TRICO BANCSHARES
1992
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 and Sutter, as well as portions of Tehama, 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 new 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.

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	Hoefer & Arnett Incorporated	Dean Witter Reynolds Inc.	Kidder, Peabody & Co.
P.O. Box 1688	100 Pine Street, Suite 470	5650 Sunrise Blvd.	1610 Arden Way, Suite 200
Big Bear Lake, CA 92315-1688	San Francisco, CA 94111	Citrus Heights, CA 95610	Sacramento, CA 95815-4005
Troy Norlander	Mark Arnett/Curtis Heinz	Alan Spilker/Gerry Schwartzel	Sam Statler
(800) 288-2811	(800) 346-5544	(800) 488-4404	(800) 678-6783
(714) 866-8966	(415) 362-7111	(916) 965-4444	(916) 648-7241

FIVE YEAR SELECTED FINANCIAL DATA

(in thousands, except share data)

	1992	1991	1990	1989	1988
Statement of Operations Data:[1]					
Interest income	**$ 35,429**	$ 34,961	$ 35,811	$ 30,142	$ 25,514
Interest expense	**13,584**	16,140	19,160	16,515	13,553
Net interest income	**21,845**	18,821	16,651	13,627	11,961
Provision for possible loan losses	**1,895**	1,200	2,450	1,000	780
Net interest income after provision for possible loan losses	**19,950**	17,621	14,201	12,627	11,181
Non-interest income	**4,649**	4,300	3,505	2,787	3,289
Non-interest expense	**15,768**	14,824	13,850	10,583	10,473
Income before income taxes	**8,831**	7,097	3,856	4,831	3,997
Provision for income taxes	**3,640**	2,772	1,291	1,676	1,469
Net income	**$ 5,191**	$ 4,325	$ 2,565	$ 3,155	$ 2,528
Per Share Data:[2]					
Net income	**$ 2.06**	$ 1.60	$ 0.77	$ 1.29	$ 1.12
Cash dividend paid per share	**.39**	0.34	0.31	0.23	0.19
Common shareholders' equity at year end	**11.86**	10.20	8.84	8.33	7.24
Balance Sheet Data:					
Total loans, gross	**$274,562**	$272,828	$258,881	$230,016	$187,230
Total assets	**434,452**	384,482	376,244	354,688	297,468
Total deposits	**399,205**	348,427	341,468	321,680	272,004
Total shareholders' equity	**31,415**	30,410	27,334	26,243	19,822
Selected Financial Ratios:					
Return on average assets	**1.23%**	1.19%	0.70%	1.01%	0.89%
Return on average common shareholders' equity	**18.66%**	16.51%	8.78%	17.20%	16.22%
Leverage ratio[3]	**7.23%**	7.91%	7.25%	—	—
Total risk-based capital ratio	**11.91%**	11.52%	10.70%	—	—
Net interest margin[4]	**5.76%**	5.96%	5.38%	5.23%	5.08%
Reserve for loan losses to total loans outstanding at end of year	**1.50%**	1.27%	1.20%	1.01%	1.02%

[1] Tax-exempt securities are presented on an actual yield basis.
[2] Retroactively adjusted to reflect the 15%, 15%, 20% and 28% stock dividends declared in 1992, 1991, 1989, and 1988, respectively.
[3] Tier I capital divided by total assets.
[4] Calculated on a tax equivalent basis.

PRESIDENT'S MESSAGE

Both strong earnings and increased market share of core customers and core deposits were achieved during 1992.

Earnings reached a record $5,191,000 due in part to reduced loan loss exposure. This is a 20% gain over 1991's previous record of $4,325,000. Earnings per Common Share were $2.06 versus $1.60 last year.

Assets increased 13% to $434,452,000. Deposits rose from $348,427,000 to $399,205,000. Total loans ended the year at $274,562,000, up from $272,828,000 in 1991.

Total shareholders' equity was $31,415,000 at year-end. The 11% Series A Preferred Stock totalling $2,672,000 was redeemed on July 1, 1992. This redemption helped to increase earnings for common shareholders in 1992 and will continue to have a positive effect in future years. It also helped increase Common shareholders' equity to $11.86 per share from $10.20 per share in 1991.

The TriCo Bancshares leverage ratio, the total Tier 1 capital as a percentage of total ending assets, was 7.23% at the end of 1992.

DIVIDENDS

Cash dividends of $.39 per Common share were paid to shareholders during 1992. A 15% Common Stock dividend was also paid in 1992. Dividends totalling $797,000 were paid on the Series A, Series B and Series C Preferred Stock in 1992.

REAL ESTATE MORTGAGE DEPARTMENT

Tri Counties Bank emphasized residential real estate lending over commercial real estate lending during 1992, closing 648 single-family residential mortgage loans. The bulk of these loans were sold in the secondary market through the Federal Home Loan Mortgage Corporation, commonly known as "Freddie Mac."

VISA/MASTERCARD DEPARTMENT

Tri Counties Bank is placing increased emphasis on our upscale Gold MasterCard which has a $10,000 minimum credit line and a competitive 12.96% A.P.R. interest rate. At year end there were 6,335 accounts with total commitments of $17,740,000 and $6,888,000 in outstanding balances.

SMALL BUSINESS LOANS

Loans guaranteed by the Small Business Administration provide funds for purchase of commercial real estate, inventories, machinery, equipment, furniture and fixtures as well as working capital and debt refinancing. Tri Counties Bank is an SBA Approved Lender and plans to be a more aggressive originator of SBA loans in 1993.

DIVIDEND REINVESTMENT & COMMON STOCK PURCHASE PLAN

An increasing number of shareholders are using their quarterly cash dividend to purchase additional shares. Many of these are making optional cash purchases of $100 to $1,000 each quarter. Currently, 25% of the shareholders representing 17% of the shares outstanding are taking advantage of this plan.

The company enjoyed a record year in 1992 and your Directors and Management anticipate continuing good results during 1993. Your confidence and support are much appreciated.

Sincerely,

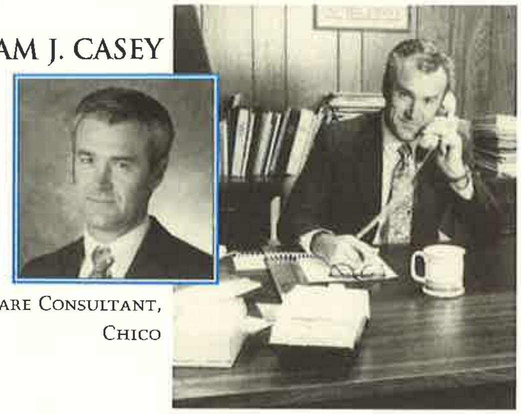
Robert H. Steveson

Robert H. Steveson
President & Chief Executive Officer

IN MEMORIUM

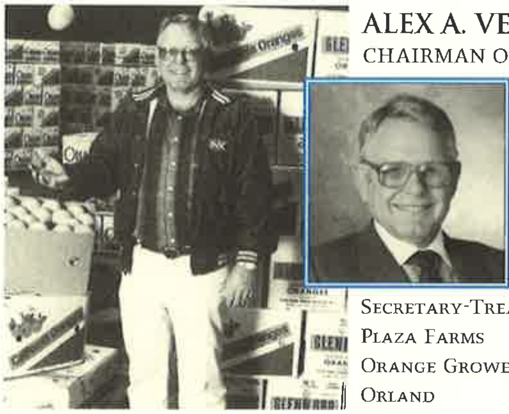
It is with extreme sorrow that we announce the passing on July 25, 1992 of Robert J. Stern. Bob was a Founding Director and served as Chairman of the Board in the Bank's formative years. He continued as an active board member after retirement from his successful retail businesses. His wise counsel will be greatly missed.

BOARD OF DIRECTORS



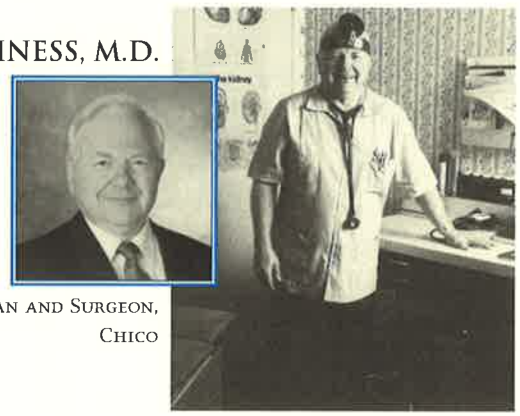
WILLIAM J. CASEY

Health Care Consultant,
Chico



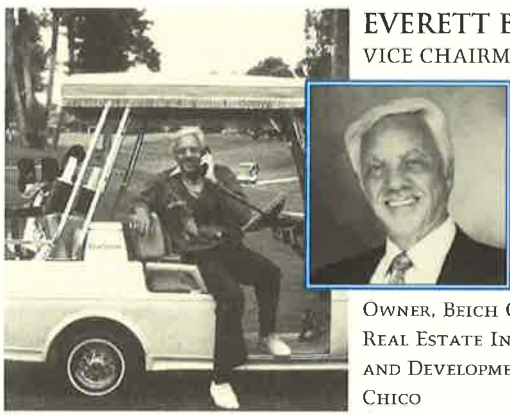
ALEX A. VERESCHAGIN, JR.
CHAIRMAN OF THE BOARD

Secretary-Treasurer,
Plaza Farms
Orange Growers and Packers,
Orland



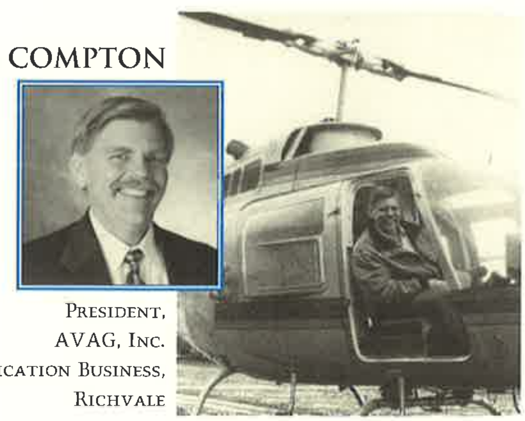
DEWAYNE E. CAVINESS, M.D.

