TRI COUNTIES BANK

ANNUAL REPORT 1980

Dear Shareholder:

We are pleased to report that 1980 was an exciting and eventful year for your bank.

In the midst of national economic uncertainities the economy in Northern California was fairly stable and provided a base for continued growth of Tri Counties Bank. We are able to report a profit for the year of $211,491.00 with total assets up to $45,787,964. Deposits grew to $39,675,560 and loans to $27,621,095, a 33% and 24% increase respectively. We feel this is commendable when considering our aggressive growth pattern and the expenses involved in such growth.

Our second branch in Chico (Park Plaza) was opened in February 1980 and has been well accepted by the Community. The central location, three drive up windows and extended hours have allowed us to compete more effectively for new business in Chico.

In June of 1980 your Board of Directors voted to persue the acquisition through merger of Shasta County Bank. This decision was made after careful consideration of the expanded geographic area and its potential, along with increasing shareholder investment.

In December, 1980 the State Banking Department and the shareholders of both Tri Counties Bank and Shasta County Bank approved the merger. The final approval must come from the Federal Deposit Insurance Corporation. As of this writing final approval has not been received but is expected shortly.

In connection with the merger a successful stock offering was held in December and into 1981. 110,000 shares were sold for $19.00 a share. The stock sold quickly and we were able to attract new shareholders in the Shasta and Lassen County areas which will be to our advantage when the merger is completed.

Recognizing the growth potential of Tri Counties Bank, the Board of Directors declared a 4 for 3 split of the stock to shareholders of record February 1, 1980. In addition, the Board declared a 25% stock dividend in October 1980. The split and dividend action increases the number of shares outstanding and assists in wider distribution for improved marketability of our shares.

The rapid expansion and growth of Tri Counties Bank necessitates experienced and skillful banking professionals to meet the challenges ahead. During 1980 Larry Hall joined the bank as Manager of our Data Processing Department. Jim Mabry also joined the Administrative staff last year and serves as Vice President and Loan Administrator.

Don Carter has been promoted to Executive Vice President with responsibility for over-all profitability and operation of the bank. Joan Jones has taken on the responsibility of Senior Vice President and Cashier.

Prospects for future growth and profitability are excellent. Butte and Shasta Counties are two of the fastest growing counties in California. Glenn and Lassen counties are beginning to show excellent growth trends as emigration to the Sun Belt continues. We feel that with our expanded geographical base that we are in position to take advantage of this growth.

The economic picture for Northern California continues to remain stable largely due to growth of the area, the burgeoning agricultural base and the large number of public sector employees. Although 1981 will be a year of **National** economic uncertainty it is our feeling that the North Valley will continue its growth trend.

On behalf of the Officers, Directors and Staff, we thank you for your support which helped make 1980 so successful. We welcome your continued support in 1981.

