TriCo Bancshares
1994
Annual Report

TRICO BANCSHARES

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

The Bank engages in the general commercial banking business in the California counties of Butte, Glenn, Shasta, Siskiyou, Sutter and Tehama, as well as portions of Lassen and Yuba. It opened its first banking office in Chico, California, in 1975, followed by branch offices in Willows, Durham and Orland, California. A second branch office in Chico opened in 1980. In 1981, the Bank acquired the assets of Shasta County Bank through a merger of that bank with and into the Bank, adding six additional offices in the communities of Bieber, Burney, Cottonwood, Fall River Mills, Palo Cedro and Redding, California. In 1987, the Bank acquired certain assets of the Wells Fargo Bank branch office in Yreka, California, thereby extending its service area into Siskiyou County. In 1988, the Bank opened a third Chico branch office in the Chico Mall, a regional shopping center. In 1990, the Bank opened a branch office in Yuba City, the first to serve Sutter and Yuba Counties. In 1994, the bank opened four supermarket branches, one each in Red Bluff and Yuba City, California, and two in Redding, California. Also in 1994, the Company acquired Country National Bank and merged it into the Bank, thus adding an additional office in Redding, California.

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

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

MARKET MAKERS FOR TRICO BANCSHARES COMMON STOCK

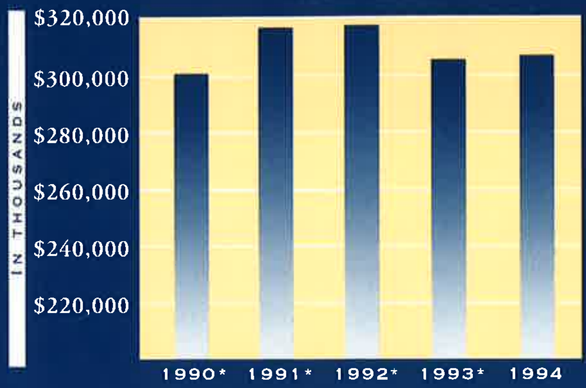
Sutro & Co. Incorporated
P.O. Box 1688
Big Bear Lake, CA
92315-1688
Troy Norlander
(800) 288-2811
(909) 866-8966

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

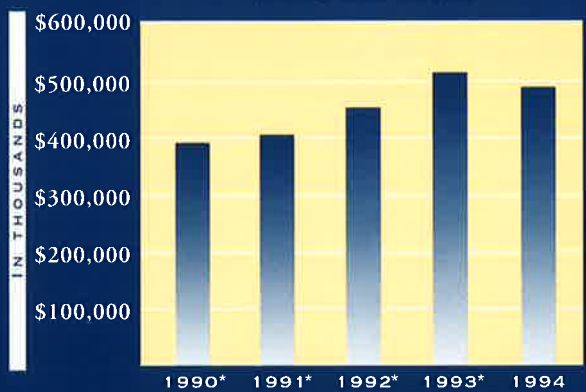
Van Kasper & Company
600 California St. Suite 1700
San Franciso, CA
94108-2704
Richard Hennig
(800) 652-1747
(415) 954-0646

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

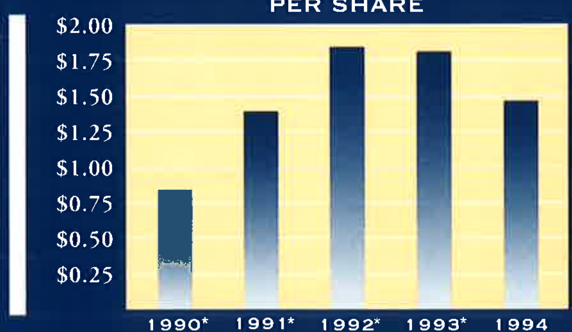
TOTAL LOANS



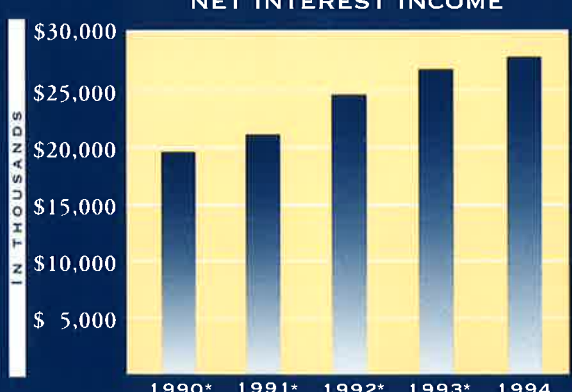
TOTAL DEPOSITS



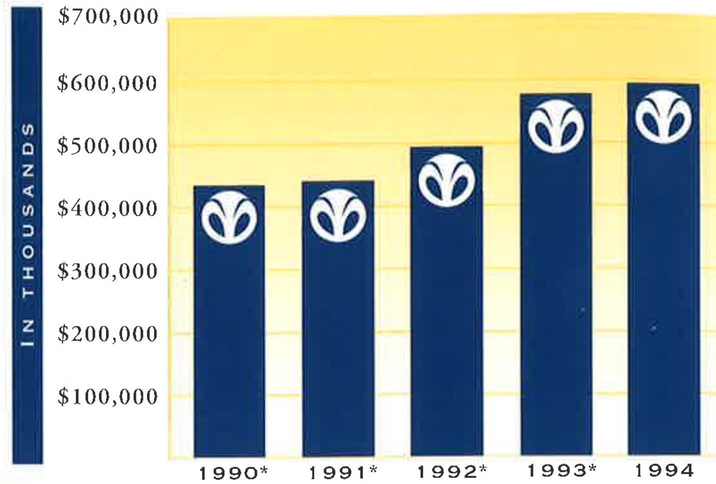
PRIMARY EARNINGS PER SHARE



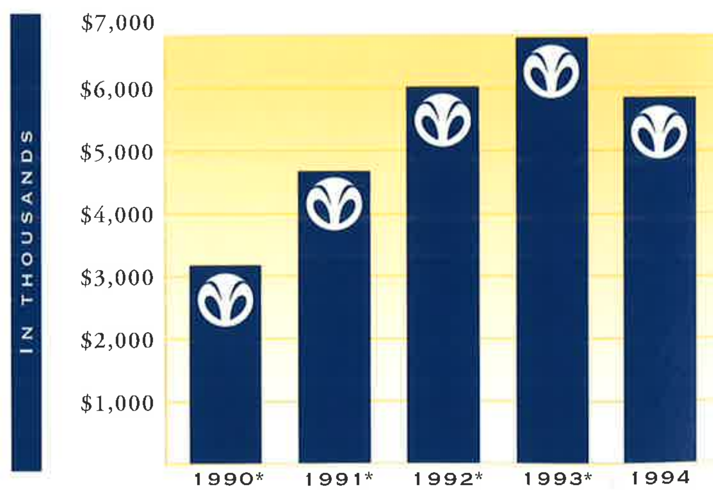
NET INTEREST INCOME



TOTAL ASSETS



NET INCOME



FIVE YEAR

SELECTED FINANCIAL DATA
(IN THOUSANDS, EXCEPT SHARE DATA)

	1994	1993*	1992*	1991*	1990*
Statement of Operations Data:[1]					
Interest income	$ 43,240	$ 40,947	$ 40,272	$ 40,451	$41,226
Interest expense	15,680	13,996	15,600	18,988	21,904
Net interest income	27,560	26,951	24,672	21,463	19,322
Provision for loan losses	316	1,858	2,101	1,531	2,770
Net interest income after provision for loan losses	27,244	25,093	22,571	19,932	16,552
Noninterest income	5,025	6,726	5,572	4,965	4,022
Noninterest expense	22,058	20,225	18,031	17,045	15,805
Income before income taxes	10,211	11,594	10,112	7,852	4,769
Provision for income taxes	4,350	4,779	4,112	3,031	1,627
Net income	$ 5,861	$ 6,815	$ 6,000	$ 4,821	$3,142
Share Data:[2]					
Primary earnings per share	$ 1.47	$ 1.78	$ 1.83	$ 1.38	$.79
Cash dividend paid per share	0.40	.39	.35	.30	.28
Common shareholders' equity at year end	12.62	12.56	10.53	9.06	7.99
Balance Sheet Data:					
Total loans, gross	$307,103	$305,902	$317,518	$316,397	$300,543
Total assets	593,834	575,897	492,404	439,358	429,432
Total deposits	491,172	515,999	451,346	400,479	390,330
Total shareholders' equity	48,231	47,068	36,545	34,822	31,217
Selected Financial Ratios:					
Return on average assets	.99%	1.25%	1.25%	1.15%	.76%
Return on average common shareholders' equity	12.42%	15.81%	19.48%	15.69%	9.91%
Leverage ratio[3]	8.75%	8.18%	7.39%	7.97%	7.20%
Total risk-based capital ratio	14.65%	14.02%	11.94%	11.49%	10.70%
Net interest margin[4]	5.18%	5.49%	5.76%	5.87%	5.46%
Allowance for loan losses to total loans outstanding at end of year	1.83%	1.95%	1.51%	1.31%	1.20%

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

[1]Tax-exempt securities are presented on an actual yield basis.
[2]Retroactively adjusted to reflect the 12%, 15%, and 15% stock dividends declared in 1993, 1992 and 1991, respectively.
[3]Tier 1 capital divided by total ending assets.
[4]Calculated on a tax equivalent basis.

PRESIDENT'S MESSAGE

Increased market share was your management's primary goal for 1994. Approximately one million dollars of current earnings were used to open four supermarket branches and to pay costs connected with the merger of Country National Bank into Tri Counties Bank. As a result, net income for the year declined to $5,861,000 from $6,815,000 in 1994. Total assets increased to $593,834,000 from $575,897,000. Tri Counties Bank is now the largest regional community bank north of Sacramento. The upper third of the State of California is truly "Tri Counties Bank Country."

Our four Redding Branch offices, three of them new, now serve all four major geographical sections of that city. We have significantly increased our market share in this most populous, and fastest growing, portion of our marketing area.

The four supermarket branches opened during March, April, May and June 1994, one each in Red Bluff and Yuba City and two in Redding, are exceeding expectations. Customers like to bank where they shop. They particularly appreciate the extended hours, 10 AM to 7 PM, Monday through Saturday, and 11 AM to 5 PM on Sunday. These branches have opened over 3,600 accounts with balances totalling $15,400,000. They have also generated consumer loans in excess of $1,242,000. Additional supermarket branch offices are planned.

Country National Bank, Redding, merged into Tri Counties Bank on July 21, 1994 through an exchange of common shares, becoming our Hilltop Branch. Its assets at the date of merger totalled $59,880,000, approximately 10% of Tri Counties Bank year-end total assets. We are pleased to state that the merger has been most favorably accepted by the Redding area customers of both banks.

Richard C. Guiton, a prominent Redding businessman and investor, and, at the time of the merger, a member of the Country National Bank Board of Directors, joined the TriCo Bancshares Board of Directors effective August 9, 1994.

In just twenty years, Tri Counties Bank has become a strong, independent competitor to the large money-center banks operating in our marketing area. During this period, two major banks have been merged out of existence. We intend to make the most of our opportunities for continued profitable growth. Thank you for your confidence and support.

Sincerely,

Robert H. Steveson

President & Chief Executive Officer

The four new supermarket branches have been exceeding expectations.

Country National Bank, Redding, merged into Tri Counties Bank becoming our Hilltop Branch.

The Board of Directors welcomes new board member Richard C. Guiton.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of TriCo Bancshares (a California corporation) and Subsidiary as of December 31, 1994 and 1993, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 1994. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Country National Bank, a company acquired during 1994 in a transaction accounted for as a pooling-of-interests, as discussed in Note R to the consolidated financial statements. Such statements are included in the consolidated balance sheet of TriCo Bancshares as of December 31, 1993 and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the two year period ended December 31, 1993 and reflect total assets of 10% percent in 1993 and 7% percent and 13% percent of net income in 1993 and 1992, respectively, of the related consolidated totals. These statements were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to amounts included for Country National Bank, is based solely upon the report of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits, and the report of the other auditors, provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of TriCo Bancshares and Subsidiary as of December 31, 1994 and 1993, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1994 in conformity with generally accepted accounting principles.