Physician and Surgeon,
Chico



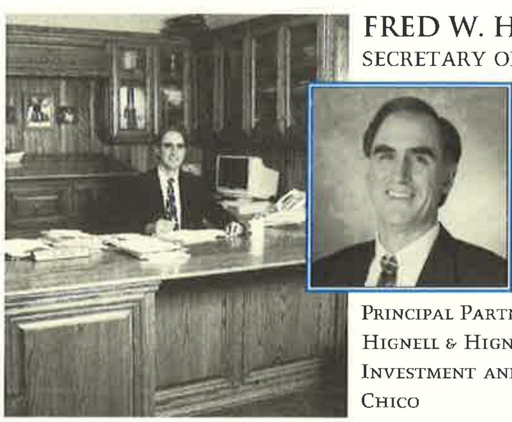
EVERETT B. BEICH
VICE CHAIRMAN OF THE BOARD

Owner, Beich Company
Real Estate Investments
and Development,
Chico



CRAIG S. COMPTON

President,
AVAG, Inc.
Aerial Application Business,
Richvale



FRED W. HIGNELL, III
SECRETARY OF THE BOARD

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

SANKEY M. HALL, JR.

Retired Businessman
Colonel, US Air Force Reserve (Retired)
Chico

DONALD E. MURPHY

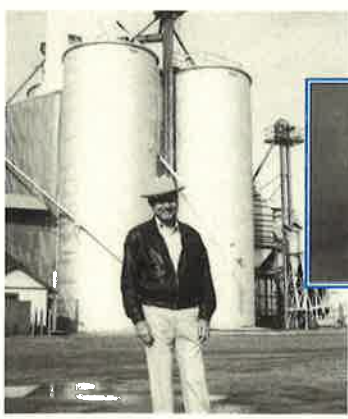
Vice President and General Manager
J.H. McKnight Ranch,
Nelson

BRIAN D. LEIDIG

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

RODNEY W. PETERSON

President,
Peterson Farming, Inc.
Durham



WENDELL J. LUNDBERG

Owner,
Wehah Farms
Rice and Grain Operations,
Richvale

ROBERT H. STEVESON

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

BANK OFFICERS

Robert H. Steveson
President and
Chief Executive Officer

Joan Jones
Executive Vice President and
Chief Administrative Officer and
Chief Financial Officer

Carroll Taresh
Executive Vice President and
Chief Operating Officer

Dan Herbert
Senior Vice President and
Loan Administrator

George Barstow
Senior Vice President

Ruth Irvine
Vice President and
Personnel Manager

Fred Bryant
Vice President and
Chief Auditor

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, 1992 and 1991, 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, 1992. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TriCo Bancshares and Subsidiary as of December 31, 1992 and 1991, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1992 in conformity with generally accepted accounting principles.

Arthur Andersen & Co.

San Francisco, California
January 22, 1993

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

		December 31,	
ASSETS		**1992**	1991
Cash and due from banks	57 191	**$ 24,587**	$ 26,936
Federal funds sold		**—**	1,400
Investment securities (approximate market value $69,063 and $66,995)	131 468	**68,023**	66,022
Securities held for sale, net of valuation allowance of $260 (approximate market value $49,765)	94 788	**49,037**	—
Loans:	226 276		
Commercial		**143,158**	140,725
Consumer		**44,704**	48,930
Real estate mortgages		**71,306**	62,831
Real estate construction		**15,394**	20,342
	530	**274,562**	272,828
Less: Allowance for loan losses		**4,111**	3,459
Net loans		**270,451**	269,369
Premises and equipment, net	17 656	**9,134**	9,150
Investment in real estate properties		**1,240**	3,062
Other real estate owned		**1,312**	725
Accrued interest receivable		**4,091**	3,276
Deferred income taxes		**1,629**	1,359
Other assets		**4,948**	3,183
Total assets		**$434,452**	$384,482

LIABILITIES AND SHAREHOLDERS' EQUITY

Deposits:		
Noninterest-bearing demand	**$ 72,375**	$ 67,243
Interest-bearing demand	**99,560**	94,407
Savings	**177,596**	73,735
Time certificates, $100,000 and over	**839**	3,224
Other time certificates	**48,835**	109,818
Total deposits	**399,205**	348,427
Accrued interest payable	**826**	2,318
Other liabilities	**1,979**	2,060
Debt guarantee for Employee Stock Ownership Plan	**120**	240
Long-term debt	**907**	1,027
Total liabilities	**403,037**	354,072
Commitments and contingencies (Note N)		
Shareholders' equity:		
Preferred stock, no par value: Authorized 1,000,000 shares;		
Series A, issued and outstanding 26,724 shares in 1991	**—**	2,544
Series B, issued and outstanding 8,000 shares	**3,899**	3,899
Series C, issued and outstanding 16,900 shares	**2,187**	2,187
Common stock, no par value: Authorized 20,000,000 shares; issued and outstanding 2,134,976 and 1,857,117 shares	**25,343**	21,550
Retained earnings	**106**	470
Debt guarantee for Employee Stock Ownership Plan	**(120)**	(240)
Total shareholders' equity	**31,415**	30,410
Total liabilities and shareholders' equity	**$434,452**	$384,482

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except earnings per share)

	Years Ended December 31, 1992	1991	1990
Interest income:			
Interest and fees on loans	**$29,259**	$30,952	$30,721
Interest on investment securities—taxable	**6,043**	3,010	3,269
Interest on investment securities—tax exempt	**76**	721	1,319
Interest on federal funds sold	**51**	278	502
Total interest income	**35,429**	34,961	35,811
Interest expense:			
Interest on interest-bearing demand deposits	**3,115**	4,627	5,154
Interest on savings	**6,743**	2,494	1,766
Interest on time certificates of deposit	**3,445**	8,561	11,553
Interest on time certificates of deposit, $100,000 and over	**108**	319	521
Interest on short-term borrowing	**65**	20	67
Interest on long-term debt	**108**	119	99
Total interest expense	**13,584**	16,140	19,160
Net interest income	**21,845**	18,821	16,651
Provision for loan losses	**1,895**	1,200	2,450
Net interest income after provision for loan losses	**19,950**	17,621	14,201
Other income:			
Service charges and fees	**3,828**	3,529	2,879
Other income	**454**	732	760
Securities gains (losses), net	**367**	39	(134)
Total other income	**4,649**	4,300	3,505
Other expenses:			
Salaries and related expenses	**7,475**	7,285	6,144
Other, net	**8,293**	7,539	7,706
Total other expenses	**15,768**	14,824	13,850
Net income before income taxes	**8,831**	7,097	3,856
Income taxes	**3,640**	2,772	1,291
Net income	**$ 5,191**	$ 4,325	$ 2,565
Preferred stock dividends	**797**	944	944
Net income available to common shareholders	**$ 4,394**	$ 3,381	$ 1,621
Earnings per common share	**$ 2.06**	$ 1.60	$ .77

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 1992, 1991 and 1990
(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 (Deficit)	Debt Guarantee for ESOP	Total
Balance, December 31, 1989	26,724	$2,544	8,000	$3,899	16,900	$2,187	1,599,047	$18,145	$ (52)	$ (480)	$26,243
Series A Preferred Stock cash dividends	—	—	—	—	—	—	—	—	(295)	—	(295)
Series B Preferred Stock cash dividends	—	—	—	—	—	—	—	—	(420)	—	(420)
Series C Preferred Stock cash dividends	—	—	—	—	—	—	—	—	(229)	—	(229)
Common Stock cash dividends	—	—	—	—	—	—	—	—	(650)	—	(650)
Net income	—	—	—	—	—	—	—	—	2,565	—	2,565
Reduction of ESOP debt	—	—	—	—	—	—	—	—	—	120	120
Balance, December 31, 1990	26,724	2,544	8,000	3,899	16,900	2,187	1,599,047	18,145	919	(360)	27,334
15% Common Stock Dividend declared	—	—	—	—	—	—	239,230	3,108	(3,108)	—	—
Common Stock issued	—	—	—	—	—	—	18,840	297	—	—	297
Series A Preferred Stock cash dividends	—	—	—	—	—	—	—	—	(295)	—	(295)
Series B Preferred Stock cash dividends	—	—	—	—	—	—	—	—	(420)	—	(420)
Series C Preferred Stock cash dividends	—	—	—	—	—	—	—	—	(229)	—	(229)
Common Stock cash dividends	—	—	—	—	—	—	—	—	(722)	—	(722)
Net income	—	—	—	—	—	—	—	—	4,325	—	4,325
Reduction of ESOP debt	—	—	—	—	—	—	—	—	—	120	120
Balance, December 31, 1991	26,724	2,544	8,000	3,899	16,900	2,187	1,857,117	21,550	470	(240)	30,410
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	—	—	—	—	—	—	—	—	(836)	—	(836)
Net income	—	—	—	—	—	—	—	—	5,191	—	5,191
Reduction of ESOP debt	—	—	—	—	—	—	—	—	—	120	120
Balance, December 31, 1992	—	$ —	8,000	$3,899	16,900	$2,187	2,134,976	$25,343	$ 106	$ (120)	$31,415

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Years ended December 31, 1992	1991	1990
Operating activities:			
Net income	**$ 5,191**	$ 4,325	$ 2,565
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	**1,895**	1,200	2,450
Provision for losses on investment real estate properties	**460**	135	129
Depreciation and amortization	**983**	1,124	1,200
Amortization of investment security discounts	**1,253**	129	245
Deferred income taxes	**(202)**	(389)	(1,173)
Investment security (gains) losses	**(367)**	(39)	134
(Gains) on sale of investments in real estate properties	**(30)**	(285)	(73)
Loss on sale of real estate limited partnership	**—**	—	1,493
Common Stock issued as compensation	**—**	297	—
(Increase) decrease in interest receivable	**(815)**	488	(439)
Increase (decrease) in interest payable	**(1,492)**	(1,682)	49
(Gain) loss in other real estate owned	**6**	16	(39)
(Increase) decrease in other operating assets less liabilities	**(2,000)**	260	(325)
Net cash provided by operating activities	**4,882**	5,579	6,216
Investing activities:			
Maturities of investment securities	**42,764**	12,540	18,106
Sales of investment securities	**87,470**	38,436	10,616
Purchases of investment securities	**(182,156)**	(60,917)	(27,635)
Net increase in loans	**(2,977)**	(14,790)	(30,480)
Purchases of premises and equipment	**(974)**	(197)	(2,240)
Proceeds from sale of real estate properties	**1,928**	1,951	3,463
Purchases and additions to real estate properties	**(1,158)**	(977)	(2,681)
Return of investment in real estate limited partnership	**—**	—	250
Sale of investment in real estate limited partnership	**—**	—	2,750
Net cash used by investing activities	**(55,103)**	(23,954)	(27,851)
Financing activities:			
Net increase (decrease) in noninterest-bearing demand deposits	**5,132**	3,419	(3,453)
Net increase (decrease) in interest-bearing demand deposits and savings accounts	**109,014**	39,816	16,756
Net increase (decrease) in time certificates of deposit	**(63,368)**	(36,276)	6,485
Redemption of Preferred Stock	**(2,673)**	—	—
Cash dividends — Preferred	**(797)**	(944)	(944)
Cash dividends — Common	**(836)**	(722)	(650)
Net cash provided by financing activities	**46,472**	5,293	18,194
Increase (decrease) in cash and cash equivalents	**(3,749)**	(13,082)	(3,441)
Cash and cash equivalents at beginning of year	**28,336**	41,418	44,859
Cash and cash equivalents at end of year	**$24,587**	$28,336	$41,418
Supplemental information			
Cash paid for taxes	**$ 4,207**	$ 3,593	$ 2,664
Cash paid for interest expense	**$15,076**	$17,822	$19,111
Non-cash debt guarantee for ESOP	**$ (120)**	$ (120)	$ (120)
Non-cash capital lease obligation incurred	**$ —**	$ —	$ 621

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 1992, 1991 and 1990

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.

