

TRICO BANCSHARES /
Form 10-K
March 14, 2012
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2011

Commission File Number 0-10661

TriCo Bancshares

(Exact name of Registrant as specified in its charter)

California (State or other jurisdiction of incorporation or organization)	94-2792841 (I.R.S. Employer Identification No.)
63 Constitution Drive, Chico, California (Address of principal executive offices)	95973 (Zip Code)
Registrant's telephone number, including area code:(530) 898-0300	

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

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(Title of Class)	(Name of each exchange on which registered)
Common Stock, without par value	Nasdaq Stock Market LLC

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

None.

Indicate by check mark whether the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark whether the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Act (check one).

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

The aggregate market value of the voting common stock held by non-affiliates of the Registrant, as of June 30, 2011, was approximately \$173,871,000 (based on the closing sales price of the Registrant's common stock on the date). This computation excludes a total of 3,612,536 shares that are beneficially owned by the officers and directors of Registrant who may be deemed to be the affiliates of Registrant under applicable rules of the Securities and Exchange Commission.

The number of shares outstanding of Registrant's common stock, as of March 2, 2012, was 15,978,958 shares of common stock, without par value.

DOCUMENTS INCORPORATED BY REFERENCE

The information required to be disclosed pursuant to Part III of this report either shall be (i) deemed to be incorporated by reference from selected portions of TriCo Bancshares' definitive proxy statement for the 2012 annual meeting of stockholders, if such proxy statement is filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the Company's most recently completed fiscal year, or (ii) included in an amendment to this report filed with the Commission on Form 10-K/A not later than the end of such 120 day period.

Table of Contents**TABLE OF CONTENTS**

	Page Number
PART I	
Item 1	2
Item 1A	10
Item 1B	17
Item 2	18
Item 3	18
Item 4	18
PART II	
Item 5	19
Item 6	21
Item 7	22
Item 7A	50
Item 8	51
Item 9	102
Item 9A	102
Item 9B	102
PART III	
Item 10	103
Item 11	103
Item 12	103
Item 13	103
Item 14	103
PART IV	
Item 15	103
<u>Signatures</u>	104

Table of Contents

FORWARD-LOOKING STATEMENTS

In addition to historical information, this Annual Report on Form 10-K contains forward-looking statements about TriCo Bancshares (the Company) for which it claims the protection of the safe harbor provisions contained in the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on Management's current knowledge and belief and include information concerning the Company's possible or assumed future financial condition and results of operations. When you see any of the words believes, expects, anticipates, estimates or similar expressions, these generally indicate that we are making forward-looking statements. A number of factors, some of which are beyond the Company's ability to predict or control, could cause future results to differ materially from those contemplated. These factors include those listed at Item 1A Risk Factors, in this report.

Table of Contents

PART I

ITEM 1. BUSINESS

Information About TriCo Bancshares Business

TriCo Bancshares (the Company, TriCo, we or our) was incorporated in California on October 13, 1981. It was organized at the direction of the board of directors of Tri Counties Bank (the Bank) for the purpose of serving as a bank holding company for the Bank. On September 7, 1982, the shareholders of Tri Counties Bank became the shareholders of TriCo and Tri Counties Bank became a wholly owned subsidiary of TriCo. At that time, TriCo became a bank holding company subject to the supervision of the Board of Governors of the Federal Reserve System (FRB) under the Bank Holding Company Act of 1956, as amended. Tri Counties Bank remains subject to the supervision of the California Department of Financial Institutions (DFI) and the Federal Deposit Insurance Corporation (FDIC). On July 31, 2003, the Company formed a subsidiary business trust, TriCo Capital Trust I, to issue trust preferred securities. On June 22, 2004, the Company formed a subsidiary business trust, TriCo Capital Trust II, to issue additional trust preferred securities. See Note 17 in the financial statements at Item 8 of this report for a discussion about the Company's issuance of trust preferred securities. Tri Counties Bank, TriCo Capital Trust I and TriCo Capital Trust II currently are the only subsidiaries of TriCo and TriCo is not conducting any business operations independent of Tri Counties Bank, TriCo Capital Trust I and TriCo Capital Trust II.

