
Total mortgage loans on real estate	—	877	950	1,827	814,782	816,609	—
Consumer:							
Home equity lines of credit	101	73	24	198	35,033	35,231	—
Home equity loans	62	—	—	62	2,813	2,875	—
Other	119	—	—	119	17,683	17,802	—
Total consumer loans	282	73	24	379	55,529	55,908	—
Commercial	820	150	113	1,083	23,901	24,984	—
Construction:							
Residential	—	—	—	—	9,083	9,083	—
Commercial	245	—	—	245	475	720	—
Total construction	245	—	—	245	9,558	9,803	—
Total PNCI loans	$ 1,347	$ 1,100	$ 1,087	$ 3,534	$ 903,770	$ 907,304	$ —

The following table shows the ending balance of current and past due originated loans by loan category as of the date indicated:

	Analysis of Originated Past Due Loans - As of December 31, 2018						
(in thousands)	30-59 days	60-89 days	> 90 days	Total Past Due Loans	Current	Total	> 90 Days and Still Accruing
Mortgage loans on real estate:							
Residential 1-4 family	$ 1,675	$ 132	$ 478	$ 2,285	$ 341,511	$ 343,796	$ —
Commercial	431	1,200	296	1,927	1,909,054	1,910,981	—
Total mortgage loans on real estate	2,106	1,332	774	4,212	2,250,565	2,254,777	—
Consumer:							
Home equity lines of credit	908	47	609	1,564	282,889	284,453	—
Home equity loans	1,043	24	214	1,281	31,379	32,660	—
Other	298	17	—	315	33,705	34,020	—
Total consumer loans	2,249	88	823	3,160	347,973	351,133	—
Commercial	1,053	579	1,247	2,879	225,756	228,635	—
Construction:							
Residential	209	—	—	209	90,494	90,703	—
Commercial	—	—	—	—	56,208	56,208	—
Total construction	209	—	—	209	146,702	146,911	—
Total loans	$ 5,617	$ 1,999	$ 2,844	$ 10,460	$ 2,970,996	$ 2,981,456	$ —

The following table shows the ending balance of current and past due PNCI loans by loan category as of the date indicated:

(in thousands)	Analysis of PNCI Past Due Loans - As of December 31, 2018 30-59 days	60-89 days	> 90 days	Total Past Due Loans	Current	Total	> 90 Days and Still Accruing
Mortgage loans on real estate:							
Residential 1-4 family	$ 1,009	$ 133	$ 156	$ 1,298	$ 168,494	$ 169,792	$ —
Commercial	1,646	1,136	1,082	3,864	704,537	708,401	—
Total mortgage loans on real estate	2,655	1,269	1,238	5,162	873,031	878,193	—
Consumer:							
Home equity lines of credit	304	35	237	576	40,381	40,957	—
Home equity loans	74	—	—	74	3,511	3,585	—
Other	160	—	—	160	21,499	21,659	—
Total consumer loans	538	35	237	810	65,391	66,201	—
Commercial	678	145	113	936	44,532	45,468	—
Construction:							
Residential	—	—	—	—	30,593	30,593	—
Commercial	—	—	—	—	5,880	5,880	—
Total construction	—	—	—	—	36,473	36,473	—
Total loans	$ 3,871	$ 1,449	$ 1,588	$ 6,908	$ 1,019,427	$ 1,026,335	$ —

Interest income on originated nonaccrual loans that would have been recognized during the three months ended June 30, 2019 and 2018, if all such loans had been current in accordance with their original terms, totaled $289,000 and $341,000, respectively. Interest income actually recognized on these originated loans during the three months ended June 30, 2019 and 2018 was $53,000 and $53,000, respectively. Interest income on PNCI nonaccrual loans that would have been recognized during the three months ended June 30, 2019 and 2018, if all such loans had been current in accordance with their original terms, totaled $160,000 and $26,000, respectively. Interest income actually recognized on these PNCI loans during the three months ended June 30, 2019 and 2018 was $111,000 and $12,000.

Interest income on originated nonaccrual loans that would have been recognized during the six months ended June 30, 2019 and 2018, if all such loans had been current in accordance with their original terms, totaled $568,000 and $626,000, respectively. Interest income actually recognized on these originated loans during the six months ended June 30, 2019 and 2018 was $86,000 and $75,000, respectively. Interest income on PNCI nonaccrual loans that would have been recognized during the six months ended June 30, 2019 and 2018, if all such loans had been current in accordance with their original terms, totaled $281,000 and $54,000, respectively. Interest income actually recognized on these PNCI loans during the six months ended June 30, 2019 and 2018 was $171,000 and $11,000.

The following table shows the ending balance of nonaccrual originated and PNCI loans by loan category as of the date indicated:

	Non Accrual Loans					
	As of June 30, 2019			As of December 31, 2018		
(in thousands)	Originated	PNCI	Total	Originated	PNCI	Total
Mortgage loans on real estate:						
Residential 1-4 family	$ 3,357	$ 300	$ 3,657	$ 3,244	$ 334	$ 3,578
Commercial	4,354	3,461	7,815	9,263	1,468	10,731
Total mortgage loans on real estate	7,711	3,761	11,472	12,507	1,802	14,309
Consumer:						
Home equity lines of credit	880	516	1,396	1,429	885	2,314
Home equity loans	1,610	34	1,644	1,722	47	1,769
Other	58	3	61	3	4	7
Total consumer loans	2,548	553	3,101	3,154	936	4,090
Commercial	3,873	183	4,056	3,755	120	3,875
Construction:						
Residential	—	—	—	—	—	—
Commercial	—	—	—	—	—	—
Total construction	—	—	—	—	—	—
Total non accrual loans	$ 14,132	$ 4,497	$ 18,629	$ 19,416	$ 2,858	$ 22,274

Impaired originated loans are those where management has concluded that it is probable that the borrower will be unable to pay all amounts due in accordance with the original contractual terms of the loan agreement. The following tables show the recorded investment (financial statement balance), unpaid principal balance, average recorded investment, and interest income recognized for impaired Originated and PNCI loans, segregated by those with no related allowance recorded and those with an allowance recorded for the periods indicated. The average recorded investment in impaired loans and interest income recognized on impaired loans during the three months ended June 30, 2019 and 2018 was not considered significant for financial reporting purposes.

(in thousands)	Unpaid principal balance	Recorded investment with no related allowance	Recorded investment with related allowance	Total recorded investment	Related Allowance	Average recorded investment	Interest income recognized
	Impaired Originated Loans – As of, or for the Six Months Ended, June 30, 2019						
Mortgage loans on real estate:							
Residential 1-4 family	$ 4,739	$ 3,705	$ 300	$ 4,005	$ 54	$ 4,291	$ 18
Commercial	7,906	5,103	2,465	7,568	808	10,004	40
Total mortgage loans on real estate	12,645	8,808	2,765	11,573	862	14,295	58
Consumer:							
Home equity lines of credit	1,333	1,271	—	1,271	—	1,510	8
Home equity loans	2,373	1,571	268	1,839	61	2,003	4
Other	76	3	54	57	13	48	1
Total consumer loans	3,782	2,845	322	3,167	74	3,561	13
Commercial	5,150	1,884	3,035	4,919	1,301	5,065	15
Construction:							
Residential	—	—	—	—	—	—	—
Commercial	—	—	—	—	—	—	—
Total construction	—	—	—	—	—	—	—
Total	$ 21,577	$ 13,537	$ 6,122	$ 19,659	$ 2,237	$ 22,921	$ 86

(in thousands)	Unpaid principal balance	Recorded investment with no related allowance	Recorded investment with related allowance	Total recorded investment	Related Allowance	Average recorded investment	Interest income recognized
	Impaired PNCI Loans – As of, or for the Six Months Ended, June 30, 2019						
Mortgage loans on real estate:							
Residential 1-4 family	$ 339	$ 300	$ —	$ 300	$ —	$ 317	$ —
Commercial	5,079	3,462	—	3,462	—	2,465	171
Total mortgage loans on real estate	5,418	3,762	—	3,762	—	2,782	171
Consumer:							
Home equity lines of credit	612	534	241	775	85	889	—
Home equity loans	167	148	69	217	44	229	—
Other	62	62	37	99	6	105	—
Total consumer loans	841	744	347	1,091	135	1,223	—
Commercial	113	113	70	183	70	151	
Construction:							
Residential	—	—	—	—	—	—	—
Commercial	—	—	—	—	—	—	—
Total construction	—	—	—	—	—	—	—
Total	$ 6,372	$ 4,619	$ 417	$ 5,036	$ 205	$ 4,156	$ 171

(in thousands)	Unpaid principal balance	Recorded investment with no related allowance	Recorded investment with related allowance	Total recorded investment	Related Allowance	Average recorded investment	Interest income recognized
	Impaired Originated Loans – As of, or for the Twelve Months Ended, December 31, 2018						
Mortgage loans on real estate:							
Residential 1-4 family	$ 4,594	$ 3,663	$ 308	$ 3,971	$ 56	$ 3,517	$ 90
Commercial	13,081	10,676	1,765	12,441	42	13,115	137
Total mortgage loans on real estate	17,675	14,339	2,073	16,412	98	16,632	227
Consumer:							
Home equity lines of credit	1,900	1,749	111	1,860	71	1,885	43
Home equity loans	2,374	1,892	65	1,957	2	1,520	23
Other	3	—	3	3	3	17	2
Total consumer loans	4,277	3,641	179	3,820	76	3,422	68
Commercial	5,433	2,924	2,287	5,211	1,774	4,654	91
Construction:							
Residential	—	—	—	—	—	5	—
Commercial	—	—	—	—	—	—	—
Total construction	—	—	—	—	—	5	—
Total	$ 27,385	$ 20,904	$ 4,539	$ 25,443	$ 1,948	$ 24,713	$ 386

(in thousands)	Impaired PNCI Loans – As of, or for the Twelve Months Ended, December 31, 2018 Unpaid principal balance	Recorded investment with no related allowance	Recorded investment with related allowance	Total recorded investment	Related Allowance	Average recorded investment	Interest income recognized
Mortgage loans on real estate:							
Residential 1-4 family	$ 375	$ 334	$ —	$ 334	$ —	$ 529	$ 5
Commercial	3,110	1,468	—	1,468	—	1,713	183
Total mortgage loans on real estate	3,485	1,802	—	1,802	—	2,242	188
Consumer:							
Home equity lines of credit	1,027	587	367	954	127	1,120	18
Home equity loans	252	47	197	244	101	155	—
Other	106	21	85	106	11	114	—
Total consumer loans	1,385	655	649	1,304	239	1,389	18
Commercial	120	113	7	120	7	60	1
Construction:							
Residential	—	—	—	—	—	—	—
Commercial	—	—	—	—	—	—	—
Total construction	—	—	—	—	—	—	—
Total	$ 4,990	$ 2,570	$ 656	$ 3,226	$ 246	$ 3,691	$ 207

(in thousands)	Impaired Originated Loans – As of, or for the Six Months Ended, June 30, 2018 Unpaid principal balance	Recorded investment with no related allowance	Recorded investment with related allowance	Total recorded investment	Related Allowance	Average recorded investment	Interest income recognized
Mortgage loans on real estate:							
Residential 1-4 family	$ 5,656	$ 3,947	$ 1,050	$ 4,997	$ 147	$ 4,600	$ 28
Commercial	11,280	9,763	1,076	10,839	82	10,975	9
Total mortgage loans on real estate	16,936	13,710	2,126	15,836	229	15,575	37
Consumer:							
Home equity lines of credit	1,244	1,108	106	1,214	29	1,315	3
Home equity loans	2,558	1,828	351	2,179	38	1,784	15
Other	3	—	3	3	3	3	—
Total consumer loans	3,805	2,936	460	3,396	70	3,102	18
Commercial	4,952	809	3,942	4,751	2,127	4,686	20
Construction:							
Residential	—	—	—	—	—	68	—
Commercial	—	—	—	—	—	—	—
Total construction	—	—	—	—	—	68	—
Total	$25,693	$ 17,455	$ 6,528	$ 23,983	$ 2,426	$ 23,431	$ 75

(in thousands)	Impaired PNCI Loans – As of, or for the Six Months Ended, June 30, 2018 Unpaid principal balance	Recorded investment with no related allowance	Recorded investment with related allowance	Total recorded investment	Related Allowance	Average recorded investment	Interest income recognized
Mortgage loans on real estate:							
Residential 1-4 family	$ 1,417	$ 1,348	$ —	$ 1,348	$ —	$ 1,339	$ —
Commercial	323	323	—	323	—	161	9
Total mortgage loans on real estate	1,740	1,671	—	1,671	—	1,500	9
Consumer:							
Home equity lines of credit	1,098	529	506	1,035	258	1,035	2
Home equity loans	293	36	242	278	154	281	—
Other	244	—	244	244	51	259	—
Total consumer loans	1,635	565	992	1,557	463	1,575	2
Commercial	—	—	—	—	—		—
Construction:							
Residential	—	—	—	—	—	—	—
Commercial	—	—	—	—	—	—	—
Total construction	—	—	—	—	—	—	—
Total	$ 3,375	$ 2,236	$ 992	$ 3,228	$ 463	$ 3,075	$ 11

Originated loans classified as TDRs and impaired were $10,998,000, $10,253,000, and $9,450,000 at June 30, 2019, December 31, 2018, and June 30, 2018, respectively. PNCI loans classified as TDRs and impaired were $811,000, $615,000, and $1,459,000 at June 30, 2019, December 31, 2018 and June 30, 2018, respectively. The Company had no significant obligations to lend additional funds on Originated or PNCI TDRs as of June 30, 2019, December 31, 2018, or June 30, 2018.

The following tables show certain information regarding TDRs that occurred during the periods indicated:

(dollars in thousands)	TDR Information for the Three Months Ended June 30, 2019						
	Number	Pre-mod outstanding principal balance	Post-mod outstanding principal balance	Financial impact due to TDR taken as additional provision	Number that defaulted during the period	Recorded investment of TDRs that defaulted during the period	Financial impact due to the default of previous TDR taken as charge-offs or additional provisions
Mortgage loans on real estate:							
Residential 1-4 family		$	$	$ —	—	$ —	$ —
Commercial	—	—	—	—	—	—	—
Total mortgage loans on real estate	—	—	—	—	—	—	—
Consumer:							
Home equity lines of credit	1	65	68	—	—	—	—
Home equity loans	1	28	27	27	—	—	—
Other	—	—	—	—	—	—	—
Total consumer loans	2	93	95	27	—	—	—
Commercial	4	1,754	1,722	2			—
Construction:							
Residential	—	—	—	—	—	—	—
Commercial	—	—	—	—	—	—	—
Total construction	—	—	—	—	—	—	—
Total	6	$ 1,847	$ 1,817	$ 29	—	$ —	$ —

(dollars in thousands)	TDR Information for the Six Months Ended June 30, 2019						
	Number	Pre-mod outstanding principal balance	Post-mod outstanding principal balance	Financial impact due to TDR taken as additional provision	Number that defaulted during the period	Recorded investment of TDRs that defaulted during the period	Financial impact due to the default of previous TDR taken as charge-offs or additional provisions
Mortgage loans on real estate:							
Residential 1-4 family	1	$ 163	$ 162	$ —	—	$ —	$ —
Commercial	—	—	—	—	—	—	—
Total mortgage loans on real estate	1	163	162	—	—	—	—
Consumer:							
Home equity lines of credit	1	65	68	—	—	—	—
Home equity loans	2	149	147	29	—	—	—
Other	—	—	—	—	—	—	—
Total consumer loans	3	214	215	29	—	—	—
Commercial	6	1,768	1,737	2	1	7	—
Construction:							
Residential	—	—	—	—	—	—	—
Commercial	—	—	—	—	—	—	—
Total construction	—	—	—	—	—	—	—
Total	10	$ 2,145	$ 2,114	$ 31	1	$ 7	$ —

(dollars in thousands)	TDR Information for the Three Months Ended June 30, 2018						
	Number	Pre-mod outstanding principal balance	Post-mod outstanding principal balance	Financial impact due to TDR taken as additional provision	Number that defaulted during the period	Recorded investment of TDRs that defaulted during the period	Financial impact due to the default of previous TDR taken as charge-offs or additional provisions
Mortgage loans on real estate:							
Residential 1-4 family	—	$ —	$ —	$ —	—	$ —	$ —
Commercial	1	34	34	34	—	—	—
Total mortgage loans on real estate	1	34	34	34	—	—	—
Consumer:							
Home equity lines of credit				—	—	—	—
Home equity loans				—	—	—	—
Other	—	—	—	—	—	—	—
Total consumer loans	—	—	—	—	—	—	—
Commercial	2	416	421	(2)	4	340	(2)
Construction:							

Residential	—	—	—	—	—	—	—
Commercial	—	—	—	—	—	—	—
Total construction	—	—	—	—	—	—	—
Total	3	$ 450	$ 455	$ 32	4	$ 340	$ (2)

(dollars in thousands)	TDR Information for the Six Months Ended June 30, 2018 Number	Pre-mod outstanding principal balance	Post-mod outstanding principal balance	Financial impact due to TDR taken as additional provision	Number that defaulted during the period	Recorded investment of TDRs that defaulted during the period	Financial impact due to the default of previous TDR taken as charge-offs or additional provisions
Mortgage loans on real estate:							
Residential 1-4 family	—	$ —	$ —	$ —	—	$ —	$ —
Commercial	2	417	417	46	1	169	—
Total mortgage loans on real estate	2	417	417	46	1	169	—
Consumer:							
Home equity lines of credit	1	133	138	—	—	—	—
Home equity loans	1	121	121	—	—	—	—
Other	—	—	—	—	—	—	—
Total consumer loans	2	254	259	—	—	—	—
Commercial	2	416	421	(2)	4	340	(2)
Construction:							
Residential	—	—	—	—	—	—	—
Commercial	—	—	—	—	—	—	—
Total construction	—	—	—	—	—	—	—
Total	6	$ 1,087	$ 1,097	$ 44	5	$ 509	$ (2)

Modifications classified as TDRs can include one or a combination of the following: rate modifications, term extensions, interest only modifications, either temporary or long-term, payment modifications, and collateral substitutions/additions.

For all new TDRs, an impairment analysis is conducted. If the loan is determined to be collateral dependent, any additional amount of impairment will be calculated based on the difference between estimated collectible value and the current carrying balance of the loan. This difference could result in an increased provision and is typically charged off. If the asset is determined not to be collateral dependent, the impairment is measured on the net present value difference between the expected cash flows of the restructured loan and the cash flows which would have been received under the original terms. The effect of this could result in a requirement for additional provision to the reserve. The effect of these required provisions for the period are indicated above.

Typically if a TDR defaults during the period, the loan is then considered collateral dependent and, if it was not already considered collateral dependent, an appropriate provision will be reserved or charge will be taken. The additional provisions required resulting from default of previously modified TDR's are noted above. Loans that defaulted within the twelve month period subsequent to modification were not considered significant for financial reporting purposes.

Note 6 – Leases

The Company adopted ASU 2016-02 "Leases" (Topic 842) as of January 1, 2019, which requires the Company to record a right-of-use asset ("ROUA") on the consolidated balance sheets for those leases that convey rights to control use of identified assets for a period of time in exchange for consideration. The Company is also required to record a lease liability on the consolidated balance sheets for the present value of future payment commitments. All of the Company's leases are comprised of operating leases in which the Company is lessee of real estate property for branches, ATM locations, and general administration and operations. The Company elected not to include short-term leases (i.e. leases with initial terms of twelve months or less) within the ROUA and lease liability. Known or determinable adjustments to the required minimum future lease payments were included in the calculation of the Company's ROUA and lease liability. Adjustments to the required minimum future lease payments that are variable and will not be determinable until a future period, such as changes in the consumer price index, are included as variable lease costs. Additionally, expected variable payments for common area maintenance, taxes and insurance were unknown and not determinable at lease commencement and therefore, were not included in the determination of the Company's ROUA or lease liability.

The value of the ROUA and lease liability is impacted by the amount of the periodic payment required, length of the lease term, and the discount rate used to calculate the present value of the minimum lease payments. The Company's lease agreements often include one or more options to renew at the Company's discretion. If at lease inception, the Company considers the exercising of a renewal option to be reasonably certain, the Company will include the extended term in the calculation of the ROU asset and lease liability. Topic 842 requires the use of the rate implicit in the lease whenever this rate is readily determinable. As this rate is rarely determinable, the Company utilizes its incremental borrowing rate at lease inception, on a collateralized basis, over a similar term. For operating leases existing prior to January 1, 2019, the rate for the remaining lease term as of January 1, 2019 was used. The lease liability is reduced based on the discounted present value of remaining payments as of each reporting period. The ROUA value is measured using the amount of lease liability and adjusted for prepaid or accrued lease payments, remaining lease incentives, unamortized direct costs (if any), and impairment (if any).

The following table presents the components of lease expense for the three and six months ended June 30, 2019:

(in thousands)	Three months ended June 30, 2019	Six months ended June 30, 2019
Operating lease cost	$ 1,310	$ 2,621
Short-term lease cost	58	129
Variable lease cost	(17)	(22)
Sublease income	(32)	(66)
Total lease cost	$ 1,319	$ 2,662

Prior to the adoption of ASU 2016-02, rent expense under operating leases was $892,000 and $1,776,000 during the three and six months ended June 30, 2018. Rent expense was offset by rent income of $10,000 and $21,000 during the three and six months ended June 30, 2018.