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.

Investment Securities

For 1992 the Company divided its securities portfolio into two classifications: Investment Securities and Securities Held for Sale. Securities in the Securities Held for Sale classification are grouped by major security types. The groups are valued at the lower of cost or market, through the use of a valuation allowance. Decreases in market value below cost will result in unrealized losses being charged to current period income. Cost is adjusted for the accretion of discounts and amortization of premiums using the interest method. Amortization and accretion are recognized as adjustments to interest income.

Investment securities are carried at cost, adjusted for the accretion of discounts and amortization of premiums using the interest method. Amortization and accretion are recognized as adjustments to interest income. Because the Company has the intention and ability to hold the investment securities to maturity, it did not provide a valuation allowance for the excess of carrying value over market value.

Loans

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

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 judgement are well secured and in the process of collection, they are not classified as nonperforming. 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.

Direct finance leases are carried net of unearned income. Income from these leases is recognized on a basis which generally produces a level yield on the outstanding balances receivable.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to 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

NOTE A - (CONTINUED)

quality, loan concentrations, specific problem loans, commitments, and current and anticipated economic conditions that may affect the borrowers' ability to pay.

Premises and Equipment

Premises (including those acquired under capital lease) and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization expenses are computed using the straight-line method over the estimated useful life of the related assets or lease term. Asset lives range from 5-10 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.

Investment in Real Estate Limited Partnership

An investment in a real estate limited partnership which was carried at a cost of $4,243,000, net of cumulative cash distributions of $757,000, was sold at the end of 1990. The resulting loss of $1,493,000 is included in other expenses at December 31, 1990.

Other Real Estate Owned

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

Income Taxes

Deferred income taxes are provided for timing differences between items of income or expense reported in the consolidated financial statements and those reported for income tax purposes.

Statement of Financial Accounting Standard No. 109, "Accounting for Income Taxes" will be adopted by the Company in the first quarter of 1993. The implementation of this Standard will not have a material impact on the Company's financial position or results of operations.

Intangible Assets

Intangible assets (included in other assets) represent the purchased deposit account base (core deposits) acquired in connection with the acquisition of Shasta County Bank. Core deposits represent the present value of the expected future benefits to be realized from the acquired bank's deposit base, comprised principally of demand and savings deposits. Core deposits are amortized over 10 years and were fully amortized in 1991.

Earnings Per Common Share

Earnings per common share was computed based on the weighted average number of shares of common stock outstanding. The weighted average number of shares used in the computation of earnings per common share are: 2,134,976 for 1992; 2,115,977 for 1991; 2,114,019 for 1990, as adjusted for stock dividends.

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 $5,609,000 and $6,308,000 were maintained to satisfy Federal regulatory requirements at December 31, 1992 and December 31, 1991. These reserves are included in cash and due from banks in the accompanying balance sheet.

NOTE C - INVESTMENT SECURITIES AND SECURITIES HELD FOR SALE

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

December 31, 1992

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
	(in thousands)			
Investment Securities				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$55,560	$ 908	$ (79)	$56,389
Obligations of states and political subdivisions	561	6	—	567
Mortgage-backed securities	11,578	208	(3)	11,783
Other securities	324	—	—	324
Totals	$68,023	$ 1,122	$ (82)	$69,063
Securities Held for Sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$47,450	$ 721	$ (9)	$48,162
Obligations of states and political subdivisions	—	—	—	—
Mortgage-backed securities	917	16	—	933
Other securities	930	—	—	930
Less valuation allowance	(260)	—	—	(260)
Totals	$49,037	$ 737	$ (9)	$49,765

December 31, 1991

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
	(in thousands)			
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$56,320	$ 889	$ —	$57,209
Obligations of states and political subdivisions	1,922	15	(1)	1,936
Mortgage-backed securities	6,829	209	—	7,038
Other securities	951	—	(139)	812
Totals	$66,022	$1,113	$(140)	$66,995

The amortized cost and estimated market value of debt securities at December 31, 1992 and 1991 by contractual maturity are shown below. Actual maturities will 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 Market Value
December 31, 1992	(in thousands)	
Investment Securities		
Due in one year	$16,765	$16,937
Due after one year through five years	49,939	50,774
Due after five years through ten years	995	1,028
	67,699	68,739
Other securities	324	324
Total	$68,023	$69,063
Securities Held for Sale		
Due in one year	$14,015	$14,032
Due after one year through five years	31,358	31,969
Due after five years through ten years	2,994	3,094
	48,367	49,095
Other securities	930	930
Less valuation allowance	(260)	(260)
Total	$49,037	$49,765
December 31, 1991		
Due in one year	$26,197	$26,401
Due after one year through five years	32,045	32,744
	58,242	59,145
Mortgage-backed securities and other	7,780	7,850
Total	$66,022	$66,995

Proceeds from sales of investments in debt securities:

For the Year	Gross Proceeds	Gross Gains	Gross Losses
	(in thousands)		
1992	$87,470	$ 789	$ 162
1991	$38,436	$ 234	$ 195

Investment securities with an aggregate carrying value of $3,121,000 and $3,041,000 at December 31, 1992 and 1991, respectively, were pledged as collateral for public deposits as required by law.

NOTE D - ALLOWANCE FOR LOAN LOSSES

Transactions in the allowance for loan losses were as follows:

	Years Ended December 31, 1992	1991	1990
	(in thousands)		
Balance, beginning of year	**$ 3,459**	$ 3,102	$ 2,267
Provision charged to operations	**1,895**	1,200	2,450
Loans charged off	**(1,400)**	(1,278)	(1,725)
Recoveries of loans previously charged off	**157**	435	110
Balance, end of year	**$ 4,111**	$ 3,459	$ 3,102

Loans classified as nonaccrual amounted to approximately $517,271, $1,279,000, and $437,000 at December 31, 1992, 1991 and 1990. If interest on those loans had been accrued, such income would have been approximately $67,116, $122,000, and $90,000 in 1992, 1991 and 1990, respectively.

NOTE E - PREMISES AND EQUIPMENT

Premises and equipment are comprised of:

	December 31, 1992	1991
	(in thousands)	
Premises (including $831,000 acquired under capital lease)	**$ 7,740**	$ 7,707
Furniture and equipment (including $621,000 acquired under capital leases)	**5,817**	5,123
	13,557	12,830
Less: Accumulated depreciation and amortization	**(6,116)**	(5,373)
	7,441	7,457
Land	**1,693**	1,693
	$ 9,134	$ 9,150

Depreciation and amortization of premises and equipment amounted to $896,000, $918,000, and $721,000 in 1992, 1991 and 1990, respectively.

NOTE F - 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.

Investment Securities

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

Loan Receivables

For homogeneous categories of loans, such as some fixed or variable rate mortgages, fair value is estimated using the quoted market prices for similar loans, adjusted for differences in loan characteristics. The fair value of variable loans is the current 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.

Accrued Interest Receivable

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

Deposit Liabilities

The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated by discounting the future cash payments using the rates currently offered for deposits of similar remaining maturities.

Other Liabilities

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

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 at December 31, 1992 are as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 1992, 1991 and 1990

NOTE F - (CONTINUED)

Financial assets:	Carrying Amount	Fair Value
	(In thousands)	
Cash and short-term investments	$ 24,587	$ 24,587
Securities:		
Investment securities	68,023	69,063
Securities held for sale	49,037	49,765
Loan receivables, net	270,451	275,023
Accrued interest receivable	4,091	4,091
Financial liabilities:		
Deposits	399,205	399,598
Other liabilities	1,979	1,979
Accrued interest payable	826	826

NOTE G - LONG-TERM DEBT

Long-term debt is as follows:

	December 31, 1992	1991
	(in thousands)	
Capital lease obligations on equipment, effective rate of 8.3% payable monthly through August 7, 1995	**$ 323**	$ 441
Capital lease obligation on premises, effective interest rate of 13% payable monthly in varying amounts through December 1, 2009.	**584**	586
Total long-term debt	**$ 907**	$1,027

NOTE H - OTHER OPERATING EXPENSES AND INCOME

The components of other operating expenses are as follows:

	Years Ended December 31, 1992	1991	1990
	(in thousands)		
Equipment and data processing	**$ 1,337**	$ 1,459	$ 1,149
Occupancy	**1,270**	1,171	1,071
Advertising	**336**	495	427
Net other real estate owned expense	**79**	7	14
Net (gains) losses on investment in real estate	**697**	(31)	(73)
Net loss in real estate limited partnership	**—**	—	1,493
Professional fees	**502**	552	361
Assessments	**847**	709	387
Postage	**372**	320	249
Other	**2,853**	2,857	2,628
Total other operating expenses	**$ 8,293**	$ 7,539	$ 7,706

Commissions on sales of annuities and mutual funds in the amounts of $706,000, $593,000 and $257,000 for the years 1992, 1991 and 1990 are included in service charges and fees income.

NOTE I - INCOME TAXES

The provision for income taxes is comprised of:

	Years Ended December 31, 1992	1991	1990
	(in thousands)		
Current:			
Federal	**$ 2,852**	$ 2,290	$ 1,720
State	**990**	871	744
Total current	**3,842**	3,161	2,464
Deferred:			
Federal	**(153)**	(400)	(842)
State	**(49)**	11	(331)
Total deferred	**(202)**	(389)	(1,173)
Total income taxes	**$ 3,640**	$ 2,772	$ 1,291

Deferred income tax expense resulted from the following:

	Years Ended December 31, 1992	1991	1990
	(in thousands)		
Increase (decrease) deferred income taxes:			
Difference between cash and accrual basis of accounting	**$ —**	$ —	$ (36)
Provision for loan losses	**(274)**	(160)	(374)
Provision for loss on other real estate	**(4)**	(7)	17
Amortization of core deposits	**—**	(35)	(109)
Use of accelerated depreciation methods for tax purposes	**(39)**	(11)	56
Leases	**(16)**	—	(1)
Leveraged leases	**—**	(95)	(94)
Real estate limited partnership	**(116)**	—	(853)
Retirement compensation	**(126)**	(104)	(123)
Loss on investment in real estate	**(88)**	(96)	15
Deferred loan fees	**489**	(13)	80
Other differences	**(28)**	132	249
Total deferred income tax provision	**$ (202)**	$ (389)	$ (1,173)

NOTE I - (CONTINUED)

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

	Years Ended December 31, 1992	1991	1990
Federal statutory income tax rate	**34.0%**	34.0%	34.0%
State income taxes, net of federal tax benefit	**7.0**	8.2	7.1
Tax-exempt interest on municipal obligations	**(0.3)**	(3.4)	(9.6)
Other	**0.5**	.3	2.0
Effective Tax Rate	**41.2%**	39.1%	33.5%

NOTE J - RETIREMENT PLANS

Substantially all employees with at least one year of service are covered by a discretionary employee stock ownership plan. Contributions are made to the plan at the discretion of the Board of Directors. Contributions to the plan of $358,000 in 1992, $222,000 in 1991 and $222,000 in 1990 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 ($1,925,000 and $1,421,000 at December 31, 1992 and 1991, respectively) to pay the retirement obligations.