For financial reporting purposes, the financial statements of the Bank are consolidated into the financial statements of the Company. Historically, issuer trusts, such as TriCo Capital Trust I and TriCo Capital Trust II, that issued trust preferred securities have been consolidated by their parent companies and trust preferred securities have been treated as eligible for Tier 1 capital treatment by bank holding companies under FRB rules and regulations relating to minority interests in equity accounts of consolidated subsidiaries. Applying the provisions of the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) 810 Consolidation, the Company is no longer permitted to consolidate such issuer trusts beginning on December 31, 2003. The FRB permits trust preferred securities to be treated as Tier 1 up to a limit of 25% of Tier 1 capital.

Additional information concerning the Company can be found on our website at www.tcbk.com. Copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports are available free of charge through our website, www.tcbk.com, at Investor Relations SEC Filings and Annual Reports as soon as reasonably practicable after the Company files these reports to the Securities and Exchange Commission. The information on our website is not incorporated into this annual report.

Business of Tri Counties Bank

Tri Counties Bank was incorporated as a California banking corporation on June 26, 1974, and received its certificate of authority to begin banking operations on March 11, 1975. Tri Counties Bank engages in the general commercial banking business in the California counties of Butte, Contra Costa, Del Norte, Fresno, Glenn, Kern, Lake, Lassen, Madera, Mendocino, Merced, Napa, Nevada, Placer, Sacramento, Shasta, Siskiyou, Stanislaus, Sutter, Tehama, Tulare, Yolo and Yuba. Tri Counties Bank currently operates from 41 traditional branches and 27 in-store branches.

General Banking Services

The Bank conducts a commercial banking business including accepting demand, savings and time deposits and making commercial, real estate, and consumer loans. It also offers installment note collection, issues cashier's checks, sells travelers checks and provides safe deposit boxes and other customary banking services. Brokerage services are provided at the Bank's offices by the Bank's association with Raymond James Financial Services, Inc., an independent financial services provider and broker-dealer. The Bank does not offer trust services or international banking services.

Table of Contents

The Bank has emphasized retail banking since it opened. 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 northern and central California where its branches are located. At December 31, 2011, the total of the Bank's consumer loans net of deferred fees outstanding was \$406,330,000 (26.2%), the total of commercial loans outstanding was \$139,131,000 (9.0%), and the total of real estate loans including construction loans of \$39,649,000 was \$1,005,571,000 (64.8%). The Bank takes real estate, listed and unlisted securities, savings and time deposits, automobiles, machinery, equipment, inventory, accounts receivable and notes receivable secured by property as collateral for loans.

Most of the Bank's deposits are attracted from individuals and business-related sources. No single person or group of persons provides a material portion of the Bank's deposits, the loss of any one or more of which would have a materially adverse effect on the business of the Bank, nor is a material portion of the Bank's loans concentrated within a single industry or group of related industries.

In order to attract loan and deposit business from individuals and small to medium-sized businesses, branches of the Bank set lobby hours to accommodate local demands. In general, lobby hours are from 9:00 a.m. to 5:00 p.m. Monday through Thursday, and from 9:00 a.m. to 6:00 p.m. on Friday. Some Bank offices also utilize drive-up facilities operating from 9:00 a.m. to 6:00 p.m. The supermarket branches are open from 9:00 a.m. to 7:00 p.m. Monday through Saturday and 11:00 a.m. to 5:00 p.m. on Sunday.

The Bank offers 24-hour ATMs at all branch locations. The Bank's 76 ATMs are linked to several national and regional networks such as CIRRUS and STAR. In addition, banking by telephone on a 24-hour toll-free number is available to all customers. This service allows a customer to obtain account balances and most recent transactions, transfer moneys between accounts, make loan payments, and obtain interest rate information.