The following table presents supplemental cash flow information related to leases for the six months ended June 30, 2019:

(in thousands)	Three months ended June 30, 2019	Six months ended June 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	$ 1,229	$ 2,447
ROUA obtained in exchange for operating lease liabilities	$ 156	$ 32,162

The following table presents the weighted average operating lease term and discount rate at June 30, 2019:

Weighted-average remaining lease term	9.5 years
Weighted-average discount rate	3.18%

At June 30, 2019, future expected operating lease payments are as follows:

(in thousands)	
Periods ending December 31,	
2019	$ 2,352
2020	4,387
2021	4,235
2022	3,896
2023	3,216
Thereafter	16,682
	34,768
Discount for present value of expected cash flows	(5,334)
Lease liability at June 30, 2019	$29,434

Note 7 - Deposits

A summary of the balances of deposits follows (in thousands):

	June 30, 2019	December 31, 2018
Noninterest-bearing demand	$1,780,339	$1,760,580
Interest-bearing demand	1,263,635	1,252,366
Savings	1,856,749	1,921,324
Time certificates, $250,000 or more	130,061	132,429
Other time certificates	311,389	299,767
Total deposits	$5,342,173	$5,366,466

Certificate of deposit balances of $50,000,000 and $60,000,000 from the State of California were included in time certificates, over $250,000, at June 30, 2019 and December 31, 2018, respectively. The Company participates in a deposit program offered by the State of California whereby the State may make deposits at the Company's request subject to collateral and credit worthiness constraints. The negotiated rates on these State deposits are generally more favorable than other wholesale funding sources available to the Company. Overdrawn deposit balances of $1,242,000 and $1,469,000 were classified as consumer loans at June 30, 2019 and December 31, 2018, respectively.

Note 8 - Commitments and Contingencies

The following table presents a summary of the Bank's commitments and contingent liabilities:

(in thousands)	June 30, 2019	December 31, 2018
Financial instruments whose amounts represent risk:		
Commitments to extend credit:		
Commercial loans	$311,850	$ 306,191
Consumer loans	506,448	496,575
Real estate mortgage loans	173,451	140,292
Real estate construction loans	210,143	248,996
Standby letters of credit	11,338	11,346
Deposit account overdraft privilege	108,941	111,956

Note 9 – Shareholders' Equity

Dividends Paid

The Bank paid to the Company cash dividends in the aggregate amounts of $10,236,000 and $4,770,000 during the three months ended June 30, 2019 and 2018, respectively and $18,350,000 and $9,142,000 during the six months ended June 30, 2019 and 2018, respectively. The Bank is regulated by the Federal Deposit Insurance Corporation (FDIC) and the State of California Department of Business Oversight (DBO). Absent approval from the Commissioner of the DBO, California banking laws generally 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.

Stock Repurchase Plan

On August 21, 2007, the Board of Directors adopted a plan to repurchase, as conditions warrant, up to 500,000 shares of the Company's common stock on the open market. The timing of purchases and the exact number of shares to be purchased will depend on market conditions. This stock repurchase plan has no expiration date. As of June 30, 2019, the Company had repurchased 196,566 shares under this plan. During the six month periods ended June 30, 2019 and 2018, there were no shares of common stock repurchased under this plan.

Stock Repurchased Under Equity Compensation Plans

During the three months ended June 30, 2019 and 2018, employees tendered 93,755 and 17,086 shares, respectively, of the Company's common stock with market value of $3,659,000, and $667,000, respectively, in lieu of cash to exercise options to purchase shares of the Company's stock and to pay income taxes related to equity compensation plan instruments as permitted by the Company's shareholder-approved equity compensation plans. During the six months ended June 30, 2019 and 2018, employees tendered 119,914 and 17,220 shares, respectively, of the Company's common stock with market value of $4,695,000, and $671,000, respectively, in lieu of cash to exercise options to purchase shares of the Company's stock and to pay income taxes related to equity compensation plan instruments as permitted by the Company's shareholder-approved equity compensation plans. The tendered shares were retired. The market value of tendered shares is the last market trade price at closing on the day an option is exercised. Stock repurchased under equity incentive plans are not included in the total of stock repurchased under the stock repurchase plan announced on August 21, 2007.

Note 10 - Stock Options and Other Equity-Based Incentive Instruments

The Company's 2009 Equity Incentive Plan (2009 Plan) expired on March 26, 2019. While no new awards can be granted under the 2009 Plan, existing grants continue to be governed by the terms, conditions and procedures set forth in any applicable award agreement. On April 16, 2019, the Board of Directors adopted the 2019 Equity Incentive Plan (2019 Plan) which was ratified by shareholders on May 21, 2019. The 2019 Plan allows for up to 1,500,000 shares to be issued in connection with equity-based incentives. All grants of equity awards made during the six months ended June 30, 2019 were made from the 2019 Plan.

Stock option activity during the six months ended June 30, 2019 is summarized in the following table:

	Number of Shares	Option Price per Share	Weighted Average Exercise Price
Outstanding at December 31, 2018	343,000	$12.63 to $23.21	$ 16.67
Options granted	—	— to —	—
Options exercised	(157,000)	$12.63 to $19.46	15.92
Options forfeited	—	— to —	—
Outstanding at June 30, 2019	186,000	$14.54 to $23.21	$ 17.45

The following table shows the number, weighted-average exercise price, intrinsic value, and weighted average remaining contractual life of options exercisable, options not yet exercisable and total options outstanding as of June 30, 2019:

	Currently Exercisable	Currently Not Exercisable	Total Outstanding
Number of options	185,250	750	186,000
Weighted average exercise price	$ 17.43	$ 23.21	$ 17.45
Intrinsic value (in thousands)	$ 3,774	$ 11	$ 3,785
Weighted average remaining contractual term (yrs.)	3.1	5.3	3.1

The 750 options that are currently not exercisable as of June 30, 2019 are expected to vest, on a weighted-average basis, over the next three months. The Company did not modify any option grants during 2018 or the six months ended June 30, 2019.

Restricted stock unit (RSU) activity is summarized in the following table for the dates indicated:

	Service Condition Vesting RSUs	Market Plus Service Condition Vesting RSUs
Outstanding at December 31, 2018	66,947	45,536
RSUs granted	35,272	22,898
RSUs added through dividend and performance credits	519	7,414
RSUs released	(26,211)	(22,237)
RSUs forfeited/expired	—	—
Outstanding at June 30, 2019	76,527	53,611

The 76,527 of service condition vesting RSUs outstanding as of June 30, 2019 include a feature whereby each RSU outstanding is credited with a dividend amount equal to any common stock cash dividend declared and paid, and the credited amount is divided by the closing price of the Company's stock on the dividend payable date to arrive at an additional amount of RSUs outstanding under the original grant. The dividend credits follow the same vesting requirements as the RSU awards and are not considered participating securities. The 76,527 of service condition vesting RSUs outstanding as of June 30, 2019 are expected to vest, and be released, on a weighted-average basis, over the next 1.4 years. The Company expects to recognize $2,495,000 of pre-tax compensation costs related to these service condition vesting RSUs between June 30, 2019 and their vesting dates. The Company did not modify any service condition vesting RSUs during 2018 or during the six months ended June 30, 2019.

The 53,611 of market plus service condition vesting RSUs outstanding as of June 30, 2019 are expected to vest, and be released, on a weighted-average basis, over the next 2.1 years. The Company expects to recognize $1,227,000 of pre-tax compensation costs related to these RSUs between June 30, 2019 and their vesting dates. As of June 30, 2019, the number of market plus service condition vesting RSUs outstanding that will actually vest, and be released, may be reduced to zero or increased to 80,417 depending on the total return of the Company's common stock versus the total return of an index of bank stocks from the grant date to the vesting date. The Company did not modify any market plus service condition vesting RSUs during 2018 or during the six months ended June 30, 2019.

Note 11 - Noninterest Income and Expense

The following table summarizes the Company's noninterest income for the periods indicated:

	Three months ended June 30,		Six months ended June 30,	
(dollars in thousands)	2019	2018	2019	2018
ATM and interchange fees	$ 5,404	$ 4,510	$ 9,985	$ 8,745
Service charges on deposit accounts	4,182	3,613	8,062	7,392
Other service fees	619	630	1,390	1,344
Mortgage banking service fees	475	511	958	1,028
Change in value of mortgage servicing rights	(552)	(36)	(1,197)	75
Total service charges and fees	10,128	9,228	19,198	18,584
Increase in cash value of life insurance	746	656	1,521	1,264
Asset management and commission income	739	810	1,381	1,686
Gain on sale of loans	575	666	987	1,292
Lease brokerage income	239	200	459	328
Sale of customer checks	135	138	275	239
Gain on sale of foreclosed assets	197	17	296	388
Gain (loss) on marketable equity securities	42	(23)	78	(70)
Loss on disposal of fixed assets	(42)	(41)	(80)	(54)
Other	819	523	1,327	807
Total other noninterest income	3,450	2,946	6,244	5,880
Total noninterest income	$ 13,578	$ 12,174	$ 25,442	$ 24,464

The components of noninterest expense were as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Base salaries, net of deferred loan origination costs	$ 17,211	$ 14,429	$ 33,968	$ 28,391
Incentive compensation	3,706	2,159	6,273	4,611
Benefits and other compensation costs	5,802	4,865	11,606	10,103
Total salaries and benefits expense	26,719	21,453	51,847	43,105
Occupancy	3,738	2,720	7,512	5,401
Data processing and software	3,354	2,679	6,703	5,193
Equipment	1,752	1,637	3,619	3,188
Intangible amortization	1,431	339	2,862	678
Advertising	1,533	1,035	2,864	1,873
ATM and POS network charges	1,270	1,437	2,593	2,663
Professional fees	1,057	774	1,896	1,546
Telecommunications	773	681	1,570	1,382
Regulatory assessments and insurance	490	417	1,001	847
Merger and acquisition expense	—	601	—	1,077
Postage	315	301	625	659
Operational losses	226	252	451	546
Courier service	412	224	682	491
Other miscellaneous expense	3,782	3,320	8,140	7,383
Total other noninterest expense	20,133	16,417	40,518	32,927
Total noninterest expense	$ 46,852	$ 37,870	$ 92,365	$ 76,032

Note 12 – Earnings Per Share

Basic earnings per share represent income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustments to income that would result from assumed issuance. Potential common shares that may be issued by the Company relate from outstanding stock options and restricted stock units (RSUs), and are determined using the treasury stock method. Earnings per share have been computed based on the following:

	Three months ended June 30,	
(in thousands)	2019	2018
Net income	$ 23,061	$ 15,029
Average number of common shares outstanding	30,458	22,983
Effect of dilutive stock options and restricted stock	185	293
Average number of common shares outstanding used to calculate diluted earnings per share	30,643	23,276
Options excluded from diluted earnings per share because the effect of these options was antidilutive	—	—

	Six months ended June 30,	
(in thousands)	2019	2018
Net income	$ 45,787	$ 28,939
Average number of common shares outstanding	30,441	22,970
Effect of dilutive stock options and restricted stock	209	310
Average number of common shares outstanding used to calculate diluted earnings per share	30,650	23,280
Options excluded from diluted earnings per share because the effect of these options was antidilutive	—	—

Note 13 – Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of other comprehensive income.

The components of other comprehensive income (loss) and related tax effects are as follows:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2019	2018	2019	2018
Unrealized holding gains (losses) on available for sale securities before reclassifications	$ 9,553	$ (5,676)	$ 22,263	$ (20,941)
Amounts reclassified out of accumulated other comprehensive income:				
Adoption ASU 2016-01	—	—	—	62
Adoption ASU 2018-02	—	—	—	(425)
Total amounts reclassified out of accumulated other comprehensive income	—	—	—	(363)
Unrealized holding gains (losses) on available for sale securities after reclassifications	9,553	(5,676)	22,263	(21,304)
Tax effect	(2,824)	1,678	(6,582)	6,280
Unrealized holding gains (losses) on available for sale securities, net of tax	6,729	(3,998)	15,681	(15,024)
Change in unfunded status of the supplemental retirement plans before reclassifications	(89)	—	(177)	668
Amounts reclassified out of accumulated other comprehensive income:				
Amortization of prior service cost	(13)	(13)	(27)	(27)
Amortization of actuarial losses	102	127	204	254
Adoption ASU 2018-02	—	—	—	(668)
Total amounts reclassified out of accumulated other comprehensive income	89	114	177	(441)
Change in unfunded status of the supplemental retirement plans after reclassifications	—	114	—	227
Tax effect	—	(34)	—	(67)
Change in unfunded status of the supplemental retirement plans, net of tax	—	80	—	160
Total other comprehensive income (loss)	$ 6,729	$ (3,918)	$ 15,681	$ (14,864)

The components of accumulated other comprehensive loss, included in shareholders' equity, are as follows:

(in thousands)	June 30, 2019	December 31, 2018
Net unrealized loss on available for sale securities	$ 1,289	$ (20,974)
Tax effect	(381)	6,201
Unrealized holding loss on available for sale securities, net of tax	908	(14,773)
Unfunded status of the supplemental retirement plans	(4,802)	(4,802)
Tax effect	1,420	1,420
Unfunded status of the supplemental retirement plans, net of tax	(3,382)	(3,382)
Joint beneficiary agreement liability	276	276
Tax effect	—	—
Joint beneficiary agreement liability, net of tax	276	276
Accumulated other comprehensive loss	$ (2,198)	$ (17,879)

Note 14 - Fair Value Measurement

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In estimating fair value, the Company utilizes valuation techniques that are consistent with the market approach, income approach, and/or the cost approach. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability including assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset and the risk of nonperformance. Marketable equity securities, debt securities available-for-sale, loans held for sale, and mortgage servicing rights are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application impairment write-downs of individual assets.

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the observable nature of the assumptions used to determine fair value. These levels are:

Level 1 - Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 - Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 - Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Marketable equity securities and debt securities available for sale – Marketable equity securities and debt securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. The Company had no securities classified as Level 3 during any of the periods covered in these financial statements.

Loans held for sale – Loans held for sale are carried at the lower of cost or fair value. The fair value of loans held for sale is based on what secondary markets are currently offering for loans with similar characteristics. As such, we classify those loans subjected to recurring fair value adjustments as Level 2.

Impaired originated and PNCI loans – Originated and PNCI loans are not recorded at fair value on a recurring basis. However, from time to time, an originated or PNCI loan is considered impaired and an allowance for loan losses is established. Originated and PNCI loans for which it is probable that payment of interest and principal will not be made in accordance with the original contractual terms of the loan agreement are considered impaired. The fair value of an impaired originated or PNCI loan is estimated using one of several methods, including collateral value, fair value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired originated and PNCI loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. Impaired originated and PNCI loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value which uses substantially observable data, the Company records the impaired originated or PNCI loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value, or the appraised value contains a significant unobservable assumption, such as deviations from comparable sales, and there is no observable market price, the Company records the impaired originated or PNCI loan as nonrecurring Level 3.

Foreclosed assets - Foreclosed assets include assets acquired through, or in lieu of, loan foreclosure. Foreclosed assets are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, management periodically performs valuations and the assets are carried at the lower of carrying amount or fair value less cost to sell. When the fair value of foreclosed assets is based on an observable market price or a current appraised value which uses substantially observable data, the Company records the impaired originated loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value, or the appraised value contains a significant unobservable assumption, such as deviations from comparable sales, and there is no observable market price, the Company records the foreclosed asset as nonrecurring Level 3. Revenue and expenses from operations and changes in the valuation allowance are included in other noninterest expense.

Mortgage servicing rights - Mortgage servicing rights are carried at fair value. A valuation model, which utilizes a discounted cash flow analysis using a discount rate and prepayment speed assumptions is used in the computation of the fair value measurement. While the prepayment speed assumption is currently quoted for comparable instruments, the discount rate assumption currently requires a significant degree of management judgment and is therefore considered an unobservable input. As such, the Company classifies mortgage servicing rights subjected to recurring fair value adjustments as Level 3.

The table below presents the recorded amount of assets and liabilities measured at fair value on a recurring basis (in thousands):

Fair value at June 30, 2019	Total	Level 1	Level 2	Level 3
Marketable equity securities	$ 2,952	$ 2,952	$ —	$ —
Debt securities available for sale:				
Obligations of U.S. government corporations and agencies	630,911	—	630,911	—
Obligations of states and political subdivisions	125,980	—	125,980	—
Corporate bonds	4,521	—	4,521	—
Asset backed securities	372,582	—	372,582	—
Loans held for sale	5,875	—	5,875	—
Mortgage servicing rights	6,229	—	—	6,229
Total assets measured at fair value	$ 1,149,050	$ 2,952	$ 1,139,869	$ 6,229

Fair value at December 31, 2018	Total	Level 1	Level 2	Level 3
Marketable equity securities	$ 2,874	$ 2,874	$ —	$ —
Debt securities available for sale:				
Obligations of U.S. government corporations and agencies	629,981	—	629,981	—
Obligations of states and political subdivisions	126,072	—	126,072	—
Corporate bonds	4,478	—	4,478	—
Asset backed securities	354,505	—	354,505	—
Loans held for sale	3,687	—	3,687	—
Mortgage servicing rights	7,098	—	—	7,098
Total assets measured at fair value	$ 1,128,695	$ 2,874	$ 1,118,723	$ 7,098

Transfers between levels of the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer, which generally corresponds with the Company's quarterly valuation process. There were no transfers between any levels during the six months ended June 30, 2019 or the year ended December 31, 2018.

The following table provides a reconciliation of assets and liabilities measured at fair value using significant unobservable inputs (Level 3) on a recurring basis during the time periods indicated. Had there been any transfer into or out of Level 3 during the time periods indicated, the amount included in the "Transfers into (out of) Level 3" column would represent the beginning balance of an item in the period (interim quarter) during which it was transferred (in thousands):

Three months ended June 30,	Beginning Balance	Transfers into (out of) Level 3	Change Included in Earnings	Issuances	Ending Balance
2019: Mortgage servicing rights	$ 6,572	—	$ (552)	$ 209	$ 6,229
2018: Mortgage servicing rights	$ 6,953	—	$ (36)	$ 104	$ 7,021

Six months ended June 30,	Beginning Balance	Transfers into (out of) Level 3	Change Included in Earnings	Issuances	Ending Balance
2019: Mortgage servicing rights	$ 7,098	—	$ (1,197)	$ 328	$ 6,229
2018: Mortgage servicing rights	$ 6,687	—	$ 75	$ 259	$ 7,021

The key unobservable inputs used in determining the fair value of mortgage servicing rights are mortgage prepayment speeds and the discount rate used to discount cash projected cash flows. Generally, any significant increases in the mortgage prepayment speed and discount rate utilized in the fair value measurement of the mortgage servicing rights will result in a negative fair value adjustments (and decrease in the fair value measurement). Conversely, a decrease in the mortgage prepayment speed and discount rate will result in a positive fair value adjustment (and increase in the fair value measurement).

The following table presents quantitative information about recurring Level 3 fair value measurements at June 30, 2019 and December 31, 2018:

As of June 30, 2019:	Fair Value (in thousands)	Valuation Technique	Unobservable Inputs	Range, Weighted Average
Mortgage Servicing Rights	$ 6,229	Discounted cash flow	Constant prepayment rate	6.9% - 39.0%; 10.5%
			Discount rate	10% - 14%;12%
As of December 31, 2018:				
Mortgage Servicing Rights	$ 7,098	Discounted cash flow	Constant prepayment rate	5.0% - 27.3%; 7.6%
			Discount rate	12% - 13%;12%

The tables below present the recorded investment in assets and liabilities measured at fair value on a nonrecurring basis, as of the dates indicated (in thousands):

June 30, 2019	Total	Level 1	Level 2	Level 3	Total Gains (Losses)
Fair value:					
Impaired Originated & PNCI loans	$ 1,164	—	—	$ 1,164	$ (808)
Foreclosed assets	454	—	—	454	(63)
Total assets measured at fair value	$ 1,618	—	—	$ 1,618	$ (871)

December 31, 2018	Total	Level 1	Level 2	Level 3	Total Gains (Losses)
Fair value:					
Impaired Originated & PNCI loans	$ 281	—	—	$ 281	$ (294)
Foreclosed assets	1,311	—	—	1,311	(8)
Total assets measured at fair value	$ 1,592	—	—	$ 1,592	$ (302)

June 30, 2018	Total	Level 1	Level 2	Level 3	Total Gains (Losses)
Fair value:					
Impaired Originated & PNCI loans	$ 1,647	—	—	$ 1,647	$ (505)
Foreclosed assets	584	—	—	584	(90)
Total assets measured at fair value	$ 2,231	—	—	$ 2,231	$ (595)

The impaired originated and PNCI loan amount above represents impaired, collateral dependent loans that have been adjusted to fair value. When the Company identifies a collateral dependent loan as impaired, the Company measures the impairment using the current fair value of the collateral, less selling costs. Depending on the characteristics of a loan, the fair value of collateral is generally estimated by obtaining external appraisals. If the Company determines that the value of the impaired loan is less than the recorded investment in the loan, the Company recognizes this impairment and adjust the carrying value of the loan to fair value through the allowance for loan and lease losses. The loss represents charge-offs or impairments on collateral dependent loans for fair value adjustments based on the fair value of collateral. The carrying value of loans fully charged-off is zero.