The following table sets forth the plans' status:

	December 31, 1992	1991	1990
	(in thousands)		
Actuarial present value of benefit obligations:			
Vested benefit obligation	**$ (1,596)**	$ (1,128)	$ (855)
Accumulated benefit obligation	**$ (1,596)**	$ (1,128)	$ (855)
Projected benefit obligation for service rendered to date	**$ (1,886)**	$ (1,231)	$ (1,009)
Plan assets at fair value	**$ —**	$ —	$ —
Projected benefit obligation in excess of plan assets	**$ (1,886)**	$ (1,231)	$ (1,009)
Unrecognized net (gain) loss from past experience different from that assumed and effects of changes in assumptions	**482**	78	(8)
Prior service cost not yet recognized in net periodic pension cost	**100**	17	15
Unrecognized net obligation at transition	**426**	461	495
Accrued pension cost included in other liabilities	**$ (878)**	$ (675)	$ (507)
Net pension cost included the following components:			
Service cost-benefits earned during the period	**$ 83**	$ 61	$ 58
Interest cost on projected benefit obligation	**118**	91	85
Net amortization and deferral	**47**	35	40
Net periodic pension cost	**$ 248**	$ 187	$ 183

The net periodic pension cost was determined using a discount rate assumption of 7.75% for 1992, 8.0% for 1991 and 8.5% for 1990. 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, 1992 and 1991 the cash values exceeded the recorded liabilities.

In 1989, the Company adopted two stock option plans covering key employees and directors. Options for 158,313 shares at $10.43 per share were available and granted under the plans in 1989. Options vest 20% annually and terminate 10 years from the date of the grant. Option shares and price are adjusted for stock dividends.

NOTE K - PREFERRED STOCK

At December 31, 1992 the Company had two series of cumulative nonvoting preferred stock outstanding. Each series 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 two issues.

Series	Dividend Rate	Shares	Redemption Date	Per Share Liquidation Value
B	10.5%	8,000	Aug 1, 1995	$500
C	10.0%	16,900	Nov 28, 1993	$135

Series A preferred stock with 26,724 shares outstanding and a redemption value of $2,672,400 was redeemed on July 1, 1992.

NOTE L - DIVIDEND RESTRICTIONS

The Bank paid to the Company cash dividends in the aggregate amounts of $4,122,000, $1,698,000 and $1,615,000 in 1992, 1991 and 1990. The Bank is regulated by the Federal Deposit Insurance Corporation (FDIC) and the California State Banking Department. California banking laws limit dividends to the lesser of (1) retained earnings or (2) net income for the last three fiscal years, less cash distributions paid during such period. Under this regulation, at December 31, 1992, the Bank may pay dividends of $4,844,000. In 1991, the Bank entered into an agreement with the FDIC which placed restrictions on dividend payments. Under that agreement the ratio of adjusted primary capital to adjusted total assets of the Bank could not be less than 7.5% after payment of dividends. Additionally, the declaration and payment of dividends had to be approved in advance, in writing, by the FDIC Regional Director. The restrictions under that agreement were removed by the FDIC in 1992.

NOTE M - 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 1992.

Balance December 31, 1991	Advances/ New Loans	Payments	Loans Sold	Balance December 31, 1992
		(in thousands)		
$ 10,858	$ 7,216	$ (5,419)	$ (1,934)	$ 10,721

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

The Bank has available unused lines of credit totaling $18,000,000 for Federal funds transactions.

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

At December 31, 1992, future minimum commitments under noncancellable operating and capital leases with initial or remaining terms of one year or more are as follows:

	Capital Leases	Operating Leases
	(in thousands)	
1993	$ 229	$ 440
1994	230	395
1995	138	300
1996	83	214
1997	84	185
Thereafter	1,087	2,336
Future minimum lease payments	1,851	$ 3,870
Less amount representing interest	944	
Present value of future lease payments	$ 907	

Rent expense under operating leases was $556,000 in 1992, $544,000 in 1991, and $465,000 in 1990. At December 31, 1992, the Bank had commitments to sell real estate mortgage loans of $1,095,000 to the Federal Home Loan Mortgage Corporation (Freddie Mac).

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 1992 (in thousands)
Financial instruments whose contract amounts represent credit risk:	
Commitments to extend credit:	
Commercial loans	$26,007
Real estate loans	16,336
Other	10,853
Standby letters of credit	3,322

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 Bankevaluates 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 - EMPLOYEE STOCK OWNERSHIP PLAN

The TriCo Bancshares Employee Stock Ownership Plan (ESOP) is a noncontributory plan established to acquire shares of the Company's common stock for the benefit of all eligible employees.

During 1989, the ESOP arranged financing of $600,000 with a bank. The loan is to be repaid over a five-year period with interest at 90% of prime. The obligation of this plan to repay these borrowings is guaranteed by the Company. Current financial reporting practice requires this contingent liability to be recorded as debt with a corresponding charge to shareholders' equity. The Bank will make contributions to the ESOP sufficient to pay the interest and principal on the loan. The outstanding loan balance as of December 31, 1992 was $120,000.

NOTE R - TRICO BANCSHARES FINANCIAL STATEMENTS

TriCo Bancshares (Parent Only) Balance Sheets

Assets	December 31, 1992	1991
	(in thousands)	
Cash	$ 132	$ 107
Loans	—	264
Investment in Tri Counties Bank	31,426	30,273
Other assets	11	15
Total assets	$ 31,569	$30,659
Liabilities and shareholders' equity		
Liabilities:		
ESOP debt guarantee	$ 120	$ 240
Other liabilities	34	9
Shareholders' equity:		
Preferred stock, no par value:		
Authorized 1,000,000 shares;		
Series A, issued and outstanding 26,724 shares in 1991	—	2,544
Series B, issued and outstanding 8,000 shares	3,899	3,899
Series C, issued and outstanding 16,900 shares	2,187	2,187
Common stock, no par value:		
Authorized 20,000,000 shares; issued and outstanding 2,134,976 and 1,857,117 shares	25,343	21,550
Retained earnings (deficit)	106	470
ESOP debt guarantee	(120)	(240)
Total shareholders' equity	31,415	30,410
Total liabilities and shareholders' equity	$ 31,569	$30,659

Statements of Income

	Years Ended December 31, 1992	1991	1990
	(in thousands)		
Interest income	$ 7	$ 26	$ 32
Administration expense	150	136	113
Loss before equity in net income of Tri Counties Bank	(143)	(110)	(81)
Equity in net income of Tri Counties Bank	5,275	4,390	2,615
Income tax credits	59	45	31
Net income	$5,191	$4,325	$2,565

Statements of Cash Flows

	Years ended December 31, 1992	1991	1990
	(in thousands)		
Operating activities:			
Net income	$ 5,191	$ 4,325	$ 2,565
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed equity in Tri Counties Bank	(1,153)	(2,692)	(999)
Deferred income taxes	(11)	(1)	(13)
Increase in other operating assets and liabilities	40	(4)	(217)
Net cash provided by operating activities	4,067	1,628	1,336
Investing activities:			
Principal collected on loan	264	20	16
Capital contributed to Tri Counties Bank	—	(297)	—
Net cash (used for) provided by investing activities	264	(277)	16
Financing activities:			
Issuance of common stock	—	297	—
Redemption of preferred stock	(2,673)	—	—
Cash dividends — preferred	(797)	(944)	(944)
Cash dividends — common	(836)	(722)	(650)
Net cash (used for) financing activities	(4,306)	(1,369)	(1,594)
Increase (decrease) in cash and cash equivalents	25	(18)	(242)
Cash and cash equivalents at beginning of year	107	125	367
Cash and cash equivalents at end of year	$ 132	$ 107	$ 125

COMMON STOCK INFORMATION

Market Information. The Common Stock of the Company is not listed on any exchange nor is it listed with NASDAQ. There is only a limited trading market in the Company's Common Stock. Since August 15, 1986, Sutro & Co. Incorporated has been a market maker in the Common Stock of the Company and since December 1, 1988, Hoefer & Arnett Incorporated has been a market maker in the Company's Common Stock. Since October 15, 1992 Dean Witter Reynolds Inc. has been a market maker and since November 1, 1992 Kidder, Peabody & Co. has been a market maker.

Application has been made to have the Common Stock of TriCo approved for quotation on the NASDAQ National Market System. The Common Stock of the Company has not been listed on any exchange nor listed with NASDAQ in the past. The following table summarizes, for the quarterly periods indicated, high ask and low bid quotations for the Common Stock as provided by Hoefer & Arnett, Inc. and Sutro & Co., Inc. The quotations indicated reflect interdealer prices, without adjustment for retail mark up, mark down or commission and may not necessarily represent actual transactions. All quotations have been adjusted to reflect a 15% stock dividend paid on April 30, 1991, and a 15% stock dividend paid on April 15, 1992.

	Prices of the Company's Common Stock		Approximate Trading Volume
Quarter Ended:[1,2]	High (Ask)	Low (Bid)	(in shares)
March 31, 1991	$ 11.64	$ 8.87	46,122
June 30, 1991	12.17	9.57	85,251
September 30, 1991	14.13	11.30	36,018
December 31, 1991	14.13	11.30	74,337
March 31, 1992	13.04	9.35	54,916
June 30, 1992	14.50	11.00	54,073
September 30, 1992	15.50	13.50	70,423
December 31, 1992	16.00	14.50	57,839

[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 15% stock dividend paid on April 30, 1991 to holders on record April 11, 1991, and the 15% stock dividend paid on April 15, 1992 to holders on record March 20, 1992.

Holders. As of December 31, 1992, there were approximately 1,519 holders of record of the Company's Common Stock.

Dividends. Each quarter since March 1990, the Company has paid a cash dividend of $.10 per share of Common Stock. In addition to the cash dividends, on April 15, 1992, April 30, 1991 and February 15, 1990 the Company paid Common Stock dividends of 15%, 15% and 20%, respectively. (Cash dividend amounts are not adjusted for the stock dividend affect.) 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 and Series C Preferred Stock.