Sincerely yours,

Robert H. Steveson

Robert H. Steveson
President & Chief
Executive Officer

BOARD OF DIRECTORS


Robert Steveson, President Tri Counties Bank, Chico


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


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


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


Everett Beich, Owner Mobile Home Sales, Chico


Donald Casey, M.D. Retired Physician, Chico


DeWayne Caviness, M.D. Physician and Surgeon, Chico

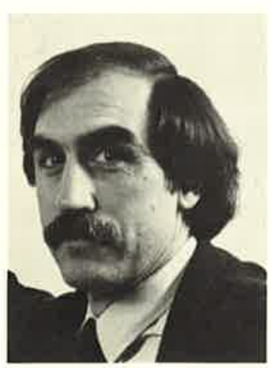

Gerald Compton, President Agricultural Flying Service, Richvale


Vernon Fish, President Development Company, Chico


George Hacke, Investment Account Executive, Chico


J. Herod Hall, M.D. Physician and Surgeon, Chico


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


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


Wayne Meeks, Retired Owner Automobile Dealership, Chico


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

EXECUTIVE STAFF

D.V. Carter
Executive
Vice President

Joan Jones
Senior
Vice President
& Cashier

James Mabry
Vice President

Janet K. Hannis
Executive
Secretary

Larry Hall
Manager
Data Processing
Department

Keith Orme
Manager
Park Plaza
Branch, Chico

Jim Burnell
Manager
Pillsbury
Branch, Chico

Ronald Bee
Manager
Durham Office

Gary Jorgenson
Manager
Orland Office

Carroll Taresh
Manager
Willows Office

BALANCE SHEETS

December 31, 1980 and 1979

Assets	1980	1979
Cash and due from banks	**$ 3,146,214**	$ 1,320,964
Time certificates of deposit	**700,000**	—
Federal funds sold	**2,000,000**	700,000
Investment securities:		
U.S. Treasury	**3,391,309**	2,512,836
Other U.S. government agencies	**3,853,685**	3,611,973
State and local agencies	**784,891**	784,874
Tax-exempt municipal obligations	**848,205**	646,160
Total investment securities	**8,878,090**	7,555,843
Loans:		
Consumer installment	**8,134,396**	7,046,039
Commercial	**9,481,804**	6,775,446
Real estate	**10,004,895**	8,378,992
	27,621,095	22,200,477
Unearned discount	**(257,627)**	(438,069)
Allowance for loan losses	**(73,084)**	(76,010)
Net loans	**27,290,384**	21,686,398
Premises and equipment, net	**2,353,927**	1,878,084
Accrued interest receivable and other assets	**1,419,349**	921,485
Total Assets	**$45,787,964**	$34,062,774

Liabilities and Shareholders' Equity	1980	1979
Deposits:		
Demand	**$13,095,092**	$10,296,791
Savings	**10,098,536**	9,489,746
Time certificates of deposit	7,281,002	3,730,420
Time deposits, $100,000 and over	4,930,216	3,184,372
Public time	**4,270,714**	3,252,721
Total deposits	**39,675,560**	29,954,050
Accrued interest payable and other liabilities	**509,617**	666,928
Accrued income taxes, including deferred amounts of $258,930 in 1980 and $135,496 in 1979	**259,130**	229,911
Obligation under capital lease	**586,199**	—
Total liabilities	**41,030,506**	30,850,889
Shareholders' equity:		
Common stock, no par value; authorized - 1,333,333 shares; issued and outstanding shares, 1980 - 501,177; 1979 - 293,152	**2,897,225**	2,843,510
Common stock subscribed	**1,290,955**	—
Undivided profits	**569,278**	368,375
Total shareholders' equity	**4,757,458**	3,211,885
Total liabilities and shareholders' equity	**$45,787,964**	$34,062,774

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

STATEMENTS OF INCOME
for the years ended December 31, 1980 and 1979

Interest Income	**1980**	1979
Interest, fees, and profits from loans	**$ 3,443,240**	$ 2,466,110
Interest on investment securities:		
U.S. Treasury	**236,803**	138,623
U.S. government agencies	**297,937**	187,710
State and local agencies	**62,817**	62,889
Tax-exempt municipal obligations	**45,783**	28,145
Interest on time deposits and Federal funds sold	**139,884**	81,892
Total interest income	**4,226,464**	2,965,369
Interest Expense		
Interest on deposits:		
Interest on savings deposits	**517,584**	482,311
Interest on time certificates of deposit	**732,165**	227,757
Interest on time deposits, $100,000 and over	**440,160**	216,404
Interest on public time deposits	**447,329**	266,656
	2,137,238	1,193,128
Interest on short-term borrowings	**25,536**	29,061
Total interest expense	**2,162,774**	1,222,189
Net interest income	**2,063,690**	1,743,180
Provision for loan losses	**61,000**	78,000
Net interest income after provision for loan losses	**2,002,690**	1,665,18[illegible]
Other income - service charges and other	**302,069**	176,337
Other expenses:		
Salaries and employee benefits	**1,054,405**	789,224
Occupancy expense	**203,738**	89,610
Equipment and data processing expense	**245,863**	201,258
Other operating expenses	**602,182**	404,553
	2,106,188	1,484,645
Income before provision for income taxes and securities transactions	**198,571**	356,872
Provision for income taxes	**19,245**	142,003
Income before securities transactions	**179,326**	214,869
Securities transactions less applicable income taxes of $35,215	**32,165**	—
Net income	**$ 211,491**	$ 214,869
Earnings per share:		
Income before securities transactions	**$ .35**	$ .42
Securities transactions, less related income taxes	**.06**	—
Net income	**$ .41**	$ .42