The foreclosed assets amount above represents impaired real estate that has been adjusted to fair value. Foreclosed assets represent real estate which the Company has taken control of in partial or full satisfaction of loans. At the time of foreclosure, other real estate owned is recorded at fair value less costs to sell, which becomes the property's new basis. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan and lease losses. After foreclosure, management periodically performs valuations such that the real estate is carried at the lower of its new cost basis or fair value, net of estimated costs to sell. Fair value adjustments on other real estate owned are recognized within net loss on real estate owned. The loss represents impairments on real estate owned for fair value adjustments based on the fair value of the real estate.

The Company's property appraisals are primarily based on the sales comparison approach and income approach methodologies, which consider recent sales of comparable properties, including their income generating characteristics, and then make adjustments to reflect the general assumptions that a market participant would make when analyzing the property for purchase. These adjustments may increase or decrease an appraised value and can vary significantly depending on the location, physical characteristics and income producing potential of each property. Additionally, the quality and volume of market information available at the time of the appraisal can vary from period to period and cause significant changes to the nature and magnitude of comparable sale adjustments. Given these variations, comparable sale adjustments are generally not a reliable indicator for how fair value will increase or decrease from period to period. Under certain circumstances, management discounts are applied based on specific characteristics of an individual property.

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a nonrecurring basis at June 30, 2019:

June 30, 2019	Fair Value (in thousands)	Valuation Technique	Unobservable Inputs	Range, Weighted Average
Impaired Originated & PNCI loans	$ —	Sales comparison approach Income approach	Adjustment for differences between comparable sales Capitalization rate	Not meaningful N/A
Foreclosed assets (Residential real estate)	$ —	Sales comparison approach	Adjustment for differences between comparable sales	Not meaningful

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a nonrecurring basis at December 31, 2018:

December 31, 2018	Fair Value (in thousands)	Valuation Technique	Unobservable Inputs	Range, Weighted Average
Impaired Originated & PNCI loans	$ 281	Sales comparison approach Income approach	Adjustment for differences between comparable sales Capitalization rate	(16.3%) - 35.14%; 10.45% N/A
Foreclosed assets (Residential real estate)	$ 693	Sales comparison approach	Adjustment for differences between comparable sales	(21.83%) - 7.25%; (3.75%)
Foreclosed assets (Commercial real estate)	$ 618	Sales comparison approach	Adjustment for differences between comparable sales	(65%) - 20%; (45%)

Fair values for financial instruments are management's estimates of the values at which the instruments could be exchanged in a transaction between willing parties. The Company uses the exit price notion when measuring the fair value of financial instruments. These estimates are subjective and may vary significantly from amounts that would be realized in actual transactions. In addition, other significant assets are not considered financial assets including, any mortgage banking operations, deferred tax assets, and premises and equipment. Further, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on the fair value estimates and have not been considered in any of these estimates.

	June 30, 2019		December 31, 2018	
(in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Level 1 inputs:				
Cash and due from banks	$ 106,939	$ 106,939	$ 119,781	$ 119,781
Cash at Federal Reserve and other banks	68,643	68,643	107,752	107,752
Level 2 inputs:				
Securities held to maturity	412,524	415,276	444,936	437,370
Restricted equity securities	17,250	N/A	17,250	N/A
Loans held for sale	5,875	5,875	3,687	4,616
Level 3 inputs:				
Loans, net	4,070,819	4,057,792	3,989,432	4,006,986
Financial liabilities:				
Level 2 inputs:				
Deposits	5,342,173	5,341,105	5,366,466	5,362,173
Other borrowings	13,292	13,292	15,839	15,839
Level 3 inputs:				
Junior subordinated debt	57,132	56,209	57,042	62,610

(in thousands)	Contract Amount	Fair Value	Contract Amount	Fair Value
Off-balance sheet:				
Level 3 inputs:				
Commitments	$ 1,201,892	$ 12,019	$ 1,192,054	$ 11,921
Standby letters of credit	11,338	113	11,346	113
Overdraft privilege commitments	108,941	1,089	111,956	1,120

Note 15 - Regulatory Matters

The Company is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total, Tier 1, and common equity Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. The following tables present actual and required capital ratios as of June 30, 2019 and December 31, 2018 for the Company and the Bank under applicable Basel III Capital Rules. The minimum capital amounts presented include the minimum required capital levels as of June 30, 2019 and December 31, 2018 based on the then phased-in provisions of the Basel III Capital Rules. As of January 1, 2019, the minimum required capital levels of the Basel III Capital Rules have been fully phased-in. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

	Actual		Minimum Capital Required – Basel III Fully Phased In		Required to be Considered Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)			
As of June 30, 2019:						
Total Capital (to Risk Weighted Assets):						
Consolidated	$718,901	14.93%	$505,569	10.50%	N/A	N/A
Tri Counties Bank	$714,018	14.83%	$505,385	10.50%	$481,320	10.00%
Tier 1 Capital (to Risk Weighted Assets):						
Consolidated	$683,043	14.19%	$409,270	8.50%	N/A	N/A
Tri Counties Bank	$678,160	14.09%	$409,122	8.50%	$385,056	8.00%
Common equity Tier 1 Capital (to Risk Weighted Assets):						
Consolidated	$627,627	13.03%	$337,046	7.00%	N/A	N/A
Tri Counties Bank	$678,160	14.09%	$336,924	7.00%	$312,858	6.50%
Tier 1 Capital (to Average Assets):						
Consolidated	$683,043	11.08%	$246,599	4.00%	N/A	N/A
Tri Counties Bank	$678,160	11.00%	$246,594	4.00%	$308,242	5.00%

	Actual		Minimum Capital Required – Basel III Phase-in Schedule		Minimum Capital Required – Basel III Fully Phased In		Required to be Considered Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)					
As of December 31, 2018:								
Total Capital (to Risk Weighted Assets):								
Consolidated	$682,419	14.40%	$467,874	9.875%	$497,486	10.50%	N/A	N/A
Tri Counties Bank	$680,624	14.37%	$467,704	9.875%	$497,305	10.50%	$473,624	10.00%
Tier 1 Capital (to Risk Weighted Assets):								
Consolidated	$647,262	13.66%	$373,115	7.875%	$402,727	8.50%	N/A	N/A
Tri Counties Bank	$645,467	13.63%	$372,979	7.875%	$402,581	8.50%	$378,899	8.00%
Common equity Tier 1 Capital (to Risk Weighted Assets):								
Consolidated	$591,933	12.49%	$302,045	6.375%	$331,658	7.00%	N/A	N/A
Tri Counties Bank	$645,467	13.63%	$301,935	6.375%	$331,537	7.00%	$307,856	6.50%
Tier 1 Capital (to Average Assets):								
Consolidated	$647,262	10.68%	$242,452	4.000%	$242,452	4.00%	N/A	N/A
Tri Counties Bank	$645,467	10.65%	$242,447	4.000%	$242,447	4.00%	$303,059	5.00%

As of June 30, 2019 and December 31, 2018, capital levels at the Company and the Bank exceed all capital adequacy requirements under the Basel III Capital Rules. Also, at June 30, 2019 and December 31, 2018, the Bank's capital levels exceeded the minimum amounts necessary to be considered well capitalized under the current regulatory framework for prompt corrective action.

The Basel III Capital Rules require for all banking organizations to maintain a capital conservation buffer above the minimum risk-based capital requirements in order to avoid certain limitations on capital distributions, stock repurchases and discretionary bonus payments to executive officers. The capital conservation buffer is exclusively composed of common equity tier 1 capital, and it applies to each of the risk-based capital ratios but not the leverage ratio. At June 30, 2019, the Company and the Bank are in compliance with the capital conservation buffer requirement.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

Cautionary Statements Regarding Forward-Looking Information

Certain statements contained in this Form 10-Q that are not historical facts are forward-looking statements based on management’s current expectations and beliefs concerning future developments and their potential effects on the Company. Such statements involve inherent risks and uncertainties, many of which are difficult to predict and are generally beyond our control. There can be no assurance that future developments affecting us will be the same as those anticipated by management. We caution readers that a number of important factors could cause actual results to differ materially from those expressed in, or implied or projected by, such forward-looking statements. These risks and uncertainties include, but are not limited to, the following: the strength of the United States economy in general and the strength of the local economies in which we conduct operations; the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System; inflation, interest rate, market and monetary fluctuations; the impact of changes in financial services policies, laws and regulations; technological changes; mergers and acquisitions (including costs or difficulties related to integration of acquired companies); changes in the level of our nonperforming assets and charge-offs; any deterioration in values of California real estate, both residential and commercial; the effect of changes in accounting standards and practices; possible other-than-temporary impairment of securities held by us; changes in consumer spending, borrowing and savings habits; our ability to attract deposits and other sources of liquidity; changes in the financial performance and/or condition of our borrowers; the impact of competition from other financial service providers; the possibility that any of the anticipated benefits of our recent merger with FNB Bancorp (“FNBB”) will not be realized or will not be realized within the expected time period, or that integration of FNBB’s operations will be more costly or difficult than expected; the challenges of integrating and retaining key employees; unanticipated regulatory or judicial proceedings; the costs and effects of litigation and of unexpected or adverse outcomes in such litigation; and our ability to manage the risks involved in the foregoing. Additional factors that could cause results to differ materially from those described above can be found in in Part II Item 1A of this report and our Annual Report on Form 10-K for the year ended December 31, 2018, which is on file with the Securities and Exchange Commission (the “SEC”) and available in the “Investor Relations” section of our website, https://www.tcbk.com/investor-relations and in other documents we file with the SEC.

General

As TriCo Bancshares (referred to in this report as “we”, “our” or 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. Within Management’s Discussion and Analysis of Financial Condition and Results of Operations, interest income, net interest income, net interest yield, and efficiency ratio are generally presented on a fully tax-equivalent (“FTE”) basis. The Company believes the use of these non-generally accepted accounting principles (non-GAAP) measures provides additional clarity in assessing its results, and the presentation of these measures on a FTE basis is a common practice within the banking industry. Interest income and net interest income are shown on a non-FTE basis in the Part I – Financial Information section of this Form 10-Q, and a reconciliation of the FTE and non-FTE presentations is provided below in the discussion of net interest income.

Critical Accounting Policies and Estimates

The Company’s discussion and analysis of its financial condition and results of operations are based upon the Company’s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those that materially affect the financial statements and are related to the adequacy of the allowance for loan losses, investments, mortgage servicing rights, fair value measurements, retirement plans and intangible assets. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. A detailed discussion related to the Company’s accounting policies including those related to estimates on the allowance for loan losses, other than temporary impairment of investments and impairment of intangible assets, can be found in Note 1 of the financial statements included in the Company’s annual report of Form 10-K for the year ended December 31, 2018.

Geographical Descriptions

For the purpose of describing the geographical location of the Company’s operations, the Company has defined northern California as that area of California north of, and including, Stockton to the east and San Jose to the west; central California as that area of the state south of Stockton and San Jose, to and including, Bakersfield to the east and San Luis Obispo to the west; and southern California as that area of the state south of Bakersfield and San Luis Obispo.

Financial Highlights

Performance highlights and other developments for the Company included the following:

- For the three and six months ended June 30, 2019, the Company's return on average assets was 1.44% and 1.43%, respectively, and the return on average equity was 10.65% and 10.71%, respectively.
- As of June 30, 2019, the Company reported total loans, total assets and total deposits of $4.10 billion, $6.40 billion and $5.34 billion, respectively.
- The loan to deposit ratio was 76.8% as of June 30, 2019 as compared to 74.3% at March 31, 2019 and 77.2% at June 30, 2018.
- Net interest margin grew 34 basis points to 4.48% on a tax equivalent basis as compared to 4.14% in the quarter ended June 30, 2018 and increased 2 basis points from the trailing quarter.
- Non-interest bearing deposits as a percentage of total deposits were 33.3% at June 30, 2019, as compared to 32.4% at March 31, 2019 and 33.6% at June 30, 2018.
- The average rate of interest paid on deposits, including noninterest-bearing deposits, remained low but increased slightly to 0.22% for the second quarter of 2019 as compared with 0.20% for the trailing quarter, and an increase of 10 basis points from the average rate paid during the same quarter of the prior year.
- Non-performing assets to total assets were 0.35% at June 30, 2019 as compared to 0.34% as of March 31, 2019 and 0.47% at December 31, 2018.
- The balance of nonperforming loans increased by $1.0 million, however recoveries on previously charged-off loans were $0.3 million and loans past due thirty days or more decreased by $2.18 million during the quarter.
- The efficiency ratio remained flat at 60.15% as compared to the trailing quarter, which had an efficiency ratio of 60.10%.

TRICO BANCSHARES
Financial Summary
(In thousands, except per share amounts; unaudited)

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Net interest income	$ 64,315	$ 45,869	$ 128,185	$ 90,855
(Provision for) benefit from reversal of loan losses	(537)	638	1,063	874
Noninterest income	13,578	12,174	25,442	24,464
Noninterest expense	(46,852)	(37,870)	(92,365)	(76,032)
Provision for income taxes	(7,443)	(5,782)	(16,538)	(11,222)
Net income	$ 23,061	$ 15,029	$ 45,787	$ 28,939
Per Share Data:				
Basic earnings per share	$ 0.76	$ 0.65	$ 1.50	$ 1.26
Diluted earnings per share	$ 0.75	$ 0.65	$ 1.49	$ 1.24
Dividends paid	$ 0.19	$ 0.17	$ 0.38	$ 0.34
Book value at period end			$ 28.71	$ 22.27
Average common shares outstanding	30,458	22,983	30,441	22,970
Average diluted common shares outstanding	30,643	23,276	30,650	23,280
Shares outstanding at period end			30,503	23,004
At period end:				
Loans, net			4,070,819	3,116,789
Total investment securities			1,566,720	1,251,776
Total assets			6,395,172	4,863,153
Total deposits			5,342,173	4,077,222
Other borrowings			13,292	152,839
Shareholders' equity			875,886	512,344
Financial Ratios:				
During the period (annualized):				
Return on average assets	1.44%	1.25%	1.43%	1.21%
Return on average equity	10.65%	11.78%	10.71%	11.39%
Net interest margin[1]	4.48%	4.14%	4.47%	4.14%
Efficiency ratio	60.1%	65.2%	60.1%	65.9%
Average equity to average assets	13.6%	10.6%	13.3%	10.6%
At end of period:				
Equity to assets			13.70%	10.54%
Total capital to risk-sdjusted assets			14.93%	13.91%

1 Fully taxable equivalent (FTE)

Results of Operations

Overview

The following discussion and analysis is designed to provide a better understanding of the significant changes and trends related to the Company and the Bank's financial condition, operating results, asset and liability management, liquidity and capital resources and should be read in conjunction with the Condensed Consolidated Financial Statements of the Company and the Notes thereto located at Item 1 of this report.

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Net interest income (FTE)	$ 64,613	$ 46,182	$128,804	$ 91,480
(Provision for) Benefit from reversal of loan losses	(537)	638	1,063	874
Noninterest income	13,578	12,174	25,442	24,464
Noninterest expense	(46,852)	(37,870)	(92,365)	(76,032)
Provision for income taxes (FTE)	(7,741)	(6,095)	(17,157)	(11,847)
Net income	$ 23,061	$ 15,029	$ 45,787	$ 28,939

The Company reported net income of $23,061,000 and $45,787,000 for the quarter and six months ended June 30, 2019, compared to $15,029,000 and $28,939,000 for the quarter and six months ended June 30, 2018, respectively. Diluted earnings per share were $0.75 and $1.49 for the quarter and six months ended June 30, 2019, compared to $0.65 and $1.24 for the quarter and six months ended June 30, 2018.

Net Interest Income

The Company's primary source of revenue is net interest income, or the difference between interest income on interest-earning assets and interest expense on interest-bearing liabilities. Following is a summary of the components of FTE net income for the periods indicated (dollars in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Interest income	$68,180	$48,478	$135,637	$95,599
Interest expense	(3,865)	(2,609)	(7,452)	(4,744)
FTE adjustment	298	313	619	625
Net interest income (FTE)	$64,613	$46,182	$128,804	$91,480
Net interest margin (FTE)	4.48%	4.14%	4.47%	4.14%
Acquired loans discount accretion, net:				
Amount (included in interest income)	$ 1,904	$ 559	$ 3,559	$ 1,191
Effect on average loan yield	0.19%	0.07%	0.18%	0.08%
Effect on net interest margin (FTE)	0.13%	0.05%	0.12%	0.05%

Loans may be acquired at a premium or discount to par value, in which case, the premium is amortized (subtracted from) or accreted (added to) interest income over the remaining life of the loan. Generally, as time goes on, the effects of loan discount accretion and loan premium amortization decrease as the purchased loans mature or pay off early. Upon the early pay off of a loan, any remaining (unaccreted) discount or (unamortized) premium is immediately taken into interest income; and as loan payoffs may vary significantly from quarter to quarter, so may the impact of discount accretion and premium amortization on interest income. During the three and six months ended June 30, 2019, purchased loan discount accretion was $1,904,000 and $3,599,000, respectively. During the three and six months ended June 30, 2018, purchased loan discount accretion was $559,000 and $1,191,000, respectively. The increase in discount accretion is directly attributable to the acquisition of FNB Bancorp in July 2018.

Summary of Average Balances, Yields/Rates and Interest Differential

The following table presents, for the periods indicated, information regarding the Company's consolidated average assets, liabilities and shareholders' equity, the amounts of interest income from average interest-earning assets and resulting yields, and the amount of interest expense paid on interest-bearing liabilities. Average loan balances include nonperforming loans. Interest income includes proceeds from loans on nonaccrual loans only to the extent cash payments have been received and applied to interest income. Yields on securities and certain loans have been adjusted upward to reflect the effect of income thereon exempt from federal income taxation at the current statutory tax rate (dollars in thousands).

	For the three months ended					
	June 30, 2019			June 30, 2018		
	Average Balance	Interest Income/ Expense	Rates Earned /Paid	Average Balance	Interest Income/ Expense	Rates Earned /Paid
Assets:						
Loans	$ 4,044,044	$55,492	5.49%	$ 3,104,126	$39,304	5.06%
Investment securities - taxable	1,432,550	10,762	3.00%	1,122,534	7,736	2.76%
Investment securities - nontaxable(1)	140,562	1,358	3.86%	136,126	1,355	3.98%
Total investments	1,573,112	12,120	3.08%	1,258,660	9,091	2.89%
Cash at Federal Reserve and other banks	147,810	866	2.34%	94,874	396	1.67%
Total interest-earning assets	5,764,966	68,478	4.75%	4,457,660	48,791	4.38%
Other assets	620,923			356,863		
Total assets	$ 6,385,889			$ 4,814,523		
Liabilities and shareholders' equity:						
Interest-bearing demand deposits	$ 1,276,388	$ 289	0.09%	$ 995,528	$ 214	0.09%
Savings deposits	1,888,234	1,306	0.28%	1,393,121	427	0.12%
Time deposits	441,116	1,404	1.27%	313,556	593	0.76%
Total interest-bearing deposits	3,605,738	2,999	0.33%	2,702,205	1,234	0.18%
Other borrowings	17,963	37	0.82%	139,307	586	1.68%
Junior subordinated debt	57,222	829	5.79%	56,928	789	5.54%
Total interest-bearing liabilities	3,680,923	3,865	0.42%	2,898,440	2,609	0.36%
Noninterest-bearing deposits	1,765,141			1,339,905		
Other liabilities	73,541			65,745		
Shareholders' equity	866,284			510,433		
Total liabilities and shareholders' equity	$ 6,385,889			$ 4,814,523		
Net interest spread(2)			4.33%			4.02%
Net interest income and interest margin(3)		$64,613	4.48%		$46,182	4.14%

(1) Fully taxable equivalent (FTE)
(2) Net interest spread represents the average yield earned on interest-earning assets minus the average rate paid on interest-bearing liabilities.
(3) Net interest margin is computed by calculating the difference between interest income and interest expense, divided by the average balance of interest-earning assets.

In general, the change in average balances of assets and liabilities were significantly impacted by the July 6, 2018 acquisition of FNB Bancorp. For financial reporting purposes, the Company does not separately track the changes in assets and liabilities based on branch location or regional geography. Organic growth, inclusive of seasonal fluctuation, also contributed to the year-over-year balance sheet changes. In addition to the balance sheet changes which resulted from the acquisition of FNB Bancorp, total assets grew by $68,819,000 (1.4%) between June 2018 and June 2019. This growth was led by $122,691,000 (3.9%) of organic loan growth which was funded by $273,016,000 (6.7%) in organic deposit growth. The following is a comparison of the year over year change in certain assets and liabilities:

	As of June 30,					
($'s in thousands)	2019	2018	$ Change	Acquired Balances	Organic $ Change	Organic % Change
Ending balances						
Total assets	$6,395,172	$4,863,153	$1,532,019	$1,463,200	$ 68,819	1.4%
Total loans	4,103,687	3,146,313	957,374	834,683	122,691	3.9%
Total investments	1,566,720	1,251,776	314,944	335,667	(20,723)	(1.7%)
Total deposits	$5,342,173	$4,077,222	$1,264,951	$ 991,935	$273,016	6.7%

The following table presents, for the periods indicated, information regarding the Company's consolidated average assets, liabilities and shareholders' equity, the amounts of interest income from average interest-earning assets and resulting yields, and the amount of interest expense paid on interest-bearing liabilities. Average loan balances include nonperforming loans. Interest income includes proceeds from loans on nonaccrual loans only to the extent cash payments have been received and applied to interest income. Yields on securities and certain loans have been adjusted upward to reflect the effect of income thereon exempt from federal income taxation at the current statutory tax rate (dollars in thousands).