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

The Company, as sole shareholder of the Bank, is entitled to dividends when and as declared by the Bank's Board of Directors, out of funds legally available therefor, subject to the powers of the Federal Deposit Insurance Corporation (the "FDIC") and the restrictions set forth in the California Financial Code (the "Financial Code"). The Financial Code provides that a bank may not make any distributions in excess of the lessor of: (i) the bank's retained earnings, or (ii) the bank's net income for the last three fiscal years, less the amount of any distributions made by the bank to its shareholders during such period. However, a bank may, with the prior approval of the California Superintendent of Banks (the "Superintendent"), make a distribution to its shareholders of up to the greater of (A) the bank's retained earnings, (B) the bank's net income for its last fiscal year, or (C) the bank's net income for its current fiscal year. If the Superintendent determines that the shareholders' equity of a bank is inadequate or that a distribution by the bank to its shareholders would be unsafe or unsound, the Superintendent may order a bank to refrain from making a proposed distribution. The FDIC may also order a bank to refrain from making a proposed distribution when, in its opinion, the payment of such would be an unsafe or unsound practice. The Bank paid cash dividends to the Company in the aggregate amount of $4,122,097 in 1992.

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

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

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.

Overview

In 1990 management recognized that a changing economic and banking environment would impact the Company. To attempt to position the Company to operate effectively, management began to move away from its then prevailing strategy of continual asset growth with a high dependency on loans to earning assets. In 1991, management adopted an operating strategy designed to moderate asset growth, improve deposit mix, increase core deposits, and strengthen certain loan underwriting requirements with the goal of improved net earnings, consistently strong returns on assets and equity and achieving capital ratios in excess of those required for "well capitalized" institutions.

During the first half of 1992, Management continued its strategy begun in the fourth quarter of 1991 to attract new customers and increase core deposits. This strategy called for paying a 5% interest rate on savings accounts which was higher than rates paid by other banks in the market area. In general, this rate of interest was from 50 to 150 basis points higher than the savings rates paid by other banks and from 100 to 140 basis points higher than short term CD rates. Savings deposits increased $113.7 million to $187.4 million while CD's decreased $49.8 million to $63.2 million. In that period total assets increased $49.5 million (12.9%) to $434,000,000. Investment securities and loans accounted for $46.4 and $5.7 million of the increase respectively.

Net income for 1992 increased $866,000 or 20% to $5,191,000. In 1992, net income available to common shareholders increased $1,013,000 or 30% to $4,394,000 or $2.06 per common share versus $3,381,000 or $1.60 for 1991. In 1991, net income increased $1,760,000 or 69% to $4,325,000 and net income available to common shareholders increased $1,760,000 or 109%. The increase in net income in 1992 was due primarily to lower interest expense. The additional increase in net income available to common shareholders in 1992 was also due to the redemption of TriCo's Series A Preferred Stock. The increase in net income and net income available to common shareholders in 1991 was due primarily to a reduced provision for loan losses, lower interest expense, increased noninterest income, and reduced noninterest expense due to a nonrecurring loss in a real estate investment in 1990.

At year end the Bank had a total risk based capital ratio of 11.9%, a tier I capital ratio of 10.7% and a leverage ratio of 7.2%. These ratios exceed the FDIC capital requirements for qualification as a well capitalized financial institution.

The Company plans to raise approximately $7.0 million in capital through a public stock offering in late first quarter or early second quarter of 1993. Concurrent with this offering the Company will apply for listing on the NASDAQ Stock Market.

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

(A) Results of Operations

The following is a summary of operations for the five years ended December 31, 1992 and Management's discussion and analysis of the significant changes in income and expense accounts presented therein for the most recent two years each as compared with its respective prior period. This information should be read in conjunction with the financial statements and notes related thereto appearing elsewhere in this Annual Report.

	Years Ended December 31,				
	1992	1991[1]	1990[1]	1989[1]	1988[1]
	(in thousands, except earnings per share amounts)				
Interest income:					
Interest and fees on loans	**$ 29,259**	$ 30,952	$ 30,721	$ 25,106	$ 20,676
Interest on investment securities—taxable	**6,043**	3,010	3,269	3,277	3,912
Interest on investment securities—tax exempt[2]	**133**	1,074	1,966	1,631	1,192
Interest on federal funds sold	**51**	278	502	664	126
Total interest income	**35,486**	35,314	36,458	30,678	25,906
Interest expense:					
Interest on deposits	**13,411**	16,001	18,994	15,960	13,003
Interest on short-term borrowing	**65**	20	67	397	74
Interest on long-term debt	**108**	119	99	158	476
Total interest expense	**13,584**	16,140	19,160	16,515	13,553
Net interest income	**21,902**	19,174	17,298	14,163	12,353
Provision for loan losses	**1,895**	1,200	2,450	1,000	780
Net interest income after provision for loan losses	**20,007**	17,974	14,848	13,163	11,573
Other income:					
Service charges, fees and other	**4,282**	4,261	3,639	2,973	3,294
Investment Securities gains (losses), net	**367**	39	(134)	(186)	(5)
Total other income	**4,649**	4,300	3,505	2,787	3,289
Other expenses:					
Salaries and employee benefits	**7,475**	7,285	6,144	5,739	5,165
Other, net	**8,293**	7,539	7,706	4,844	5,308
Total other expenses	**15,768**	14,824	13,850	10,583	10,473
Net income before income taxes	**8,888**	7,450	4,503	5,367	4,389
Income taxes	**3,640**	2,772	1,291	1,676	1,469
Tax equivalent adjustment[2]	**57**	353	647	536	392
Net income	**$ 5,191**	$ 4,325	$ 2,565	$ 3,155	$ 2,528
Earnings per common share	**$ 2.06**	$ 1.60	$ 0.77	$ 1.29	$ 1.12
Selected Balance Sheet Information					
Total Assets	**$434,452**	$384,482	$376,244	$354,688	$297,468
Long-term Debt	**$ 907**	$ 1,027	$ 1,130	$ 586	$ 1,451
Preferred Stock	**$ 6,086**	$ 8,630	$ 8,630	$ 8,630	$ 6,443

[1]Certain reclassifications have been made in the 1990, 1989 and 1988 summary of operations to conform to classifications in 1991.
[2]Interest on tax-free securities is reported on a tax equivalent basis of 1.76 for 1992, 1.49 for 1991, 1990, 1989 and 1988.

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

(A) Results of Operations (Continued)

Net Interest Income/Net Interest Margin

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

For 1992 net interest income was $21,902,000, which represented a $2,728,000 (14.2%) increase over 1991. In the same period the net interest margin reflected a 20 basis point decrease from 5.96% to 5.76%. Net interest income increased as growth in securities and loans offset the decrease in average yields for 1992. Conversely, the increase in deposits in 1992 was greatly offset by the decrease in average yields paid on deposits in 1992 as compared to 1991. Thus, the Company's net interest margin reflected a decrease as most of the growth in assets was in securities which generally have lower yields than loans. The decrease in deposit rates in 1992 did not offset lower investment yields.

For 1991, net interest income increased to $19,174,000 up $1,876,000 (10.8%) over 1990 even though average earning assets remained fairly constant. Net interest margin increased from 5.38% for 1990 to 5.96% for 1991. During 1991 management was able to improve net interest income by changing the mix of the Company's earning assets to include a higher percentage of loans, changing the mix of the deposits to reduce its higher cost deposits, and reducing the interest paid for deposits at a greater rate than loan rates were lowered.

Interest income for 1992 was slightly greater ($172,000) than for 1991 even though lower interest rates prevailed throughout the year. Average interest rates earned on assets decreased 165 basis points from those earned in 1991. This decline reflected the full year effects of rate changes which had taken place in 1991 as well as further declines in 1992. Real estate loan fee income increased $328,000 (53%) due to the increased volume of mortgage refinancings. The increase in average investment securities from $52,525,000 in 1991 to $103,836,000 in 1992 accounted for a $3,990,000 increase in interest income. Average loans outstanding also increased and contributed $1,295,000 of additional revenue.

Interest income in 1991 decreased $1,144,000 or 3.1% to $35,314,000 from the 1990 level. Interest rates declined on all categories of earning assets during 1991. The Bank's base lending rate started 1991 at 10% and ended at 6.75%. The effects of the lower loan rates were mitigated in part by a 4.2% growth in average loans outstanding during 1991. Funds were shifted from investment securities and federal funds sold which earned lower rates of interest.

The weighted average interest rate paid on interest bearing liabilities during 1992 decreased 176 basis points from the prior year. Total interest paid in 1992 decreased $2,556,000. Time deposit interest decreased $5,327,000 (60%) which was reflective of the lower rates and a change in volume as customers moved funds into regular savings. Interest paid on savings increased $4,249,000 due to increased volume.

Interest expense decreased $3,020,000 or 15.8% in 1991. Lower interest rates accounted for most of this decrease. The largest decrease occurred in the interest paid on time deposits as a result of the lowering by the Company of the rates paid on such deposits compared to local competitors. For part of the year, management purposely lowered rates paid on those deposits below rates paid by local competition. This tactic resulted in money moving from the Bank which allowed management to reduce the assets of the Bank.

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

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

(A) Results of Operations (Continued)

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

	1992			1991			1990		
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]	**$275,178**	**$29,259**	**10.63 %**	$264,130	$30,952	11.72 %	$253,546	$30,721	12.12 %
Securities - taxable	**102,745**	**6,043**	**5.89 %**	40,906	3,010	7.36 %	39,857	3,269	8.20 %
Securities - nontaxable[4]	**1,091**	**133**	**12.19 %**	11,619	1,074	9.24 %	21,807	1,966	9.02 %
Federal funds sold	**1,496**	**51**	**3.41 %**	5,110	278	5.44 %	6,308	502	7.96 %
Total earning assets	**380,510**	**35,486**	**9.33 %**	321,765	35,314	10.98 %	321,518	36,458	11.34 %
Cash and due from banks	**22,054**			20,440			20,984		
Premises and equipment	**9,193**			9,711			9,093		
Other assets, net	**13,754**			13,534			16,248		
Less: Allowance for loan losses	**(3,591)**			(3,404)			(2,559)		
Total assets	**$421,920**			$362,046			$365,284		
Liabilities and shareholders' equity									
Interest-bearing demand deposits	**$ 91,853**	**3,115**	**3.39 %**	$ 93,210	4,627	4.96 %	$ 89,977	5,154	5.73 %
Savings deposits	**160,048**	**6,743**	**4.21 %**	46,301	2,494	5.39 %	32,511	1,766	5.43 %
Time deposits	**69,601**	**3,553**	**5.10 %**	130,076	8,880	6.83 %	149,058	12,074	8.10 %
Federal funds purchased	**1,638**	**65**	**3.97 %**	389	20	5.14 %	769	67	8.71 %
Long-term debt	**968**	**108**	**11.16 %**	1,077	119	11.05 %	797	99	12.42 %
Total interest-bearing liabilities	**324,108**	**13,584**	**4.19 %**	271,053	16,140	5.95 %	273,112	19,160	7.02 %
Noninterest-bearing deposits	**61,880**			56,719			59,303		
Other liabilities	**7,342**			5,167			5,785		
Shareholders' equity	**28,590**			29,107			27,084		
Total liabilities and shareholder's equity	**$421,920**			$362,046			$365,284		
Net interest rate spread[5]			**5.14 %**			5.03 %			4.32 %
Net interest income/net interest margin[6]		**$21,902**	**5.76 %**		$19,174	5.96 %		$17,298	5.38 %

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 $1,697,000 in 1992, $1,335,000 in 1991 and $1,399,000 in 1990.
4 Interest income is stated on a tax equivalent basis of 1.76 for 1992 and 1.49 for 1991 and 1990.
5 Net interest rate spread represents the average yield earned on interest-earning assets less the average rate paid on interest-bearing liabilities.
6 Net interest margin is computed by dividing net interest income by total average earning assets.