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 1980 and 1979

	Common Stock		Common Stock Subscribed				
	Number of Shares	Amount	Number of Shares	Amount	Capital Surplus	Undivided Profits	Total
Balance, January 1, 1979	293,152	$1,465,760	—	$ —	$1,377,750	$153,506	$2,997,016
Transfer of capital surplus to common stock account		1,377,750			(1,377,750)		—
Net income for the year						214,869	214,869
Balance, December 31, 1979	293,152	2,843,510	—	—	—	368,375	3,211,885
Four-for-three stock split, less cash paid for fractional shares	97,437					(5,187)	(5,187)
Exercise of stock options	10,649	53,715					53,715
25% stock dividend,* less cash paid for fractional shares	99,939					(5,401)	(5,401)
Common stock subscribed			67,945	1,290,955			1,290,955
Net income for the year						211,491	211,491
Balance, December 31, 1980	501,177	$2,897,225	67,945	$1,290,955	$ —	$569,278	$4,757,458

*Accounted for as a stock split

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

STATEMENTS OF CHANGES IN FINANCIAL POSITION
for the years ended December 31, 1980 and 1979

	1980	1979
Resources provided:		
Operations:		
Net Income	$ 211,491	$ 214,869
Noncash items:		
Depreciation and amortization	110,019	62,565
Provision for loan losses and deferred income taxes	184,434	105,580
Provided by operations	505,944	383,014
Increase in liabilities and shareholders' equity:		
Deposits	9,721,510	7,344,903
Proceeds from common stock transactions:		
Common stock subscribed	1,290,955	—
Exercise of stock options and other, net	43,127	—
Accrued interest payable and other liabilities	—	652,430
Obligation under capital lease	586,199	—
Decrease in assets:		
Federal funds sold	—	1,100,000
	$12,147,735	$9,480,347
Resources used:		
Increase in assets:		
Cash and due from banks	$ 1,825,250	$ 160,763
Time certificates of deposit	700,000	—
Federal funds sold	1,300,000	—
Investment securities	1,322,247	2,209,317
Loans, net	5,664,986	5,696,866
Premises and equipment	585,862	950,408
Accrued interest receivable and other assets	497,864	462,993
Decrease in liabilities:		
Accrued interest payable and other liabilities	251,526	—
	$12,147,735	$9,480,347

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

NOTES TO FINANCIAL STATEMENTS

Note 1—Summary of Significant Accounting Policies:

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

Investment Securities

Investment securities are carried at cost increased by accretion of discounts and decreased by amortization of premiums. Gains and losses (determined on a specific identification basis) on sales and exchanges of investment securities are presented, net of applicable income taxes, separately in the statement of income.

Loans

Loans are stated net of undisbursed funds. Interest on commercial and real estate loans is accrued principally on a simple-interest basis. Interest on installment loans made prior to July 1978 is recognized principally using the sum-of-the-months-digits method. Interest on installment loans made commencing in July 1978 and thereafter is accrued on a simple-interest basis.

Interest is not accrued if, in management's judgment, principal amounts are considered doubtful of collection. Loans placed in nonaccrual status amounted to approximately $31,740 at December 31, 1980. There were no loans classified as nonaccrual as of December 31, 1979.

Allowance for Loan Losses

The allowance for loan losses represents management's recognition of the assumed risks of extending credit and the overall quality of the loan portfolio. Although it is not possible to anticipate loan losses with complete accuracy, the evaluation of the quality of the loan portfolio includes such factors as the borrower's financial condition and repayment history, the value of any existing collateral, and third-party guarantees. In management's judgment, other factors considered include past loan loss experience and external business and economic conditions beyond the borrower's control.