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

Arthur Andersen LLP

San Francisco, California
January 20, 1995

(in thousands, except share amounts)

	December 31,	
Assets	**1994**	1993*
Cash and due from banks	**$ 39,709**	$ 31,722
Federal funds sold	**—**	11,200
Cash and cash equivalents	**39,709**	42,922
Securities held-to-maturity (approximate fair value $131,649 and $113,776)	**143,788**	113,322
Securities available-for-sale	**74,706**	90,138
Loans:		
Commercial	**153,957**	140,750
Consumer	**58,471**	55,654
Real estate mortgages	**76,673**	88,887
Real estate construction	**18,002**	20,611
	307,103	305,902
Less: Allowance for loan losses	**5,608**	5,973
Net loans	**301,495**	299,929
Premises and equipment, net	**13,198**	12,375
Investment in real estate properties	**1,173**	1,172
Other real estate owned	**2,124**	3,624
Accrued interest receivable	**4,748**	3,642
Deferred income taxes	**5,445**	2,658
Other assets	**7,448**	6,115
Total assets	**$593,834**	$575,897
Liabilities and Shareholders' Equity		
Deposits:		
Noninterest-bearing demand	**$ 88,957**	$ 89,869
Interest-bearing demand	**80,657**	77,184
Savings	**190,800**	204,243
Time certificates, $100,000 and over	**1,118**	5,423
Other time certificates	**129,640**	139,280
Total deposits	**491,172**	515,999
Repurchase agreements	**30,457**	—
Accrued interest payable	**1,760**	1,730
Other liabilities	**3,715**	3,956
Long-term debt	**18,499**	7,144
Total liabilities	**545,603**	528,829
Commitments and contingencies (Note G)		
Shareholders' equity:		
Preferred stock, no par value: Authorized 1,000,000 shares; Series B, issued and outstanding 8,000 shares	**3,899**	3,899
Common stock, no par value: Authorized 20,000,000 shares; issued and outstanding 3,513,707 and 3,436,254 shares, respectively	**43,552**	42,818
Retained earnings	**4,488**	351
Unrealized loss on securities available-for-sale	**(3,708)**	—
Total shareholders' equity	**48,231**	47,068
Total liabilities and shareholders' equity	**$593,834**	$575,897

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

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except earnings per share)

	Years Ended December 31, 1994	1993*	1992*
Interest income:			
Interest and fees on loans	**$ 30,641**	$ 31,795	$ 33,695
Interest on investment securities—taxable	**12,247**	8,585	6,170
Interest on investment securities—tax exempt	**229**	238	278
Interest on federal funds sold	**123**	329	129
Total interest income	**43,240**	40,947	40,272
Interest expense:			
Interest on interest-bearing demand deposits	**2,066**	3,362	3,637
Interest on savings	**6,442**	5,046	6,950
Interest on time certificates of deposit	**5,333**	4,343	4,361
Interest on time certificates of deposit, $100,000 and over	**61**	255	479
Interest on short-term borrowing	**719**	739	65
Interest on long-term debt	**1,059**	251	108
Total interest expense	**15,680**	13,996	15,600
Net interest income	**27,560**	26,951	24,672
Provision for loan losses	**316**	1,858	2,101
Net interest income after provision for loan losses	**27,244**	25,093	22,571
Noninterest income:			
Service charges and fees	**3,570**	3,558	3,430
Other income	**1,478**	1,747	1,775
Securities gains (losses), net	**(23)**	1,421	367
Total noninterest income	**5,025**	6,726	5,572
Noninterest expenses:			
Salaries and related expenses	**10,550**	9,072	8,460
Other, net	**11,508**	11,153	9,571
Total noninterest expenses	**22,058**	20,225	18,031
Net income before income taxes	**10,211**	11,594	10,112
Income taxes	**4,350**	4,779	4,112
Net income	**$ 5,861**	$ 6,815	$ 6,000
Preferred stock dividends	**420**	630	797
Net income available to common shareholders	**$ 5,441**	$ 6,185	$ 5,203
Primary earnings per common share	**$ 1.47**	$ 1.78	$ 1.83

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

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Years ended December 31, 1994, 1993 and 1992)
(in thousands, except share amounts)

	Series A Preferred Stock		Series B Preferred Stock		Series C Preferred Stock		Common Stock					
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Retained Earnings	Unrealized Loss on Securities	Debt Guarantee for ESOP	Total
Balance, December 31, 1991*	26,724	$ 2,544	8,000	$ 3,899	16,900	$ 2,187	2,293,237	$25,209	$ 1,223	$ —	$ (240)	$34,822
Redemption of Preferred Stock	(26,724)	(2,544)	—	—	—	—	—	—	(129)	—		(2,673)
15% Common Stock Dividend declared	—	—	—	—	—	—	277,859	3,793	(3,793)	—	—	—
Series A Preferred Stock cash dividends	—	—	—	—	—	—	—	—	(148)	—	—	(148)
Series B Preferred Stock cash dividends	—	—	—	—	—	—	—	—	(420)	—	—	(420)
Series C Preferred Stock cash dividends	—	—	—	—	—	—	—	—	(229)	—	—	(229)
Common Stock cash dividends	—	—	—	—	—	—	—	—	(926)	—	—	(926)
Net income	—	—	—	—	—	—	—	—	6,000	—	—	6,000
Reduction of ESOP debt	—	—	—	—	—	—	—	—	—	—	120	120
Balance, December 31, 1992*	—	—	8,000	3,899	16,900	2,187	2,571,096	29,002	1,578	—	(120)	36,546
Redemption of Preferred Stock	—	—	—	—	(16,900)	(2,187)	—	—	(95)	—	—	(2,282)
Common Stock issued	—	—	—	—	—	—	529,000	7,734	—	—	—	7,734
12% Common Stock Dividend declared	—	—	—	—	—	—	319,848	5,917	(5,917)	—	—	—
Exercise of Common Stock options	—	—	—	—	—	—	16,310	165	—	—	—	165
Series B Preferred Stock cash dividends	—	—	—	—	—	—	—	—	(420)	—	—	(420)
Series C Preferred Stock cash dividends	—	—	—	—	—	—	—	—	(210)	—	—	(210)
Common Stock cash dividends	—	—	—	—	—	—	—	—	(1,400)	—	—	(1,400)
Net income	—	—	—	—	—	—	—	—	6,815	—	—	6,815
Reduction of ESOP debt	—	—	—	—	—	—	—	—	—	—	120	120
Balance, December 31, 1993*	—	—	8,000	3,899	—	—	3,436,254	42,818	351	—	—	47,068
Exercise of Common Stock options	—	—	—	—	—	—	77,453	403	—	—	—	403
Series B Preferred Stock cash dividends	—	—	—	—	—	—	—	—	(420)	—	—	(420)
Common Stock cash dividends	—	—	—	—	—	—	—	—	(1,304)	—	—	(1,304)
Cumulative effect of change in accounting method for investment securities	—	—	—	—	—	—	—	—	—	270	—	270
Change in unrealized loss on securities	—	—	—	—	—	—	—	—	—	(3,978)	—	(3,978)
Stock option amortization	—	—	—	—	—	—	—	331	—	—	—	331
Net income	—	—	—	—	—	—	—	—	5,861	—	—	5,861
Balance, December 31, 1994	—	$ —	8,000	$ 3,899	—	$ —	3,513,707	$43,552	$ 4,488	$(3,708)	$ —	$48,231

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

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Years ended December 31, 1994	1993*	1992*
Operating activities:			
Net income	**$ 5,861**	$ 6,815	$ 6,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	**316**	1,858	2,187
Provision for losses on other real estate owned	**53**	632	—
Provision for real estate losses	**—**	10	460
Depreciation and amortization	**1,405**	1,030	1,050
(Accretion) amortization of investment security (discounts) premiums, net	**450**	1,643	1,253
Deferred income taxes	**(90)**	1,126	(232)
Investment security (gains) losses, net	**23**	(1,453)	(364)
(Gain) loss on sale of loans	**(173)**	(294)	(289)
(Gain) loss on sale of investments in real estate properties, net	**54**	(17)	(30)
Origination of loans held for sale	**(8,943)**	(75,552)	(67,896)
Proceeds from loan sales	**8,186**	77,299	70,922
Amortization of stock options	**331**	—	—
(Increase) decrease in interest receivable	**(1,106)**	770	(758)
Increase (decrease) in interest payable	**30**	(695)	(1,492)
(Increase) decrease in other assets and liabilities	**(1,777)**	180	(1,937)
Net cash provided (used) by operating activities	**4,620**	13,352	8,874
Investing activities:			
Proceeds from maturities of securities held-to-maturity	**15,374**	—	—
Purchases of securities held-to-maturity	**(22,439)**	—	—
Proceeds from maturities of securities available-for-sale	**23,282**	63,940	44,534
Proceeds from sales of securities available-for-sale	**36,490**	182,092	87,980
Purchases of securities available-for-sale	**(74,619)**	(327,531)	(183,393)
Net (increase) decrease in loans	**(1,968)**	6,323	(5,130)
Purchases of premises and equipment	**(2,025)**	(1,861)	(1,598)
Proceeds from sale of real estate properties	**2,409**	292	1,928
Purchases and additions to real estate properties	**(1)**	(30)	(1,158)
Net cash (used) by investing activities	**(23,497)**	(76,775)	(56,837)
Financing activities:			
Net increase (decrease) in deposits	**(24,827)**	64,654	52,866
Borrowings under repurchase agreements	**30,457**	—	—
Borrowings under long-term debt agreements	**11,400**	52,005	—
Payments of principal on long-term debt agreements	**(45)**	(45,768)	—
Redemption of Preferred Stock	**—**	(2,282)	(2,673)
Cash dividends — Preferred	**(420)**	(630)	(797)
Cash dividends — Common	**(1,304)**	(1,400)	(926)
Issuance of Common Stock	**403**	7,899	—
Net cash provided by financing activities	**15,664**	74,478	48,470
Increase (decrease) in cash and cash equivalents	**(3,213)**	11,055	507
Cash and cash equivalents at beginning of year	**42,922**	31,867	31,360
Cash and cash equivalents at end of year	**$ 39,709**	$ 42,922	$ 31,867
Supplemental information			
Cash paid for taxes	**$ 3,809**	$ 5,431	$ 4,591
Cash paid for interest expense	**$ 15,650**	$ 13,365	$ 17,128
Non-cash debt guarantee for ESOP	**$ —**	$ (120)	$ (120)
Non-cash assets acquired through foreclosure	**$ 1,016**	$ 3,187	$ 153
Non-cash transfers of OREO to fixed assets	**$ —**	$ 504	$ —

* Restated on a historical basis to reflect the July 21, 1994 acquisition of Country National Bank on a pooling-of-interests basis.
See Notes to Consolidated Financial Statements

NOTE A - GENERAL SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of TriCo Bancshares (the "Company") conform to generally accepted accounting principles and general practices within the banking industry. The following are descriptions of the more significant accounting and reporting policies. In preparing the financial statements, Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the balance sheets and revenues and expenses for the periods indicated.

Certain reclassifications have been made to the prior year's financial statements in order to conform with the classifications of the December 31, 1994 financial statements.

PRINCIPLES OF CONSOLIDATION

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

SECURITIES

The Company adopted the provisions of Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS 115) as of January 1, 1994. Under SFAS 115, the Company is required to classify its debt and marketable equity securities into one of three categories: trading, available-for-sale or held-to-maturity. Trading securities are bought and held principally for the purpose of selling in the near term. Held-to-maturity securities are those securities which the Company has the ability and intent to hold until maturity. All other securities not included in trading or held-to-maturity are classified as available-for-sale. In connection with the adoption of SFAS 115, no securities were classified as trading.

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

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

Prior to 1994 and the adoption of SFAS 115, the Company had divided its securities portfolio into securities held-to-maturity and securities available-for-sale classifications. Under the prior accounting rules, treatment of securities held-to-maturity was the same as described above under SFAS 115. The treatment of securities in the available-for-sale classification was different. They were valued at the lower of aggregate cost or market, through the use of a valuation allowance. Decreases in market value below cost resulted in unrealized losses being charged to current period income. Cost was adjusted for the accretion of discounts and amortization of premiums using the interest method. Amortization and accretion were recognized as adjustments to interest income.

The effect of adopting SFAS 115 was to recognize an unrealized gain (net of tax) of $270,000 as an increase in shareholders' equity.

LOANS

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

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

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

NOTE A - (CONTINUED)

ALLOWANCE FOR LOAN LOSSES

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

MORTGAGE OPERATIONS

The Company sold substantially all of its long term residential mortgage loans originated during 1994, 1993 and 1992 for cash proceeds equal to the fair value of the loans. These loans were originated through Bank branches and not obtained from mortgage brokers. Servicing rights were retained on all of the loans sold, for which the Company receives a servicing fee. Because the amounts are not significant, the Company does not capitalize excess servicing fees, which represent the present value of the spread between the face rate of the loan and the rate paid to the investor net of the amount required to cover the cost of servicing the loan plus a profit margin given the expected life of the loans. Gain or loss on the sale of loans represents the difference between the cash proceeds received and the carrying value of the loans sold. The carrying value is the original value of the loan adjusted for loan origination fees and costs. At December 31, 1994, mortgage loans held for sale totaled $670,000. The Company had entered into commitments to sell all of these loans at year end. At December 31, 1994 and 1993, the Company serviced real estate mortgage loans for others of $139 million and $141 million, respectively.