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

(A) Results of Operations (Continued)

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

	1992 over 1991			1991 over 1990		
	Volume	Yield/ Rate [4]	Total	Volume	Yield/ Rate [4]	Total
			(in thousands)			
Increase (decrease) in interest income:						
Loans[1,2]	$ 1,295	$(2,988)	$(1,693)	$1,282	$(1,051)	$ 231
Investment securities[3]	3,990	(1,898)	2,092	(776)	(375)	(1,151)
Federal funds sold	(197)	(30)	(227)	(95)	(129)	(224)
Total	5,088	(4,916)	172	411	(1,555)	(1,144)
Increase (decrease) in interest expense:						
Demand deposits (interest-bearing)	(67)	(1,445)	(1,512)	185	(712)	(527)
Savings deposits	6,127	(1,878)	4,249	749	(21)	728
Time deposits	(4,128)	(1,199)	(5,327)	(1,538)	(1,656)	(3,194)
Federal funds purchased	64	(19)	45	(33)	(14)	(47)
Long-term borrowings	(12)	1	(11)	35	(15)	20
Total	1,984	(4,540)	(2,556)	(602)	(2,418)	(3,020)
Increase (decrease) in net interest income	$ 3,104	$ (376)	$ 2,728	$1,013	$ 863	$1,876

[1] Nonaccrual loans are included.
[2] Interest income on loans includes fees on loans of $1,697,000 in 1992, $1,335,000 in 1991 and $1,399,000 in 1990.
[3] Interest income is stated on a tax equivalent basis of 1.76 for 1992 and 1.49 for 1991 and 1990.
[4] The rate/volume variance has been included in the rate variance.

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

(A) Results of Operations (Continued)

Provision for Loan Losses

During 1992 the Bank provided $1,895,000 for possible loan losses. This amount netted with the loans charged off($1,400,000)and recoveries of loans previously charged off ($157,000) results in an increase of $652,000 to the allowance for loan losses. While loans charged off for 1992 were only $122,000 more than in 1991, Management believed it was prudent to increase the provision as economic conditions in the Bank's service area remained relatively weak throughout 1992.

In 1991 the Bank provided $1,200,000 for possible loan losses. This was down significantly from the $2,450,000 provided in 1990. Net loans charged-off were $843,000 versus $1,615,000 in 1990. Part of this improvement was due to a recovery of $265,000 from the 1990 consortium charge-off. Since the loans charged-off were less than the provision, the Allowance for Loan Losses increased $357,000.

Service Charges and Fees and Other Income

In 1992 service charges income increased 5.5% ($122,000). There was no one significant change as the increase was due mostly to increased volume. In 1991 service charges increased on deposit accounts 15.8% to $2,093,000 from $1,807,000 in 1990. The increase was attributed to both increased volume and higher service fees.

In total, there was no significant difference in other bank fees between 1992 and 1991 ($1,499,000 and $1,436,000 respectively.) However, fees received for commissions on sales of annuities and mutual funds increased 43% to $706,000. This increase was offset in part by a reduction in fees on savings accounts and early withdrawal fees on time certificates. Other fees in 1991 were $1,436,000 versus $1,072,000 in 1990. Most of the income growth in this category was attributed to fees on sales of annuities.

Other income in 1991 reflected a large loan recovery of approximately $380,000. Since this was a non recurring item, 1992 other income is lower than that in the prior year.

Securities Transactions

In prior years as the Bank grew, loan demand absorbed the increase in funds available for deployment in earning assets. As recently as September 1991 the loan to deposit ratio was approximately 83%. At the end of 1992 this ratio was about 69%. This change in the Bank's operating environment meant that more earning assets would be placed in debt securities. The declining interest rates in 1992 provided Management with the opportunity to reposition the investment securities portfolio. Management also realized that it would need to designate some portion of the portfolio to use in managing the Bank's liquidity and interest rate sensitivity. As discussed in Note A of the financial statements, the portfolio was divided into two categories: Investment securities and Securities held for sale. The securities held for sale are subject to revaluation at the lower of cost or market. Under this accounting principle, unrealized losses are charged to current period income.

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. This compared to a gain of $39,000 on sales of securities in 1991 and a net loss of $134,000 in 1990.

The Bank does not actively trade in the securities market, but does elect, for liquidity purposes, to sell certain securities when it is to its advantage during periods of declining interest rates or to adjust the composition of the securities portfolio. The declining interest rates in 1991 and 1992 provided an opportunity for the Bank to dispose of some long term securities and to reposition its securities portfolio. At the beginning of 1991 the Bank's security portfolio had an average maturity date of August 2001. By the end of 1991 the average maturity date was April of 1996. At December 31, 1992 the average maturity date was April 1995. Repositioning the securities portfolio to shorter term securities has greatly reduced the Bank's potential exposure to interest rate risk.

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

(A) Results of Operations (Continued)

Salaries and Benefits

Salary and benefit expense had a modest growth of 2.6% in 1992. The average full time equivalent employees (FTE) was down five employees. Salary and benefit expenses increased 18.6% in 1991. The 1991 increase reflected a 15.7% increase in benefits expense, normal salary increases, a slight increase in staffing levels, accrual of a Management incentive pool (none was awarded in 1990), and a special award of Common Stock to management.

Other Expenses

Recurring type operating expenses included in other expenses reflected a 2.5% increase in 1992. Within these expenses certain categories of expense had some large fluctuations. Advertising was used in the first half of the year to promote savings accounts, but was not used extensively in the second half of 1992. This expense decreased $153,000 (31%). Directors fees decreased by the amount of the 1991 stock award discussed below. Other accounts which had large decreases were: loss on sale of fixed assets, $92,000 and office supplies, $47,000. FDIC insurance and State assessment increases of $138,000 (19.5%) were the result of increased deposits and higher rates. Consulting fees, which increased $124,000 from $9,000, were mostly incurred for a project to select new banking software. OREO expense and provision for losses increased $72,000. An increase in postage expense of $57,000 (18%) was the result of increased volume.

The other expense category includes non-interest (income)/expenses (excluding gains or losses from securities) from the Bank's real estate development subsidiary. A valuation allowance of $460,000 was recorded in the subsidiary in 1992. This valuation allowance adjusted the cost basis of certain properties held by the subsidiary to the then current market value.

Other operating expenses decreased 2% in 1991. However, in 1990 other expenses included a loss of $1,493,000 incurred in the sale of the Bank's interest in a syndicated real estate limited partnership. Adjusting the 1990 operating expenses for that loss resulted in an increase of $1,326,000 or 21% in 1991.

In general, increases in the premises and equipment expenses of $410,000 in 1991 were reflective of the first full year of operations of the Yuba City Branch which was opened in August of 1990, costs related to ATM's which were installed at each branch location during 1990, and new computer equipment which was installed in June of 1990. Advertising expense increased 16% or $68,000 in 1991. The Bank used television and print media to promote safety and soundness through the Fortress Balance Sheet and to promote the Bank's VISA/MasterCard products. The Bank incurred an 83% increase of $322,000 for FDIC and State assessments. This increase was the result of higher assessment rates. Directors fees increased $189,000 due to a special award of Common Stock. The Bank was aggressive in pursuing delinquent and charged-off loans. Consequently, legal costs increased 88% or $157,000. Postage increased $71,000 due to rate and volume increases.

Provision for Taxes

The effective tax rate on income was 41.2% in 1992. The effective tax rate is greater than the federal statutory tax rate due to state tax expense of $941,000 offset by tax-free interest of $81,000 from investment securities. Similarly, the effective tax rate in 1991 was 39.1% due to state tax expense of $882,000 offset by tax-free interest of $721,000. At 1992 year end, the Bank held only $561,000 of tax exempt securities. There is no intention to increase these holdings at this time. Therefore, the effective tax rate can be expected to be at or near the combined Federal and California statutory rates in 1993.

Return on Average Assets and Equity

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

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

(A) Results of Operations (Continued)

	1992	1991	1990
Return on assets	**1.23%**	1.19%	.70%
Return on shareholders' equity	**18.16%**	14.86%	9.47%
Return on common shareholders' equity	**18.66%**	16.51%	8.78%
Shareholders' equity to assets	**6.78%**	8.04%	7.41%
Common shareholders' equity to assets	**5.64%**	5.66%	5.05%
Common shareholders' dividend payout ratio	**19.03%**	21.35%	40.10%

Return on assets reflected a modest increase to 1.23% in 1992 from 1.19% in 1991. The 20% earnings increase achieved in 1992 was offset by a 16.5% growth in assets. In 1991 return on assets had increased from .70% in 1990 as the result of a 68.5% increase in earnings and a 1% decrease in assets.

The return on shareholders' equity increased from 14.86% in 1991 to 18.16% in 1992. The improved performance measured by this ratio was due to increased earnings and the July 1st redemption of the Series A Preferred Stock. In 1991 the return on shareholders equity had increased due to the large increase in earnings.

The return on Common shareholders' equity increased from 16.51% in 1991 to 18.66% in 1992. The higher earnings and the reduction in dividends paid on the Series A Preferred Stock redeemed resulted in the higher return in 1992. The return on Common shareholders equity rebounded to 16.51% in 1991 from 8.78% in 1990. It was reflective of the significant increase in 1991 earnings.

The decrease in total shareholders equity to assets ratio to 6.78% in 1992 resulted from the redemption of the Series A Preferred Stock and the growth in assets offset by the increased earnings. In 1991 this ratio had increased to 8.04%. The increase in earnings and the slight decrease in average assets contributed to this result.