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

Premises and Equipment

Premises (including assets under capital lease) and equipment are stated at cost less accumulated depreciation and amortization. Land is carried at cost. Depreciation and amortization expense is computed using the straight-line method over the following estimated useful lives:

Bank premises	30 to 40 years
Furniture and equipment	3 to 10 years
Land improvements	10 years

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

Premises under capital lease are amortized over the lease term, excluding renewal options.

Income Taxes

The provision for income taxes includes amounts attributable to all significant timing differences between revenues and expenses reported for financial statement purposes and for income tax purposes, after excluding nontaxable revenues and nondeductible expenses. The principal timing differences result from the use of the cash method of accounting for tax purposes, recognition of investment and new jobs tax credits in different reporting periods, and differences in the method of calculating the provision for loan losses.

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

Earnings Per Share

Earnings per share computations for 1980 and 1979 are based on the weighted average number of shares and common equivalent shares outstanding during the year (after retroactive adjustments for stock dividends and stock splits effected in 1980). Common stock equivalents include the effect of outstanding stock options utilizing the treasury-stock method and the effect of shares of common stock subscribed in 1980 (see Note 9). Shares used in the computation of earnings per share were 510,118 and 512,560 for 1980 and 1979, respectively. Fully diluted earnings per share are not presented because the effects of such computations were not material in both years.

Note 2—Investment Securities

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

	1980		1979	
	Adjusted Book Value (1)	**Market Value**	Adjusted Book Value (1)	Market Value
U.S. Treasury	**$3,391,309**	**$3,197,461**	2,512,836	2,438,947
Other U.S. government agencies	**3,853,685**	**3,510,181**	3,611,973	3,405,186
State and local agencies	**784,891**	**784,891**	784,874	784,874
Tax-exempt municipal obligations	**848,205**	**787,787**	646,160	616,661
	$8,878,090	**$8,280,320**	$7,555,843	$7,245,668

(1) Cost adjusted for accretion of discounts and amortization of premiums.

At December 31, 1980, securities with face and market values of $4,905,000 and $4,471,121, respectively, were pledged as collateral for certain public time deposits as required by law.

The Bank intends to hold its investments to maturity, and therefore, a valuation allowance has not been provided for the excess of adjusted book value over market value.

Note 3—Premises and Equipment

Premises and equipment are comprised of:

	1980	1979
Bank premises (including $831,188 under capital lease in 1980)	**$1,830,571**	$ 936,383
Furniture, fixtures, and equipment	**597,113**	383,314
Land improvements	**4,497**	4,497
	2,432,181	1,324,194
Less accumulated depreciation and amortization (including $23,088 under capital lease in 1980)	**(244,067)**	(140,631)
	2,188,114	1,183,563
Land	**165,813**	165,813
Construction in progress	**—**	528,708
	$2,353,927	$1,878,084

Note 4—Allowance for Loan Losses

Transactions in the allowance for loan losses were as follows:

	1980	1979
Balance, beginning of year	**$76,010**	$40,165
Provision charged to operations	**61,000**	78,000
Loans charged off	**(88,571)**	(51,914)
Recoveries of loans previously charged off	**24,645**	9,759
Balance, end of year	**$73,084**	$76,010

Note 5—Income Taxes

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

	1980	1979
Taxes applicable to income before securities transactions, net of tax credits:		
Federal	**$ (12,873)**	$100,360
State	**32,118**	41,643
	19,245	142,003
Taxes applicable to securities transactions	**35,215**	—
	54,460	$142,003
Current:		
Federal	**$ (69,174)**	$ 68,834
State	**200**	45,589
	(68,974)	114,423
Deferred:		
Federal	**87,296**	31,526
State	**36,138**	(3,946)
	123,434	27,580
	$ 54,460	$142,003

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

	1980	1979
Tax credits available for carryforward	**$ (32,010)**	$ —
Restoration of deferred taxes, applicable to utilization of prior years' tax credits	**—**	23,600
Gain on sale of participation loans, net	**(5,300)**	(8,500)
California franchise tax	**9,500**	(2,600)
Accrual income deferred for tax purposes, net	**139,500**	(9,000)
Provision for loan losses	**14,600**	20,200
Other differences	**(2,856)**	3,880
	$123,434	$27,580