	For the six months ended					
	June 30, 2019			June 30, 2018		
	Average Balance	Interest Income/ Expense	Rates Earned /Paid	Average Balance	Interest Income/ Expense	Rates Earned /Paid
Assets:						
Loans	$ 4,033,954	$ 109,889	5.45%	$ 3,066,152	$ 77,353	5.05%
Investment securities - taxable	1,428,951	21,677	3.03%	1,123,964	15,394	2.74%
Investment securities - nontaxable(1)	141,397	2,753	3.89%	136,143	2,708	3.98%
Total investments	1,570,348	24,430	3.11%	1,260,107	18,102	2.87%
Cash at Federal Reserve and other banks	158,164	1,937	2.45%	92,869	769	1.66%
Total interest-earning assets	5,762,466	136,256	4.73%	4,419,128	96,224	4.35%
Other assets	643,592			358,747		
Total assets	$ 6,406,058			$ 4,777,875		
Liabilities and shareholders' equity:						
Interest-bearing demand deposits	$ 1,274,882	$ 576	0.09%	$ 994,867	$ 425	0.09%
Savings deposits	1,907,677	2,439	0.26%	1,382,249	838	0.12%
Time deposits	441,447	2,703	1.22%	310,035	1,067	0.69%
Total interest-bearing deposits	3,624,006	5,718	0.32%	2,687,151	2,330	0.17%
Other borrowings	16,736	50	0.60%	123,544	928	1.50%
Junior subordinated debt	57,086	1,684	5.90%	56,905	1,486	5.22%
Total interest-bearing liabilities	3,697,828	7,452	0.40%	2,867,600	4,744	0.33%
Noninterest-bearing deposits	1,754,973			1,336,070		
Other liabilities	98,570			65,982		
Shareholders' equity	854,687			508,223		
Total liabilities and shareholders' equity	$ 6,406,058			$ 4,777,875		
Net interest spread(2)			4.33%			4.02%
Net interest income and interest margin(3)		$ 128,804	4.47%		$ 91,480	4.14%

(1) Fully taxable equivalent (FTE)
(2) Net interest spread represents the average yield earned on interest-earning assets minus the average rate paid on interest-bearing liabilities.
(3) Net interest margin is computed by calculating the difference between interest income and interest expense, divided by the average balance of interest-earning assets.

As noted above, the change in average balances of assets and liabilities were significantly impacted by the July 6, 2018 acquisition of FNB Bancorp. Total average interest-earning assets increased as a percent of total average interest-bearing liabilities during these comparable six-month periods from 154% to 156%, which contributed to the growth in net interest income and net interest margin of $37,324,000 and 33 basis points, respectively.

Summary of Changes in Interest Income and Expense due to Changes in Average Asset and Liability Balances and Yields Earned and Rates Paid

The following table sets forth, for the period identified, a summary of the changes in interest income and interest expense from changes in average asset and liability balances (volume) and changes in average interest rates for the periods indicated. Changes not solely attributable to volume or rates have been allocated in proportion to the respective volume and rate components (in thousands).

	Three months ended June 30, 2019 compared with three months ended June 30, 2018		
	Volume	Rate	Total
Increase in interest income:			
Loans	$ 12,681	$ 3,507	$ 16,188
Investment securities [1]	2,391	638	3,029
Cash at Federal Reserve and other banks	273	197	470
Total interest-earning assets	15,345	4,342	19,687
Increase (decrease) in interest expense:			
Interest-bearing demand deposits	63	12	75
Savings deposits	194	685	879
Time deposits	303	508	811
Other borrowings	(346)	(203)	(549)
Junior subordinated debt	4	36	40
Total interest-bearing liabilities	218	1,038	1,256
Increase in net interest income	$ 15,127	$ 3,304	$ 18,431

(1) Fully taxable equivalent (FTE)

	Six months ended June 30, 2019 compared with six months ended June 30, 2018		
	Volume	Rate	Total
Increase in interest income:			
Loans	$ 25,971	$ 6,565	$ 32,536
Investment securities [1]	4,733	1,595	6,328
Cash at Federal Reserve and other banks	695	473	1,168
Total interest-earning assets	31,399	8,633	40,032
Increase (decrease) in interest expense:			
Interest-bearing demand deposits	126	25	151
Savings deposits	408	1,193	1,601
Time deposits	576	1,060	1,636
Other borrowings	(518)	(360)	(878)
Junior subordinated debt	4	194	198
Total interest-bearing liabilities	596	2,112	2,708
Increase in net interest income	$ 30,803	$ 6,521	$ 37,324

(1) Fully taxable equivalent (FTE)

The following commentary regarding net interest income, interest income and interest expense may be best understood while referencing the *Summary of Average Balances, Yields/Rates and Interest Differential* and the *Summary of Changes in Interest Income and Expense due to Changes in Average Asset and Liability Balances and Yields Earned and Rates Paid* shown above.

Net interest income (FTE) during the three months ended June 30, 2019 increased $18,431,000 or 39.9% to $64,613,000 compared to $46,182,000 during the three months ended June 30, 2018. The increase in net interest income (FTE) was due primarily to an increase in the average balance of loans, which contributed an additional $12,681,000 in interest income. As discussed above, increases in average balances were primarily the result of the FNB Bancorp acquisition. Increases in market rates and purchase discount accretion added $3,304,000 to net interest income, due to increases in rates earned on interest-earnings assets outpacing increases paid in interest-bearing liabilities.

The index utilized in a significant portion of the Company's variable rate loans, Wall Street Journal Prime, has increased by 0.50% to 5.50% at June 30, 2019 as compared to 5.00% at June 30, 2018. As compared to the same quarter in the prior year, average loan yields increased 43 basis points from 5.06% during the three months ended June 30, 2018 to 5.49% during the three months ended June 30, 2019. Of the 43 basis point increase in yields on loans, 31 basis points was attributable to increases in market rates while 12 basis points was from increased accretion of purchased loans.

As of June 30, 2019, the Bank's $4,152,540,000 principal balance of loans, net of charge-offs, and not including deferred loan fees and purchase discounts, was made up of loans with principal balances totaling $1,352,921,000 that have fixed interest rates, and $2,799,619,000 of loans with interest rates that are variable.

The organic growth in deposits was driven primarily by normal and expected seasonal trends as well as the impact of deposit customer's receipt of insurance proceeds from the property and casualty losses incurred in connection with the wildfires in Northern California. This growth in deposits allowed for the repayment of overnight borrowings resulting in a reduction in interest expense of $549,000 which was partially offset by the changes in volumes and rates associated with deposit products. During the twelve months ended June 30, 2019, the Federal Funds Target Rate was increased two times in 25 basis point increments from 2.00% to 2.50%. The Company's cost of interest-bearing deposits increased from 33 basis points during the six months ended June 30, 2018 to 40 basis points during the six months ended June 30, 2019.

Net interest income (FTE) during the six months ended June 30, 2019 increased $37,324,000 or 40.8% to $128,804,000 compared to $91,480,000 during the six months ended June 30, 2018. The increase in net interest income (FTE) was due primarily to an increase in the average balance of loans, which was partially offset by an increase in the average balance of interest-bearing liabilities and a 7 basis point increase in the average rate paid on interest-bearing liabilities.

During the six months ended June 30, 2019, the average balance of loans increased by $967,802,000 or 31.6% to $4,033,954,000. The increase in net interest income was further benefited by an increase in the year-to-date purchased loan discount accretion from $1,191,000 during the six months ended June 30, 2018 to $3,559,000 during the six months ended June 30, 2019. This increase in purchased loan discount accretion benefited loan yields by 8 basis points, and net interest margin by 5 basis points. The 7 basis point increase in the average rate paid on interest-bearing liabilities was primarily due to increases in market rates that increased the rates the Company pays on its time deposits. However, the growth in total average deposits during the comparable six-month periods allowed for the repayment of overnight borrowings which, combined with changes in related rates, contributed to a decrease in interest expense of $878,000.

Asset Quality and Loan Loss Provisioning

The Company continued to experience improvement in the overall credit quality of its loan portfolio. At June 30, 2019, total nonperforming loans decreased to $21,690,000 or 0.53% of total loans from $27,494,000 or 0.68% of total loans as of December 31, 2018.

The Company recorded provision for loan losses of $537,000 during the three months ended June 30, 2019 as compared to a benefit from the reversal of provision of $638,000 in the same quarter of the prior year. The provision was necessitated in part by loan growth of $69,356,000 during the quarter and partially offset by $267,000 in net recoveries on previously charged-off loans during the second quarter of 2019 as compared to net recoveries of $189,000 in the second quarter of 2018. Additionally, while the Company remains cautious about the risks associated with trends in California real estate prices, the duration of economic trends and concentrations of credit, the qualitative factors associated with these measures reduced the level of calculated required reserves by approximately $632,000 during the quarter ended June 30, 2019, therefore, changes in those risks could result in additional levels of provisioning being required in the future.

Noninterest Income

The following table summarizes the Company's noninterest income for the periods indicated (in thousands):

(dollars in thousands)	Three months ended June 30, 2019	2018	$ Change	% Change
ATM and interchange fees	$ 5,404	$ 4,510	$ 894	19.8%
Service charges on deposit accounts	4,182	3,613	569	15.7%
Other service fees	619	630	(11)	(1.7%)
Mortgage banking service fees	475	511	(36)	(7.0%)
Change in value of mortgage servicing rights	(552)	(36)	(516)	1433.3%
Total service charges and fees	10,128	9,228	900	9.8%
Increase in cash value of life insurance	746	656	90	13.7%
Asset management and commission income	739	810	(71)	(8.8%)
Gain on sale of loans	575	666	(91)	(13.7%)
Lease brokerage income	239	200	39	19.5%
Sale of customer checks	135	138	(3)	(2.2%)
Gain on sale of foreclosed assets	197	17	180	1058.8%
Gain (loss) on marketable equity securities	42	(23)	65	(282.6%)
Loss on disposal of fixed assets	(42)	(41)	(1)	2.4%
Other	819	523	296	56.6%
Total other noninterest income	3,450	2,946	504	17.1%
Total noninterest income	$ 13,578	$ 12,174	$ 1,404	11.5%

(dollars in thousands)	Six months ended June 30, 2019	2018	$ Change	% Change
ATM and interchange fees	$ 9,985	$ 8,745	$ 1,240	14.2%
Service charges on deposit accounts	8,062	7,392	670	9.1%
Other service fees	1,390	1,344	46	3.4%
Mortgage banking service fees	958	1,028	(70)	(6.8%)
Change in value of mortgage servicing rights	(1,197)	75	(1,272)	(1696.0%)
Total service charges and fees	19,198	18,584	614	3.3%
Increase in cash value of life insurance	1,521	1,264	257	20.3%
Asset management and commission income	1,381	1,686	(305)	(18.1%)
Gain on sale of loans	987	1,292	(305)	(23.6%)
Lease brokerage income	459	328	131	39.9%
Sale of customer checks	275	239	36	15.1%
Gain on sale of foreclosed assets	199	388	(189)	(48.7%)
Gain (loss) on marketable equity securities	78	(70)	148	(211.4%)
Loss on disposal of fixed assets	(80)	(54)	(26)	48.1%
Other	1,424	807	617	76.5%
Total other noninterest income	6,244	5,880	364	6.2%
Total noninterest income	$ 25,442	$ 24,464	$ 978	4.0%

Noninterest income increased $1,404,000 (11.5%) and $978,000 (4.0%) during the three and six month periods ended June 30, 2019 as compared to the three and six month periods ended June 30, 2018, respectively. The increase was primarily driven by growth in usage and, due largely in part to the acquisition of FNB Bancorp, an increase in customers and accounts that generate fee revenues. In addition, during the three and six month periods ended June 30, 2019 the company recorded other noninterest income associated with death benefit insurance proceeds of $696,000 and $728,000, respectively. These increases were offset by valuation changes in the Company's mortgage servicing right asset of $516,000 and $1,272,000, respectively and declines in gains on sale of loans caused by less volume of mortgage loans sold of $91,000 and $305,000, respectively for the three and six month periods ended June 30, 2019 as compared to the three and six month periods ended June 30, 2018. Additional partial offsets to the overall increase were due to declines in asset management and commission income of $71,000 and $305,000, respectively during the three and six month periods ended June 30, 2019 as compared to the three and six month periods ended June 30, 2018.

Noninterest Expense

The following table summarizes the Company's noninterest expense for the periods indicated (dollars in thousands):

	Three months ended June 30, 2019	Three months ended June 30, 2018	$ Change	% Change
Base salaries, net of deferred loan origination costs	$ 17,211	$ 14,429	$ 2,782	19.3%
Incentive compensation	3,706	2,159	1,547	71.7%
Benefits and other compensation costs	5,802	4,865	937	19.3%
Total salaries and benefits expense	26,719	21,453	5,266	24.5%
Occupancy	3,738	2,720	1,018	37.4%
Data processing and software	3,354	2,679	675	25.2%
Equipment	1,752	1,637	115	7.0%
Intangible amortization	1,431	339	1,092	322.1%
Advertising	1,533	1,035	498	48.1%
ATM and POS network charges	1,270	1,437	(167)	(11.6%)
Professional fees	1,057	774	283	36.6%
Telecommunications	773	681	92	13.5%
Regulatory assessments and insurance	490	417	73	17.5%
Merger and acquisition expense	—	601	(601)	(100.0%)
Postage	315	301	14	4.7%
Operational losses	226	252	(26)	(10.3%)
Courier service	412	224	188	83.9%
Other miscellaneous expense	3,782	3,320	462	13.9%
Total other noninterest expense	20,133	16,417	3,716	22.6%
Total noninterest expense	$ 46,852	$ 37,870	$ 8,982	23.7%
Average full time equivalent staff	1,138	1,001	137	13.7%

	Six months ended June 30, 2019	Six months ended June 30, 2018	$ Change	% Change
Base salaries, net of deferred loan origination costs	$ 33,968	$ 28,391	$ 5,577	19.6%
Incentive compensation	6,273	4,611	1,662	36.0%
Benefits and other compensation costs	11,606	10,103	1,503	14.9%
Total salaries and benefits expense	51,847	43,105	8,742	20.3%
Occupancy	7,512	5,401	2,111	39.1%
Data processing and software	6,703	5,193	1,510	29.1%
Equipment	3,619	3,188	431	13.5%
Intangible amortization	2,862	678	2,184	322.1%
Advertising	2,864	1,873	991	52.9%
ATM and POS network charges	2,593	2,663	(70)	(2.6%)
Professional fees	1,896	1,546	350	22.6%
Telecommunications	1,570	1,382	188	13.6%
Regulatory assessments and insurance	1,001	847	154	18.2%
Merger and acquisition expense	—	1,077	(1,077)	(100.0%)
Postage	625	659	(34)	(5.2%)
Operational losses	451	546	(95)	(17.4%)
Courier service	682	491	191	38.9%
Other miscellaneous expense	8,140	7,383	757	10.3%
Total other noninterest expense	40,518	32,927	7,591	23.1%
Total noninterest expense	$ 92,365	$ 76,032	$ 16,333	21.5%
Average full time equivalent staff	1,137	1,001	136	13.6%

Salary and benefit expenses increased $5,266,000 (24.5%) to $26,719,000 during the three months ended June 30, 2019 compared to $21,453,000 during the three months ended June 30, 2018. Base salaries, net of deferred loan origination costs increased $2,782,000 (19.3%) to $17,211,000. The increase in base salaries was due primarily to a 13.7% increase in average full time equivalent employees, largely attributable to the acquisition of FNB Bancorp, to 1,138 from 1,001 in the year-ago quarter. In addition, annual merit increases impacted the quarter over quarter comparison but contributed to less than 3.0% of the annual increase.

Total other noninterest expense increased $3,716,000 (22.6%) to $20,133,000 during the three months ended June 30, 2019 compared to the three months ended June 30, 2018. The increase in other noninterest expense was due primarily to increased overhead operating costs related to the additional branches as a result of the prior year acquisition of FNB Bancorp. Highlighting those increases were intangible amortization, occupancy, data processing and software, and advertising expenses, which increased by $1,092,000, $1,018,000, $675,000 and $498,000, respectively, as compared to the prior year quarter. The increases in noninterest expenses were partially offset by decreased merger & acquisition expenses of $601,000 during the comparable quarterly periods.

The increase in total noninterest expense of $16,333,000 (21.5%) to $92,365,000 for the six month period ended June 30, 2019 compared to $76,032,000 for the same period in 2018 was also primarily attributable to the acquisition of FNB Bancorp, including the growth in full time equivalent staff and the expanded volume of operational activities.

Income Taxes

The Company’s effective tax rate was 24.4% for the quarter ended June 30, 2019 as compared to 27.8% for the same quarter in the prior year. The Company’s effective tax rate was 26.5% for the six months ended June 30, 2019 as compared to 27.9% for the six months ended June 30, 2018. The decrease in effective tax rates for the 2019 periods is primarily attributable to the increase in nontaxable income related to death benefit insurance proceeds of $696,000 and $728,000 during the three and six month periods ended June 30, 2019, respectively.

Financial Condition

Investment Securities

Investment securities available for sale increased $18,958,000 to $1,133,994,000 as of June 30, 2019, compared to December 31, 2018. This increase is primarily attributable to an increase in fair value of $22,263,000. There were no sales or transfers of available-for-sale investment securities during the six month periods ended June 30, 2019 and 2018.

The following table presents the available for sale debt securities portfolio by major type as of June 30, 2019 and December 31, 2018:

(dollars in thousands)	June 30, 2019		December 31, 2018	
	Fair Value	%	Fair Value	%
Debt securities available for sale:				
Obligations of U.S. government agencies	$ 630,911	55.6%	$ 629,981	56.5%
Obligations of states and political subdivisions	125,980	11.1%	126,072	11.3%
Corporate bonds	4,521	0.4%	4,478	0.4%
Asset backed securities	372,582	32.9%	354,505	31.8%
Total debt securities available for sale	$ 1,133,994	100.0%	$ 1,115,036	100.0%

Investment securities held to maturity decreased $32,412,000 to $412,524,000 as of June 30, 2019, as compared to December 31, 2018. This decrease is attributable to principal repayments of $31,938,000, and amortization of net purchase price premiums of $474,000.

The following table presents the held to maturity investment securities portfolio by major type as of June 30, 2019 and December 31, 2018:

(dollars in thousands)	June 30, 2019		December 31, 2018	
	Amortized Cost	%	Amortized Cost	%
Debt securities held to maturity:				
Obligations of U.S. government and agencies	$ 398,714	96.7%	$ 430,343	96.7%
Obligations of states and political subdivisions	13,810	3.3%	14,593	3.3%
Total debt securities held to maturity	$ 412,524	100%	$ 444,936	100.0%

Loans

The Company concentrates its lending activities in four principal areas: real estate mortgage loans (residential and commercial loans), consumer loans, commercial loans (including agricultural loans), and real estate construction loans. 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 and 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.

The following table shows the Company’s loan balances, net deferred loan costs and discounts, as of the dates indicated:

(dollars in thousands)	June 30, 2019		December 31, 2018	
Real estate mortgage	$ 3,178,730	77.5%	$ 3,143,100	78.1%
Consumer	434,388	10.6%	418,982	10.4%
Commercial	276,045	6.7%	276,548	6.9%
Real estate construction	214,524	5.2%	183,384	4.6%
Total loans	$ 4,103,687	100%	$ 4,022,014	100%

At June 30, 2019 loans, including net deferred loan costs and discounts, totaled $4,103,687,000 which was a $81,673,000 (2.0%) increase over the balances at December 31, 2018.