PREMISES AND EQUIPMENT

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

INVESTMENT IN REAL ESTATE PROPERTIES

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

Subsequent to acquisition or transfer, properties included in the investment in real estate properties account are periodically evaluated. Any decline in value below the carrying amount of a property is included in other expenses. Income and expenses on the investment in real estate properties are included in other expenses.

OTHER REAL ESTATE OWNED

Real estate acquired by foreclosure is carried at the lower of the recorded investment in the property or its fair value. Prior to foreclosure, the value of the underlying loan is written down to the fair value of the real estate to be acquired by a charge to the allowance for loan losses, when necessary. Any subsequent write-downs are recorded as a valuation allowance with a charge to other expenses in the income statement. Expenses of such properties, net of related income, and gains and losses on their disposition are included in other expenses.

INCOME TAXES

Effective January 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS 109). SFAS 109 established new financial accounting and reporting standards for the effects of income taxes that result from an enterprise's activities during the current and preceding years. This standard requires an asset and liability approach for financial accounting and reporting for income taxes and replaced the income statement approach inherent in the former income tax accounting standard. The impact of this change was immaterial.

Earnings Per Common Share

Earnings per common share are computed based on the weighted average number of shares of common stock and common stock equivalents outstanding. The weighted average number of shares used in the computation of primary earnings per common share were: 3,713,107 for 1994, 3,470,604 for 1993, 2,845,469 for 1992, as adjusted for stock dividends and the merger with Country National Bank. Common stock equivalent shares consist of options outstanding under the Company's qualified and nonqualified stock option plans.

Cash Flows

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

Note B - Restricted Cash Balances

Reserves (in the form of deposits with the Federal Reserve Bank) of $7,181,000 and $8,029,000 were maintained to satisfy Federal regulatory requirements at December 31, 1994 and December 31, 1993. These reserves are included in cash and due from banks in the accompanying balance sheet.

Note C - Investment Securities

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

December 31, 1994	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Securities Held-to-Maturity				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 45,631	$ 9	$ (1,982)	$ 43,658
Obligations of states and political subdivisions	1,098	1	(49)	1,050
Mortgage-backed securities	97,059	—	(10,118)	86,941
Totals	$143,788	$ 10	$(12,149)	$131,649
Securities Available-for-Sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 37,865	$ —	$ (1,583)	$ 36,282
Obligations of states and political subdivisions	2,321	18	(33)	2,306
Mortgage-backed securities	36,374	—	(3,745)	32,629
Other securities	3,489	—	—	3,489
Totals	$ 80,049	$ 18	$ (5,361)	$ 74,706

December 31, 1993	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Securities Held-to-Maturity				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 17,314	$ 455	$ (22)	$ 17,747
Obligations of states and political subdivisions	3,635	84	(5)	3,714
Mortgage-backed securities	90,911	94	(152)	90,853
Other securities	1,462	—	—	1,462
Totals	$113,322	$ 633	$ (179)	$113,776
Securities Available-for-Sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 51,235	$ 420	$ (6)	$ 51,649
Mortgage-backed securities	38,903	267	(224)	38,946
Totals	$ 90,138	$ 687	$ (230)	$ 90,595

NOTE C - (CONTINUED)

The amortized cost and estimated fair value of debt securities at December 31, 1994 and 1993 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
	(in thousands)	
December 31, 1994		
Securities Held-to-Maturity		
Due in one year	$ 5,292	$ 5,263
Due after one year through five years	37,569	35,688
Due after five years through ten years	15,276	14,184
Due after ten years	85,651	76,514
Totals	$143,788	$131,649
Securities Available-for-Sale		
Due in one year	$7,124	$7,036
Due after one year through five years	34,709	33,170
Due after five years through ten years	2,060	1,987
Due after ten years	32,667	29,024
	76,560	71,217
Other Securities	3,489	3,489
Totals	$ 80,049	$ 74,706

Proceeds from sales of investments in debt securities:

For the Year	Gross Proceeds	Gross Gains	Gross Losses
		(in thousands)	
1994	$ 36,490	$ 117	$ 140
1993	$ 182,092	$ 1,984	$ 563

Investment securities with an aggregate carrying value of $35,243,000 and $7,199,000 at December 31, 1994 and 1993, respectively, were pledged as collateral.

NOTE D - ALLOWANCE FOR LOAN LOSSES

Activity in the allowance for loan losses was as follows:

	Years Ended December 31, 1994	1993	1992
		(in thousands)	
Balance, beginning of year	**$ 5,973**	$ 4,798	$ 4,156
Provision charged to operations	**316**	1,858	2,101
Loans charged off	**(1,050)**	(1,275)	(1,617)
Recoveries of loans previously charged off	**369**	592	158
Balance, end of year	**$ 5,608**	$ 5,973	$ 4,798

Loans classified as nonaccrual amounted to approximately $1,122,000, $1,595,000 and $583,000 at December 31, 1994, 1993 and 1992, respectively. If interest on those loans had been accrued, such income would have been approximately $123,000, $60,000 and $72,000 in 1994, 1993 and 1992, respectively.

NOTE E - PREMISES AND EQUIPMENT

Premises and equipment are comprised of:

	December 31, 1994	1993
	(in thousands)	
Premises (including $831,000 acquired under capital lease)	**$ 9,948**	$ 9,357
Furniture and equipment (including $186,000 acquired under capital leases)	**8,620**	7,296
	18,568	16,653
Less:		
Accumulated depreciation and amortization	**(8,047)**	(7,009)
	10,521	9,644
Land and land improvements	**2,677**	2,731
	$13,198	$12,375

Depreciation and amortization of premises and equipment amounted to $1,202,000, $1,030,000 and $1,050,000 in 1994, 1993 and 1992, respectively.

NOTE F - LONG-TERM DEBT AND OTHER BORROWINGS

Long-term debt is as follows:

	December 31, 1994	1993
	(in thousands)	
FHLB loan, fixed rate of 4.56% payable on March 21, 1995	**$ 2,000**	—
FHLB loan, fixed rate of 5.14% payable on March 21, 1996	**2,000**	—
FHLB loan, fixed rate of 5.53% payable on March 21, 1997	**3,000**	—
FHLB loan, effective rate of 4.38% payable on April 28, 1998	**5,000**	$5,000
FHLB loan, fixed rate of 5.62% payable on February 4, 1999	**400**	—
FHLB loan, fixed rate of 6.14% payable on March 21, 1999	**3,000**	—
FHLB loan, fixed rate of 5.84% payable on November 6, 2000	**1,500**	1,500
FHLB loan, fixed rate of 5.90% payable January 16, 2001	**1,000**	—
Capital lease obligations on equipment, effective rate of 8.8% payable monthly through August 7, 1995	**26**	65
Capital lease obligation on premises, effective rate of 13% payable monthly in varying amounts through December 1, 2009.	**573**	579
Total long-term debt	**$18,499**	$7,144

The Bank maintains a collateralized line of credit with the Federal Home Loan Bank of San Francisco. Based on the FHLB stock requirements at December 31, 1994, this line provided for maximum borrowings of $70,957,000 of which $48,357,000 (including $30,457,000 of repurchase agreements) was outstanding leaving $22,600,000 available. The repurchase agreements outstanding at December 31, 1994 at a term of thirty days at 6.1% interest. The maximum outstanding repurchase agreements month-end balance in 1994 and 1993 were $30,457,000 and $45,505,000, respectively. The Bank has available unused lines of credit totaling $23,000,000 for Federal funds transactions.

NOTE G - COMMITMENTS AND CONTINGENCIES (SEE ALSO NOTE O)

At December 31, 1994, future minimum commitments under noncancellable capital and operating leases with initial or remaining terms of one year or more are as follows:

	Capital Leases	Operating Leases
	(in thousands)	
1995	$ 106	$ 733
1996	83	511
1997	84	350
1998	85	348
1999	86	262
Thereafter	916	2,584
Future minimum lease payments	1,360	$ 4,788
Less amount representing interest	761	
Present value of future lease payments	$ 599	

Rent expense under operating leases was $767,000 in 1994, $530,000 in 1993, and $584,000 in 1992.

In 1993, the Bank entered into a license agreement to rent space in four supermarkets. These are twenty year agreements with five year renewals.

The Bank is a defendant in legal actions arising from normal business activities. Management believes that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the Bank's financial position.

NOTE H - PREFERRED STOCK

At December 31, 1994 and 1993 the Company had one series of cumulative nonvoting preferred stock outstanding. This preferred stock carries a redemption date after which time the Company, at its option, may redeem all or part of the series upon the payment of the redemption value plus accrued and unpaid dividends. The following table summarizes the issue.

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

NOTE I - DIVIDEND RESTRICTIONS

The Bank paid to the Company cash dividends in the aggregate amounts of none ($0), $500,600 and $4,122,000 in 1994, 1993 and 1992. The Bank is regulated by the Federal Deposit Insurance Corporation (FDIC) and the California State Banking Department. California banking laws limit the Bank's ability to pay dividends to the lesser of (1) retained earnings or (2) net income for the last three fiscal years, less cash distributions paid during such period. Under this regulation, at December 31, 1994, the Bank may pay dividends of $14,099,000.

NOTE J - STOCK OPTIONS

In May 1993, the Company adopted the TriCo Bancshares 1993 Nonqualified Stock Option Plan ('93 Plan) covering key employees and directors. Under the '93 Plan 293,000 shares were reserved for issuance. The option price was established at $11.00 per share. Options for the '93 Plan vest over a six year period and unexercised options expire on the tenth anniversary of the grant date.

The Company also has outstanding options under two plans approved in 1989. Options under these plans vest 20% annually and terminate 10 years from the date of the grant.

Stock option activity is summarized in the following table:

	Number of Shares*	Option Price Per Share*		
Outstanding at December 31, 1993	531,005	$ 7.18	to	$ 9.83
Country National Bank				
Options exchanged for shares	(28,470)			
Options exercised	(48,983)	7.18	to	9.83
Options cancelled	(5,333)	9.29	to	9.29
Outstanding at December 31, 1994	448,219	$ 9.29	to	$ 9.83

*Adjusted for stock dividends issued.

NOTE K - OTHER OPERATING EXPENSES AND INCOME

The components of other operating expenses are as follows:

	Years Ended December 31, **1994**	1993	1992
	(in thousands)		
Equipment and data processing	**$ 2,497**	$ 1,790	$ 1,568
Occupancy	**1,469**	1,413	1,341
Advertising	**650**	555	364
Net other real estate owned expense	**190**	845	165
Net losses on investment in real estate	**17**	153	697
Professional fees	**1,172**	1,190	610
Assessments	**1,199**	1,114	990
Postage	**335**	413	420
Other	**3,979**	3,680	3,416
Total other operating expenses	**$11,508**	$11,153	$ 9,571

Commissions on sales of annuities and mutual funds in the amounts of $988,000, $927,000 and $706,000 for the years 1994, 1993 and 1992 are included in service charges and fees income.

NOTE L - INCOME TAXES

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

	Years Ended December 31, **1994**	1993	1992
	(in thousands)		
Current:			
Federal	**$ 3,189**	$ 4,331	$ 3,207
State	**1,251**	1,462	1,137
Total current	**4,440**	5,793	4,344
Deferred:			
Federal	**(21)**	(738)	(182)
State	**(69)**	(276)	(50)
Total deferred	**(90)**	(1,014)	(232)
Total income taxes	**$ 4,350**	$ 4,779	$ 4,112

Not included in the preceding table are taxes charged directly to stockholders' equity. These taxes of $2,697,000 in 1994 relate to the unrealized loss on investment securities available-for-sale.

Deferred income taxes arise from differences in the timing of recognition of revenues, expenses, and tax credits for tax and financial reporting purposes. The tax effects of the principal items affecting deferred taxes for the year ended December 31, 1992 were:

	(in thousands)
Increase (decrease) deferred income taxes:	
Provision for loan losses	$ (305)
Provision for loss on other real estate	(4)
Use of accelerated depreciation methods for tax purposes	(45)
Leases	(16)
Real estate limited partnership	(116)
Retirement compensation	(126)
Loss on investment in real estate	(88)
Deferred loan fees	503
Other differences	(35)
Total deferred income tax provision	$ (232)

NOTE L - (CONTINUED)

The provisions for income taxes applicable to income before taxes for the years ended December 31, 1994, 1993 and 1992 differ from amounts computed by applying the statutory Federal income tax rates to income before taxes.