A reconciliation of the Federal statutory tax rate to the effective tax rate applicable to income before securities transactions is as follows:

	1980	1979
Federal statutory income tax rate	**46.0%**	46.0%
State income taxes, net of Federal tax benefit	**6.3**	6.3
Investment tax credits	**(18.9)**	(3.7)
Tax-exempt interest on municipal obligations	**(10.6)**	(3.6)
Tax bracket rate differential	**(9.7)**	(5.4)
Other	**(3.4)**	.2
Effective tax rate	**9.7%**	39.8%

Investment tax credits utilized to reduce estimated Federal income tax expense for the years ended December 31, 1980 and 1979, were $37,583 and $13,226, respectively.

The Bank has approximately $32,000 of tax credits available to offset any future Federal income tax liability on its Federal income tax return. These credits expire in 1983.

Note 6—Obligation Under Capital Lease

Under the terms of an agreement entered into in 1978 with a shopping center developer, the Bank obtained a 30-year lease for its relocated main office premises with provisions for renewal options for two additional five-year periods. The construction of these facilities was completed in 1980, and lease payments commenced January 1, 1980. In accordance with the development agreement, the Bank paid the costs to construct the building, less a $400,000 reimbursement received from the developer upon completion in 1980.

The lease is accounted for as a capital lease and, therefore, has been capitalized as an addition to Bank premises, which includes net construction costs, in the total amount of $831,188 (see Note 3).

Future minimum annual lease payments remaining under the lease are summarized as follows:

Year ending December 31:	
1981	$ 73,600
1982	73,600
1983	73,600
1984	73,600
1985	74,100
Later years	2,033,400
Net minimum lease payments	2,401,900
Less: Amount representing interest	1,815,701
Present value of net minimum lease payments	$ 586,199

Note 7—Employment Agreement

The Bank has an employment agreement with its president which provides for an annual incentive bonus based on 4% of net income. In addition, the agreement provides for a portion of his salary to be deferred as a future retirement benefit and reimbursement for certain other ordinary and necessary business expenses. Interest is to be credited annually on deferred compensation amounts which remain with the Bank until payable under the terms of the agreement.

Note 8—Pension Plan

The Bank has established a defined benefit pension plan for the benefit of substantially all of its employees. The Bank's policy is to fund pension costs accrued. Total pension expense in 1980 and 1979 was approximately $60,000 and $45,000, respectively, which includes amortization of past service cost over 30 years.

Accumulated plan benefits and plan net assets at January 1, 1980, are summarized below:

Actuarial present value of accumulated plan benefits:	
Vested	$ 7,500
Nonvested	27,900
Total	$35,400
Net assets available for plan benefits	$ 9,600

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was six percent.

Note 9—Common Stock Transactions

Capital Surplus

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

Stock Options

The Bank has a stock option plan covering 37,564 shares (after retroactive adjustment for the stock split and stock dividend in 1980) of its common stock. The plan, which terminates in 1985, provides for the granting of options to key employees of the Bank, entitling them to purchase shares of common stock at fair market value on the date the option is granted. Optionees, option prices, and dates of grant and exercise are determined by the Board of Directors of the Bank. The options are exercisable no later than five years from the date of grant and are not transferable by the holder, other than by will or the laws of descent and distribution. The options lapse immediately upon the earlier of the termination of employment, one year after the optionee's death, or the termination date of the option.

Transactions in 1980 related to stock options were as follows:

	Shares Available for Grant	Options Outstanding Shares	Price Per Share	Total
Balance, January 1, 1980	15,489	35,261	$3.94-$ 7.43	$210,000
Options exercised		(13,186)	3.94- 7.43	(53,715)
Options granted	(12,500)	12,500	15.20	190,000
Balance, December 31, 1980	2,989	34,575	$3.94-$15.20	$346,285
Options exercisable at December 31, 1980		16,556		

There were no transactions under the plan during 1979. Options granted and exercised in 1980 are reflected after retroactive adjustment for the stock split and stock dividend in that year.