Asset Quality and Nonperforming Assets

Nonperforming Assets

The following tables set forth the amount of the Company's nonperforming assets as of the dates indicated. "Performing nonaccrual loans" are loans that may be current for both principal and interest payments, or are less than 90 days past due, but for which payment in full of both principal and interest is not expected, and are not well secured and in the process of collection:

(dollars in thousands)	June 30, 2019	December 31, 2018
Performing nonaccrual loans	$17,825	$ 22,689
Nonperforming nonaccrual loans	3,844	4,805
Total nonaccrual loans	21,669	27,494
Loans 90 days past due and still accruing	22	—
Total nonperforming loans	21,691	27,494
Foreclosed assets	1,548	2,280
Total nonperforming assets	$23,239	$ 29,774
Nonperforming assets to total assets	0.36%	0.47%
Nonperforming loans to total loans	0.53%	0.68%
Allowance for loan losses to nonperforming loans	152%	119%
Allowance for loan losses, unamortized loan fees, and discounts to loan principal balances owed	1.97%	2.11%

	June 30, 2019			
(dollars in thousands)	Originated	PNCI	PCI	Total
Performing nonaccrual loans	$ 11,773	$3,410	$2,642	$17,825
Nonperforming nonaccrual loans	2,360	1,087	397	3,844
Total nonaccrual loans	14,133	4,497	3,039	21,669
Loans 90 days past due and still accruing	22	—	—	22
Total nonperforming loans	14,155	4,497	3,039	21,691
Foreclosed assets	1,103	—	445	1,548
Total nonperforming assets	$ 15,258	$4,497	$3,484	$23,239
U.S. government, including its agencies and its government-sponsored agencies, guaranteed portion of nonperforming loans	$ 790	$ —	$ 294	$ 1,084
Nonperforming assets to total assets	0.24%	0.07%	0.05%	0.36%
Nonperforming loans to total loans	0.35%	0.11%	0.07%	0.53%
Allowance for loan losses to nonperforming loans	228%	13%	0.33%	152%
Allowance for loan losses, unamortized loan fees, and discounts to loan principal balances owed	1.29%	3.60%	36.11%	1.97%

(dollars in thousands)	December 31, 2018 Originated	PNCI	PCI	Total
Performing nonaccrual loans	$ 16,573	$1,269	$4,847	$22,689
Nonperforming nonaccrual loans	2,843	1,589	373	4,805
Total nonaccrual loans	19,416	2,858	5,220	27,494
Loans 90 days past due and still accruing	—	—	—	—
Total nonperforming loans	19,416	2,858	5,220	27,494
Foreclosed assets	1,490	—	790	2,280
Total nonperforming assets	$ 20,906	$2,858	$6,010	$29,774
U.S. government, including its agencies and its government-sponsored agencies, guaranteed portion of nonperforming loans	$ 800	$ —	$ —	$ 800
Nonperforming assets to total assets	0.33%	0.04%	0.09%	0.47%
Nonperforming loans to total loans	0.48%	0.07%	0.13%	0.68%
Allowance for loan losses to nonperforming loans	164%	23.3%	2.34%	119%
Allowance for loan losses, unamortized loan fees, and discounts to loan principal balances owed	1.39%	3.48%	33.69%	2.11%

Changes in nonperforming assets during the three months ended June 30, 2019

(in thousands):	Balance at June 30, 2019	New NPA / Valuation Adjustments	Pay-downs /Sales /Upgrades	Charge-offs/ Write-downs	Transfers to Foreclosed Assets	Balance at March 31, 2019
Real estate mortgage:						
Residential	$ 4,350	$ 2,187	$ (503)	$ (2)	$ —	$ 2,668
Commercial	8,678	579	(207)	—	—	8,306
Consumer						
Home equity lines	2,476	67	(25)	—	—	2,434
Home equity loans	2,047	168	(708)	—	—	2,587
Other consumer	74	81	(40)	(37)	—	70
Commercial	4,066	1,126	(422)	(138)	—	3,500
Construction:						
Residential	—	—	—	—	—	—
Commercial	—	—	—	—	—	—
Total nonperforming loans	21,691	4,208	(1,905)	(177)	—	19,565
Foreclosed assets	1,548	(63)	(704)	—	—	2,315
Total nonperforming assets	$23,239	$ 4,145	$ (2,609)	$ (177)	$ —	$21,880

The table above does not include deposit overdraft charge-offs.

Nonperforming assets increased during the second quarter of 2019 by $1,359,000 (6.2%) to $23,239,000 at June 30, 2019 compared to $21,880,000 March 31, 2019. The increase in nonperforming assets during the second quarter of 2019 was primarily the result of pay-downs and upgrades of nonperforming loans of $1,905,000, write-downs of $177,000 on nonperforming loans, and sales of foreclosed assets of $704,000, that were offset by new nonperforming loans of $4,208,000 and an increase in the valuation of $63,000 in foreclosed property.

The $4,208,000 of new nonperforming loans added during the second quarter of 2019 was mainly comprised of 4 loans totaling $3,746,000, of which $2,765,000 consisted of 3 real estate loans which management believes are sufficiently secured by collateral and $981,000 related to a loan secured by commercial vehicles. Management is actively engaged in the collection and recovery efforts for all nonperforming assets and believes that the specific loan loss reserves associated with these loans is sufficient as of June 30, 2019.

Loan charge-offs during the three months ended June 30, 2019

In the second quarter of 2019, the Company recorded $177,000 in loan charge-offs and $116,000 in deposit overdraft charge-offs less $514,000 in loan recoveries and $46,000 in deposit overdraft recoveries resulting in $267,000 of net recoveries.

Total charge-offs were generally comprised of individual charges of less than $250,000 each. Generally, losses are triggered by non-performance by the borrower and calculated based on any difference between the current loan amount and the current value of the underlying collateral less any estimated costs associated with the disposition of the collateral.

Changes in nonperforming assets during the six months ended June 30, 2019

(in thousands):	Balance at June 30, 2019	New NPA / Valuation Adjustments	Pay-downs /Sales /Upgrades	Charge-offs/ Write-downs	Transfers to Foreclosed Assets	Balance at December 31, 2018
Real estate mortgage:						
Residential	$ 4,350	$ 2,187	$ (573)	$ (2)	$ (116)	$ 2,854
Commercial	8,678	846	(7,214)	—	—	15,046
Consumer						
Home equity lines	2,476	91	(364)	—	—	2,749
Home equity loans	2,047	200	(1,116)	—	—	2,963
Other consumer	74	145	(41)	(37)	—	7
Commercial	4,066	1,399	(581)	(627)	—	3,875
Construction:						
Residential	—	—	—	—	—	—
Commercial	—	—	—	—	—	—
Total nonperforming loans	21,691	4,868	(9,889)	(666)	(116)	27,494
Foreclosed assets	1,548	35	(883)	—	116	2,280
Total nonperforming assets	$23,239	$ 4,903	$(10,772)	$ (666)	$ —	$ 29,774

The table above does not include deposit overdraft charge-offs.

Nonperforming assets decreased during the first half of 2019 by $6,535,000 (22.0%) to $23,239,000 at June 30, 2019 compared to $29,774,000 at December 31, 2018. The decrease in nonperforming assets during the first half of 2019 was primarily the result of pay-downs and upgrades of nonperforming loans of $9,889,000, write-downs of $666,000 on nonperforming loans, and sales of foreclosed assets of $883,000, that were partially offset by new nonperforming assets of $4,902,000.

The $6,535,000 in reduction of nonperforming loans during the first half of 2019 was mainly comprised of decreases within commercial real estate, and included payoffs of three loans to two relationships with a combined balance $6,818,000. The decrease in home equity lines and loans were comprised of decreases of $1,189,000 from 98 home equity lines and loans. These decreases were offset by increases in commercial loans of $191,000 and consumer loans of $66,000.

Loan charge-offs during the six months ended June 30, 2019

In the first half of 2019, the Company recorded $791,000 in loan charge-offs and $228,000 in deposit overdraft charge-offs less $2,266,000 in loan recoveries and $102,000 in deposit overdraft recoveries resulting in $1,349,000 of net recoveries.

The Components of the Allowance for Loan Losses

The following table sets forth the allowance for loan losses as of the dates indicated:

(dollars in thousands)	2019	2018
Allowance for originated and PNCI loan losses:		
Environmental factors allowance	$12,455	$11,577
Formula allowance	17,961	18,689
Total allowance for originated and PNCI loan losses	30,416	30,266
Allowance for impaired loans	2,442	2,194
Allowance for PCI loan losses	10	122
Total allowance for loan losses	$32,868	$32,582
Allowance for loan losses to loans	0.80%	0.81%

For additional information regarding the allowance for loan losses, including changes in specific, formula, and environmental factors allowance categories, see *"Asset Quality and Loan Loss Provisioning"* at *"Results of Operations"*, above. Based on the current conditions of the loan portfolio, management believes that the $32,868,000 allowance for loan losses at June 30, 2019 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 following table summarizes the allocation of the allowance for loan losses between loan types and by percentage of the total allowance for loan losses as of the dates indicated:

Real estate mortgage	$14,675	44.7%	$15,620	47.9%
Consumer	8,552	26.0%	8,375	25.7%
Commercial	6,745	20.5%	6,090	18.7%
Real estate construction	2,896	8.8%	2,497	7.7%
Total allowance for loan losses	$32,868	100.0%	$32,582	100.0%

The following table summarizes the allocation of the allowance for loan losses as a percentage of the total loans for each loan category as of the dates indicated:

Real estate mortgage	$3,178,730	0.46%	$3,143,100	0.50%
Consumer	434,388	1.97%	418,982	2.00%
Commercial	276,045	2.44%	276,548	2.20%
Real estate construction	214,524	1.35%	183,384	1.36%
Total allowance for loan losses	$4,103,687	0.80%	$4,022,014	0.81%

The following table summarizes the activity in the allowance for loan losses for the periods indicated (dollars in thousands):

(in thousands)	2019	2018	2019	2018
Allowance for loan losses:				
Balance at beginning of period	$ 32,064	$ 29,973	$ 32,582	$ 30,323
Reversal of provision for loan losses	537	(638)	(1,063)	(874)
Loans charged off:				
Real estate mortgage:				
Residential	(2)	(51)	(2)	(52)
Commercial	—	(15)	—	(15)
Consumer:				
Home equity lines	—	(24)	—	(104)
Home equity loans	—	—	—	—
Other consumer	(153)	(174)	(360)	(368)
Commercial	(138)	(54)	(657)	(259)
Construction:				
Residential	—	—	—	—
Commercial	—	—	—	—
Total loans charged off	(293)	(318)	(1,019)	(798)
Recoveries of previously charged-off loans:				
Real estate mortgage:				
Residential	3	—	5	—
Commercial	10	21	1,391	36
Consumer:				
Home equity lines	183	317	278	526
Home equity loans	171	23	258	37
Other consumer	108	66	183	144
Commercial	85	80	253	130
Construction:				
Residential	—	—	—	—
Commercial	—	—	—	—
Total recoveries of previously charged off loans	560	507	2,368	873
Net recoveries (charge-offs)	267	189	1,349	75
Balance at end of period	$ 32,868	$ 29,524	$ 32,868	$ 29,524
Average total loans	$ 4,044,044	$ 3,104,126	$ 4,033,954	$ 3,066,152
Ratios (annualized):				
Net charge-offs (recoveries) during period to average loans outstanding during period	(0.03)%	(0.02)%	(0.13)%	(0.01)%
Benefit from reversal of loan losses to average loans outstanding during period	0.05%	(0.08)%	(0.11)%	(0.11)%

Foreclosed Assets, Net of Allowance for Losses

The following tables detail the components and summarize the activity in foreclosed assets, net of allowances for losses for the period indicated:

(in thousands)	Balance at June 30, 2019	Sales	Valuation Adjustments	Transfers from Loans	Balance at December 31, 2018
Land & Construction	$ 445	$ —	$ —	$ —	$ 445
Residential real estate	1,015	(883)	40	116	1,742
Commercial real estate	88	—	(5)	—	93
Total foreclosed assets	$ 1,548	$ (883)	$ 35	$ 116	$ 2,280

Deposits

During the three and six months ended June 30, 2019, the Company's deposits decreased $88,089,000 and $24,293,000 respectively to $5,342,173,000. Included in the June 30, 2019 and December 31, 2018 certificate of deposit balances are $50,000,000 and $60,000,000, respectively, from the State of California. The Company participates in a deposit program offered by the State of California whereby the State may make deposits at the Company's request subject to collateral and creditworthiness constraints. The negotiated rates on these State deposits are generally more favorable than other wholesale funding sources available to the Company.

Off-Balance Sheet Arrangements

See Note 8 to the condensed consolidated financial statements at Item 1 of Part I of this report for information about the Company's commitments and contingencies including off-balance-sheet arrangements.

Capital Resources

The current and projected capital position of the Company and the impact of capital plans and long-term strategies are reviewed regularly by Management.

The Company adopted and announced a stock repurchase plan on August 21, 2007 for the repurchase of up to 500,000 shares of the Company's common stock from time to time as market conditions allow. The 500,000 shares authorized for repurchase under this plan represented approximately 3.2% of the Company's approximately 15,815,000 common shares outstanding as of August 21, 2007. During the six months ended June 30, 2019, the Company did not repurchase any shares under this plan. This plan has no stated expiration date for the repurchases. As of June 30, 2019, the Company had repurchased 196,566 shares under this plan, which left 303,434 shares available for repurchase under the plan. Shares that are repurchased in accordance with the provisions of a Company stock option plan or equity compensation plan are not counted against the number of shares repurchased under the repurchase plan adopted on August 21, 2007.

The Company's primary capital resource is shareholders' equity, which was $875,886,000 at June 30, 2019. This amount represents an increase of $48,513,000 (5.9%) from December 31, 2018, the net result of comprehensive income for the period of $61,468,000, the effect of equity compensation vesting of $815,000, and the exercise of stock options of $2,499,000, that were partially offset by dividends paid of $11,575,000, and repurchase of common stock of $4,694,000. The Company's ratio of equity to total assets was 13.7% and 13.0% as of June 30, 2019 and December 31, 2018, respectively. We believe that the Company and the Bank were in compliance with applicable minimum capital requirements set forth in the final Basel III Capital rules as of June 30, 2019. The following summarizes the Company's ratios of capital to risk-adjusted assets as of the dates indicated:

	June 30, 2019		December 31, 2018	
	Ratio	Minimum Regulatory Requirement	Ratio	Minimum Regulatory Requirement
Total capital	14.93%	10.50%	14.40%	9.25%
Tier I capital	14.19%	8.50%	13.66%	7.25%
Common equity Tier 1 capital	13.03%	7.00%	12.49%	5.75%
Leverage	11.08%	4.00%	10.68%	4.00%

See Note 9 and Note 15 to the condensed consolidated financial statements at Item 1 of Part I of this report for additional information about the Company's capital resources.

Liquidity

The Company’s principal source of asset liquidity is cash at the Federal Reserve Bank of San Francisco (“Federal Reserve”) and other banks and marketable investment securities available for sale. At June 30, 2019, cash at Federal Reserve and other banks in excess of reserve requirements and investment securities available for sale totaled $1,136,946,000, or 17.8% of total assets. The Company’s profitability during the first six months of 2019 generated cash flows from operations of $33,867,000 compared to $32,944,000 during the first six months of 2018. Net cash used in investing activities was $47,403,000 and $144,813,000 during the six months ended June 30, 2019 and 2018, respectively. Financing activities used $38,415,000 during the six months ended June 30, 2019, compared to net cash provided by financing activities of $90,503,000 during the six months ended June 30, 2018. Deposit balance changes accounted for ($24,293,000) and $68,091,000 of financing funds activity during the six months ended June 30, 2019 and 2018, respectively. Dividends paid used $11,575,000 and $7,813,000 of cash during the six months ended June 30, 2019 and 2018, respectively. The Company’s liquidity is dependent on dividends received from the Bank. Dividends from the Bank are subject to certain regulatory restrictions.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company's assessment of market risk as of June 30, 2019 indicates there are no material changes in the quantitative and qualitative disclosures from those in our Annual Report on Form 10-K for the year ended December 31, 2018.

Item 4. Controls and Procedures

The Company's management, including its Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company's disclosure controls and procedures as of June 30, 2019. Disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are controls and procedures designed to reasonably assure that information required to be disclosed in the Company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported on a timely basis. Disclosure controls are also designed to reasonably assure that such information is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based upon their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2019.

During the three and six months ended June 30, 2019, there were no changes in our internal controls or in other factors that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

PART II – OTHER INFORMATION

Item 1 – Legal Proceedings

Due to the nature of our business, we are involved in legal proceedings that arise in the ordinary course of our business. While the outcome of these matters is currently not determinable, we do not expect that the ultimate costs to resolve these matters will have a material adverse effect on our consolidated financial position, results of operations, or cash flows.

Item 1A – Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed under "Part I—Item 1A—Risk Factors" in our Form 10-K for the year ended December 31, 2018 which are incorporated by reference herein. These factors could materially adversely affect our business, financial condition, liquidity, results of operations and capital position, and could cause our actual results to differ materially from our historical results or the results contemplated by the forward-looking statements contained in this report.

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds

The following table shows the repurchases made by the Company or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Exchange Act) during the periods indicated:

Period	(a) Total number of shares purchased (1)	(b) Average price paid per share	(c) Total number of shares purchased as of part of publicly announced plans or programs	(d) Maximum number of shares that may yet be purchased under the plans or programs (2)
April 1-30, 2019	38,087	$ 39.91	—	303,434
May 1-31, 2019	12,487	$ 39.88	—	303,434
June 1-30, 2019	43,181	$ 38.28	—	303,434
Total	93,755	$ 39.16	—	303,434

(1) Includes shares purchased by the Company's Employee Stock Ownership Plan and pursuant to various other equity incentive plans. See Note 9 to the condensed consolidated financial statements at Item 1 of Part I of this report, for a discussion of the Company's stock repurchased under equity compensation plans.

(2) Does not include shares that may be purchased by the Company's Employee Stock Ownership Plan and pursuant to various other equity incentive plans.

Item 6 – Exhibits

EXHIBIT INDEX

Exhibit No.	Exhibit
31.1	Rule 13a-14(a)/15d-14(a) Certification of CEO
31.2	Rule 13a-14(a)/15d-14(a) Certification of CFO
32.1	Section 1350 Certification of CEO
32.2	Section 1350 Certification of CFO
99.1*	Form of Restricted Stock Unit Agreement and Grant Notice for Non-Employee Directors pursuant to TriCo's 2019 Equity Incentive Plan.
99.2*	Form of Restricted Stock Unit Agreement and Grant Notice for Employees pursuant to TriCo's 2019 Equity Incentive Plan.
99.3*	Form of Performance Award Agreement and Grant Notice pursuant to TriCo's 2019 Equity Incentive Plan.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

* Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

TRICO BANCSHARES
(Registrant)

Date: August 9, 2019

/s/ Peter G. Wiese

Peter G. Wiese
Executive Vice President and Chief Financial Officer
(Duly authorized officer and principal financial and chief accounting officer)

Exhibit 31.1

Rule 13a-14(a)/15d-14(a) Certification of CEO

I, Richard P. Smith, certify that;

1. I have reviewed this report on Form 10-Q of TriCo Bancshares;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 9, 2019

/s/ Richard P. Smith

Richard P. Smith
President and Chief Executive Officer

Exhibit 31.2

Rule 13a-14(a)/15d-14(a) Certification of CFO

I, Peter G. Wiese, certify that;

1. I have reviewed this report on Form 10-Q of TriCo Bancshares;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2019

/s/ Peter G. Wiese

Peter G. Wiese

Executive Vice President and Chief Financial Officer

Exhibit 32.1

Section 1350 Certification of CEO

In connection with the Quarterly Report of TriCo Bancshares (the “Company”) on Form 10-Q for the period ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Richard P. Smith, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Sectioconsisn 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Richard P. Smith
Richard P. Smith
President and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to TriCo Bancshares and will be retained by TriCo Bancshares and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

Section 1350 Certification of CFO

In connection with the Quarterly Report of TriCo Bancshares (the “Company”) on Form 10-Q for the period ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Peter G. Wiese, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Peter G. Wiese
Peter G. Wiese
Executive Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to TriCo Bancshares and will be retained by TriCo Bancshares and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 99.1

TRICO BANCSHARES
DIRECTOR RESTRICTED STOCK UNIT GRANT NOTICE

TriCo Bancshares, a California corporation (the "***Company***"), pursuant to its 2019 Equity Incentive Plan (the "***Plan***"), hereby grants to the holder listed below (the "***Participant***" or ***"you"***), a Restricted Stock Unit Award (the "***Award***"). Such award shall be comprised of restricted stock units (the "***Units***" or *"**RSUs**"*), each of which is a right to receive one (1) share of Common Stock, on the terms and conditions set forth herein and in the Restricted Stock Unit Award Agreement attached hereto (the "***Award Agreement***") and the Plan, which are incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Grant Notice and the Award Agreement.

Participant:

Date of Grant:

Vesting Commencement Date:

Number of Units/Shares Subject to Award:

Vesting Schedule: Except as otherwise set forth in the Award Agreement, the Award will vest upon the Participant's completion of one (1) year of Continuous Service following the Grant date.*

* *For vesting dates that fall on weekends and holidays, this date will be the next business day following such date.*

By his or her signature below or by electronic acceptance or authentication in a form authorized by the Company, the Participant agrees to be bound by the terms and conditions of the Plan, the Award Agreement and the Grant Notice. The Participant has reviewed and fully understands all provisions of the Plan, the Award Agreement, and the Grant Notice in their entirety and has had an opportunity to obtain the advice of counsel prior to executing below. The Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Plan, the Award Agreement, the Grant Notice or relating to the Units.

TRICO BANCSHARES		**PARTICIPANT**	
By:	______________________	By:	______________________
Name:	Glenn Hunter	Print Name:	
Title:	SVP, CHRO		
Address:	63 Constitution Drive Chico, CA 95973	Address:	

ATTACHMENTS: TriCo Bancshares 2019 Equity Incentive Plan, as amended; Restricted Stock Unit Award Agreement. The prospectus for the Plan prepared in connection with the registration with the Securities and Exchange Commission of the shares of Common Stock issuable pursuant to the Award is available on the Human Resources section of the Company's intranet.

Trico Bancshares

2019 EQUITY INCENTIVE PLAN
RESTRICTED STOCK UNIT AWARD AGREEMENT

Pursuant to the Restricted Stock Unit Award Grant Notice ("***Grant Notice***") and this Restricted Stock Unit Award Agreement ("***Award Agreement***"), Trico Bancshares (the "***Company***") has awarded you a Restricted Stock Unit Award under its 2019 Equity Incentive Plan, (the "***Plan***") for the number of RSUs specified in the Grant Notice (collectively, the "***Award***"). Except where indicated otherwise, defined terms not explicitly defined in this Award Agreement but defined in the Plan or Grant Notice shall have the same definitions as in the Plan or Grant Notice, You hereby understand that the shares of Common Stock issued with respect to the Award is subject to minimum holding requirements described in Section 10(f) of the Plan.

The details of your Award are as follows:

1. NUMBER OF RESTRICTED STOCK UNITS AND SHARES OF COMMON STOCK. The number of RSUs subject to your Award is set forth in the Grant Notice. Each RSU shall represent the right to receive one (1) share of Common Stock. The number of RSUs will increase by any dividend equivalents, as described in Section 3 below. The number of RSUs subject to your Award and the number of shares of Common Stock deliverable with respect to such RSUs may be adjusted from time to time for capitalization adjustments as described in Section 11(a) of the Plan.