The Common shareholders' equity to assets reflected only a slight decrease to 5.64% in 1992. It was impacted by the growth in assets offset by the increased earnings and the reduction of dividends paid to Series A Preferred shareholders. In 1991 this ratio had increased to 5.66%.

The reduction in the Common shareholders payout ratio from 40.10% in 1990 to 21.35% in 1991 to 19.03% in 1992 reflects the increased earnings available for the Common shareholders after the 15% stock dividends issued in April 1991 and 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, 1992, these four categories accounted for approximately 52%, 16%, 26% and 6%, respectively, of the Company's loan portfolio. The interest rates charged for the loans made by the Company vary with the degree of risk, the size and maturity of the loans, the borrower's relationship with the Company, and prevailing money market rates indicative of the Company's cost of funds.

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

Average loan balances for 1992 were up 4.2% over 1991. However, the year end loan balances of $274,562,000 were only .6% higher. Economic conditions and rigorous underwriting standards contributed to this result. At year end 1992, the loan to deposit ratio was 68.8% versus 78.3% at December 31, 1991.

Year end loan balances at December 31, 1991 reflected a modest 5.4% ($13,947,000) growth from the prior year. The lower growth rate from those realized in prior years resulted from lower economic activity in general and higher loan underwriting standards imposed by the Bank.

(B) Balance Sheet Analysis (Continued)

Some small changes took place in the loan mix in 1992. By year end, consumer installment and real estate construction loans were 16.3% and 5.6% of loans outstanding versus 17.9% and 7.5% in 1991. As the result of growth in home equity loans, real estate mortgage loans increased from 23.0% to 26.0%.

Loan mix did not change significantly during 1991. Commercial and consumer loans remained constant at 52% and 18% of loans outstanding, respectively. Real estate mortgage loans increased slightly to 23% from 21%. Real estate construction decreased from 9% to 7%.

Management does not foresee making significant changes to the loan mix in the coming year. Although the winter rains have eased the drought in California, water deliveries from the State and Federal water projects to agricultural customers are still expected to be well below normal. This could affect 1993 agricultural loan demand and performance.

Loan Portfolio Composite

	December 31,				
	1992	1991	1990	1989	1988
			(in thousands)		
Commercial, financial and agricultural	**$143,158**	$140,725	$134,623	$119,860	$ 98,513
Consumer installment	**44,704**	48,930	46,486	37,748	32,741
Real estate mortgage	**71,306**	62,831	55,197	55,933	45,753
Real estate construction	**15,394**	20,342	22,575	11,144	9,253
Banker's acceptances and commercial paper	**—**	—	—	5,331	970
Total loans	**$274,562**	$272,828	$258,881	$230,016	$187,230

Nonaccrual, Past Due and Restructured Loans

Nonperforming loans decreased 6.2% to a total of $2,128,000 at December 31, 1992. Nonperforming assets increased to $3,440,000 or approximately $450,000 over 1991 levels. Nonperforming loans represented 0.8% of total loans outstanding at the end of 1992. There was a 59.6% decrease in nonaccrual loans for the year ended December 31, 1992, due mostly to one large credit which became current in 1992. This was partially offset by other increases. The higher level of loans past due 90 days or more was reflective of slower payments due to weaker economic conditions. OREO also increased to $1,312,000 at year end 1992 compared to $725,000 at the end of 1991.

During 1991, nonperforming loans increased $707,000 to $2,268,000 or 0.8% of total loans at December 31, 1991. The higher level of nonaccrual loans versus loans past due 90 days or more in the 1991 year end balances was reflective of weaker economic conditions than were present at the end of 1990.

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, generally any previously accrued but

(B) Balance Sheet Analysis (Continued)

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, 1992 if all such loans had been current in accordance with their original terms totalled $80,142. Interest income actually recognized on these loans in 1992 was $31,731.

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,				
	1992	1991	1990	1989	1988
	(dollars in thousands)				
Nonaccrual loans	**$ 517**	$ 1,279	$ 437	$ 403	$ 701
Accruing loans past due 90 days or more	**1,611**	989	881	352	338
Restructured loans (in compliance with modified terms)	**—**	—	243	285	340
Total nonperforming loans	**2,128**	2,268	1,561	1,040	1,379
Other real estate owned	**1,312**	725	10	380	942
Total nonperforming assets	**$ 3,440**	$ 2,993	$ 1,571	$ 1,420	$ 2,321
Nonincome producing investments in real estate held by Bank's real estate development subsidiary	**$ 1,240**	$ 1,735	$ 2,872	$ 4,150	$ 3,700
Nonperforming loans to total loans	**0.78%**	0.83%	0.60%	0.45%	0.74%
Allowance for loan losses to nonperforming loans	**193%**	153%	199%	218%	137%
Nonperforming assets to total assets	**.79%**	.78%	.42%	.40%	.78%
Allowance for loan losses to nonperforming assets	**120%**	116%	197%	160%	81%

Allowance for Loan Losses Activity

In determining the adequacy of the loan loss allowance, 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 economic conditions, an increase of bankruptcy filings and increases in past due loans, Management increased the allowance for loan losses to 1.50% of outstanding loans at December 31, 1992. It is anticipated the Bank will continue to provide for loan losses at this higher level until economic conditions improve.

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

(B) Balance Sheet Analysis (Continued)

Management believes that the $4,111,000 allowance for loan losses at December 31, 1992 was 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.

Although the volume of nonperforming assets will depend on the future economic environment, in addition to the assets in the table on the previous page, Management of the Company has identified approximately $1,750,000 in potential problem loans as to which it has serious doubts as to the ability of the borrowers to comply with the present repayment terms and which may become nonperforming assets, based on known information about possible credit problems of the borrower at December 31, 1992.

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

	December 31,				
	1992	1991	1990	1989	1988
	(amounts in thousands)				
Balance, beginning of year	**$ 3,459**	$ 3,102	$ 2,267	$ 1,891	$ 1,518
Provision charged to operations	**1,895**	1,200	2,450	1,000	780
Loans charged off:					
Commercial, financial and agricultural	**(705)**	(832)	(1,483)	(546)	(353)
Consumer installment	**(695)**	(446)	(242)	(248)	(158)
Real estate mortgage	—	—	—	—	(10)
Total loans charged-off	**(1,400)**	(1,278)	(1,725)	(794)	(521)
Recoveries:					
Commercial, financial and agricultural	**106**	367	62	122	47
Consumer installment	**51**	68	48	48	67
Total recoveries	**157**	435	110	170	114
Net loans charged-off	**(1,243)**	(843)	(1,615)	(624)	(407)
Balance, year end	**$ 4,111**	$ 3,459	$ 3,102	$ 2,267	$ 1,891
Average total loans	**$275,178**	$264,130	$253,546	$202,946	$179,381
Ratios:					
Net charge-offs during period to average loans outstanding during period	**.45%**	.32%	.64%	.31%	.23%
Provison for loan losses to average loans outstanding	**.69%**	.45%	.97%	.49%	.43%
Allowance to loans at year end[1]	**1.50%**	1.27%	1.20%	1.01%	1.02%

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

Investment in Real Estate Properties

At December 31, 1992, $1,240,000 of property was held by a subsidiary of the Bank for the purposes of development or to be held as income-earning assets. Sales and cost basis adjustments of $2,214,000 offset by acquisition and development costs of $392,000 resulted in a reduction in investment properties of $1,822,000. Similarly the decrease of $1,572,000 in 1991 resulted from sales of $2,295,000 offset by acquisition and development costs of $723,000.

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

(B) Balance Sheet Analysis (Continued)

Other Real Estate Owned

The December 31, 1992 balance of Other Real Estate Owned (O.R.E.O.) was $1,312,000 versus $725,000 in 1991. Properties foreclosed in 1992 and remaining in the Bank's possession at year end were valued at $768,000. O.R.E.O properties are mainly commercial buildings located in the Bank's service area. Management anticipates some problems in selling these properties due to current economic conditions. O.R.E.O. had increased $715,000 in 1991.

Deposits

Total deposits grew 14.6% in 1992. The strategy to pay an interest rate on savings accounts that was higher than was being paid by local competitors worked well in the first six months of 1992. Deposits grew by $51,100,000 in that period. At year end, savings accounts were up 140.9% and time deposits were down 56.1% from December 31, 1991 levels. After July 1992 when all rates paid on interest bearing accounts were brought more in line with local market rates, the growth in deposits stopped. Management anticipates using a similar strategy to attract new customers and increase deposits in 1993.

In 1991, total deposits increased only 2.0%. There were some significant changes in the deposit mix. Most of the mix changes were the result of Management's actions taken in conjunction with the Fortress Balance Sheet strategy. Noninterest-bearing demand and interest-bearing demand deposits remained at approximately 19% and 27% of total deposits respectively. Savings deposits moved from 10% to 21% and time certificates decreased from 44% to 33%.

Accrued Interest Payable

At December 31, 1992, accrued interest payable had decreased $1,492,000 or 64.4% from the balance of $2,318,000 at December 31, 1991. This reduction was due to the lower interest rates and the change in deposit mix. Savings account interest is paid at the end of each quarter whereas interest on many time certificates is not paid until maturity. Accrued interest payable had declined $1,682,000 in 1991. That decline was also because of lower interest rates and a change in the deposit mix toward savings accounts.

Long-Term Debt

No new long-term debt was added in 1992 or in 1991. The decrease in balances is reflective of normal payments.

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. A bank's qualifying total capital consists of two types of capital components: "core capital elements" (comprising Tier 1 capital) and "supplementary capital elements" (comprising Tier 2 capital). Until December 30, 1992 the Company and the Bank were required to maintain a minimum ratio for Tier 1 capital to risk weighted assets of 3.25% and a minimum ratio of total capital (after deductions) to risk weighted assets of 7.25%. As of December 31, 1991, the Company's risk-based capital ratio was 10.34% of Tier 1 capital and 11.52% of total capital. As of December 31,1992, the minimum ratio of Tier 1 capital to risk weighted assets increased to 4.0% and the minimum ratio of total capital to risk weighted assets increased to 8.0%. As of December 31, 1992, the Company's risk-based capital ratio was 10.66% of Tier 1 capital and 11.91% of total capital.

In addition, the regulators have promulgated capital leverage guidelines designed to supplement the risk-base capital guidelines. Banks and bank holding companies must maintain a minimum ratio for 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, 1992 the Company's Tier 1 capital was 7.23% of adjusted total assets. At December 31, 1991 this ratio was 7.91% of adjusted total assets.

(B) Balance Sheet Analysis (Continued)

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.