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

	Years Ended December 31, 1994	1993	1992
Federal statutory income tax rate	**34.0%**	34.0%	34.0%
State income taxes, net of federal tax benefit	**8.0**	7.4	7.1
Tax-exempt interest on municipal obligations	**(.8)**	(.7)	(.9)
Merger expenses not deductible for tax purposes	**1.5**	.4	—
Other	**(.1)**	.1	.5
Effective Tax Rate	**42.6%**	41.2%	40.7%

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

	1994 (in thousands)	1993
Deferred Tax Assets:		
Loan losses	**$ 2,146**	$ 1,809
Unrealized loss on securities	**2,697**	—
Deferred compensation	**1,100**	780
OREO write downs	**170**	332
Capital leases	**158**	112
Securities accretion	**—**	107
Loss on investment in real estate	**229**	227
Other	**72**	678
Total deferred tax assets	**6,572**	4,045
Deferred Tax Liabilities:		
Depreciation	**(718)**	(612)
Deferred loan fees	**—**	(460)
Securities accretion	**(126)**	—
Other	**(283)**	(315)
Total deferred tax liability	**(1,127)**	(1,387)
Net deferred tax asset	**$ 5,445**	$ 2,658

NOTE M - RETIREMENT PLANS

Substantially all employees with at least one year of service are covered by a discretionary employee stock ownership plan (ESOP). Contributions are made to the plan at the discretion of the Board of Directors. Country National Bank had an ESOP which is being merged into the TriCo plan. Contributions to the two plans totaling $378,000 in 1994, $384,000 in 1993 and $384,000 in 1992 are included in salary expense.

The Company has a supplemental retirement plan for directors and a supplemental executive retirement plan covering key executives. These plans are nonqualified defined benefit plans and are unsecured and unfunded. The Company has purchased insurance on the lives of the participants and intends to use the cash values of these policies ($3,444,000 and $2,678,000 at December 31, 1994 and 1993, respectively) to pay the retirement obligations.

The following table sets forth the plans' status:

	December 31, 1994	1993 (in thousands)	1992
Actuarial present value of benefit obligations:			
Vested benefit obligation	**$(1,780)**	$ (1,893)	$ (1,696)
Accumulated benefit obligation	**(1,780)**	(1,893)	(1,596)
Projected benefit obligation for service rendered to date	**(1,973)**	(2,167)	(1,886)
Plan assets at fair value	**$ —**	$ —	$ —
Projected benefit obligation in excess of plan assets	**$(1,973)**	$ (2,167)	$ (1,886)
Unrecognized net loss from past experience different from that assumed and effects of changes in assumptions	**67**	392	482
Prior service cost not yet recognized in net periodic pension cost	**120**	128	100
Unrecognized net obligation at transition	**357**	518	426
Accrued pension cost included in other liabilities	**$(1,429)**	$ (1,129)	$ (878)
Net pension cost included the following components:			
Service cost-benefits earned during the period	**$ 114**	$ 100	$ 83
Interest cost on projected benefit obligation	**158**	134	118
Net amortization and deferral	**69**	58	47
Net periodic pension cost	**$ 341**	$ 292	$ 248

NOTE M - (CONTINUED)

The net periodic pension cost was determined using a discount rate assumption of 7.75% for 1994, 7.0% for 1993, and 7.75% for 1992. The rates of increase in compensation used were 0% to 5%.

The Company has an Executive Deferred Compensation Plan which allows directors and key executives designated by the Board of Directors of the Company to defer a portion of their compensation. The Company has purchased insurance on the lives of the participants and intends to use the cash values of these policies to pay the compensation obligations. At December 31, 1994 and 1993 the cash values exceeded the recorded liabilities.

NOTE N - RELATED PARTY TRANSACTIONS

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

The following table summarizes the activity in these loans for 1994.

Balance December 31, 1993	Advances/ New Loans	Payments	Balance December 31, 1994
	(in thousands)		
$ 6,167	$ 4,124	$ 1,039	$ 9,252

NOTE O - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

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

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

	Contractual Amount	
	1994	1993
	(in thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit:		
Commercial loans	**$30,449**	$26,481
Consumer loans	**43,205**	41,243
Real estate mortgage loans	**146**	50
Real estate construction loans	**7,715**	11,439
Standby letters of credit	**451**	844

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

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

NOTE P - CONCENTRATION OF CREDIT RISK

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

NOTE Q - DISCLOSURE OF FAIR VALUE OF FINANCIAL INSTRUMENTS

CASH & SHORT-TERM INVESTMENTS

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

SECURITIES

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

LOANS

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

ACCRUED INTEREST RECEIVABLE

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

DEPOSIT LIABILITIES AND LONG-TERM DEBT

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

OTHER LIABILITIES

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

COMMITMENTS TO EXTEND CREDIT AND STANDBY LETTERS OF CREDIT

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

ACCRUED INTEREST PAYABLE

For these short-term instruments, the carrying amount is a reasonable estimate of fair value. The estimated fair values of the Company's financial instruments are as follows:

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

	December 31, 1993	
Financial assets:	Carrying Amount	Fair Value
	(In thousands)	
Cash and short-term investments	$ 42,922	$ 42,922
Securities:		
Held-to-maturity	113,322	113,776
Available-for-sale	90,138	90,595
Loans, net	299,929	306,960
Accrued interest receivable	3,642	3,642
Financial liabilities:		
Deposits	515,999	515,837
Accrued interest payable	1,730	1,730
Other liabilities	3,956	3,956
Long-term borrowings	7,144	7,044

NOTE R - ACQUISITION

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

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

	Six months ended June 30, 1994 (unaudited)	Years ended December 31, 1993	Years ended December 31, 1992
	(in thousands)		
Net interest income:			
TriCo Bancshares	$11,661	$24,208	$21,845
Country National Bank	1,578	2,743	2,827
Combined	$13,239	$26,951	$24,672
Net income:			
TriCo Bancshares	$ 2,494	$ 6,339	$ 5,191
Country National Bank	321	476	809
Combined	$ 2,815	$ 6,815	$ 6,000
Net income per share:			
TriCo Bancshares*	$ 0.70	$ 1.89	$ 1.84
Country National Bank*	0.86	1.28	2.14
Combined	$ 0.70	$ 1.78	$ 1.83

*As originally reported.

NOTE S - FUTURE FINANCIAL ACCOUNTING STANDARDS

In May 1993, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan as amended by Statement of Financial Accounting Standards No. 118. The statement requires that impaired loans that are within the scope of this statement be measured based on the present value of expected cash flows discounted at the loan's effective interest rate, or alternatively, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. The Company adopted this statement on January 1, 1995, which did not have a material impact on its financial position or results of operations.

NOTE T - TRICO BANCSHARES FINANCIAL STATEMENTS

TRICO BANCSHARES (PARENT ONLY) BALANCE SHEETS

	December 31, **1994**	December 31, 1993
Assets	(in thousands)	
Cash	**$ 2,527**	$ 4,533
Investment in Tri Counties Bank	**45,590**	42,681
Other assets	**185**	93
Total assets	**$ 48,302**	$ 47,307
Liabilities and shareholders' equity		
Liabilities:		
Other liabilities	**$ 71**	$ 239
Total liabilities	**71**	239
Shareholders' equity:		
Preferred stock, no par value: Authorized 1,000,000 shares; Series B, issued and outstanding 8,000 shares	**3,899**	3,899
Common stock, no par value: Authorized 20,000,000 shares; issued and outstanding 3,513,707 and 3,436,254 shares, respectively	**43,552**	42,818
Retained earnings	**4,488**	351
Unrealized loss on securities available-for-sale	**(3,708)**	—
Total shareholders' equity	**48,231**	47,068
Total liabilities and shareholders' equity	**$ 48,302**	$ 47,307

NOTE T - (CONTINUED)

STATEMENTS OF INCOME

	Years Ended December 31, 1994	1993	1992
	(in thousands)		
Interest income	$ —	$ —	$ 7
Administration expense	**334**	199	150
Loss before equity in net income of Tri Counties Bank	**(334)**	(199)	(143)
Equity in net income of Tri Counties Bank:			
Distributed	—	808	4,212
Undistributed	**6,103**	6,124	1,872
Income tax credits	**92**	82	59
Net income	**$ 5,861**	$ 6,815	$ 6,000

STATEMENTS OF CASH FLOWS

	Years ended December 31, 1994	1993	1992
	(in thousands)		
Operating activities:			
Net income	**$ 5,861**	$ 6,815	$ 6,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed equity in Tri Counties Bank	**(6,103)**	(6,124)	(1,872)
Deferred income taxes	**(92)**	(82)	(11)
Increase (decrease) in other operating assets and liabilities	**(168)**	205	40
Net cash provided by (used for) operating activities	**(502)**	814	4,157
Investing activities:			
Principal collected on loan	—	—	264
Capital contributed to Tri Counties Bank	**(183)**	—	—
Net cash provided by (used for) investing activities	**(183)**	—	264
Financing activities:			
Issuance of common stock	**403**	7,899	—
Redemption of preferred stock	—	(2,282)	(2,673)
Cash dividends — preferred	**(420)**	(630)	(797)
Cash dividends — common	**(1,304)**	(1,400)	(926)
Net cash provided by (used for) financing activities	**(1,321)**	3,587	(4,396)
Increase (decrease) in cash and cash equivalents	**(2,006)**	4,401	25
Cash and cash equivalents at beginning of year	**4,533**	132	107
Cash and cash equivalents at end of year	**$ 2,527**	$ 4,533	$ 132

Market Information

The Common Stock of the Company trades on the NASDAQ National Market under the symbol "TCBK." The shares were first listed in the NASDAQ Stock Market in April 1993. Prior to the NASDAQ listing, Sutro & Co. Incorporated and Hoefer & Arnett Incorporated were the market makers in the stock. These two companies continue to be market makers through the NASDAQ network.

The following table summarizes the high ask and low bid quotations for the Common Stock for the quarter ended March 31, 1993 as provided by Hoefer & Arnett Incorporated and Sutro & Co. Incorporated. The stock prices for the quarters beginning after March 31, 1993, reflect the actual high and low trades as reported by NASDAQ. All quotations have been adjusted to reflect a 12% stock dividend paid July 15, 1993.

	Prices of the Company's Common Stock		Approximate Trading Volume
Quarter Ended:[1,2]	**High**	**Low**	**(in shares)**
March 31, 1993	$ 16.07	$ 14.29	43,059
June 30, 1993	18.38	16.52	35,038
September 30, 1993	21.00	17.50	26,149
December 31, 1993	23.50	18.75	60,028
March 31, 1994	24.50	18.50	182,048
June 30, 1994	20.00	17.00	105,006
September 30, 1994	19.00	15.25	55,721
December 31, 1994	16.50	13.75	111,553

[1] As estimated by the Company, based upon trades of which the Company was aware. The Company is not aware of the price of some of the trades included in the Approximate Trading Volume.

[2] Adjusted to reflect the 12% stock dividend paid on July 15, 1993 to holders on record June 30, 1993.

Holders

As of December 31, 1994, there were approximately 1,756 holders of record of the Company's Common Stock.

Dividends

The Company has paid quarterly dividends since March 1990. The quarterly payment has been $.10 per Common Share on the then outstanding shares. In addition to the cash dividends, the Company has periodically paid stock dividends. In 1993 and 1992 the Company paid stock dividends of 12% and 15%. (Cash dividend amounts are not adjusted for the effect of the stock dividends.) The holders of Common Stock of the Company are entitled to receive cash dividends when and as declared by the Board of Directors, out of funds legally available therefor, subject to the restrictions set forth in the California General Corporation Law (the "Corporation Law"), and the dividend rights of the holders of the Series B Preferred Stock.

The Certificate of Determination of Preferences of the Series B Preferred Stock prohibits the payment of dividends to the holders of Common Stock if the Company is not current in its payments of dividends to the Preferred Stock shareholders. At December 31, 1994 the Company was current in its payment of preferred dividends. The Corporation Law provides that a corporation may make a distribution to its shareholders if the corporation's retained earnings equal at least the amount of the proposed distribution.

The Company, as sole shareholder of the Bank, is entitled to dividends when and as declared by the Bank's Board of Directors, out of funds legally available therefore, subject to the powers of the Federal Deposit Insurance Corporation (the "FDIC") and the restrictions set forth in the California Financial Code (the "Financial Code"). The Financial Code provides that a bank may not make any distributions in excess of the lessor of: (i) the bank's retained earnings, or (ii) the bank's net income for the last three fiscal years, less the amount of any distributions made by the bank to its shareholders during such period. However, a bank may, with the prior approval of the California Superintendent of Banks (the "Superintendent"), make a distribution to its shareholders of up to the greater of (A) the bank's retained earnings, (B) the bank's net income for its last fiscal year, or (C) the bank's net income for its current fiscal year. If the Superintendent determines that the shareholders' equity of a bank is inadequate or that a distribution by the bank to its shareholders would be unsafe or unsound, the Superintendent may order a bank to refrain from making a proposed distribution. The FDIC may also order a bank to refrain from making a proposed distribution when, in its opinion, the payment of such would be an unsafe or unsound practice. The Bank did not pay any dividends to the Company in 1994. As of December 31, 1994 and subject to the limitations and restrictions under applicable law, the Bank had funds available for dividends in the amount of $14,099,000.