2. VESTING. The RSUs shall vest, if at all, as provided in the vesting schedule set forth in your Grant Notice; provided, however, that except as provided herein, vesting shall cease upon the termination of your Continuous Service for any reason. Other than due to your retirement from the Board, in the event that your service with the Company terminates for any reason, with or without cause, you shall forfeit and the Company shall automatically reacquire all RSUs which are not, as of the time of such termination, vested Units, and you shall not be entitled to any payment therefor. If you retire from the Board prior to one year of Continuous Service following the Grant date, the RSUs shall vest on your date of retirement from the Board.

Except as otherwise determined by the Committee under the terms of Section 11 of the Plan, in the event of a Change in Control, no acceleration of vesting shall occur with respect to the Units granted in this Award.

3. DIVIDENDS. If the Company pays dividends with respect to the Common Stock (the date of any such payment is a "***Dividend Date***"), then Dividend equivalents shall then be credited to any then outstanding RSU. The amount of such dividend equivalent credit will be equal to the dollar value of dividends paid on an actual share of Common Stock on the Dividend Date, multiplied by the number of outstanding RSUs held by you pursuant to this Award as of the Dividend Date. This aggregate dollar amount will then be divided by the Fair Market Value on the Dividend Date of a share of Common Stock, and the resulting quotient shall be the number of additional RSUs "***Additional RSUs***" that will be credited to this Award. Such Additional RSUs will be subject to the Plan and the same vesting (on a pro-rata basis based on each vesting tranche of RSUs outstanding hereunder on the Dividend Date), forfeiture restrictions, restrictions on transferability, and settlement provisions as apply to the RSUs that are the subject of this Award and for avoidance of doubt Additional RSUs will also be eligible to accrue future dividend equivalents.

4. Rights as a Shareholder. You shall have no rights as a shareholder with respect to any shares of Common Stock which may be issued in settlement of this Award until the date of the issuance of such share of Common Stock under the terms of this Award Agreement (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, Dividend Equivalents, distributions or other rights for which the record date is prior to the date such certificate is issued, except as provided in Section 1.

5. Payment. Subject to Section 11 below, you will not be required to make any payment to the Company with respect to your receipt of the Award, vesting of the RSUs, or the delivery of the shares of Common Stock subject to the RSUs.

6. Delivery of Shares. Subject to Sections 7 and 11 below, the Company will issue you one share of Common Stock for each RSU which vests under this Award Agreement, on the applicable vesting date or as soon as practicable thereafter, but not later than thirty (30) days from the vesting date (the actual date of such issuance during such period shall be solely determined by the Company). The form of delivery (e.g., a stock certificate or electronic entry evidencing such shares of Common Stock) shall be determined by the Company. You hereby authorize the Company, in its sole discretion, to deposit for your benefit with a Company-designated brokerage firm or, at the Company's discretion, any other broker with which you have an account relationship of which the Company has notice any or all shares of Common Stock acquired by you pursuant to the settlement of the Award. Except as provided by the preceding sentence, a certificate for the shares of Common Stock as to which the Award is settled shall be registered in your name, or, if applicable, in the names of your heirs.

7. Restrictions on Grant of the Award and Issuance of Shares. The grant of the Award and issuance of shares of Common Stock upon settlement of the Award shall be subject to compliance with all applicable requirements of U.S. federal or state law with respect to such securities. No shares of Common Stock may be issued hereunder if the issuance of such shares of Common Stock would constitute a violation of any applicable U.S. federal or state securities laws or other laws or regulations or the requirements of any stock exchange or market system upon which the Common Stock may then be listed. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance of any shares of Common Stock subject to the Award shall relieve the Company of any liability in respect of the failure to issue such shares of

Common Stock as to which such requisite authority shall not have been obtained. As a condition to the settlement of the Award, the Company may require you to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company. Further, regardless of whether the transfer or issuance of the shares of Common Stock to be issued pursuant to the Units has been registered under the Securities Act or has been registered or qualified under the securities laws of any State, the Company may impose additional restrictions upon the sale, pledge, or other transfer of the shares of Common Stock (including the placement of appropriate legends on stock certificates and the issuance of stop-transfer instructions to the Company's transfer agent) if, in the judgment of the Company and the Company's counsel, such restrictions are necessary in order to achieve compliance with the provisions of the Securities Act, the securities laws of any State, or any other law.

8. TRANSFER RESTRICTIONS. Prior to the time that the shares of Common Stock subject to your Award have been delivered to you, you may not transfer, pledge, sell or otherwise dispose of such shares of Common Stock or of the RSUs. For example, you may not use shares of Common Stock that may be issued in respect of your RSUs as security for a loan, nor may you transfer, pledge, sell or otherwise dispose of such shares of Common Stock. This restriction on transfer will lapse upon delivery to you of shares of Common Stock in respect of your vested RSUs. Your Award is not transferable, except by will or by the laws of descent and distribution. Notwithstanding the foregoing, by delivering written notice to the Company, in a form satisfactory to the Company, you may designate a third party who, in the event of your death, shall thereafter be entitled to receive any distribution of shares of Common Stock in respect of vested RSUs pursuant to this Agreement.

9. AWARD NOT A SERVICE CONTRACT. Your Award is not an employment or service contract, and nothing in your Award shall be deemed to create in any way whatsoever any obligation on your part to continue in the service of the Company or any Affiliate, or on the part of the Company or any Affiliate to continue such service. In addition, nothing in your Award shall obligate the Company or any Affiliate, their respective shareholders, boards of directors or employees to continue any relationship that you might have as an Employee or Consultant of the Company or any Affiliate.

10. UNSECURED OBLIGATION. Your Award is unfunded, and even as a holder of vested RSUs, you shall be considered an unsecured creditor of the Company with respect to the Company's obligation, if any, to issue shares of Common Stock pursuant to this Agreement. Nothing contained in this Award Agreement, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind or a fiduciary relationship between you and the Company or any other person.

11. WITHHOLDING OF TAXES. At the time the Grant Notice is executed, or at any time thereafter as requested by the Company, you hereby authorize withholding from payroll and any other amounts payable to you, and otherwise agree to make adequate provision for, any sums required to satisfy the U.S. federal, state, and local taxes required by law to be withheld with respect to any taxable event arising as a result of your participation in the Plan (referred to herein as "***Tax-Related Items***"). The Company or any Affiliate, as appropriate, shall have the authority and the right to deduct or withhold, or require you to remit an amount sufficient to satisfy applicable Tax-Related Items or to take such other action as may be reasonably necessary to satisfy such Tax-Related Items. In this regard, you authorize the Company and any Affiliate, or their respective agents, at their discretion, to satisfy the obligations with regard to all Tax-Related Items by one or a combination of the following:

(a) withholding from your wages or other cash compensation paid to you; or

(b) withholding from proceeds of the sale of shares of Common Stock acquired upon vesting and settlement of the Units, either through a voluntary sale or through a mandatory sale arranged by the Company (on your behalf pursuant to this authorization); or

(c) withholding in shares of Common Stock to be issued upon vesting and settlement of the Units; or

(d) direct payment from you.

The Company does not have any duty or obligation to minimize your liability for Tax-Related Items arising from the Award, and, will not be liable to you for any Tax-Related Items arising in connection with the Award. Finally, you shall pay any amount of Tax-Related Items that the Company or any Affiliate may be required to withhold as a result of his or her participation in the Plan that cannot be satisfied by the means previously described. The Company may refuse to issue or deliver the shares of Common Stock that may be issued in connection with the settlement of the Units if you fail to comply with your Tax-Related Items obligations.

You represent, warrant and acknowledge that the Company has made no warranties or representations to you with respect to the income tax consequences of the transactions contemplated by this Award Agreement, and you are in no manner relying on the Company or the Company's representatives for an assessment of such tax consequences. YOU UNDERSTAND THAT THE TAX LAWS AND REGULATION ARE SUBJECT TO CHANGE. YOU SHOULD CONSULT YOUR OWN TAX ADVISOR REGARDING THE UNITS. NOTHING STATED HEREIN IS INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING TAXPAYER PENALTIES.

12. Notices. Any notices provided for in your Award or the Plan shall be given in writing or shall be delivered electronically, and shall be deemed effectively given or delivered upon receipt or, in the case of notices delivered by mail by the Company to you, five (5) days after deposit in the United States mail, postage prepaid, addressed to you at the last address you provided to the Company.

13. MISCELLANEOUS.

(a) The rights and obligations of the Company with respect to your Award shall be transferable to any one or more persons or entities, and all covenants and agreements hereunder shall inure to the benefit of, and be enforceable by the Company's successors and assigns.

(b) You agree upon request to execute any further documents or instruments necessary or desirable in the sole determination of the Company to carry out the purposes or intent of your Award.

(c) All obligations of the Company under the Plan and this Agreement will be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

(d) You agree that the Company does not have any duty or obligation to minimize your liability for tax withholding obligations arising from the Award and will not be liable to you for any tax withholding obligations arising in connection with the Award.

14. HEADINGS. The headings of the Sections in this Agreement are inserted for convenience only and shall not be deemed to constitute a part of this Agreement or to affect the meaning of this Award Agreement.

15. SEVERABILITY. If all or any part of this Agreement or the Plan is declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity shall not invalidate any portion of this Agreement or the Plan not declared to be unlawful or invalid. Any Section of this Agreement (or part of such a Section) so declared to be unlawful or invalid shall, if possible, be construed in a manner which will give effect to the terms of such Section or part of a Section to the fullest extent possible while remaining lawful and valid.

16. COMPLIANCE WITH CODE SECTION 409A.

(a) It is intended that the RSUs granted hereunder be exempt from or comply with the requirements of Code Section 409A, so that none of the RSUs, or the resulting shares of Common Stock or compensation, if any, shall be subject to the additional tax imposed by Section 409A. The vesting and settlement of such RSUs are intended to qualify for the "short-term deferral" exemption from Code Section 409A. Each installment of RSUs that vests is intended to constitute a "separate payment" for purposes of Treasury Regulation Section 1.409A-2(b)(2). As such, each eligible vested RSU shall be settled, per the terms of the Plan, the Grant Notice and this Award Agreement, within the short-term deferral period, as defined in Code Section 409A, the applicable Treasury Regulations and related guidance issued thereunder. Notwithstanding any other provision of the Plan, this Award Agreement, the Grant Notice or the Plan:

(i) The Plan, this Agreement and the Grant Notice shall be interpreted in accordance with, and incorporate the terms and conditions required by, Code Section 409A and any Department of Treasury regulations and other applicable guidance issued thereunder (including any regulations or guidance that may be issued after the date hereof), and any ambiguities herein shall be interpreted to so comply.

(ii) The Company reserves the right, to the extent the Company deems necessary or advisable in its sole discretion, to unilaterally amend or modify the Plan and/or this Award Agreement to ensure that the RSUs qualify for exemption from, comply with or otherwise avoid the imposition of any additional tax or income recognition under Code Section 409A; *provided*, *however*, that the Company makes no representations that the RSUs will be exempt from Code Section 409A and makes no undertaking to preclude Code Section 409A from applying to the RSUs.

(b) **Separation from Service; Required Delay in Payment to Specified Employee.** Notwithstanding anything set forth herein to the contrary, no amount payable pursuant to this Agreement on account of your termination of Service which constitutes a "deferral of compensation" within the meaning of Code Section 409A shall be paid unless and until you have incurred a "separation from service" within the meaning of Code Section 409A. Furthermore, to the extent that you are a "Specified Employee" within the meaning of Code Section 409A as of the date of your separation from service, no amount that constitutes a deferral of compensation which is payable on account of the your separation from service that would result in the imposition of additional tax under Code Section 409A if issued to you on or within the six (6) month period following your termination of an employment shall be paid to you before the date which is the first day of the seventh month after the date of your separation from service or, if earlier, ten (10) days following the date of your death following such separation from service. All such amounts that would, but for this Section, become payable prior to a delayed payment date will be accumulated and paid on the delayed payment date.

17. RESTRICTIONS ON CONTRACTS AND PAYMENTS FOR INSURED DEPOSITORY INSTITUTIONS IN TROUBLED STATUS. The parties acknowledge and agree that while the restrictions contained in the Federal Deposit Insurance Act, Section 18(k) [12 U.S.C. §1828(k)], relating to contracts for and payment of executive compensation and benefits by insured depository institutions in "troubled" condition, do not currently apply to the Company or you, such provisions could apply in the future. In the event that any such restrictions or any contractual arrangement with or required by a regulatory authority require the Company to seek or demand repayment or return of any payments made to you under this Award Agreement and the Plan for any reason, you agree to repay to the Company the aggregate amount of such payments no later than thirty (30) days following your receipt of a written notice from the Company indicating that payments received by you under this Award Agreement and the Plan are subject to recapture or clawback.

18. AUTHORIZATION TO RELEASE NECESSARY PERSONAL INFORMATION. You hereby authorize and direct the Company to collect, use and transfer in electronic or other form, any personal information (the "***Data***"), the nature and amount of your compensation and the fact and conditions of your participation in the Plan (including, but not limited to, your name, home address, telephone number, date of birth, social security number, salary, job title, number of shares held and the details of all Units or any other entitlement to shares awarded, cancelled, exercised, vested, unvested or outstanding) for the purpose of implementing, administering and managing your participation in the Plan. You understand that the Data may be transferred to the Company or any Affiliate, or to any third parties assisting in the implementation, administration and management of the Plan, including any requisite transfer to a brokerage firm or other third party assisting with administration of the Award or with whom shares acquired upon settlement of this Award or cash from the sale of such shares may be deposited. Furthermore, you acknowledge and understands that the transfer of the Data to the Company or any Affiliate, or to any third parties is necessary for your participation in the Plan. You may at any time withdraw the consents herein, by contacting the Company's stock administration department in writing. You further acknowledge that withdrawal of consent may affect your ability to realize benefits from the Award, and your ability to participate in the Plan.

19. COUNTERPARTS. The Grant Notice may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

20. ADMINISTRATION. The Committee shall have the power to interpret the Plan and this Award Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules. All actions taken and all interpretations and determinations made by the Committee or the Board in good faith shall be final and binding upon you, the Company and all other interested persons. No member of the Committee or the Board shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan, this Award Agreement or the Units.

21. GOVERNING LAW. The interpretation, performance and enforcement of this Award Agreement shall be governed by the laws of the State of California, U.S.A. without regard to the conflict-of-laws rules thereof or of any other jurisdiction.

22. GOVERNING PLAN DOCUMENT. Grant Notice, this Award Agreement, and the Units evidenced hereby (i) are made and granted pursuant to the Plan and are in all respects limited by and subject to the terms of the Plan, the provisions of which are hereby made a part of your Award, and is further subject to all interpretations, amendments, rules and regulations which may from time to time be promulgated and adopted pursuant to the Plan, and (ii) constitute the entire agreement between you and the Company on the subject matter hereof and supersede all proposals, written or oral, and all other communications between the parties related to the subject matter. In the event of any conflict between the provisions of your Award and those of the Plan, the provisions of the Plan shall control.

EXHIBIT 99.2

TRICO BANCSHARES
RESTRICTED STOCK UNIT GRANT NOTICE

TriCo Bancshares, a California corporation (the "***Company***"), pursuant to its 2019 Equity Incentive Plan (the "***Plan***"), hereby grants to the holder listed below (the "***Participant***" or ***"you"***), a Restricted Stock Unit Award (the "***Award***"). Such award shall be comprised of restricted stock units (the "***Units***" or *"**RSUs**"*), each of which is a right to receive one (1) share of Common Stock, on the terms and conditions set forth herein and in the Restricted Stock Unit Award Agreement attached hereto (the "***Award Agreement***") and the Plan, which are incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Grant Notice and the Award Agreement.

Participant:

Date of Grant:

Vesting Commencement Date:

Number of Units/Shares Subject to Award:

Vesting Schedule: The Award will vest in four (4) equal annual installments on each of the first four anniversaries of the Vesting Commencement Date* (provided that the first vesting date shall be no earlier than the first anniversary of the Grant Date) subject to the Participant's Continuous Service following the Grant Date through each applicable vesting date.

* *For vesting dates that fall on weekends and holidays, this date will be the next business day following such date.*

By his or her signature below or by electronic acceptance or authentication in a form authorized by the Company, the Participant agrees to be bound by the terms and conditions of the Plan, the Award Agreement and the Grant Notice. The Participant has reviewed and fully understands all provisions of the Plan, the Award Agreement, and the Grant Notice in their entirety and has had an opportunity to obtain the advice of counsel prior to executing below. The Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Plan, the Award Agreement, the Grant Notice or relating to the Units.

TRICO BANCSHARES		**PARTICIPANT**	
By:	______________________	By:	______________________
Name:	Glenn Hunter	Print Name:	
Title:	SVP, CHRO		
Address:	63 Constitution Drive Chico, CA 95973	Address:	

ATTACHMENTS: TriCo Bancshares 2019 Equity Incentive Plan, as amended; Restricted Stock Unit Award Agreement. The prospectus for the Plan prepared in connection with the registration with the Securities and Exchange Commission of the shares of Common Stock issuable pursuant to the Award is available on the Human Resources section of the Company's intranet.

Trico Bancshares

2019 EQUITY INCENTIVE PLAN
RESTRICTED STOCK UNIT AWARD AGREEMENT

Pursuant to the Restricted Stock Unit Award Grant Notice ("***Grant Notice***") and this Restricted Stock Unit Award Agreement ("***Award Agreement***"), Trico Bancshares (the "***Company***") has awarded you a Restricted Stock Unit Award under its 2019 Equity Incentive Plan, (the "***Plan***") for the number of RSUs specified in the Grant Notice (collectively, the "***Award***"). Except where indicated otherwise, defined terms not explicitly defined in this Award Agreement but defined in the Plan or Grant Notice shall have the same definitions as in the Plan or Grant Notice, You hereby understand that the shares of Common Stock issued with respect to the Award is subject to minimum holding requirements described in Section 10(f) of the Plan.

The details of your Award are as follows:

1. NUMBER OF RESTRICTED STOCK UNITS AND SHARES OF COMMON STOCK. The number of RSUs subject to your Award is set forth in the Grant Notice. Each RSU shall represent the right to receive one (1) share of Common Stock. The number of RSUs will increase by any dividend equivalents, as described in Section 3 below. The number of RSUs subject to your Award and the number of shares of Common Stock deliverable with respect to such RSUs may be adjusted from time to time for capitalization adjustments as described in Section 11(a) of the Plan.

2. VESTING. The RSUs shall vest, if at all, as provided in the vesting schedule set forth in your Grant Notice; provided, however, that vesting shall cease upon the termination of your Continuous Service for any reason. In the event that your service with the Company terminates for any reason, with or without cause, you shall forfeit and the Company shall automatically reacquire all RSUs which are not, as of the time of such termination, vested Units, and you shall not be entitled to any payment therefor.

Except as otherwise determined by the Committee under the terms of Section 11 of the Plan, in the event of a Change in Control, no acceleration of vesting shall occur with respect to the Units granted in this Award.

3. DIVIDENDS. If the Company pays dividends with respect to the Common Stock (the date of any such payment is a "***Dividend Date***"), then Dividend equivalents shall then be credited to any then outstanding RSU. The amount of such dividend equivalent credit will be equal to the dollar value of dividends paid on an actual share of Common Stock on the Dividend Date, multiplied by the number of outstanding RSUs held by you pursuant to this Award as of the Dividend Date. This aggregate dollar amount will then be divided by the Fair Market Value on the Dividend Date of a share of Common Stock, and the resulting quotient shall be the number of additional RSUs "***Additional RSUs***" that will be credited to this Award. Such Additional RSUs will be subject to the Plan and the same vesting (on a pro-rata basis based on each vesting tranche of RSUs outstanding hereunder on the Dividend Date), forfeiture restrictions, restrictions on transferability, and settlement provisions as apply to the RSUs that are the subject of this Award and for avoidance of doubt Additional RSUs will also be eligible to accrue future dividend equivalents.

4. Rights as a Shareholder. You shall have no rights as a shareholder with respect to any shares of Common Stock which may be issued in settlement of this Award until the date of the issuance of such share of Common Stock under the terms of this Award Agreement (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, Dividend Equivalents, distributions or other rights for which the record date is prior to the date such certificate is issued, except as provided in Section 1.

5. Payment. Subject to Section 11 below, you will not be required to make any payment to the Company with respect to your receipt of the Award, vesting of the RSUs, or the delivery of the shares of Common Stock subject to the RSUs.

6. Delivery of Shares. Subject to Sections 7 and 11 below, the Company will issue you one share of Common Stock for each RSU which vests under this Award Agreement, on the applicable vesting date or as soon as practicable thereafter, but not later than thirty (30) days from the vesting date (the actual date of such issuance during such period shall be solely determined by the Company). The form of delivery (e.g., a stock certificate or electronic entry evidencing such shares of Common Stock) shall be determined by the Company. You hereby authorize the Company, in its sole discretion, to deposit for your benefit with a Company-designated brokerage firm or, at the Company's discretion, any other broker with which you have an account relationship of which the Company has notice any or all shares of Common Stock acquired by you pursuant to the settlement of the Award. Except as provided by the preceding sentence, a certificate for the shares of Common Stock as to which the Award is settled shall be registered in your name, or, if applicable, in the names of your heirs.