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

Stock Offering

In November 1980, the Bank commenced a public offering of 84,211 shares of its common stock for $19.00 per share (before expenses of issue), the proceeds of which are to be used by the Bank in its commercial banking business and to satisfy certain debt/equity ratios and other capital requirements following its acquisition of Shasta County Bank (see Note 11).

Subsequently, the Bank was granted authority to sell an additional 25,789 shares by the State Banking Department. However, because this addition was considered to be a material change in the size of the offering, the State Banking Department required the Bank to issue letters to subscription holders allowing them the right to rescind their original subscriptions. Management of the Bank does not believe these letters will result in a significant rescission of outstanding subscriptions prior to the termination of the rescission date on February 20, 1981.

As of December 31, 1980, the Bank had received payments for subscriptions to 67,945 shares amounting to $1,290,955. The expiration date of the offering is March 2, 1981, unless extended by approval of the State Banking Department.

Note 10—Related Party Transactions

Certain directors and officers of the Bank and companies with which they are associated were customers of, and had banking transactions with, the Bank in the ordinary course of the Bank's business. In the opinion of management of the Bank, all loans and commitments to lend included in such transactions were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risk of collectibility or present other unfavorable features. As of December 31, 1980, the total amount of outstanding loans to these parties aggregated approximately $811,000.

Note 11—Proposed Merger

The respective Boards of Directors of Tri Counties Bank (Tri Counties) and Shasta County Bank (Shasta) approved an Agreement of Acquisition, dated July 9, 1980, and an Amended Agreement of Acquisition, dated October 14, 1980, whereby Tri Counties would acquire all of the outstanding common stock of Shasta for $32.00 per share, amounting to a total purchase price approximating $5,000,000. The transaction would be accounted for as a purchase. Under the terms of the agreements, the purchase price is comprised of a cash down payment of $9.50 per share and the issuance of Tri Counties' 9½% convertible, subordinated notes in the principal amount of $22.50 for each common share of Shasta. Principal and interest payments on the notes would be made in equal annual installments on a ten-year basis commencing one year after the effective date of the acquisition with a final payment due after seven years and one day. The notes would be convertible into shares of Tri Counties' common stock at $15.20 per share (after adjustment for the 25% stock dividend declared October 7, 1980, and accounted for as a stock split) at any time after the first year. The conversion rate is subject to adjustments upon the occurrence of certain events. The consummation of the acquisition is subject to a number of conditions, including, among others, the approvals of the appropriate regulatory authorities and the receipt of favorable tax determinations. In December 1980, the shareholders of each bank approved the proposed acquisition which is scheduled to be consummated by March 31, 1981.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF SUMMARY OF OPERATIONS

The following is a summary of operations for the five years ended December 31, 1976 through 1980, and management's discussion and analysis of the significant changes in income and expense accounts presented therein for the most recent two years—each as compared with its respective prior period. This information should be read in conjunction with the financial statements and notes related thereto appearing elsewhere in this report.

	Year Ended December 31, (Stated in thousands, except per share amounts)				
Interest Income:	**1980**	**1979**	**1978**	**1977**	**1976**
Interest, fees and profits from loans	$3,443	$2,466	$1,733	$1,085	$ 630
Interest on investment securities	643	417	315	260	106
Interest on time deposits and Federal funds sold	140	82	87	13	75
Total interest income	4,226	2,965	2,135	1,358	811
Interest Expense:					
Interest on deposits	2,137	1,193	713	445	258
Interest on short-term borrowings	26	29	13	11	—
Total interest expense	2,163	1,222	726	456	258
Net interest income	2,063	1,743	1,409	902	553
Provision for loan losses	61	78	44	11	47
Net interest income after provision for loan losses	2,002	1,665	1,365	891	506
Other income - service charges and other	302	176	141	86	50
Other Expenses:					
Salaries and employee benefits	1,054	789	595	419	241
Other operating expenses	1,052	695	558	371	232
	2,106	1,484	1,153	790	473
Income before provision for income taxes, securities transactions and extraordinary item	198	357	353	187	83
Provision for income taxes	19	142	146	49	33
Income before securities transactions and extraordinary item	179	215	207	138	50
Securities transactions, less applicable income taxes	32	—	(32)	5	43
Income before extraordinary item	211	215	175	143	93
Extraordinary item - reduction of Federal income taxes arising from carryforward of net operating losses	—	—	—	9	59
Net income	$ 211	$ 215	$ 175	$ 152	$ 152
Income (loss) per share:*					
Primary earnings per share:					
Income before securities transactions	$ .35	$ .42	$ .44	$ .52	$ .20
Securities transactions, less related income taxes	.06	—	(.07)	.02	.17
Extraordinary item	—	—	—	.03	.23
Net income	$ .41	$ .42	$ .37	$ .57	$ .60
Earnings (loss) per share, assuming full dilution:					
Income before securities transactions	$ .35	$ .42	$ .43	$ .52	$ .20
Securities transactions, less related income taxes	.06	—	(.07)	.02	.17
Extraordinary item	—	—	—	.03	.23
Net income	$ .41	$ .42	$ .36	$ .57	$ .60