In February 1998, the Bank became the first bank in the Northern Sacramento Valley to offer banking services on the Internet. This banking service provides customers one more tool to access their accounts.

Purchase and Assumption of Certain Assets and Liabilities of Citizens Bank of Northern California

On September 23, 2011, the Bank acquired certain of the assets and assumed substantially all of the liabilities of Citizens Bank of Northern California, Nevada City, California (Citizens), including substantially all the deposits from the FDIC, as receiver for Citizens. The acquisition was made pursuant to the terms of a purchase and assumption agreement entered into by the Bank and the FDIC. Based upon a preliminary closing with the FDIC as of September 23, 2011, the Bank acquired \$167.5 million in loans, \$9.4 million in investment securities, and \$93.5 million in cash and other assets, and assumed an estimated \$239.9 million in deposits, \$22.0 million in borrowings, and \$0.1 million in other liabilities. The Bank paid no cash or other consideration to acquire Citizens. See Note 2 in the financial statements at Item 8 of this report for a discussion about this transaction.

Purchase and Assumption of Certain Assets and Liabilities of Granite Community Bank

On May 28, 2010, the Bank acquired certain of the assets and assumed substantially all of the liabilities of Granite Community Bank, N.A., Granite Bay, California (Granite), including substantially all the deposits from the FDIC, as receiver for Granite. The acquisition was made pursuant to the terms of a purchase and assumption agreement entered into by the Bank and the FDIC. The Bank acquired \$77.0 million in loans, \$3.8 million in investment securities, and \$22.2 million in cash and other assets, and assumed an estimated \$94.8 million in deposits, \$5.0 million in borrowings, and \$0.1 million in other liabilities. The Bank paid no cash or other consideration to acquire Granite. In connection with the Acquisition, the Bank entered into a loss-sharing agreement with the FDIC that covered approximately \$89.3 million of Granite's assets. The Bank will share in the losses on the asset pools (loans, foreclosed loan collateral, and certain investment securities) covered under the loss-sharing agreement. Pursuant to the terms of the loss sharing agreement, the FDIC is obligated to reimburse the Bank for 80% of losses with respect to covered assets. The Bank will reimburse the FDIC for 80% of recoveries with respect to losses for which the FDIC paid the Bank under the loss sharing agreement. See Note 2 in the financial statements at Item 8 of this report for a discussion about this transaction.

Other Activities

The Bank may in the future engage in other businesses either directly or indirectly through subsidiaries acquired or formed by the Bank subject to regulatory constraints. See Regulation and Supervision.

Employees

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At December 31, 2011, the Company and the Bank employed 799 persons, including seven executive officers. Full time equivalent employees were 718. No employees of the Company or the Bank are presently represented by a union or covered under a collective bargaining agreement. Management believes that its employee relations are excellent.

Table of Contents

Competition

The banking business in California generally, and in the Bank's primary service area of Northern and Central California specifically, is highly competitive with respect to both loans and deposits. It is dominated by a relatively small number of national and regional banks with many offices operating over a wide geographic area. Among the advantages such major banks have over the Bank is their ability to finance wide ranging advertising campaigns and to allocate their investment assets to regions of high yield and demand. By virtue of their greater total capitalization such institutions have substantially higher lending limits than does the Bank.

In addition to competing with savings institutions, commercial banks compete with other financial markets for funds as a result of the deregulation of the financial services industry. Yields on corporate and government debt securities and other commercial paper may be higher than on deposits, and therefore affect the ability of commercial banks to attract and hold deposits. Commercial banks also compete for available funds with money market instruments and mutual funds. During past periods of high interest rates, money market funds have provided substantial competition to banks for deposits and they may continue to do so in the future. Mutual funds are also a major source of competition for savings dollars.