The Federal Reserve Act limits the loans and advances that the Bank may make to its affiliates. For purposes of such Act, the Company is an affiliate of the Bank. The Bank may not make any loans, extensions of credit or advances to the Company if the aggregate amount of such loans, extensions of credit, advances and any repurchase agreements and investments exceeds 10% of the capital stock and surplus of the Bank. Any such permitted loan or advance by the Bank must be secured by collateral of a type and value set forth in the Federal Reserve Act.

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

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

Overview

The groundwork which began in 1993 for establishing the base for future growth of the Bank led to laying the foundation in 1994. The opening of four supermarket branches and the completion of the acquisition of Country National Bank were events which Management believes solidified the Bank's community bank leadership in its market area. At the date of acquisition, CNB had total assets of $59,881,000, a loan portfolio of $41,421,000 and deposits of $53,897,000. At year end the supermarket branches had over 3,600 deposit accounts totaling $15,438,000 and loans of $1,242,000.

Management believes, the Bank's establishment of the supermarket branches was well timed. During 1994 two major California banks signed exclusive agreements with several supermarket chains including Raley's which preclude the Bank from expansion in those chains. However, because of the success of the four branches the Bank opened in 1994, Management has been able to approach other major supermarket chains with proposals. Management hopes to enter into one or more contracts with supermarket chains that could, if successful, provide the Bank with enough stores to enable the Bank to develop four or five branches in each of the next two to four years.

Assets of the Company at December 31, 1994 were up $17,937,000 or 3.1% over 1993. Loan balances were slightly higher at year end, but most of the growth was in the securities portfolio. The fourth quarter saw some improvement in loan demand over the year earlier period, but for most of the year loan demand remained soft. Bank Management has not sensed that economic activity in the Bank's marketing area has increased significantly over that of the past two years.

Net income for 1994 decreased to $5,861,000 from $6,815,000 in 1993. Several major factors contributed to the decrease. Costs associated with the CNB acquisition including investment banking fees, legal and accounting fees as well as costs associated with converting CNB to the banking systems at Tri Counties Bank were a major factor. Startup

NEW BRANCH PROFILE

REDDING

RALEY'S • HARTNELL AVE.

Supermarket branches provide added evening and weekend banking hours.

Supermarket branches are open 7 days a week with a total staff of 5 people.

Supermarket branches are staffed with a licensed investment representative.

(A) Results of Operations

costs and expenses related to the four new supermarket branches also contributed to the adverse impact on earnings. Significant gains of $1,421,000 on the sale of securities were realized in 1993 versus a small loss in 1994. These unfavorable impacts on earnings were offset in part by a $609,000 (2.3%) (not tax adjusted) increase in net interest income. Also, the other income was down slightly. The quality of the Bank's loan portfolio allowed Management to reduce the provision for loan losses to $1,542,000 in 1994 which helped to offset the adverse factors.

In 1993 net income increased $815,000 or 13.6% to $6,815,000. Net income available to Common shareholders increased $982,000 or 18.9% to $6,185,000, however, earnings per share decreased due to the additional shares outstanding. In 1993, increased volume of earning assets more than offset the decreases in interest rates resulting in higher interest income. At the same time, interest expense decreased as lower rates offset increases in interest-bearing liabilities resulting in an increase in net interest income for 1993 of $2,279,000. Noninterest income in 1993 increased due to an increase of $1,054,000 in gains on the sale of securities. Increases in noninterest expenses of $1,791,000 more than offset the gains in noninterest income. Thus, pre-tax income increased $1,482,000 over 1992.

	Years Ended December 31,				
	1994	1993[1]	1992[1]	1991[1]	1990[1]
	(in thousands, except earnings per share amounts)				
Interest income:					
Interest and fees on loans	**$ 30,641**	$ 31,795	$ 33,695	$ 35,852	$ 35,596
Interest on investment securities—taxable	**12,247**	8,585	6,170	3,192	3,429
Interest on investment securities—tax exempt[2]	**401**	426	489	1,347	2,161
Interest on federal funds sold	**123**	329	129	530	751
Total interest income	**43,412**	41,135	40,483	40,894	41,937
Interest expense:					
Interest on deposits	**13,902**	13,006	15,427	18,849	21,738
Interest on short-term borrowing	**719**	739	65	20	67
Interest on long-term debt	**1,059**	251	108	119	99
Total interest expense	**15,680**	13,996	15,600	18,988	21,904
Net interest income	**27,732**	27,139	24,883	21,906	20,033
Provision for loan losses	**316**	1,858	2,101	1,531	2,770
Net interest income after provision for loan losses	**27,416**	25,281	22,782	20,375	17,263
Noninterest income:					
Service charges, fees and other	**5,048**	5,304	5,205	4,926	4,156
Investment securities gains (losses), net	**(23)**	1,421	367	39	(134)
Total noninterest income	**5,025**	6,725	5,572	4,965	4,022
Noninterest expenses:					
Salaries and employee benefits	**10,550**	9,072	8,460	8,035	6,894
Other, net	**11,508**	11,152	9,570	9,010	8,911
Total noninterest expenses	**22,058**	20,224	18,030	17,045	15,805
Net income before income taxes	**10,383**	11,782	10,324	8,295	5,480
Income taxes	**4,350**	4,779	4,113	3,031	1,627
Tax equivalent adjustment[2]	**172**	188	211	443	711
Net income	**$ 5,861**	$ 6,815	$ 6,000	$ 4,821	$ 3,142
Primary earnings per common share	**$ 1.47**	$ 1.78	$ 1.83	$ 1.38	$ .79
Selected Balance Sheet Information					
Total Assets	**$593,834**	$575,897	$492,404	$439,358	$429,432
Long-term Debt	**18,499**	7,144	907	1,027	1,130
Preferred Stock	**3,899**	3,899	6,086	8,630	8,630

[1]Restated on an historical basis to reflect the July 21, 1994 acquisition of Country National Bank on a pooling-of-interests basis.
[2]Interest on tax-free securities is reported on a tax equivalent basis of 1.75 for 1994, 1.79 for 1993, 1.76 for 1992, 1.49 for 1991 and 1990.

(A) Results of Operations (continued)

Management believes the Bank is positioned for continued growth and improved operating results. While local economic conditions in Northern California seem to have improved in the past quarter, continuing recovery is essential for the Bank to maintain its growth pattern.

Net Interest Income/Net Interest Margin

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

The net interest income for 1994 of $27,732,000 was an increase of $593,000 (2.2%) over 1993. Interest income increased 5.5% as the growth in investment securities and slightly higher yields on securities offset lower average loan balances. The net interest income in 1994 was adversely affected by a 12.0% increase in interest expense as both the volume of interest-bearing liabilities and rates paid on them increased. Even though net interest income increased, net interest margin in 1994 decreased 31 basis points to 5.18%. The net interest margin reflected a 22 basis point decline in the average yield received on earning assets coupled with a 9 basis point increase in the average rates paid on interest-bearing liabilities. Because loan demand remained relatively soft throughout most of 1994, asset growth was in investment securities which have lower yields than loans. The fourth quarter saw the net interest margin increase 19 basis points to 5.39% over the prior year and 21 basis points over the 1994 average net interest margin. This increase was reflective of higher average loan balances and yields than were achieved for the full year. If interest rates hold at their early 1995 levels, the net interest margin achieved in the fourth quarter will probably show some decline in the near term as competitive pressures are requiring increases in rates for time certificates of deposit.

For 1993 net interest income was $27,139,000, which represented a $2,256,000 (9.1%) increase over 1992. Even though net interest income increased, net interest margin reflected a 27 basis point decrease from 5.76% to 5.49%. For interest income, an increase in average earning assets for the period was offset in great part by a 105 basis point decrease in average yield. For interest expense, the increase in the volume interest-bearing liabilities was offset in part by a 90 basis point decrease in rates paid. The net affect of these changes resulted in the lower net interest margin.

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

Interest income for 1993 increased only by $652,000 (1.6%) over 1992 even though average earning assets increased $62,223,000 (14.4%). The increased volume took place in the securities portfolio as loan totals declined in 1993. The earnings on the increased volume was mostly offset by a 105 basis point decrease in average yields. This decline reflected the full year affects of loan rate changes which had taken place in July 1992 and the lower yields realized on securities.

Interest expense increased $1,684,000 to $15,680,000 in 1994. Most of the increase was due to the volume of interest-bearing liabilities as average rates paid increased just 10 basis points from 1993 levels. While rates paid on the full year basis within the deposit category were not significantly changed from the prior year, time deposits in the fourth quarter reflected a jump of 62 basis points from the 1993 levels. As of January 1995, the Bank had not increased rates paid on most transaction and savings deposits. However, renewals and new time certificates of deposits for 6 month to one year terms were being priced to yield 6.25% to 6.3%. It is expected for these increases to bring some downward pressure on the net interest margin in 1995.

Interest rates paid on deposits declined in 1993 from the 1992 levels. Average rates paid on time certificates and savings accounts decreased 115 and 95 basis points, respectively. The lower rates were offset in part by an increase in interest-bearing liabilities. The net result was an overall decrease of $1,604,000 in the interest for the year. Part of the new volume ($680,000) of interest expense was attributable to repurchase agreements which the Bank used during the year. Funds from the repurchase agreements were used to purchase investment securities which had yields approximately 200 basis points over those paid against the repurchase agreements. The repurchase agreements had maximum terms of six months and the Bank had maximum borrowings of $45,500,000. Risk exposure to the Bank was considered to be minimal as interest rates were generally forecast to be steady to falling. The investment securities were purchased into the available-for-sale portfolio and were available for liquidity purposes should the need have arisen.

Table One, Analysis of Change in Net Interest Margin on Earning Assets, and Table Two, Analysis of Volume and Rate Changes on Net Interest Income and Expenses are

(A) Results of Operations (continued)

provided to enable the reader to understand the components and past trends of the Bank's interest income and expenses. Table One provides an analysis of change in net interest margin on earning assets setting forth average assets, liabilities and shareholders' equity; interest income earned and interest expense paid and average rates earned and paid; and the net interest margin on earning assets. Table Two presents an analysis of volume and rate change on net interest income and expense.

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

	1994			1993			1992		
Assets	**Average Balance[1]**	**Income**	**Yield/ Rate**	Average Balance[1]	Income	Yield/ Rate	Average Balance[1]	Income	Yield/ Rate
				(dollars in thousands)					
Earning assets:									
Loans[2,3]	**$303,497**	**$30,641**	**10.10 %**	$314,691	$31,795	10.10 %	$318,839	$33,695	10.57 %
Securities - taxable	**224,447**	**12,247**	**5.46 %**	163,322	8,585	5.26 %	104,697	6,170	5.89 %
Securities - nontaxable[4]	**4,169**	**401**	**9.62 %**	3,922	426	10.86 %	4,255	489	11.49 %
Federal funds sold	**3,727**	**123**	**3.30 %**	12,394	329	2.65 %	4,315	129	2.99 %
Total earning assets	**535,840**	**43,412**	**8.10 %**	494,329	41,135	8.32 %	432,106	40,483	9.37 %
Cash and due from banks	**31,935**			30,546			25,963		
Premises and equipment	**13,151**			11,749			10,508		
Other assets, net	**19,240**			14,479			14,970		
Less: Unrealized loss on securities	**(3,538)**			—			—		
Less: Allowance for loan losses	**(5,917)**			(5,731)			(4,283)		
Total assets	**$590,711**			$545,372			$479,264		
Liabilities and shareholders' equity									
Interest-bearing demand deposits	**$ 81,133**	**2,066**	**2.55 %**	$ 71,751	1,885	2.63 %	$ 61,320	1,948	3.18 %
Savings deposits	**211,209**	**6,442**	**3.05 %**	206,975	6,523	3.15 %	210,820	8,640	4.10 %
Time deposits	**129,786**	**5,394**	**4.16 %**	114,649	4,598	4.01 %	93,812	4,839	5.16 %
Federal funds purchased	**3,726**	**174**	**4.67 %**	1,760	59	3.35 %	1,638	65	3.97 %
Repurchase agreements	**10,727**	**545**	**5.08 %**	20,104	680	3.38 %	—	—	—
Long-term debt	**20,637**	**1,059**	**5.13 %**	4,440	251	5.65 %	968	108	11.16 %
Total interest-bearing liabilities	**457,218**	**15,680**	**3.43 %**	419,679	13,996	3.33 %	368,558	15,600	4.23 %
Noninterest-bearing deposits	**79,776**			74,812			69,500		
Other liabilities	**6,014**			6,141			7,753		
Shareholders' equity	**47,703**			44,740			33,453		
Total liabilities and shareholders' equity	**$590,711**			$545,372			$479,264		
Net interest rate spread[5]			**4.67 %**			4.99 %			5.14 %
Net interest income/net interest margin[6]		**$27,732**	**5.18 %**		$27,139	5.49 %		$24,883	5.76 %

[1] Average balances are computed principally on the basis of daily balances.
[2] Nonaccrual loans are included.
[3] Interest income on loans includes fees on loans of $1,701,000 in 1994, $2,241,000 in 1993, and $2,265,000 in 1992.
[4] Interest income is stated on a tax equivalent basis of 1.75 for 1994, 1.79 for 1993 and 1.76 for 1992.
[5] Net interest rate spread represents the average yield earned on interest-earning assets less the average rate paid on interest-bearing liabilities.
[6] Net interest margin is computed by dividing net interest income by total average earning assets.