*Amounts are stated after retroactive adjustments for 45% stock dividend in 1977, 5% stock dividend in 1978, a four-for-three stock split effected in February 1980, and a 25% stock dividend in October 1980 (accounted for as a stock split).

General

The changes in income and expense accounts reflect the continued growth of the Bank as well as increased expenses due to the addition of our Park Plaza Office in 1980 and of course increased cost of deposits. 1980 total interest income rose 43% over 1979 largely due to higher interest rates as well as a 26% increase in loans for the same period. Reflecting the higher cost of deposits in 1980, total interest expense rose 77% with only a 35% increase in total interest bearing deposits. Other operating expense, which includes occupancy expense, data processing and other miscellaneous expenses such as supplies and paper rose 51% over 1970 figures. When comparing 1979 to 1978, these expenses increased 25%. This is reflective of our increased operation and the rampant inflation evident during 1980.

Interest Fees and Profits From Loans

Interest fees and profits from loans increased from $1,733,000 in 1978 to $2,466,000 in 1979 and to $3,443,000 in 1980. This corresponds to increases in total outstanding loans from $16,067,532 in 1978 to $21,686,398 in 1979 and finally to 27,290,384 in 1980.

Interest on Time Deposits and Federal Funds Sold

Interest on time deposits and Federal Funds sold (Excess Reserves) increased to $140,000 in 1980 after a decrease in 1979 to $82,000 from the 1979 figure of $87,000. This change is indicative of the Banks improved liquidity position as well as higher interest rates stemming from the rigid money growth stance taken by the Federal Reserve Bank during 1980.

Interest on Investment Securities

Interest on investment securities rose $226,000 in 1980 over the 1979 amount of $417,000. This represented a 54% increase while the increase for 1979 over 1978 was 32%. Total investment securities outstanding rose from $5.3 million in 1978 to $7.5 million in 1979 and to $8.8 million in 1980.

Other Income

Service charges on deposit accounts and other income increased 71% in 1980 after increasing 19% in 1979 over 1978. This increase is due to management decision to raise charges on checking accounts from $2.00 per month to $3.00 per month in 1980 as well as an expanded base of accounts due to the opening of the Park Plaza Office in March 1980.

Interest on Deposits

Interest expense on deposits increased to $2,163,000 in 1980 from $1,222,000 in 1979 and $726,000 in 1978. For the same periods interest bearing deposits increased to $26,579,000 from $19,655,000 and $14,545,000 respectively. As previously stated this amounts to a 77% increase in interest expense with a 35% increase in deposits for 1980. Comparatively the increases for 1979 over 1978 were a 35% increase in deposits and a 68% increase in expense.

Income (Loss) Per Share

See Notes 1 and 9 of Notes to Financial Statements.

Provision for Loan Losses

Provision for loan losses decreased to $61,000 from $78,000 in 1979, and $44,000 in 1978. In management's opinion this represents sufficient reserve to adequately cover certain identifiable potential loan losses. For further information see Note 4 of Notes to Financial Statements.