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 services to compete effectively.

Regulation and Supervision

General

The Company and the Bank are subject to extensive regulation under both federal and state law. This regulation is intended primarily for the protection of depositors, the deposit insurance fund, and the banking system as a whole, and not for the protection of shareholders of the Company. Set forth below is a summary description of the significant laws and regulations applicable to the Company and the Bank. The description is qualified in its entirety by reference to the applicable laws and regulations.

Dodd-Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was signed into law. The Dodd-Frank Act is intended to effect a fundamental restructuring of federal banking regulation. Among other things, the Dodd-Frank Act creates a new Financial Stability Oversight Council to identify systemic risks in the financial system and gives federal regulators new authority to take control of and liquidate financial firms. The Dodd-Frank Act also creates a new independent federal regulator to administer federal consumer protection laws. The Dodd-Frank Act is expected to have a significant impact on our business operations as its provisions take effect. Among the provisions that are likely to affect us are the following:

Holding Company Capital Requirements. The Dodd-Frank Act requires the FRB to apply consolidated capital requirements to depository institution holding companies that are no less stringent than those currently applied to depository institutions. Under these standards, trust preferred securities will be excluded from Tier 1 capital unless such securities were issued prior to May 19, 2010 by a bank holding company with less than \$15 billion in assets. The Dodd-Frank Act also requires capital requirements to be countercyclical so that the required amount of capital increases in times of economic expansion and decreases in times of economic contraction, consistent with safety and soundness.

Deposit Insurance. The Dodd-Frank Act permanently increases the maximum deposit insurance amount for banks, savings institutions and credit unions to \$250,000 per depositor, and extends unlimited deposit insurance to non-interest bearing transaction accounts through December 31, 2012. The Dodd-Frank Act also broadens the base for FDIC insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act requires the FDIC to increase the reserve ratio of the Deposit Insurance Fund from 1.15% to 1.35% of insured deposits by 2020 and eliminates the requirement that the FDIC pay dividends to insured depository institutions when the reserve ratio exceeds certain thresholds. Effective one year from the date of enactment, the Dodd-Frank Act eliminates the federal statutory prohibition against the payment of interest on business checking accounts.

Corporate Governance. The Dodd-Frank Act will require publicly traded companies to give shareholders a non-binding vote on executive compensation at their first annual meeting taking place six months after the date of enactment and at least every three years thereafter and on so-called golden parachute payments in connection with approvals of mergers and acquisitions unless previously voted on by shareholders. The new legislation also authorizes the SEC to promulgate rules that would allow shareholders to nominate their own candidates using a company's proxy materials. The Dodd-Frank Act directs the federal banking regulators to promulgate rules prohibiting excessive compensation paid to executives of depository institutions and their holding companies with assets in excess of \$1.0 billion, regardless of whether the company is

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publicly traded or not. It also gives the SEC authority to prohibit broker discretionary voting on elections of directors and executive compensation matters.

Table of Contents

Prohibition Against Charter Conversions of Troubled Institutions. Effective one year after enactment, the Dodd-Frank Act prohibits a depository institution from converting from a state to federal charter or vice versa while it is the subject of a cease and desist order or other formal enforcement action or a memorandum of understanding with respect to a significant supervisory matter unless the appropriate federal banking agency gives notice of the conversion to the federal or state authority that issued the enforcement action and that agency does not object within 30 days.

Interstate Branching. The Dodd-Frank Act authorizes national and state banks to establish branches in other states to the same extent as a bank chartered by that state would be permitted to branch. Previously, banks could only establish branches in other states if the host state expressly permitted out-of-state banks to establish branches in that state. Accordingly, banks will be able to enter new markets more freely.