7. Restrictions on Grant of the Award and Issuance of Shares. The grant of the Award and issuance of shares of Common Stock upon settlement of the Award shall be subject to compliance with all applicable requirements of U.S. federal or state law with respect to such securities. No shares of Common Stock may be issued hereunder if the issuance of such shares of Common Stock would constitute a violation of any applicable U.S. federal or state securities laws or other laws or regulations or the requirements of any stock exchange or market system upon which the Common Stock may then be listed. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance of any shares of Common Stock subject to the Award shall relieve the Company of any liability in respect of the failure to issue such shares of Common Stock as to which such requisite authority shall not have been obtained. As a condition to the settlement of the Award, the Company may require you to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company. Further, regardless of whether the transfer or issuance of the shares of Common Stock to be issued pursuant to the Units has been registered under the Securities Act or has been registered or qualified under the securities laws of any State, the Company may impose additional restrictions upon the sale, pledge, or other transfer of the shares of Common Stock (including the placement of appropriate legends on stock certificates and the issuance of stop-transfer instructions to the Company's transfer agent) if, in the judgment of the Company and the Company's counsel, such restrictions are necessary in order to achieve compliance with the provisions of the Securities Act, the securities laws of any State, or any other law.

8. TRANSFER RESTRICTIONS. Prior to the time that the shares of Common Stock subject to your Award have been delivered to you, you may not transfer, pledge, sell or otherwise dispose of such shares of Common Stock or of the RSUs. For example, you may not use shares of Common Stock that may be issued in respect of your RSUs as security for a loan, nor may you transfer, pledge, sell or otherwise dispose of such shares of Common Stock. This restriction on transfer will lapse upon delivery to you of shares of Common Stock in respect of your vested RSUs. Your Award is not transferable, except by will or by the laws of descent and distribution. Notwithstanding the foregoing, by delivering written notice to the Company, in a form satisfactory to the Company, you may designate a third party who, in the event of your death, shall thereafter be entitled to receive any distribution of shares of Common Stock in respect of vested RSUs pursuant to this Agreement.

9. AWARD NOT A SERVICE CONTRACT. Your Award is not an employment or service contract, and nothing in your Award shall be deemed to create in any way whatsoever any obligation on your part to continue in the service of the Company or any Affiliate, or on the part of the Company or any Affiliate to continue such service. In addition, nothing in your Award shall obligate the Company or any Affiliate, their respective shareholders, boards of directors or employees to continue any relationship that you might have as an Employee or Consultant of the Company or any Affiliate.

10. UNSECURED OBLIGATION. Your Award is unfunded, and even as a holder of vested RSUs, you shall be considered an unsecured creditor of the Company with respect to the Company's obligation, if any, to issue shares of Common Stock pursuant to this Agreement. Nothing contained in this Award Agreement, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind or a fiduciary relationship between you and the Company or any other person.

11. WITHHOLDING OF TAXES. At the time the Grant Notice is executed, or at any time thereafter as requested by the Company, you hereby authorize withholding from payroll and any other amounts payable to you, and otherwise agree to make adequate provision for, any sums required to satisfy the U.S. federal, state, and local taxes required by law to be withheld with respect to any taxable event arising as a result of your participation in the Plan (referred to herein as "***Tax-Related Items***"). The Company or any Affiliate, as appropriate, shall have the authority and the right to deduct or withhold, or require you to remit an amount sufficient to satisfy applicable Tax-Related Items or to take such other action as may be reasonably necessary to satisfy such Tax-Related Items. In this regard, you authorize the Company and any Affiliate, or their respective agents, at their discretion, to satisfy the obligations with regard to all Tax-Related Items by one or a combination of the following:

(a) withholding from your wages or other cash compensation paid to you; or

(b) withholding from proceeds of the sale of shares of Common Stock acquired upon vesting and settlement of the Units, either through a voluntary sale or through a mandatory sale arranged by the Company (on your behalf pursuant to this authorization); or

(c) withholding in shares of Common Stock to be issued upon vesting and settlement of the Units; or

(d) direct payment from you.

The Company does not have any duty or obligation to minimize your liability for Tax-Related Items arising from the Award, and, will not be liable to you for any Tax-Related Items arising in connection with the Award. Finally, you shall pay any amount of Tax-Related Items that the Company or any Affiliate may be required to withhold as a result of his or her participation in the Plan that cannot be satisfied by the means previously described. The Company may refuse to issue or deliver the shares of Common Stock that may be issued in connection with the settlement of the Units if you fail to comply with your Tax-Related Items obligations.

You represent, warrant and acknowledge that the Company has made no warranties or representations to you with respect to the income tax consequences of the transactions contemplated by this Award Agreement, and you are in no manner relying on the Company or the Company's representatives for an assessment of such tax consequences. YOU UNDERSTAND THAT THE TAX LAWS AND REGULATION ARE SUBJECT TO CHANGE. YOU SHOULD CONSULT YOUR OWN TAX ADVISOR REGARDING THE UNITS. NOTHING STATED HEREIN IS INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING TAXPAYER PENALTIES.

12. NOTICES. Any notices provided for in your Award or the Plan shall be given in writing or shall be delivered electronically, and shall be deemed effectively given or delivered upon receipt or, in the case of notices delivered by mail by the Company to you, five (5) days after deposit in the United States mail, postage prepaid, addressed to you at the last address you provided to the Company.

13. MISCELLANEOUS.

(a) The rights and obligations of the Company with respect to your Award shall be transferable to any one or more persons or entities, and all covenants and agreements hereunder shall inure to the benefit of, and be enforceable by the Company's successors and assigns.

(b) You agree upon request to execute any further documents or instruments necessary or desirable in the sole determination of the Company to carry out the purposes or intent of your Award.

(c) All obligations of the Company under the Plan and this Agreement will be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

(d) You agree that the Company does not have any duty or obligation to minimize your liability for tax withholding obligations arising from the Award and will not be liable to you for any tax withholding obligations arising in connection with the Award.

14. HEADINGS. The headings of the Sections in this Agreement are inserted for convenience only and shall not be deemed to constitute a part of this Agreement or to affect the meaning of this Award Agreement.

15. SEVERABILITY. If all or any part of this Agreement or the Plan is declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity shall not invalidate any portion of this Agreement or the Plan not declared to be unlawful or invalid. Any Section of this Agreement (or part of such a Section) so declared to be unlawful or invalid shall, if possible, be construed in a manner which will give effect to the terms of such Section or part of a Section to the fullest extent possible while remaining lawful and valid.

16. COMPLIANCE WITH CODE SECTION 409A.

(a) It is intended that the RSUs granted hereunder be exempt from or comply with the requirements of Code Section 409A, so that none of the RSUs, or the resulting shares of Common Stock or compensation, if any, shall be subject to the additional tax imposed by Section 409A. The vesting and settlement of such RSUs are intended to qualify for the "short-term deferral" exemption from Code Section 409A. Each installment of RSUs that vests is intended to constitute a "separate payment" for purposes of Treasury Regulation Section 1.409A-2(b)(2). As such, each eligible vested RSU shall be settled, per the terms of the Plan, the Grant Notice and this Award Agreement, within the short-term deferral period, as defined in Code Section 409A, the applicable Treasury Regulations and related guidance issued thereunder. Notwithstanding any other provision of the Plan, this Award Agreement, the Grant Notice or the Plan:

(i) The Plan, this Agreement and the Grant Notice shall be interpreted in accordance with, and incorporate the terms and conditions required by, Code Section 409A and any Department of Treasury regulations and other applicable guidance issued thereunder (including any regulations or guidance that may be issued after the date hereof), and any ambiguities herein shall be interpreted to so comply.

(ii) The Company reserves the right, to the extent the Company deems necessary or advisable in its sole discretion, to unilaterally amend or modify the Plan and/or this Award Agreement to ensure that the RSUs qualify for exemption from, comply with or otherwise avoid the imposition of any additional tax or income recognition under Code Section 409A; *provided*, *however*, that the Company makes no representations that the RSUs will be exempt from Code Section 409A and makes no undertaking to preclude Code Section 409A from applying to the RSUs.

(b) **Separation from Service; Required Delay in Payment to Specified Employee.** Notwithstanding anything set forth herein to the contrary, no amount payable pursuant to this Agreement on account of your termination of Service which constitutes a "deferral of compensation" within the meaning of Code Section 409A shall be paid unless and until you have incurred a "separation from service" within the meaning of Code Section 409A. Furthermore, to the extent that you are a "Specified Employee" within the meaning of Code Section 409A as of the date of your separation from service, no amount that constitutes a deferral of compensation which is payable on account of the your separation from service that would result in the imposition of additional tax under Code Section 409A if issued to you on or within the six (6) month period following your termination of an employment shall be paid to you before the date which is the first day of the seventh month after the date of your separation from service or, if earlier, ten (10) days following the date of your death following such separation from service. All such amounts that would, but for this Section, become payable prior to a delayed payment date will be accumulated and paid on the delayed payment date.

17. RESTRICTIONS ON CONTRACTS AND PAYMENTS FOR INSURED DEPOSITORY INSTITUTIONS IN TROUBLED STATUS. The parties acknowledge and agree that while the restrictions contained in the Federal Deposit Insurance Act, Section 18(k) [12 U.S.C. §1828(k)], relating to contracts for and payment of executive compensation and benefits by insured depository institutions in "troubled" condition, do not currently apply to the Company or you, such provisions could apply in the future. In the event that any such restrictions or any contractual arrangement with or required by a regulatory authority require the Company to seek or demand repayment or return of any payments made to you under this Award Agreement and the Plan for any reason, you agree to repay to the Company the aggregate amount of such payments no later than thirty (30) days following your receipt of a written notice from the Company indicating that payments received by you under this Award Agreement and the Plan are subject to recapture or clawback.

18. AUTHORIZATION TO RELEASE NECESSARY PERSONAL INFORMATION. You hereby authorize and direct the Company to collect, use and transfer in electronic or other form, any personal information (the "***Data***"), the nature and amount of your compensation and the fact and conditions of your participation in the Plan (including, but not limited to, your name, home address, telephone number, date of birth, social security number, salary, job title, number of shares held and the details of all Units or any other entitlement to shares awarded, cancelled, exercised, vested, unvested or outstanding) for the purpose of implementing, administering and managing your participation in the Plan. You understand that the Data may be transferred to the Company or any Affiliate, or to any third parties assisting in the implementation, administration and management of the Plan, including any requisite transfer to a brokerage firm or other third party assisting with administration of the Award or with whom shares acquired upon settlement of this Award or cash from the sale of such shares may be deposited. Furthermore, you acknowledge and understands that the transfer of the Data to the Company or any Affiliate, or to any third parties is necessary for your participation in the Plan. You may at any time withdraw the consents herein, by contacting the Company's stock administration department in writing. You further acknowledge that withdrawal of consent may affect your ability to realize benefits from the Award, and your ability to participate in the Plan.

19. COUNTERPARTS. The Grant Notice may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

20. ADMINISTRATION. The Committee shall have the power to interpret the Plan and this Award Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules. All actions taken and all interpretations and determinations made by the Committee or the Board in good faith shall be final and binding upon you, the Company and all other interested persons. No member of the Committee or the Board shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan, this Award Agreement or the Units.

21. GOVERNING LAW. The interpretation, performance and enforcement of this Award Agreement shall be governed by the laws of the State of California, U.S.A. without regard to the conflict-of-laws rules thereof or of any other jurisdiction.

22. GOVERNING PLAN DOCUMENT. Grant Notice, this Award Agreement, and the Units evidenced hereby (i) are made and granted pursuant to the Plan and are in all respects limited by and subject to the terms of the Plan, the provisions of which are hereby made a part of your Award, and is further subject to all interpretations, amendments, rules and regulations which may from time to time be promulgated and adopted pursuant to the Plan, and (ii) constitute the entire agreement between you and the Company on the subject matter hereof and supersede all proposals, written or oral, and all other communications between the parties related to the subject matter. In the event of any conflict between the provisions of your Award and those of the Plan, the provisions of the Plan shall control.

EXHIBIT 99.3

TRICO BANCSHARES
PERFORMANCE AWARD GRANT NOTICE

TriCo Bancshares, a California corporation (the "***Company***"), pursuant to its 2019 Equity Incentive Plan (the "***Plan***"), hereby grants to the holder listed below (the "***Participant***" or ***"you"***), a Performance Award (the "***Award***"). Such award shall be comprised of Performance Share Units (the "***Units***" or ***"PSUs"***), each of which is a right to receive the value of one (1) share of Common Stock, on the terms and conditions set forth herein and in the Performance Award Agreement attached hereto (the "***Award Agreement***") and the Plan, which are incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Grant Notice and the Award Agreement.

Participant:	
Grant Date:	
Target Number of Units:	, subject to adjustment as provided by the Award Agreement.
Maximum Number of Units:	# which is 150% of the Target Number of Units, subject to adjustment as provided by the Award Agreement.
Performance Period:	Three years beginning and ending , subject to Sections 7.1 and 7.2 of the Award Agreement.
Performance Measure:	The difference, measured in percentage points, for the Performance Period between the Company Total Shareholder Return and the Benchmark Index Total Return, both determined in accordance with Section 2.2 of the Award Agreement.
Benchmark Index:	The KBW Regional Banking Index (Ticker Symbol ^KRX)
Relative Return Factor:	A percentage (rounded to the nearest 1/10th of 1% and not greater than 150% or less than 0%) equal to the sum of 100% plus the product of 2 multiplied by the difference (whether positive or negative) equal to (i) the Company Total Shareholder Return minus (ii) the Benchmark Index Total Return, as illustrated by Appendix A.
Vesting Date:	The "Vesting Date" is the date upon which the Committee officially determines the degree of achievement of the Performance Measure in accordance with Section 2.2 of the Award Agreement. The Vesting Date shall occur within 45 days following the final date of the Performance Period, except as otherwise provided by the Award Agreement.
Vested Units:	Provided that there has been no Termination of Employment of Participant prior to the Vesting Date (except as otherwise provided by the Award Agreement), the number of Vested

	Units, if any (not to exceed the Maximum Number of Units), shall equal the product of (i) the Target Number of Units and (ii) the Relative Return Factor (rounded down to the nearest whole share), as illustrated by Appendix A.
Settlement Date:	For each Vested Unit, except as otherwise provided by the Award Agreement, a date occurring during the 30 day period following the Vesting Date, which date during such period shall be solely determined by the Company.

By his or her signature below or by electronic acceptance or authentication in a form authorized by the Company, the Participant agrees to be bound by the terms and conditions of the Plan, the Award Agreement and the Grant Notice. The Participant has reviewed and fully understands all provisions of the Plan, the Award Agreement, and the Grant Notice in their entirety and has had an opportunity to obtain the advice of counsel prior to executing below. The Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Plan, the Award Agreement, the Grant Notice or relating to the Units.

TRICO BANCSHARES		**PARTICIPANT**	
By:	______________________	By:	______________________
Name: Name:	______________________	Print Name:	______________________
Title:	______________________		
Address:	63 Constitution Drive Chico, CA 95973	Address:	______________________ ______________________

ATTACHMENTS: TriCo Bancshares 2019 Equity Incentive Plan, as amended; Performance Award Agreement. The prospectus for the Plan prepared in connection with the registration with the Securities and Exchange Commission of the shares of Common Stock issuable pursuant to the Award is available in the Human Resources section of the Company’s intranet.

TRICO BANCSHARES
PERFORMANCE AWARD AGREEMENT

TriCo Bancshares (the "***Company***") has granted to the Participant named in the Performance Award Grant Notice (the *"**Grant Notice**"*), to which this Performance Award Agreement (this *"**Award Agreement**"*) is attached, an Award consisting of Performance Share Units (the "***Units***" or *"**PSUs**"*) subject to the terms and conditions set forth in the Grant Notice and this Award Agreement. This Award has been granted pursuant to the TriCo Bancshares 2019 Equity Incentive Plan (the *"**Plan**"*), as amended, the provisions of which are incorporated herein by reference. Participant hereby understands that the shares of Common Stock issued with respect to the Award is subject to minimum holding requirements described in Section 10(f) of the Plan.

Unless otherwise defined herein or in the Grant Notice, capitalized terms shall have the meanings assigned under the Plan.

1. THE AWARD.

The Company hereby awards to the Participant the Target Number of Units set forth in the Grant Notice, which, depending on the extent to which a Performance Goal (as described by Plan) is attained during the Performance Period, may result in the Participant earning as little as zero (0) Units or as many as the Maximum Number of Units. Subject to the terms of this Award Agreement and the Plan, each Unit, to the extent it is earned and becomes a Vested Unit, represents a right to receive on the Settlement Date one (1) share of Stock or, at the discretion of the Committee, the Fair Market Value thereof in cash. Unless and until a Unit has vested and become a Vested Unit as set forth in the Grant Notice, the Participant will have no right to settlement of such Units (including any rights with respect dividends payable with respect to the underlying shares of Common Stock). Prior to settlement of any earned and vested Units, such Units will represent an unfunded and unsecured obligation of the Company.

2. PERFORMANCE MEASUREMENT.

2.1 Level of Performance Measure Attained. As soon as practicable following completion of the Performance Period, but in any event no later than the Vesting Date, the Committee shall certify in writing the level of attainment of the Performance Measure during the Performance Period, the resulting Relative Return Factor and the number of Units which have become Vested Units.

2.2 Components of Performance Measure. The components of Performance Measure shall be determined for the Performance Period in accordance with the following:

(a) "***Company Total Shareholder Return***" means the percentage point increase or decrease in (i) the Average Per Share Closing Price for the 30 trading day period ending on the last day of the Performance Period over (ii) the Average Per Share Closing Price for the 30 trading day period ending on the first day of the Performance Period.

(b) "***Average Per Share Closing Price***" means the average of the daily closing prices per share of Common Stock as reported on the Nasdaq Stock Market (or such other market on which shares of Common Stock are traded) for all trading days falling within an applicable 30 trading day period described in (a) above. The Average Per Share Closing Price shall be adjusted in each case to reflect an assumed reinvestment, as of the of applicable ex-dividend date, of all cash dividends and other cash distributions (excluding cash distributions resulting from share repurchases or redemptions by the Company) paid to shareholders during the 30 trading day period ending on the first day of the Performance Period and during the Performance Period.

(c) "***Benchmark Index Total Return***" means the percentage point increase or decrease in (i) the Average Closing Index Value for the 30 trading day period ending on the last day of the Performance Period over (ii) the Average Closing Index Value for the 30 trading day period ending on the first day of the Performance Period.

(d) "***Average Closing Index Value***" means the average of the daily closing index values of the Benchmark Index for all trading days falling within an applicable 30 trading day period described in (c) above.

3. VESTING.

3.1 Normal Vesting. Except as otherwise provided by this Award Agreement, Units shall vest and become Vested Units as provided in the Grant Notice.

3.2 Vesting Upon a Change in Control. In the event of a Change in Control, vesting shall be determined in accordance with Section 7.1.

3.3 Vesting Upon Involuntary Termination Following a Change in Control. In the event that upon or within twelve (12) months following the effective date of a Change in Control, the Participant's employment terminates due to Involuntary Termination, then vesting shall be determined in accordance with Section 7.2.

3.4 No Vesting on Termination of Employment. In the event that a Participant's employment with the Company terminates for any reason prior to the Vesting Date, with or without Cause, other than as described in Section 3.2 or 3.3, the Participant shall forfeit and the Company shall automatically reacquire all Units which are not, as of the time of such termination, Vested Units, and the Participant shall not be entitled to any payment therefor.

3.5 Definitions. The following terms shall have the meanings set forth below:

(a) "**Termination of Employment**" means that the Participant's employment with the Company is terminated and the Participant actually separates from service with the Company and does not continue in his or her prior capacity. Termination of Employment does not include the Participant's military leave, sick leave or other bona fide leave of absence (such as temporary employment with the government) if the period of leave does not exceed six months, or if longer, so long as his right to reemployment with the Company is provided either in contract or by statute. Notwithstanding the foregoing, Participant's employment shall be deemed to have terminated, and Participant shall have suffered an Employment Termination, when the Parties reasonably anticipate that Participant will have a permanent reduction in the level of bona fide services provided to the Company, to a level of service that is less than fifty percent (50%) of the average level of bona fide services provided by Participant to the Company in the immediately preceding thirty-six (36) month period. Notwithstanding anything to the contrary, the term "**Termination of Employment**" shall be construed in accordance with Code Section 409A, together with regulations and guidance promulgated thereunder, as amended from time to time.

(b) "**Involuntary Termination**" means that a Participant's employment is terminated by the Company without Cause or by the Participant for "Good Reason".

(c) Termination of Employment for "**Cause**" means Termination of Employment of the Participant by reason of any of the following:

(i) A termination "for cause", as such term may be defined in any written employment agreement entered into by and between the Company and the Participant;

(ii) A material breach of the Participant's written employment agreement entered into by and between the Company and the Participant;

(iii) A material violation of any written policies or procedures of Company;

(iv) A breach of duty of loyalty to the Company;

(v) The Participant engages in any activity that brings disrepute or discredit on Company;

(vi) The Participant commits any act which is unlawful or materially detrimental to the business and affairs of Company;

(vii) The Participant commits any act of fraud, theft or embezzlement or other abuse of the property, information or funds of Company; or

(viii) The Participant is convicted of any felony or a crime involving deceit, moral turpitude or fraud.