Liquidity and Interest Rate Sensitivity

Liquidity refers to the Company's ability to maintain a cash flow adequate to fund operations and meet obligations and other commitments on a timely basis. Liquidity is managed by the Company primarily at the Bank level. The Company's usual and primary sources of funds have been interest-bearing and noninterest-bearing deposits and cash flows from operating activities. Funds generated from loan payments and sales of real estate mortgages have generally been reinvested in the loan portfolio. 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.

The Company has maintained a portion of its assets in a diversified portfolio of investment securities. In 1992 the portfolio was divided into two parts: investment securities and securities held for sale. At December 31, 1992 securities held for sale, amounting to $49,037,000 provided an additional source of liquidity. These securities plus cash and due from banks in excess of reserve requirements totalled $68,015,000 which was 15.7% of total assets at year end. The Company also had available unused lines of credit totalling $18,000,000.

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

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

	Amounts as of December 31,	
	1992	1991
	(in thousands)	
Time remaining until maturity:		
Less than 3 months	**$ 432**	$ 1,787
3 months to 6 months	**207**	937
6 months to 12 months	**100**	300
More than 12 months	**100**	200
Total	**$ 839**	$ 3,224

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, 1992 and December 31, 1991. Variable rate loans comprised 58.0% of the Bank's loan portfolio at December 31, 1992 and 53.1% at December 31, 1991.

Loan Maturities - December 31, 1992

	Within One Year	After One But Within 5 Years	After 5 Years	Total
		(in thousands)		
Loans with predetermined interest rates:				
Commercial, financial and agricultural	$ 2,349	$ 16,571	$ 28,160	$ 47,080
Consumer installment	7,345	10,001	26,828	44,174
Real estate mortgage	154	918	22,516	23,588
Real estate construction	308	234	—	542
	10,156	27,724	77,504	115,384
Loans tied to Bank's base commercial loan rate:				
Commercial, financial and agricultural	27,509	15,677	52,892	96,078
Consumer installment	205	163	162	530
Real estate mortgage	4	1,753	45,960	47,718
Real estate construction	13,603	1,077	173	14,852
	41,321	18,670	99,187	159,178
Total loans	$ 51,477	$ 46,394	$176,691	$274,562

(B) Balance Sheet Analysis (Continued)

Loan Maturities - December 31, 1991

	Within One Year	After One But Within 5 Years	After 5 Years	Total
	(in thousands)			
Loans with predetermined interest rates:				
Commercial, financial and agricultural	$ 3,370	$ 21,451	$ 25,764	$ 50,585
Consumer installment	7,254	12,737	28,226	48,217
Real estate mortgage	64	1,887	24,406	26,357
Real estate construction	1,906	—	236	2,142
	12,594	36,075	78,632	127,301
Loans tied to Bank's base commercial loan rate:				
Commercial, financial and agricultural	31,218	15,307	42,999	89,524
Consumer installment	418	225	50	693
Real estate mortgage	163	1,458	34,210	35,831
Real estate construction	10,123	7,680	398	18,201
	41,922	24,670	77,657	144,249
Total loans	$ 54,516	$ 60,745	$156,289	$271,550

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, 1992 and 1991:

Interest Rate Sensitivity - December 31, 1992

	Repricing within:				
	3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years
	(amounts in thousands)				
Interest-earning assets:					
Securities	$ 15,013	$ 2,069	$ 13,697	$ 81,298	$ 5,243
Loans	152,181	5,831	12,984	36,035	67,531
Total Interest-earning assets	$ 167,194	$ 7,900	$ 26,681	$117,333	$ 72,774
Interest-bearing liabilities					
Demand Deposits	$ 99,560	—	—	—	—
Savings	177,596	—	—	—	—
Time	21,706	14,008	9,174	4,786	—
Total Interest-bearing liabilities	$ 298,862	$ 14,008	$ 9,174	$ 4,786	$ —
Interest sensitivity gap	$ (131,668)	$ (6,108)	$ 17,507	$112,547	$ 72,774
Cumulative sensitivity gap	(131,668)	(137,776)	(120,269)	(7,722)	65,052
As a percentage of earning assets:					
Interest sensitivity gap	(33.60%)	(1.56%)	4.47%	28.72%	18.57%
Cumulative sensitivity gap	(33.60%)	(35.16%)	(30.69%)	(1.97%)	16.60%

Interest Rate Sensitivity - December 31, 1991

	Repricing within:				
	3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years
	(amounts in thousands)				
Interest-earning assets	$158,576	$ 6,639	$ 24,716	$ 70,186	$ 78,855
Interest-bearing liabilities	229,515	29,119	15,516	7,034	—
Interest sensitivity gap	$ (70,939)	$ (22,480)	$ 9,200	$ 63,152	$ 78,855
Cumulative gap	$ (70,939)	$ (93,419)	$ (84,219)	$ (21,067)	$ 57,788
As a percentage of earning assets:					
Interest sensitivity gap	(20.93%)	(6.63%)	2.71%	18.63%	23.26%
Cumulative sensitivity gap	(20.93%)	(27.56%)	(24.85%)	(6.22%)	17.04%

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

(B) Balance Sheet Analysis (Continued)

Securities Maturities and Weighted Average Yields - December 31, 1992

	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
	(amounts in thousands)									
Investment Securities										
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 16,479	5.40 %	$ 39,081	5.73%	$ —	—	$ —	—	$ 55,560	5.63%
Obligations of states and political subdivisions	286	6.69 %	275	5.85%	—	—	—	—	561	6.28%
Mortgage-backed securities	—	—	10,583	6.14%	995	7.13 %	—	—	11,578	6.23%
Other securities	—	—	—	—	—	—	324	—	324	—
Total investment securities	$ 16,765	5.42 %	$ 49,939	5.82%	$ 995	7.13 %	$ 324	—	$ 68,023	5.71%
Securities Held for Sale										
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 14,014	3.85 %	$ 31,359	5.94%	$ 2,077	6.93 %	$ —	—	$ 47,450	5.36%
Obligations of states and political subdivisions	—	—	—	—	—	—	—	—	—	—
Mortgage-backed securities	—	—	—	—	917	5.47 %	—	—	917	5.47%
Other securities	—	—	—	—	—	—	930	5.25 %	930	5.25%
Total securities held for sale	$ 14,014	3.85 %	$ 31,359	5.94%	$ 2,994	6.48 %	$ 930	5.25 %	$ 49,297	5.36%
Total all securities	$ 30,779	4.70 %	$ 81,298	5.86%	$ 3,989	6.64 %	$ 1,254	3.89 %	$117,320	5.57%
Less valuation allowance on securities held for sale									(260)	
Total									$117,060	

(B) Balance Sheet Analysis (Continued)

Investment Securities Maturities - December 31, 1991

	Within One Year	After One But Within 5 Years	After 5 But Within 10 Years	After 10 Years	Total
	(amounts in thousands)				
U.S. Treasury and other U.S. Government agencies and corporations	$24,838	$31,482	$ —	$ —	$56,320
State and political subdivisions	1,359	563	—	—	1,922
Mortgage-backed	—	—	—	6,829	6,829
Other investment securities	—	—	951	—	951
Total book value	$26,197	$32,045	$ 951	$6,829	$66,022
Average Yield[1]	5.51%	6.26%	6.50%	8.08%	6.19%

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

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.

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.

In this first year of 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. Loan receivables and deposits have a long-term time horizon which required more complex calculations for fair value determination. Loan receivables are grouped into homogeneous categories and broken down between fixed and variable rate instruments. Loans with an immediate repricing variable rate are valued at carrying value. Quoted market values are used for the fair value estimate of real estate mortgage loans. For those instruments with a fixed rate, the fair value is estimated by discounting the future cash flows using current rates. Credit risk and repricing risk factors are included in the current rates.

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 year end the fair values calculated on the Company's assets are 1.5% above the carrying values. This increase is in the securities and loan categories. Since the Company does not generally sell loans other than real estate mortgages, and the investment securities in most cases are held to maturity, these higher fair values will probably not have a significant effect on future operations.

TRICO BANCSHARES - EXECUTIVE OFFICERS

Robert H. Steveson	President & Chief Executive Officer
Joan Jones	Executive Vice President & Chief Financial Officer
Fred W. Hignell, III	Secretary

TRI COUNTIES BANK - ADMINISTRATION

Robert H. Steveson	President & Chief Executive Officer
Joan Jones	Executive Vice President & Chief Administrative Officer & Chief Financial Officer
Carroll Taresh	Executive Vice President & Chief Operating Officer
Dan Herbert	Senior Vice President & Loan Administrator
George Barstow	Senior Vice President
Lawrence Sparks	Vice President of Loan Quality
Ruth Irvine	Vice President & Personnel Manager
Kathy Allan	Vice President & Compliance Officer
Debra Howell	Loan Production Manager
Kathleen Richardson	Executive Secretary
Robert Stanberry	Controller
Kimberly D. Williams	Shareholder Relations Administrator
Linda Flowerdew	Operations Manager
Faye Mitchell	Training Officer

TRI COUNTIES BANK - DEPARTMENT MANAGERS

Technical Services/Chico	**Ray Rios,** Manager
Real Estate Department/Chico	**Erika Bender,** Manager
Audit Department/Chico	**Fred Bryant,** Vice President & Chief Auditor
INVEST/Chico & Redding	**Ron Bee,** Manager
Loan Center/Chico	**Elizabeth Craig,** Acting Manager
Purchasing & Printing Department/Chico	**Beverly K. Larsen,** Manager
VISA/MasterCard Department/Chico	**Vickie Gibson,** Manager
Operations Center/Chico	**Judy Mason,** Manager

TRI COUNTIES BANK - LENDING SPECIALISTS

David Raven	Vice President & Loan Specialist/Chico
Ed Richter	Vice President & Loan Specialist/Willows
Chandler Church	Vice President & Area Manager/Yuba City

TRI COUNTIES BANK BRANCH LOCATIONS/MANAGERS

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
Ty Thresher
Vice President & 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
Walt Bender
Manager

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

Willows Branch
210 North Tehama Street
P.O. Box 1158
Willows, California 95988
(916) 934-2191
Ray Block
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 994738
Redding, California 96099
(916) 244-4700
Nolan C. Hawkins
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
Suzanne Shoemaker
Manager

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

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

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

Loan Administration
40 Philadelphia Drive
Chico, California 95926
(916) 898-0320

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, 1992, as filed with the Securities and Exchange Commission, including the financial statements and schedules thereto. The report may be obtained by written request to: **Corporate Secretary, TriCo Bancshares, 15 Independence Circle, Chico, CA 95926.**

TRI COUNTIES BANK

Fourteen Branches From the Sutter Buttes to the Oregon Border

Yuba City

Chico
Park Plaza

Chico
Pillsbury

Chico
Chico Mall

Durham

Orland

Willows

Cottonwood

Redding

Palo Cedro

Burney

Fall River Mills

Bieber

Yreka

TRI COUNTIES BANK COUNTRY

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