Limits on Derivatives. Effective 18 months after enactment, the Dodd-Frank Act prohibits state-chartered banks from engaging in derivatives transactions unless the loans to one borrower limits of the state in which the bank is chartered take into consideration credit exposure to derivatives transactions. For this purpose, derivative transaction includes any contract, agreement, swap, warrant, note or option that is based in whole or in part on the value of, any interest in, or any quantitative measure or the occurrence of any event relating to, one or more commodities securities, currencies, interest or other rates, indices or other assets.

Transactions with Affiliates and Insiders. Effective one year from the date of enactment, the Dodd-Frank Act expands the definition of affiliate for purposes of quantitative and qualitative limitations of Section 23A of the Federal Reserve Act to include mutual funds advised by a depository institution or its affiliates. The Dodd-Frank Act will apply Section 23A and Section 22(h) of the Federal Reserve Act (governing transactions with insiders) to derivative transactions, repurchase agreements and securities lending and borrowing transactions that create credit exposure to an affiliate or an insider. Any such transactions with affiliates must be fully secured. The current exemption from Section 23A for transactions with financial subsidiaries will be eliminated.

Consumer Financial Protection Bureau. The Dodd-Frank Act creates a new, independent federal agency called the Consumer Financial Protection Bureau (CFPB), which is granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Act, the Consumer Financial Privacy provisions of the Gramm-Leach-Bliley Act and certain other statutes. The CFPB will have examination and primary enforcement authority with respect to depository institutions with \$10 billion or more in assets. Smaller institutions will be subject to rules promulgated by the CFPB but will continue to be examined and supervised by federal banking regulators for consumer compliance purposes. The CFPB will have authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products. The Dodd-Frank Act authorizes the CFPB to establish certain minimum standards for the origination of residential mortgages including a determination of the borrower's ability to repay. In addition, the Dodd-Frank Act will allow borrowers to raise certain defenses to foreclosure if they receive any loan other than a qualified mortgage as defined by the CFPB. The Dodd-Frank Act permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations.

Regulatory Agencies

The Company is a legal entity separate and distinct from the Bank and its other subsidiaries. As a bank holding company, the Company is regulated under the Bank Holding Company Act of 1956 (the BHC Act), and is subject to supervision, regulation and inspection by the FRB. The Company is also under the jurisdiction of the Securities and Exchange Commission (SEC) and is subject to the disclosure and regulatory requirements of the Securities Act of 1933 and the Securities Exchange Act of 1934, each administered by the SEC. The Company is listed on the Nasdaq Global Select market (Nasdaq) under the trading symbol TCBK and is subject to the rules of Nasdaq for listed companies.

The Bank, as a state chartered bank, is subject to broad federal regulation and oversight extending to all its operations by the FDIC and to state regulation by the DFI.

The Bank Holding Company Act

The Company is a bank holding company. In general, the BHC Act limits the business of bank holding companies to banking, managing or controlling banks and other activities that the Federal Reserve has determined to be so closely related to banking as to be a proper incident thereto. As a result of the Gramm-Bliley Act, which amended the BHC Act, bank holding companies that are financial holding companies may engage in any activity, or acquire and retain the shares of a company engaged in any activity, that is either (i) financial in nature or incidental to such financial activity (as determined by the FRB in consultation with the Office of the Comptroller of the Currency (the OCC)) or (ii) complementary to a financial activity, and that does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally (as determined solely by the FRB). Activities that are financial in nature include securities underwriting and dealing,

insurance underwriting and agency, and making merchant banking investments.

Table of Contents

If a bank holding company seeks to engage in the broader range of activities that are permitted under the BHC Act for financial holding companies, (i) all of its depository institution subsidiaries must be well capitalized and well managed and (ii) it must file a declaration with the FRB that it elects to be a financial holding company. A depository institution subsidiary is considered to be well capitalized if it satisfies the requirements for this status discussed in the section captioned Capital Adequacy and Prompt Corrective Action, included elsewhere in this item. A depository institution subsidiary is considered well managed if it received a composite rating and management rating of at least satisfactory in its most recent examination. In addition, the subsidiary depository institution must have received a rating of at least satisfactory in its most recent examination under the Community Reinvestment Act. (See the section captioned Consumer Protection Laws and Regulations included elsewhere in this item.) The Company has not elected to become a financial holding company.