(d) The Participant's Termination of Employment for "**Good Reason**" means Participant experiences any of the following:

(i) a material diminution in the Participant's base compensation;

(ii) a material diminution in the Participant’s authority, duties, or responsibilities;

(iii) a material change (of at least 50 miles) in geographic location at which the Participant must perform the services; or

(iv) any other action or inaction that constitutes a material breach of the terms of an applicable employment agreement.

If Participant wishes to resign for Good Reason, (A) the Participant must provide the Company with a written notice describing the event which is giving rise to such right, which notice must be delivered to the Company no later than 60 days following the first occurrence of such event; (B) the Company must fail to cure such condition within 30 days of receipt of such notice and (C) Participant must resign within 30 days of the expiration of such cure period.

4. SETTLEMENT OF THE AWARD.

4.1 Issuance of Shares of Common Stock or Cash Equivalent. Subject to the provisions of Section 4.3 and Section 5 below, the Company shall issue to the Participant on the Settlement Date with respect to each Vested Unit to be settled on such date one (1) share of Common Stock. Shares of Common Stock issued in settlement of Vested Units shall not be subject to any restriction on transfer other than any such restriction as may be required pursuant to Section 4.3 or provided for in Section 10(f) of the Plan. At the discretion of the Committee, payment with respect to all or any portion of the Vested Units may be made in a lump sum cash payment in an amount equal to the Fair Market Value, determined as of the Settlement Date, of the shares of Common Stock or other securities or property otherwise issuable in settlement of such Vested Units.

4.2 Beneficial Ownership of Shares; Certificate Registration. The Participant hereby authorizes the Company, in its sole discretion, to deposit for the benefit of the Participant with a Company-designated brokerage firm or, at the Company’s discretion, any other broker with which the Participant has an account relationship of which the Company has notice any or all shares of Common Stock acquired by the Participant pursuant to the settlement of the Award. Except as provided by the preceding sentence, a certificate for the shares of Common Stock as to which the Award is settled shall be registered in the name of the Participant, or, if applicable, in the names of the Participant’s heirs.

4.3 Restrictions on Grant of the Award and Issuance of Shares. The grant of the Award and issuance of shares of Common Stock upon settlement of the Award shall be subject to compliance with all applicable requirements of U.S. federal or state law with respect to such securities. No shares of Common Stock may be issued hereunder if the issuance of such shares of Common Stock would constitute a violation of any applicable U.S. federal or state securities laws or other laws or regulations or the requirements of any stock exchange or market system upon which the Common Stock may then be listed. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company’s legal counsel to be necessary to the lawful issuance of any shares of Common Stock subject to the Award shall relieve the Company of any liability in respect of the failure to issue such shares of Common Stock as to which such requisite authority shall not have been obtained. As a condition to the settlement of the Award, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company. Further, regardless of whether the transfer or issuance of the shares of Common Stock to be issued pursuant to the Units has been registered under the Securities Act or has been registered or qualified under the securities laws of any State, the Company may impose additional restrictions upon the sale, pledge, or other transfer of the shares of Common Stock (including the placement of appropriate legends on stock certificates and the issuance of stop-transfer instructions to the Company's transfer agent) if, in the judgment of the Company and the Company's counsel, such restrictions are necessary in order to achieve compliance with the provisions of the Securities Act, the securities laws of any State, or any other law.

4.4 Fractional Shares. The Company shall not be required to issue fractional shares of Common Stock upon the settlement of the Award.

5. <u>TAX WITHHOLDING AND ADVICE</u>.

5.1 In General. Subject to Section 5.2, at the time the Grant Notice is executed, or at any time thereafter as requested by the Company, the Participant hereby authorizes withholding from payroll and any other amounts payable to the Participant, and otherwise agrees to make adequate provision for, any sums required to satisfy the U.S. federal, state, and local taxes required by law to be withheld with respect to any taxable event arising as a result of the Participant's participation in the Plan (referred to herein as "***Tax-Related Items***").

5.2 Withholding of Taxes. The Company or any Affiliate, as appropriate, shall have the authority and the right to deduct or withhold, or require the Participant to remit an amount sufficient to satisfy applicable Tax-Related Items or to take such other action as may be reasonably necessary to satisfy such Tax-Related Items. In this regard, the Participant authorizes the Company and any Affiliate, or their respective agents, at their discretion, to satisfy the obligations with regard to all Tax-Related Items by one or a combination of the following:

(a) withholding from the Participant's wages or other cash compensation paid to the Participant; or

(b) withholding from proceeds of the sale of shares of Common Stock acquired upon vesting and settlement of the Units, either through a voluntary sale or through a mandatory sale arranged by the Company (on the Participant's behalf pursuant to this authorization); or

(c) withholding in shares of Common Stock to be issued upon vesting and settlement of the Units; or

(d) direct payment from the Participant.

The Company does not have any duty or obligation to minimize the Participant's liability for Tax-Related Items arising from the Award, and, will not be liable to the Participant for any Tax-Related Items arising in connection with the Award. Finally, the Participant shall pay any amount of Tax-Related Items that the Company or any Affiliate may be required to withhold as a result of his or her participation in the Plan that cannot be satisfied by the means previously described. The Company may refuse to issue or deliver the shares of Common Stock that may be issued in connection with the settlement of the Units if the Participant fails to comply with his or her Tax-Related Items obligations.

5.3 Tax Advice. The Participant represents, warrants and acknowledges that the Company has made no warranties or representations to the Participant with respect to the income tax consequences of the transactions contemplated by this Award Agreement, and the Participant is in no manner relying on the Company or the Company's representatives for an assessment of such tax consequences. THE PARTICIPANT UNDERSTANDS THAT THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. THE PARTICIPANT SHOULD CONSULT HIS OR HER OWN TAX ADVISOR REGARDING THE UNITS. NOTHING STATED HEREIN IS INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING TAXPAYER PENALTIES.

6. AUTHORIZATION TO RELEASE NECESSARY PERSONAL INFORMATION.

The Participant hereby authorizes and directs the Participant's employer to collect, use and transfer in electronic or other form, any personal information (the "***Data***"), the nature and amount of the Participant's compensation and the fact and conditions of the Participant's participation in the Plan (including, but not limited to, the Participant's name, home address, telephone number, date of birth, social security number, salary, job title, number of shares of Common Stock held and the details of all Units or any other entitlement to shares of Common Stock awarded, cancelled, exercised, vested, unvested or outstanding) for the purpose of implementing, administering and managing the Participant's participation in the Plan. The Participant understands that the Data may be transferred to the Company or any Affiliate, or to any third parties assisting in the implementation, administration and management of the Plan, including any requisite transfer to a brokerage firm or other third party assisting with administration of the Award or with whom shares of Common Stock acquired upon settlement of this Award or cash from the sale of such shares of Common Stock may be deposited. Furthermore, the Participant acknowledges and understands that the transfer of the Data to the Company or any Affiliate, or to any third parties is necessary for Participant's participation in the Plan. The Participant may at any time withdraw the consents herein, by contacting the Company's stock administration department in writing. The Participant further acknowledges that withdrawal of consent may affect the Participant's ability to realize benefits from the Award, and the Participant's ability to participate in the Plan.

***7.* CHANGE IN CONTROL.**

In the event of a Change in Control, this Section 7 shall determine the treatment of the Units which have not otherwise become Vested Units.

7.1 Effect of Change in Control on Award. In the event of a Change in Control which occurs more than 12 months following the Grant Date, the Performance Period shall end on the day immediately preceding the Change in Control (the "***Adjusted Performance Period***"). The number and vesting of Units shall be determined for the Adjusted Performance Period in accordance with the following:

(a) **Vested Units.** In the Committee's determination of the number of Vested Units for the Adjusted Performance Period, the following modifications shall be made to the components of the Relative Return Factor:

(i) The Company Total Shareholder Return shall be determined as provided by Section 2.2, except that the Average Per Share Closing Price for the thirty (30) trading day period ending on the last day of the Adjusted Performance Period shall be replaced with the price per share of Common Stock to be paid to the holder thereof in accordance with the definitive agreement governing the transaction constituting the Change in Control (or, in the absence of such agreement, the closing price per share of Common Stock as reported on the Nasdaq Stock Market for the last trading day of the Adjusted Performance Period), adjusted to reflect an assumed reinvestment, as of the applicable ex-dividend date, of all cash dividends and other cash distributions (excluding cash distributions resulting from share repurchases or redemptions by the Company) paid to shareholders during the Adjusted Performance Period, as illustrated in Section 2.2.

(ii) The Benchmark Index Total Return shall be determined as provided by Section 2.2, except that for the purposes of clause (a) thereof, the Average Closing Index Value shall be determined for the 30 trading day period ending on the last day of the Adjusted Performance Period.

(b) **Vested Units.** As of the last day of the Adjusted Performance Period and provided that the Participant has not Terminated Employment prior to such date, a portion of the Units determined in accordance with Section 7.1(a) shall become Vested Units (the "***Accelerated Units***"), with such portion determined by multiplying the total number of Units by a fraction, the numerator of which equals the number of days contained in the Adjusted Performance Period and the denominator of which equals the number of days contained in the original Performance Period determined without regard to this Section. The Accelerated Units shall be settled in accordance Section 4 immediately prior to the consummation of the Change in Control.

7.2 Involuntary Termination Following Change in Control. If Section 7.1 does not apply, in the event that upon or within twelve (12) months following the effective date of the Change in Control (but no earlier than the twelve month anniversary of the Grant Date), the Participant's employment terminates due to Involuntary Termination, the Units determined in accordance with Section 7.1(a) (as if Section 7.1 applied) shall be deemed Vested Units effective as of the date of the Participant's Involuntary Termination and shall be settled in accordance with Section 4, treating the date of the Participant's Termination of Employment as the Vesting Date, provided that payment for each Vested Unit shall be made in the amount and in the form of the consideration (whether stock, cash, other securities or property or a combination thereof) to which a holder of a share of Common Stock on the effective date of the Change in Control was entitled (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares of Common Stock).

7.3 Internal Revenue Code Section 280G. Notwithstanding any provision of this Award Agreement to the contrary, in the event that it would be more likely than not that all or a portion of any benefit payment under this Award Agreement, alone or together with any other compensation or benefit payable to Participant, will be a non-deductible expense to the Company by reason of Code Section 280G, the Company shall reduce, but not less that zero, the benefits payable under this Award Agreement or the Plan as necessary to avoid the application of Section 280G.

8. ADJUSTMENTS FOR CHANGES IN CAPITAL STRUCTURE.

The number of Units awarded pursuant to this Award Agreement is subject to adjustment as provided in Section 11(a) of the Plan and otherwise is subject to Section 11(c) of the Plan, to the extent such section does not contradict Section 7 of this Award Agreement. Upon the occurrence of an event described in Plan Section 11(a), any and all new, substituted or additional securities or other property to which a holder of a share issuable in settlement of the Award would be entitled shall be immediately subject to the Award Agreement and included within the meaning of the terms "shares of Common Stock" for all purposes of the Award. The Participant shall be notified of such adjustments and such adjustments shall be binding upon the Company and the Participant.

9. NO ENTITLEMENT OR CLAIMS FOR COMPENSATION.

9.1 The Participant's rights, if any, in respect of or in connection with the Units are derived solely from the discretionary decision of the Company to permit the Participant to participate in the Plan and to benefit from a discretionary Award. By accepting the Units, the Participant expressly acknowledges that there is no obligation on the part of the Company to continue the Plan and/or grant any additional Units or other Awards to the Participant. The Units are not intended to be compensation of a continuing or recurring nature, or part of the Participant's normal or expected compensation, and in no way represents any portion of the Participant's salary, compensation, or other remuneration for purposes of pension benefits, severance, redundancy, resignation or any other purpose.

9.2 Neither the Plan nor the Units shall be deemed to give the Participant a right to remain an Employee, Director or Consultant of the Company or any Affiliate. The Company reserves the right to terminate the employment of the Participant at any time, with or without cause, and for any reason, subject to applicable laws, the Company's Articles of Incorporation and Bylaws and the Participant's written employment agreement (if any), and the Participant shall be deemed irrevocably to have waived any claim to damages or specific performance for breach of contract or dismissal, compensation for loss of office, tort or otherwise with respect to the Plan, this Award, Units or any other outstanding Award that is forfeited and/or is terminated by its terms or to any future Award.

10. <u>Rights as a Shareholder</u>.

The Participant shall have no rights as a shareholder with respect to any shares of Common Stock which may be issued in settlement of this Award until the date of the issuance of such share of Common Stock under this Award Agreement (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, Dividend Equivalents, distributions or other rights for which the record date is prior to the date such certificate is issued, except as provided in Section 8.

11. <u>Miscellaneous Provisions</u>.

11.1 Amendment. The Committee may amend this Award Agreement at any time; provided, however, that no such amendment may adversely affect the Participant's rights under this Award Agreement without the consent of the Participant, except to the extent such amendment is necessary to comply with applicable law, including, but not limited to, Code Section 409A. No amendment or addition to this Award Agreement shall be effective unless in writing and signed by the parties to this Award Agreement.

11.2 Nontransferability of the Award. Prior to the issuance of shares of Common Stock on the applicable Settlement Date, no right or interest of the Participant in the Award nor any shares of Common Stock issuable on settlement of the Award shall be in any manner pledged, encumbered, or hypothecated to or in favor of any party other than the Company or shall become subject to any lien, obligation, or liability of such Participant to any other party other than the Company. Except as otherwise provided by the Committee, no Award shall be assigned, transferred or otherwise disposed of other than by will or the laws of descent and distribution. All rights with respect to the Award shall be exercisable during the Participant's lifetime only by the Participant or the Participant's guardian or legal representative.

11.3 Further Instruments. The parties hereto agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Award Agreement.

11.4 Binding Effect. This Award Agreement shall inure to the benefit of the successors and assigns of the Company and, subject to the restrictions on transfer set forth herein, be binding upon the Participant and the Participant's heirs, executors, administrators, successors and assigns.

11.5 Notices. Any notice required to be given or delivered to the Company under the terms of this Award Agreement shall be in writing and addressed to the Company at its principal corporate offices. Any notice required to be given or delivered to the Participant shall be in writing and addressed to the Participant at the address maintained for the Participant in the Company's records or at the address of the local office of the Company or Affiliate at which the Participant works.

11.6 Construction of Award Agreement. The Grant Notice, this Award Agreement, and the Units evidenced hereby (i) are made and granted pursuant to the Plan and are in all respects limited by and subject to the terms of the Plan, the provisions of which are hereby made a part of Participant's Award, and is further subject to all interpretations, amendments, rules and regulations which may from time to time be promulgated and adopted pursuant to the Plan, and (ii) constitute the entire agreement between the Participant and the Company on the subject matter hereof and supersede all proposals, written or oral, and all other communications between the parties related to the subject matter. In the event of any conflict between the provisions of Participant's Award and those of the Plan, the provisions of the Plan shall control. The headings of the Sections in this Award Agreement are inserted for convenience only and shall not be deemed to constitute a part of this Award Agreement or to affect the meaning of this Award Agreement.

11.7 Governing Law. The interpretation, performance and enforcement of this Award Agreement shall be governed by the laws of the State of California, U.S.A. without regard to the conflict-of-laws rules thereof or of any other jurisdiction.

11.8 Section 409A.

(a) **Compliance with Code Section 409A.** It is intended that the Performance Share Units granted hereunder be exempt from or comply with the requirements of Code Section 409A, so that none of the Units, or the resulting shares of Common Stock or compensation, if any, shall be subject to the additional tax imposed by Section 409A. The vesting and settlement of such Units are intended to qualify for the "short-term deferral" exemption from Code Section 409A. Each installment of Units that vests is intended to constitute a "separate payment" for purposes of Treasury Regulation Section 1.409A-2(b)(2). As such, each eligible Vested Unit shall be settled, per the terms of the Plan, the Grant Notice and this Award Agreement, within the short-term deferral period, as defined in Code Section 409A, the applicable Treasury Regulations and related guidance issued thereunder. Notwithstanding any other provision of the Plan, this Award Agreement, the Grant Notice or the Plan:

(i) The Plan, this Award Agreement and the Grant Notice shall be interpreted in accordance with, and incorporate the terms and conditions required by, Code Section 409A and any Department of Treasury regulations and other applicable guidance issued thereunder (including any regulations or guidance that may be issued after the date hereof), and any ambiguities herein shall be interpreted to so comply.

(ii) The Company reserves the right, to the extent the Company deems necessary or advisable in its sole discretion, to unilaterally amend or modify the Plan and/or this Award Agreement to ensure that the Units qualify for exemption from, comply with or otherwise avoid the imposition of any additional tax or income recognition under Code Section 409A; *provided*, *however*, that the Company makes no representations that the Units will be exempt from Code Section 409A and makes no undertaking to preclude Code Section 409A from applying to the Units.

(b) **Separation from Service; Required Delay in Payment to Specified Employee.** Notwithstanding anything set forth herein to the contrary, no amount payable pursuant to this Award Agreement on account of the Participant's Termination of Employment which constitutes a "deferral of compensation" within the meaning of Code Section 409A shall be paid unless and until the Participant has incurred a "separation from service" within the meaning of Code Section 409A. Furthermore, to the extent that the Participant is a "Specified Employee" within the meaning of Code Section 409A as of the date of the Participant's separation from service, no amount that constitutes a deferral of compensation which is payable on account of the Participant's separation from service that would result in the imposition of additional tax under Code Section 409A if issued to Participant on or within the six (6) month period following Participant's termination of an employment shall be paid to the Participant before the date (the ***"Delayed Payment Date"***) which is the first day of the seventh month after the date of the Participant's separation from service or, if earlier, ten (10) days following the date of the Participant's death following such separation from service. All such amounts that would, but for this Section, become payable prior to the Delayed Payment Date will be accumulated and paid on the Delayed Payment Date.

11.9 Restrictions on Contracts and Payments for Insured Depository Institutions in Troubled Status. The parties acknowledge and agree that while the restrictions contained in the Federal Deposit Insurance Act, Section 18(k) [12 U.S.C. §1828(k)], relating to contracts for and payment of executive compensation and benefits by insured depository institutions in "troubled" condition, do not currently apply to the Company or the Participant, such provisions could apply in the future. In the event that any such restrictions or any contractual arrangement with or required by a regulatory authority require the Company to seek or demand repayment or return of any payments made to the Participant under this Award Agreement and the Plan for any reason, the Participant agrees to repay to the Company the aggregate amount of such payments no later than thirty (30) days following the Participant's receipt of a written notice from the Company indicating that payments received by the Participant under this Award Agreement and the Plan are subject to recapture or clawback.

11.10 Administration. The Committee shall have the power to interpret the Plan and this Award Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules. All actions taken and all interpretations and determinations made by the Committee or the Board in good faith shall be final and binding upon the Participant, the Company and all other interested persons. No member of the Committee or the Board shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan, this Award Agreement or the Units.

11.11 Counterparts. The Grant Notice may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

11.12 Severability. If any provision of this Award Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the parties to the extent possible. In any event, all other provisions of this Award Agreement shall be deemed valid and enforceable to the full extent possible.

APPENDIX A

ILLUSTRATION OF RELATIVE RETURN FACTOR AND RESULTING NUMBER OF VESTED UNITS

Percentage Point Difference of Company TSR Over/Under Benchmark Index Total Return	Relative Return Factor	Vested Units (Per 1,000 Target Units)
25 and Over	150%	1,500
20	140%	1,400
15	130%	1,300
10	120%	1,200
9	118%	1,180
8	116%	1,160
7	114%	1,140
6	112%	1,120
5	110%	1,010
4	108%	1,080
3	106%	1,060
2	104%	1,040
1	102%	1,020
0	100%	1,000
-1	98%	980
-2	96%	960
-3	94%	940
-4	92%	920
-5	90%	900
-6	88%	880
-7	86%	860
-8	84%	840
-9	82%	820
-10	80%	800
-15	70%	700
-20	60%	600
-25	50%	500
-25 and less	0%	0

APPENDIX A (CONTINUED)

ILLUSTRATIONS OF CALCULATION OF VESTED UNITS
PER 1,000 TARGET UNITS

Company Total Shareholder Return Exceeds Benchmark Index Total Return

Assumptions:		
Target Number of Units		1000
TCBK:		
Average Per Share Closing Price (beginning)		$25.00
Average Per Share Closing Price (ending)		$30.00
KBW Regional Banking Index:		
Average Closing Index Value (beginning)		$80.00
Average Closing Index Value (ending)		$90.00
Computations:		
Company Total Shareholder Return	((30.00 / 25.00) - 1) x 100	20.0%
Benchmark Index Total Return	((90.00 / 80.00) - 1) x 100	12.5%
Relative Return Factor	100 + (2.0 x (20.0 – 12.5))	115.0%
Vested Units	1,000 x 115.0%	1,150

APPENDIX A (CONTINUED)

ILLUSTRATIONS OF CALCULATION OF VESTED UNITS
PER 1,000 TARGET UNITS

Company Total Shareholder Return Is Less Than Benchmark Index Total Return

Assumptions:		
Target Number of Units		1000
TCBK:		
Average Per Share Closing Price (beginning)		$ 25.00
Average Per Share Closing Price (ending)		$ 30.00
KBW Regional Banking Index:		
Average Closing Index Value (beginning)		$ 80.00
Average Closing Index Value (ending)		$100.00
Computations:		
Company Total Shareholder Return	((30.00 / 25.00) - 1) x 100	20.0%
Benchmark Index Total Return	((100.00 / 80.00) - 1) x 100	25.0%
Relative Return Factor	100 + (2.0 x (20.0 – 25.0))	90.0%
Vested Units	1,000 x 90.0%	900