(A) Results of Operations (continued)

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

	1994 over 1993			1993 over 1992		
	Volume	**Yield/ Rate [4]**	**Total**	Volume	Yield/ Rate [4]	Total
	(dollars in thousands)					
Increase (decrease) in interest income:						
Loans[1,2]	**$ (1,131)**	**$ (23)**	**$(1,154)**	$ (438)	$(1,462)	$(1,900)
Investment securities[3]	**3,240**	**397**	**3,637**	3,417	(1,065)	2,352
Federal funds sold	**(230)**	**24**	**(206)**	242	(42)	200
Total	**1,879**	**398**	**2,277**	3,221	(2,569)	652
Increase (decrease) in interest expense:						
Demand deposits (interest-bearing)	**246**	**(65)**	**181**	331	(394)	(63)
Savings deposits	**133**	**(214)**	**(81)**	(158)	(1,959)	(2,117)
Time deposits	**607**	**189**	**796**	1,075	(1,316)	(241)
Federal funds purchased	**66**	**49**	**115**	5	(11)	(6)
Repurchase agreements	**(317)**	**182**	**(135)**	—	680	680
Long-term borrowings	**916**	**(108)**	**808**	387	(244)	143
Total	**1,651**	**33**	**1,684**	1,640	(3,244)	(1,604)
Increase (decrease) in net interest income	**$ 228**	**$ 365**	**$ 593**	$1,581	$ 675	$ 2,256

[1] Nonaccrual loans are included.
[2] Interest income on loans includes fees on loans of $1,701,000 in 1994, $2,241,000 in 1993, and $2,265,000 in 1992.
[3] Interest income is stated on a tax equivalent basis of 1.75 for 1994, 1.79 for 1993 and 1.76 for 1992.
[4] The rate/volume variance has been included in the rate variance.

Provision for Loan Losses

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

In 1993 the Bank provided $1,858,000 for possible loan losses. This amount was $243,000 less than provided in 1992. However, net charge-offs decreased from $1,459,000 in 1992 to $683,000 in 1993, due primarily to an increase in recoveries of $434,000. This resulted in a net increase of $1,175,000 in the allowance for loan losses. Management believed that the level of the provision and resulting allowance was appropriate as economic weakness was expected to continue in Northern California.

Service Charges and Fees and Other Income

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

Modest growth occurred in service charges and fee income in 1993 while other income reflected a slight decrease. In 1993, commissions on the sales of annuities and mutual funds began to represent a major portion of the other income. Those revenues grew from $706,000 in 1992 to $927,00 in 1993. In 1993 the Bank implemented a program to train and license many of its front line employees to sell these products. The increase in these revenues in 1993 was offset in part by decreases in: gains on sales of mortgage loans, the sale of leased equipment in 1992, and other miscellaneous income.

NEW BRANCH PROFILE

RED BLUFF

RALEY'S

Supermarket branches remain open on holidays when other banks close.

The branch is an integral part of the supermarket in which it is located.

Full-service banking is provided, including safe deposit boxes.

(A) Results of Operations (continued)

Securities Transactions

The continuing decline of interest rates in 1993 presented Management with an on-going challenge to maintain an acceptable yield on its investment securities while maintaining reasonable interest rate risk. Management elected to make greater use of Collateralized Mortgage Obligations (CMO's) which paid higher rates of interest than equivalent maturity U.S. Treasuries or Agencies. By the end of 1993, the Bank had mostly completed restructuring its investment portfolio for both improved yields and in preparation for adoption of SFAS 115 (see Note A in the financial statements) on January 1, 1994. In 1993 as the Bank restructured the investment portfolio, it realized net gains of $1,421,000. In 1994 activity in selling available-for-sale securities was greatly reduced and the Bank recognized a net loss of $23,000 for the year.

As detailed in the previous paragraph, the Bank realized net gains of $1,421,000 on the sale of securities in 1993. In 1992 gross gains on the sale of securities were $627,000. An unrealized loss of $260,000 was charged against these gains resulting in a net gain of $367,000.

Salaries and Benefits

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

In 1993, salary and benefits expense increased $612,000 (7.2%). This increase resulted from normal salary progression and eighteen new positions which were added during the fourth quarter to support supermarket banking and branch operations.

Other Expenses

In 1994 other expenses increased $355,000 or 3.2% to $11,508,000. Within the overall category there were some large variances. For the following categories of expense, most of the variances were related to either increased business activity at the new supermarket branches or the acquisition of CNB: amortization of leasehold improvements increased $36,000 or 70.8%, depreciation on equipment increased $187,000 or 30.3%, purchase of customer checks increased $75,000 or 74%, outside data processing services increased $88,000 or 47% due to conversion costs for CNB,

(A) Results of Operations (continued)

communication costs increased $114,000 or 37%, advertising costs increased $48,000 or 11.4%, promotion expenses increased $43,000 or 91.5%, professional fees increased $329,000 or 100% and were mostly merger related. Other large variances occurred in the following accounts: service charges for the automated teller machines (ATM) increased $81,000 or 126% as costs were incurred to change the vendor that provided the ATM network services, amortization for market discount on stock options was $124,000 as this was the first year for this charge, FDIC assessment increased $71,000 due to higher deposit volumes. Significant decreases occurred in the following categories: postage decreased $76,000 or 18% in part due to consolidating mailings, provision for OREO losses decreased $663,000 or 93% as OREO activity decreased during the year, legal fees for loan collection decreased $236,000 or 57% as this function was brought in house after the first quarter.

During 1993 other expenses increased $1,582,000 or 16.5% over the 1992 level. Over 46% ($732,000) of this increase was related to OREO properties. Because of decreasing values and lower activity levels in the sales of real estate properties, the Bank provided $716,000 for its OREO valuation allowance. This was an increase of $681,000 over the 1992 provision. Expenses related to holding OREO properties increased $51,000 (81%). Some of the other expense categories which had significant increases were: legal fees incurred in collecting loans, FDIC insurance and State assessments due to increased deposit volumes, advertising expenses, rental expense on equipment, and a reduction in deferred costs on loan originations of $286,000 (53%) due to reduced loan origination volumes and a change in the costing method for loan originations. These increases were offset in part by a net decrease in other operating expenses.

Provision for Taxes

The effective tax rate on income was 42.6%, 41.2% and 40.7% in 1994, 1993 and 1992. The effective tax rate was greater than the federal statutory tax rate due to state tax expense of $1,251,000, $1,462,000 and $1,137,000 in these years. Tax-free income of $229,000, $238,000 and $278,000 from investment securities in these years helped to offset the federal tax rate. In both 1994 and 1993 nondeductible expenses related to the CNB merger were incurred which increased the effective tax rate.

Return on Average Assets and Equity

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

	1994	1993[1]	1992[1]
Return on assets	**.99%**	1.25%	1.25%
Return on shareholders' equity	**12.29%**	15.23%	17.94%
Return on common shareholders' equity	**12.42%**	15.81%	19.48%
Shareholders' equity to assets	**8.06%**	8.21%	6.97%
Common shareholders' equity to assets	**7.42%**	7.17%	5.57%
Common shareholders' dividend payout ratio	**23.97%**	22.64%	17.80%

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

Return on assets of 0.99% in 1994 was down from 1.25% attained in the two prior years. The lower ROA achieved in 1994 was reflective of the compounding of an increase in average assets of 8.3% and a decrease in net income of 14%. In 1993 average assets grew 13.8% while earnings rose 13.6% which maintained the 1.25% return achieved in 1992.

Return on shareholders' equity fell to 12.3% in 1994 from 15.2% in 1993. Average capital due to earnings increased 6.6% while net income decreased. Return on shareholders' equity for 1993 decreased from 17.9% in 1992 to 15.2%. Even though 1993 net income increased substantially, the weighting of the $7.7 million of additional capital raised in April resulted in a reduced return.

In the past two years the return on Common shareholders' equity decreased from a high of 19.5% in 1992 to 15.8% in 1993 and 12.4% 1994. These ratios reflect the effects of the growth in capital from retained earnings, the $7.7 million equity increase from the 1993 common stock offering and the increase in capital as the result of reduced requirements for preferred stock dividends. In December of 1993, the Company redeemed its Series C Preferred Stock and in July 1992 it had redeemed the Series A Preferred Stock. The annual dividend requirements for these two issues were $228,000 and $294,000 respectively.

The total shareholders' equity to asset ratio decreased slightly in 1994 from 8.2% to 8.1%. The December 1993 redemption of the Series C Preferred Stock coupled with the growth in assets contributed to this change. In 1993 the total shareholders' equity to assets ratio increased to 8.2% from 7.0% in 1992. This increase was reflective of the $7.7 million of new capital and the net income offset by the redemption of the Series C Preferred stock, the growth in assets and dividends paid. In 1992 total shareholders' equity to assets ratio decreased to 6.78% from 8.04% as a result of the redemption of the Series A Preferred Stock and the growth in assets offset by the increased earnings.

(A) Results of Operations (continued)

The Common shareholders' equity to assets ratio increased from 5.6% in 1992 to 7.2% in 1993 and 7.4% in 1994. These ratios are impacted by the same factors as the total equity ratios except for the direct effect of reduction in total capital for the redemption of the preferred stock issues.

Common shareholders' dividend payout ratio increased to 24.0% in 1994 from 22.6% in 1993 even though total dividend distributions to Common shareholders decreased to $1,304,000 from $1,400,000. The payout ratio increased as the 6.9% decrease in cash dividends paid was offset by the 12.0% decrease in income available for Common shareholders. The increase in dividend payout ratio in 1993 (22.6%) over 1992 (17.8%) was the result of several factors. TriCo's quarterly dividend remained at $.10 per share, but there were additional shares outstanding as a result of the May 1993 stock offering and the 12% stock dividend paid in July. Additionally, CNB had increased its dividend in 1993 to $.85 per share from $.25 per share in 1992.

(B) Balance Sheet Analysis

Loans

The Company concentrates its lending activities in four principal areas: commercial loans including financial and agricultural loans, consumer loans, real estate mortgage loans (residential and commercial loans and mortgage loans originated for sale), and real estate construction loans. At December 31, 1994, these four categories accounted for approximately 50%, 19%, 25% and 6%, respectively, of the Company's loan portfolio. The interest rates charged for the loans made by the Company vary with the degree of risk, the size and maturity of the loans, the borrower's relationship with the Company, and prevailing money market rates indicative of the Company's cost of funds.

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

Loan demand remained somewhat soft in 1994 as average loan balances decreased 3.6% from 1993 levels. The 1994 year end loan balances of $307,103,000 were up slightly from 1993 ending balances. At December 31, 1994, the loan to deposit ratio reflected improvement to 62.5% versus 59.3% on December 31, 1993. While loan totals in the fourth quarter of 1994 were up from the prior year, Management does not anticipate commercial loan demand will be significantly greater in 1995. Competition for loan customers is severe in the Bank's market area resulting in very competitive pricing. The Bank will focus on the competitive pricing issues in 1995, but Management does not intend to lower the loan portfolio quality.

Average loan balances for 1993 were down 1.3% over 1992. At year end, loan balances of $305,902,000 were down 3.7% from 1992. Economic conditions and rigorous underwriting standards contributed to that result. At year end 1993, the loan-to- deposit ratio was 59.3% versus 70.3% at December 31, 1992.

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

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

Loan Portfolio Composite

	December 31,				
	1994	1993	1992	1991	1990
	(dollars in thousands)				
Commercial, financial and agricultural	**$153,957**	$140,750	$150,685	$149,960	$138,153
Consumer installment	**58,471**	55,654	47,726	51,635	51,120
Real estate mortgage	**76,673**	88,887	88,715	83,187	78,851
Real estate construction	**18,002**	20,611	30,392	31,615	32,419
Total loans	**$307,103**	$305,902	$317,518	$316,397	$300,543

Nonaccrual, Past Due and Restructured Loans

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

(B) Balance Sheet Analysis (continued)

At December 31, 1993, both nonperforming loans and nonperforming assets had increased from the prior year end. Nonperforming loans had increased 274% to $1,595,000 and nonperforming assets had increased 32% to $5,345,000. In 1993 properties which were taken into OREO and several in-substance foreclosure properties accounted for the increase in nonperforming assets . The weak economy contributed to the increase in OREO as commercial properties were difficult to sell and remained in OREO for longer periods than in the past. Nonperforming loans as a percentage of total loans ended 1993 at .56% which was the lowest level in four years.