The BHC Act, the Federal Bank Merger Act, and other federal and state statutes regulate acquisitions of commercial banks. The BHC Act requires the prior approval of the FRB for the direct or indirect acquisition of more than 5 percent of the voting shares of a commercial bank or its parent holding company. Under the Federal Bank Merger Act, the prior approval of an acquiring bank's primary federal regulator is required before it may merge with another bank or purchase the assets or assume the deposits of another bank. In reviewing applications seeking approval of merger and acquisition transactions, the bank regulatory authorities will consider, among other things, the competitive effect and public benefits of the transactions, the capital position of the combined organization, the applicant's performance record under the Community Reinvestment Act, fair housing laws and the effectiveness of the subject organizations in combating money laundering activities.

Safety and Soundness Standards

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) implemented certain specific restrictions on transactions and required the regulators to adopt overall safety and soundness standards for depository institutions related to internal control, loan underwriting and documentation, and asset growth. Among other things, FDICIA limits the interest rates paid on deposits by undercapitalized institutions, the use of brokered deposits and the aggregate extension of credit by a depository institution to an executive officer, director, principal stockholder or related interest, and reduces deposit insurance coverage for deposits offered by undercapitalized institutions for deposits by certain employee benefits accounts.

Section 39 to the Federal Deposit Insurance Act requires the agencies to establish safety and soundness standards for insured financial institutions covering:

internal controls, information systems and internal audit systems;

loan documentation;

credit underwriting;

interest rate exposure;

asset growth;

compensation, fees and benefits;

asset quality, earnings and stock valuation; and

excessive compensation for executive officers, directors or principal shareholders which could lead to material financial loss.

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If an agency determines that an institution fails to meet any standard established by the guidelines, the agency may require the financial institution to submit to the agency an acceptable plan to achieve compliance with the standard. If the agency requires submission of a compliance plan and the institution fails to timely submit an acceptable plan or to implement an accepted plan, the agency must require the institution to correct the deficiency. An institution must file a compliance plan within 30 days of a request to do so from the institution's primary federal regulatory agency. The agencies may elect to initiate enforcement action in certain cases rather than rely on an existing plan particularly where failure to meet one or more of the standards could threaten the safe and sound operation of the institution.

Restrictions on Dividends and Distributions

A California corporation such as TriCo may make a distribution to its shareholders if the corporation's retained earnings equal at least the amount of the proposed distribution or if after giving effect to the distribution, the value of the corporation's assets exceed the amount of its liabilities plus the amount of shareholders preferences, if any, and certain other conditions are met.

The primary source of funds for payment of dividends by TriCo to its shareholders will be the receipt of dividends and management fees from the Bank. TriCo's ability to receive dividends from the Bank is limited by applicable state and federal law. Under the California Financial Code, funds available for cash dividend payments by a bank are restricted to the lesser of: (i) retained earnings; or (ii) the bank's net income for its last three fiscal years (less any distributions to shareholders made during such period). However, with the prior approval of the Commissioner of the DFI, a bank may pay cash dividends in an amount not to exceed the greatest of the: (1) retained earnings of the bank; (2) net income of the bank for its last fiscal year; or (3) net income of the bank for its current fiscal year. However, if the DFI finds that the shareholders' equity of the bank is not adequate or that the payment of a dividend would be unsafe or unsound, the Commissioner may order the bank not to pay a dividend to shareholders.

Table of Contents

Additionally, under FDICIA, a bank may not make any capital distribution, including the payment of dividends, if after making such distribution the bank would be in any of the undercapitalized categories under the FDIC's Prompt Corrective Action regulations. A bank is undercapitalized for this purpose if its leverage ratios, Tier 1 risk-based capital level and total risk-based capital ratio are not at least four percent, four percent and eight percent, respectively.