Other Operating Expenses

Other operating expense, including occupancy, equipment and other expenses increased 51% in 1980 over 1979 and 25% in 1979 over 1978. Total assets increased 34% in 1980 and 32% in 1979. The increase in expense was indicative of inflationary pressures and the expanded operation in 1980 as well as increased expenses in preparation for our pending merger.

Securities Transactions

Gains as a result of securities transactions were $32,000 in 1980 as compared to NO gain in 1979 and a ($32,000) loss in 1978. Management elected to sell certain securities in the second quarter of 1980 taking advantage of the then declining interest rate picture and recorded a gain as a result.

Provision for Income Tax

The effective tax rate for Federal and State income taxes was 39.8% in 1979 and 41.3% in 1978. For the year 1980 the effective tax rate was 9.7%. In 1979 the effective tax rate was effected by a reduction in the State Franchise Tax rate of approximately 17%. In 1980 the effective tax rate was reduced primarily by the use of investment tax credits made available by the opening of the Park Plaza Office.

Salaries and Employee Benefits

Salaries and employee benefits increased from $595,000 in 1978 to $789,000 in 1979 and to $1,054,000 in 1980. Otherwise stated, this amounts to a 32.6% increase for 1979 over 1978 and a 33.5% increase for 1980 over 1979. These increases were generally due to inflationary pressures and the growth in staffing necessitated by the opening of our Park Plaza Office and an increase in staff due to the addition of certain key personnel in anticipation of the pending merger.

STOCK PRICES AND DIVIDEND INFORMATION

The following table summarizes dividend information and those trades of the Bank's common stock of which the Bank has knowledge, setting forth the high and low sales prices for the periods indicated. The prices indicated below may not necessarily represent actual transactions. The figures have been adjusted to reflect the four-for-three stock split effected in February 1980 and the 25% stock dividend declared in October 1980.

	Sales Price of the Bank's Common Stock		Stock Dividends and Splits
Quarter Ended:	High	Low	
March 31, 1979	$ 9.98	$ 9.98	
June 30, 1979	10.35	10.35	
September 30, 1979	10.74	10.73	
December 31, 1979	11.10	11.10	
March 31, 1980	14.80	11.20	97,437 shares (four-for-three split)
June 30, 1980	15.00	14.80	
September 30, 1980	17.60	14.80	
December 31, 1980	22.00	17.60	99,939 shares (25% stock dividend)*

*Accounted for as a stock split

ACCOUNTANTS' REPORT

To the Board of Directors and Shareholders
Tri Counties Bank, Chico, California

We have examined the balance sheets of Tri Counties Bank as of December 31, 1980 and 1979, and the related statements of income, changes in shareholders' equity, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Tri Counties Bank as of December 31, 1980 and 1979, and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand

Sacramento, California
January 30, 1981

Administration

Robert H. Steveson	President & Chief Executive Officer
D.V. Carter	Executive Vice President
Joan Jones	Senior Vice President & Cashier
James Mabry	Vice President
Janet K. Hannis	Executive Secretary
Larry Hall	Manager, Data Processing Department

Chico Offices

Park Plaza Branch

Keith Orme	Manager
Jim Burnell	Assistant Manager
Rosie Webster	Operations Supervisor

Pillsbury Branch

George Rawson	Manager
Letty Tallent	Assistant Manager
Martin Johnson	Operations Officer

Durham Office

[illegible]nald Bee	Manager
[illegible]m Wagner	Operations Supervisor

Orland Office

Gary Jorgenson	Manager
Daniel Herbert	Assistant Manager

Willows Office

Carroll Taresh	Manager
Kerri Leonardo	Operations Supervisor

Tri Counties Bank

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100 E. Walker Street
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Orland, CA 95963
(916) 865-5524

154 North Tehama Street
P.O. Box 1158
Willows, CA 95988
(916) 934-2191

Member FDIC

Financial Reports

The Bank will provide to any interested party, without charge, a copy of the Bank's Annual Report for 1980 on Form F-2 filed with the Federal Deposit Insurance Corporation. The report may be obtained by written request to: Corporate Secretary, Tri Counties Bank, 780 Mangrove Avenue, Chico, CA 95926.

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