Commercial, real estate and consumer loans are reviewed on an individual basis for reclassification to nonaccrual status when any one of the following occurs: the loan becomes 90 days past due as to interest or principal (unless in Management's opinion the loan is well secured and in the process of collection), the full and timely collection of additional interest or principal becomes uncertain, the loan is classified as doubtful by internal auditors or bank regulatory agencies, a portion of the principal balance has been charged off, or the Company takes possession of the collateral. The reclassification of loans as nonaccrual does not necessarily reflect Management's judgment as to whether they are collectible.

Interest income is not accrued on loans where Management has determined that the borrowers will be unable to meet contractual principal and/or interest obligations, unless the loan is well secured and in process of collection. When a loan is placed on nonaccrual, any previously accrued but unpaid interest has been reversed. Thereafter, all payments received are applied to principal and no interest income is recognized until Management expects collection in full of principal and interest and the loan becomes contractually current. Interest income on nonaccrual loans which would have been recognized during the year ended December 31, 1994, if all such loans had been current in accordance with their original terms, totaled $123,000. Interest income actually recognized on these loans in 1994 was $3,000.

With respect to the Company's policy of placing loans 90 days or more past due on nonaccrual status unless the loan is well secured and in the process of collection, a loan is considered to be in the process of collection if, based on a probable specific event, it is expected that the loan will be repaid or brought current. Generally, this collection period would not exceed 30 days. Loans that are deemed in-substance foreclosures, or where the collateral has been repossessed, are classified as OREO, or, if the collateral is personal property, the loan is classified as other assets on the Company's financial statements. A secured loan would be treated by the Company as an in-substance foreclosure, i.e., as if assets had been received in satisfaction of the loan, when, among other criteria, little or no equity exists in the collateral securing the loan and it is considered doubtful that the borrower will be able to rebuild equity or repay the loan. In such situations, the secured loan is reclassified on the balance sheet at the lesser of the fair value of the underlying collateral less estimated selling costs or the recorded amount of the loan.

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

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

	December 31,				
	1994	1993	1992	1991	1990
	(dollars in thousands)				
Nonaccrual loans	**$ 1,122**	$ 1,595	$ 583	$ 1,562	$ 962
Accruing loans past due 90 days or more	**24**	126	1,611	989	881
Restructured loans (in compliance with modified terms)	**—**	—	—	—	243
Total nonperforming loans	**1,146**	1,721	2,194	2,551	2,086
Other real estate owned	**2,124**	3,624	1,860	1,426	10
Total nonperforming assets	**$ 3,270**	$ 5,345	$ 4,054	$ 3,977	$ 2,096
Nonincome producing investments in real estate held by Bank's real estate development subsidiary	**$ 1,173**	$ 1,172	$ 1,240	$ 1,735	$ 2,872
Nonperforming loans to total loans	**.37%**	.56%	.69%	.81%	.69%
Allowance for loan losses to nonperforming loans	**489%**	347%	219%	163%	172%
Nonperforming assets to total assets	**.55%**	.93%	.82%	.91%	.49%
Allowance for loan losses to nonperforming assets	**171%**	112%	118%	105%	172%

(B) BALANCE SHEET ANALYSIS (CONTINUED)

ALLOWANCE FOR LOAN LOSSES ACTIVITY

In determining the adequacy of the allowance for loan losses, Management relies primarily on its review of the loan portfolio both to ascertain whether there are probable losses to be written off and to assess the loan portfolio in the aggregate. Problem loans are examined on an individual basis to determine estimated probable loss. In addition, Management considers current and projected loan mix and loan volumes, historical net loan loss experience for each loan category, and current and anticipated economic conditions affecting each loan category. Based on the current conditions of the loan portfolio and nonperforming assets as discussed in the previous section, Management decreased the allowance for loan losses to 1.83% of outstanding loans at December 31, 1994 versus 1.95% at the prior year end. It is anticipated the Bank will continue to provide for loan losses at this level in the near term.

Management believes that the $5,608,000 allowance for loan losses at December 31, 1994 is adequate to absorb known risks in the Bank's loan portfolio. No assurance can be given, however, that adverse economic conditions or other circumstances will not result in increased losses in the portfolio.

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

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

	December 31,				
	1994	1993	1992	1991	1990
	(dollars in thousands)				
Balance, beginning of year	**$ 5,973**	$ 4,798	$ 4,156	$ 3,595	$ 2,656
Provision charged to operations	**316**	1,858	2,101	1,531	2,770
Loans charged off:					
Commercial, financial and agricultural	**(338)**	(653)	(875)	(976)	(1,708)
Consumer installment	**(712)**	(622)	(719)	(446)	(247)
Real estate mortgage	**—**	—	(23)	—	—
Total loans charged-off	**(1,050)**	(1,275)	(1,617)	(1,422)	(1,955)
Recoveries:					
Commercial, financial and agricultural	**205**	380	106	384	76
Consumer installment	**164**	212	52	68	48
Total recoveries	**369**	592	158	452	124
Net loans charged-off	**(681)**	(683)	(1,459)	(970)	(1,831)
Balance, year end	**$ 5,608**	$ 5,973	$ 4,798	$ 4,156	$ 3,595
Average total loans	**$303,497**	$314,691	$318,839	$305,562	$291,698
Ratios:					
Net charge-offs during period to average loans outstanding during period	**.22%**	.22%	.46%	.32%	.63%
Provision for loan losses to average loans outstanding	**.10%**	.59%	.66%	.50%	.95%
Allowance to loans at year end[1]	**1.83%**	1.95%	1.51%	1.31%	1.20%

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

As part of its loan review process, Management has developed pools of reserves based on specific identified problem loans and historical loss data. The following tables summarize the allocation of the allowance for loan losses at December 31, 1994 and 1993.

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

(B) Balance Sheet Analysis (continued)

	December 31, 1993 (dollars in thousands)	
Balance at End of Period Applicable to:	Amount	Percent of loans in each category to total loans
Commercial, financial and agricultural	$ 1,863	46.0%
Real Estate—construction	92	6.7%
Real Estate—mortgage	423	29.1%
Installment loans to individuals	403	18.2%
Unallocated	3,192	N/A
	$ 5,973	100.0%

Investment in Real Estate Properties

At December 31, 1994, $1,173,000 of property was held by a subsidiary of the Bank for the purposes of development. This was substantially unchanged from the prior year. The balance at December 31, 1993 was down $68,000 from the prior year end amount as the result of the sale of one property ($105,000) and some minor additional development costs.

Other Real Estate Owned

The December 31, 1994 balance of Other Real Estate Owned (OREO) was $2,124,000 versus $3,624,000 in 1993. Properties foreclosed in 1994 and remaining in the Bank's possession at year end were valued at $1,014,000 net of a valuation allowance of $11,000. OREO properties are mainly commercial properties located in the Bank's service area. OREO had increased $1,764,000 in 1993.

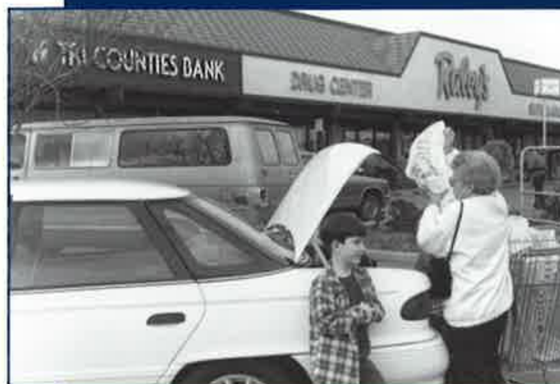
Deposits

Total deposits decreased $24.8 million or 4.8% in 1994. Essentially all of the decrease occurred in savings accounts and time deposits. During the second half of the year as interest rates rose, banks and savings and loan institutions in the Bank's market area began offering higher rates on time certificates of deposits. Bank Management did not choose to meet some of these rates until late in the year. Consequently, some funds moved out of the Bank's deposit base. Management believed that the Bank had sufficient liquidity and ability to meet the current loan demand so some runoff of deposits could be tolerated. At year end the new supermarket branches had deposits totaling over $15,000,000.

NEW BRANCH PROFILE

YUBA CITY

RALEY'S



Surveys show most shoppers prefer supermarkets with bank branches.

Marketing is more like that of a retailer rather than like a bank.

Customers expect fast service. Car loans are processed in an hour.

(B) Balance Sheet Analysis (continued)

In 1993 deposits were up in all major categories with the exception of savings accounts. Total deposits grew 14.3% during the year as deposits ended the year at $515,999,000. Part of the increase was the result of the Bank promoting a 4% seven month certificate of deposit during the period of July through October. This product was priced approximately 50 basis points over those offered by local independent banks and 150 basis points over rates paid by the major banks. During the period of this promotion, the seven month certificates of deposit increased $54 million and total deposits increased $44 million.

Accrued Interest Payable

At December 31, 1994, accrued interest payable had increased $30,000 to $1,760,000. The increase was due to the higher rates of interest being accrued on time certificates of deposit and was offset by lower TCD balances. At December 31, 1993, accrued interest payable had increased to $1,730,000 or 57.4% from the balance of $1,099,000 at December 31, 1992. This increase was due to the large increase in TCDs outstanding.

Long-Term Debt

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

During 1993 the Bank incurred long-term debt in the amount of $6,500,000 with terms varying from five to seven years. The Bank also retired a capital lease with a remaining obligation of $161,000.

Equity

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

Qualifying capital is divided into two tiers. Core capital (Tier 1) consists generally of Common shareholders' equity, cumulative (up to 25% of capital) and noncumulative perpetual preferred stock and minority interest in equity capital accounts of consolidated subsidiaries. Supplementary capital (Tier 2) consists of , among other things, allowance for loan and lease losses up to 1.25% of risk-weighted assets, cumulative (not qualifying as Tier 1) and limited life preferred stock, mandatory convertible securities and subordinated debt. Tier 2 capital qualifies as a part of total capital up to a maximum of 100% of Tier 1 capital. Amounts in excess of these limits may be issued but are not included in the calculation of the risk-based capital ratio. As of December 31, 1992, the Company and the Bank must generally have a minimum ratio of qualifying total capital to risk-weighted assets of 8%, of which 4% of qualifying total capital must be in the form of Tier 1 capital.

In addition, the regulators have promulgated capital leverage guidelines designed to supplement the risk-based capital guidelines. Banks and bank holding companies must maintain a minimum ratio of Tier 1 capital to adjusted total assets of 3% for the highest rated organizations, with all other banks and holding companies required to maintain an additional cushion of at least 100 to 200 basis points above the 3% minimum. As of December 31, 1994, the Company's Tier 1 capital was 8.7% of adjusted total assets. At December 31, 1993, this ratio was 8.2% of adjusted total assets.

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

	Tier 1	Total Risked-Based	Leverage
	(dollars in thousands)		
December 31, 1994			
Company's %	13.4 %	14.6 %	8.7 %
Regulatory minimum %	4.0 %	8.0 %	4.0 %
Company's capital $	$ 51,939	$ 56,784	$ 51,939
Regulatory minimum $	15,505	31,011	23,753
Computed excess	$ 36,434	$ 25,773	$ 28,186
December 31, 1993			
Company's %	12.8 %	14.0 %	8.2 %
Regulatory minimum %	4.0 %	8.0 %	4.0 %
Company's capital $	$ 47,135	$ 51,748	$ 47,135
Regulatory minimum $	14,766	29,531	23,036
Computed excess	$ 32,369	$ 22,217	$ 24,099

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

(B) Balance Sheet Analysis (continued)

Liquidity and Interest rate Sensitivity

Liquidity refers to the Company's ability to provide funds at an acceptable cost to meet loan demand and deposit withdrawals, as well as contingency plans to meet unanticipated funding needs or loss of funding sources. These objectives can be met from either the asset or liability side of the balance sheet. Asset liquidity sources consist of the repayments and maturities of loans, selling of loans, short-term money market investments, maturities of securities and sales of securities from the available-for-sale portfolio. These activities are generally summarized as investing activities in the Consolidated Statement of Cash Flows. Cash provided from these sources totaled approximately $83,668,000 in 1994.

Liquidity is generated from liabilities through deposit growth and short-term borrowings. These activities are included under financing activities in the cash flow statement. In 1994 cash was used as deposits fell $24,827,000. At year end the Bank had short-term borrowings on repurchase agreements of $30,457,000. The Company also had available correspondent banking lines of credit totaling $18,000,000. While these sources are expected to continue to provide significant amounts of funds in the future, their mix, as well as the possible use of other sources, will depend on future economic and market conditions.