The FRB, FDIC and the DFI have authority to prohibit a bank holding company or a bank from engaging in practices which are considered to be unsafe and unsound. Depending on the financial condition of the Bank and upon other factors, the FRB, FDIC or the DFI could determine that payment of dividends or other payments by TriCo or the Bank might constitute an unsafe or unsound practice. Finally, any dividend that would cause a bank to fall below required capital levels could also be prohibited.

Source of Strength Doctrine

The Dodd-Frank Act requires a bank holding company to serve as a source of financial strength to its subsidiary banks. Under this source of strength doctrine, a bank holding company is expected to stand ready to use its available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity, and to maintain resources and the capacity to raise capital that it can commit to its subsidiary banks. Any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment of deposits and to certain other indebtedness of such subsidiary banks. The BHC Act provides that, in the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment. Furthermore, the FRB has the right to order a bank holding company to terminate any activity that the FRB believes is a serious risk to the financial safety, soundness or stability of any subsidiary bank.

Consumer Protection Laws and Regulations

The Company is subject to many federal consumer protection statutes and regulations, some of which are discussed below.

The Community Reinvestment Act of 1977 is intended to encourage insured depository institutions, while operating safely and soundly, to help meet the credit needs of their communities. This act specifically directs the federal regulatory agencies to assess a bank's record of helping meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound practices. This act further requires the agencies to take a financial institution's record of meeting its community credit needs into account when evaluating applications for, among other things, domestic branches, mergers or acquisitions, or holding company formations. The agencies use the Community Reinvestment Act assessment factors in order to provide a rating to the financial institution. The ratings range from a high of outstanding to a low of substantial noncompliance.

The Equal Credit Opportunity Act generally prohibits discrimination in any credit transaction, whether for consumer or business purposes, on the basis of race, color, religion, national origin, sex, marital status, age (except in limited circumstances), receipt of income from public assistance programs, or good faith exercise of any rights under the Consumer Credit Protection Act. The Truth-in-Lending Act is designed to ensure that credit terms are disclosed in a meaningful way so that consumers may compare credit terms more readily and knowledgeably.

The Fair Housing Act regulates many practices, including making it unlawful for any lender to discriminate in its housing-related lending activities against any person because of race, color, religion, national origin, sex, handicap or familial status. The Home Mortgage Disclosure Act grew out of public concern over credit shortages in certain urban neighborhoods and provides public information that will help show whether financial institutions are serving the housing credit needs of the neighborhoods and communities in which they are located. This act also includes a fair lending aspect that requires the collection and disclosure of data about applicant and borrower characteristics as a way of identifying possible discriminatory lending patterns and enforcing anti-discrimination statutes.

The Real Estate Settlement Procedures Act requires lenders to provide borrowers with disclosures regarding the nature and cost of real estate settlements. Also, this act prohibits certain abusive practices, such as kickbacks, and places limitations on the amount of escrow accounts.

Penalties under the above laws may include fines, reimbursements, injunctive relief and other penalties.

Table of Contents

USA Patriot Act of 2001

The USA Patriot Act was enacted in 2001 to combat money laundering and terrorist financing. The impact of the Patriot Act on financial institutions is significant and wide ranging. The Patriot Act contains sweeping anti-money laundering and financial transparency laws and requires various regulations, including:

due diligence requirements for financial institutions that administer, maintain, or manage private bank accounts or correspondent accounts for non-U.S. persons,

standards for verifying customer identification at account opening,

rules to promote cooperation among financial institutions, regulators, and law enforcement entities to assist in the identification of parties that may be involved in terrorism or money laundering,

reports to be filed by non-financial trades and business with the Treasury Department's Financial Crimes Enforcement Network for transactions exceeding \$10,000, and

the filing of suspicious activities reports by securities brokers and dealers if they believe a customer may be violating U.S. laws and regulations.