Liquidity is also provided or used through the results of operating activities. Net cash of $4,135,000 was used for operating activities in 1994. In 1993 $13,352,000 had been provided from operating activities.

Prior to the required adoption of SFAS 115 (see footnote A) the Bank had in 1992 divided its investment securities portfolio into two parts: Securities Held-to-Maturity and Securities Held-for-Sale. This was done to provide Management with more tools to manage the Bank's liquidity. Since the adoption of SFAS 115 January 1, 1994, Management has targeted the available-for-sale portfolio (AFS) to be maintained at 35-40% of the total securities holdings. The AFS securities plus cash in excess of reserve requirements totaled $107,234,000 which was 18.1% of total assets at year end. This was down from $125,031,000 and 21.7% at the end of 1993.

The overall liquidity of the Bank is enhanced by the sizable core deposits which provide a relatively stable funding base. The maturity distribution of certificates of deposit in denominations of $100,000 or more is set forth in the following table. These deposits are generally more rate sensitive than other deposits and, therefore, are more likely to be withdrawn to obtain higher yields elsewhere if available. The amounts held in these accounts have declined significantly in the past two years.

NEW BRANCH PROFILE

REDDING

HILLTOP

This new branch is located directly north of the popular Shasta Mall.

It serves growing eastern Redding. A freeway interchange is nearby.

Country National Bank's successful management team has remained.

(B) Balance Sheet Analysis (continued)

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

	Amounts as of December 31,		
	1994	1993	1992
	(in thousands)		
Time remaining until maturity:			
Less than 3 months	**$ 401**	$ 1,572	$ 3,447
3 months to 6 months	**717**	2,001	2,045
6 months to 12 months	**—**	1,400	1,604
More than 12 months	**—**	450	330
Total	**$ 1,118**	$ 5,423	$ 7,426

Loan demand also affects the Bank's liquidity position. The following tables present the maturities and sensitivity to changes in interest rates of performing loans at December 31, 1994 and 1993.

Loan Maturities - December 31, 1994

	Within One Year	**After One But Within 5 Years**	**After 5 Years**	**Total**
	(in thousands)			
Loans with predetermined interest rates:				
Commercial, financial and agricultural	$ 5,445	$ 12,654	$ 29,006	$ 47,105
Consumer installment	3,560	7,870	5,594	17,024
Real estate mortgage	1,861	7,281	30,740	39,882
Real estate construction	8,020	22	—	8,042
	18,886	27,827	65,340	112,053
Loans with floating interest rates:				
Commercial, financial and agricultural	94,926	20,383	41,543	106,852
Consumer installment	10,477	2,772	28,198	41,447
Real estate mortgage	1,690	5,938	29,163	36,791
Real estate construction	9,960	—	—	9,960
	67,053	29,093	98,904	195,050
Total loans	$ 85,939	$ 56,920	$164,244	$307,103

Interest rate sensitivity is a function of the repricing characteristics of the Company's portfolio of assets and liabilities. These repricing characteristics are the time frames within which the interest-bearing assets and liabilities are subject to change in interest rates either at replacement, repricing or maturity. Interest rate sensitivity management focuses on the maturity of assets and liabilities and their repricing during periods of changes in market interest rates. Interest rate sensitivity is measured as the difference between the volumes of assets and liabilities in the Company's current portfolio that are subject to repricing at various time horizons. The differences are known as interest sensitivity gaps. The following repricing tables present the Bank's interest rate sensitivity position at December 31, 1994 and 1993:

Interest Rate Sensitivity - December 31, 1994

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

Interest Rate Sensitivity - December 31, 1993

	Repricing within:				
	3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years
	(dollars in thousands)				
Interest-earning assets:					
Securities	$ 12,413	$ 21,179	$ 28,340	$139,053	$ 2,475
Fed funds sold	11,200	—	—	—	—
Loans	167,883	9,192	14,843	35,914	78,070
Total interest-earning assets	$ 191,496	$ 30,371	$ 43,183	$174,967	$ 80,545
Interest-bearing liabilities					
Transaction deposits	$ 281,427	$ —	$ —	$ —	$ —
Time	51,197	77,817	10,583	5,106	—
Long-term borrowings	5,012	12	24	1,574	522
Total interest-bearing liabilities	$ 337,636	$ 77,829	$ 10,607	$ 6,680	$ 522
Interest sensitivity gap	$(146,140)	$ (47,458)	$ 32,576	$168,287	$ 80,023
Cumulative sensitivity gap	(146,140)	(193,598)	(161,022)	7,265	87,288
As a percentage of earning assets:					
Interest sensitivity gap	(28.07%)	(9.12%)	6.26%	32.33%	15.37%
Cumulative sensitivity gap	(28.07%)	(37.19%)	(30.93%)	1.40%	16.77%

(B) Balance Sheet Analysis (continued)

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

Securities Maturities and Weighted Average Yields - December 31, 1994

	Within One Year		After One Year but Through Five Years		After Five Years but Through Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Securities Held-to-Maturity	(dollars in thousands)									
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 5,042	6.16 %	$ 36,105	5.57%	$ 4,000	8.27 %	$ 1,000	7.75 %	$ 46,147	5.92%
Obligations of states and political subdivisions	250	4.84 %	579	4.00%	269	4.45 %	—	—	1,098	4.30%
Mortgage-backed securities	—	—	1,401	4.30%	11,007	5.68 %	85,196	5.72 %	97,604	5.70%
Total securities held-to-maturity	$ 5,292	6.10 %	$ 38,085	5.50%	$ 15,276	6.34 %	$ 86,196	5.74 %	$144,849	5.76%
Securities Available-for-Sale										
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 6,507	4.65 %	$ 31,358	5.62%	$ —	—	$ —	—	$ 37,865	5.45%
Obligations of states and political subdivisions	617	6.58 %	1,174	5.46%	465	5.36 %	65	7.00 %	2,321	5.78%
Mortgage-backed securities	—	—	2,177	4.62%	1,595	6.07 %	32,602	5.25 %	36,374	5.25%
Other securities	—	—	—	—	—	—	3,489	—	3,489	—
Total securities available-for-sale	$ 7,124	4.81 %	$ 34,709	5.55%	$ 2,060	5.91 %	$ 36,156	5.25 %	$ 80,049	5.36%
Total all securities	$ 12,416	5.36 %	$ 72,794	5.52%	$ 17,336	6.29 %	$122,352	5.61 %	$224,898	5.62%
Less: unrealized loss on securities transferred from available-for-sale									$ (1,061)	
Less: unrealized loss on securities available-for-sale									(5,343)	
Total									$218,494	

The principal cash requirements of the Company are dividends on Preferred Stock and Common Stock when declared. The Company is dependent upon the payment of cash dividends by the Bank to service its commitments. The Company expects that the cash dividends paid by the Bank to the Company will be sufficient to meet this payment schedule.

Off-Balance Sheet Items

During 1993 the Bank entered into several agreements which increased its off-balance sheet commitments. The most significant was the four license agreements signed with Raley's markets for the new supermarket branches. These license agreements will increase noninterest expenses about $100,000 per year. (See footnote G for the terms.) Additionally, the upgrade of the Bank's central computer was financed through a new three year operating lease which paid off an existing capital lease. Neither of these transactions will severely impact operating results.

As of December 31, 1994 commitments to extend credit were the sole source of financial instruments with off-balance sheet risk. The Bank has not entered into any contracts for financial derivative instruments such as futures, swaps, options etc. Loan commitments increased slightly to $81,966,000 from $80,057,000 at December 31, 1993. This is an indicator of flat loan demand and represents 26.7% of the total loans outstanding at year end versus 26.2% a year ago.

Disclosure of Fair Value

The Financial Accounting Standards Board (FASB) issued the Statement of Financial Accounting Standards Number 107, Disclosures about Fair Value of Financial Statements, which became effective December 15, 1992. It requires the disclosure of fair value of most financial instruments, whether recognized or not recognized in the financial statements. The intent of presenting the fair values of financial instruments is to depict the market's assessment of the present value of net future cash flows discounted to reflect both current interest rates and the market's assessment of the risk that the cash flows will not occur.

NEW BRANCH PROFILE

REDDING

RALEY'S • LAKE BLVD.

Construction and overhead costs are less than for conventional branches.

Busy people everywhere appreciate being able to bank where they shop.

ATMs are located inside the store, giving a greater sense of security.

(B) Balance Sheet Analysis (continued)

In determining fair values, the Company used the following assumptions: for cash, short-term investments, accrued interest receivable, short-term borrowings and accrued interest payable the carrying amount is a reasonable estimate of fair value. All of these instruments are short-term in nature. Securities are reflected at quoted market values. Loans and deposits have a long term time horizon which required more complex calculations for fair value determination. Loans are grouped into homogeneous categories and broken down between fixed and variable rate instruments. Loans with a variable rate, which reprice immediately, are valued at carrying value. The fair value of fixed rate instruments is estimated by discounting the future cash flows using current rates. Credit risk and repricing risk factors are included in the current rates. Fair value for nonaccrual loans is reported at carrying value and is included in the net loan total. Since the allowance for loan losses exceeds any potential adjustment for nonaccrual valuation, no further valuation adjustment has been made.

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

At 1994 year end, the fair values calculated on the Company's assets are 2.9% below the carrying values versus 1.4% above the carrying values in 1993. This decrease is in the securities and loan categories and is the result of the increase in interest rates in 1994. Unless there was a severe liquidity crisis which required the Company to sell AFS securities or fixed rate loans, these lower fair values will probably not have a significant effect on future operations.

BOARD OF DIRECTORS

Standing, from left:

CRAIG S. COMPTON
President, AVAG, Inc.
Aerial Application Business, Richvale

WILLIAM J. CASEY
Health Care Consultant, Chico

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

ALEX A. VERESCHAGIN, JR.
Chairman of the Board
Secretary-Treasurer, Plaza Farms
Orange Growers and Packers, Orland

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

DEWAYNE E. CAVINESS, M.D.
Physician and Surgeon, Chico

Seated, from left:

DOUGLAS F. HIGNELL
Secretary of the Board
Principal Partner,
Hignell & Hignell, Inc.
Investment and Development Company,
Chico

WENDELL J. LUNDBERG
Owner, Wehah Farms
Rice and Grain Operations, Richvale

RODNEY W. PETERSON
President, Peterson Farming, Inc.
Durham

ROBERT H. STEVESON
President and Chief Executive Officer
Tri Counties Bank and
TriCo Bancshares, Chico

RICHARD C. GUITON
Businessman, Redding

SANKEY M. HALL, JR.
Retired Businessman
Colonel, U.S. Air Force Reserve
(Retired), Chico

EVERETT B. BEICH
Vice Chairman of the Board
Owner, Beich Company
Real Estate Investments
and Development, Chico

TriCo Bancshares - Executive Officers

Robert H. Steveson .... **President & Chief Executive Officer**

Joan Jones .... **Executive Vice President**

Robert Stanberry .... **Vice President & Chief Financial Officer**

Douglas F. Hignell .... **Secretary**

Tri Counties Bank - Executive Officers

Robert H. Steveson .... **President & Chief Executive Officer**

Joan Jones .... **Executive Vice President & Chief Administrative Officer**

Carroll Taresh .... **Executive Vice President & Chief Operating Officer**

Glyn Bythell .... **Senior Vice President & Loan Administrator**

John Dunlap .... **Vice President & General Counsel**

Richard Smith .... **Vice President & Chief Information Officer**

Robert Stanberry .... **Vice President & Chief Financial Officer**

Tri Counties Bank Supermarket Branch Locations

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

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

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

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

Tri Counties Bank Traditional Branch Locations

Park Plaza Branch
780 Mangrove Avenue
P.O. Box 2207
Chico, California 95927
(916) 898-0400
Richard O'Sullivan
Vice President & Manager

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

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

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

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

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

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

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

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

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

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

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

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

Yuba City Branch
1441 Colusa Avenue
P.O. Box 1501
Yuba City, California 95992
(916) 671-5563
Craig Hendy
Vice President & Manager

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

Administration Office
15 Independence Circle
Chico, California 95926
(916) 898-0300

Form 10-K

The Company will provide to any interested party, without charge, a copy of the Company's Annual Report on Form 10-K for the year ended December 31, 1994, as filed with the Securities and Exchange Commission, including the financial statements and schedules thereto. The report may be obtained by written request to: **Corporate Secretary, TriCo Bancshares, 15 Independence Circle, Chico, CA 95926.**

NINETEEN BRANCHES IN THIRTEEN CITIES

TRI COUNTIES BANK COUNTRY

Tri Counties Bank is now the largest regional community bank north of Sacramento.

★ NEW BRANCH IN 1994

TRICO
BANCSHARES
15 Independence Circle
Chico, California 95926
(916) 898-0300
FAX (916) 898-0310