Capital Requirements

Federal regulation imposes upon all financial institutions a variable system of risk-based capital guidelines designed to make capital requirements sensitive to differences in risk profiles among banking organizations, to take into account off-balance sheet exposures and to promote uniformity in the definition of bank capital uniform nationally.

The Bank and the Company are subject to the minimum capital requirements of the FDIC and the FRB, respectively. As a result of these requirements, the growth in assets is limited by the amount of its capital as defined by the respective regulatory agency. Capital requirements may have an effect on profitability and the payment of dividends on the common stock of the Bank and the Company. If an entity is unable to increase its assets without violating the minimum capital requirements or is forced to reduce assets, its ability to generate earnings would be reduced.

The FRB and the FDIC have adopted guidelines utilizing a risk-based capital structure. Qualifying capital is divided into two tiers. Tier 1 capital consists generally of common stockholders' equity, qualifying noncumulative perpetual preferred stock, qualifying cumulative perpetual preferred stock (up to 25% of total Tier 1 capital) and minority interests in the equity accounts of consolidated subsidiaries, less goodwill and certain other intangible assets. Tier 2 capital consists of, among other things, allowance for loan and lease losses up to 1.25% of weighted risk assets, other perpetual preferred stock, hybrid capital instruments, perpetual debt, mandatory convertible debt securities, subordinated debt and intermediate-term preferred stock. Tier 2 capital qualifies as part of total capital up to a maximum of 100% of Tier 1 capital. Amounts in excess of these limits may be issued but are not included in the calculation of risk-based capital ratios. Under these risk-based capital guidelines, the Bank and the Company are required to maintain capital equal to at least 8% of its assets, of which at least 4% must be in the form of Tier 1 capital.

The guidelines also require the Company and the Bank to maintain a minimum leverage ratio of 4% of Tier 1 capital to total assets (the leverage ratio). The leverage ratio is determined by dividing an institution's Tier 1 capital by its quarterly average total assets, less goodwill and certain other intangible assets. The leverage ratio constitutes a minimum requirement for the most well-run banking organizations. See Note 19 in the financial statements at Item 8 of this report for a discussion about the Company's risk-based capital and leverage ratios.

Prompt Corrective Action

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Prompt Corrective Action Regulations of the federal bank regulatory agencies establish five capital categories in descending order (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized), assignment to which depends upon the institution's total risk-based capital ratio, Tier 1 risk-based capital ratio, and leverage ratio. Institutions classified in one of the three undercapitalized categories are subject to certain mandatory and discretionary supervisory actions, which include increased monitoring and review, implementation of capital restoration plans, asset growth restrictions, limitations upon expansion and new business activities, requirements to augment capital, restrictions upon deposit gathering and interest rates, replacement of senior executive officers and directors, and requiring divestiture or sale of the institution. The Bank has been classified as well-capitalized since adoption of these regulations.

Impact of Monetary Policies

Banking is a business that depends on interest rate differentials. In general, the difference between the interest paid by a bank on its deposits and other borrowings, and the interest rate earned by banks on loans, securities and other interest-earning assets comprises the major source of banks earnings. Thus, the earnings and growth of banks are subject to the influence of economic conditions generally, both domestic and foreign, and also to the monetary and fiscal policies of the United States and its agencies, particularly the FRB. The FRB implements national monetary policy, such as seeking to curb inflation and combat recession, by its open-market dealings in United States government securities, by adjusting the required level of reserves for financial institutions subject to reserve requirements and through adjustments to the discount rate applicable to borrowings by banks which are members of the FRB. The actions of the FRB in these areas influence the growth of bank

Table of Contents

loans, investments and deposits and also affect interest rates. The nature and timing of any future changes in such policies and their impact on the Company cannot be predicted. In addition, adverse economic conditions could make a higher provision for loan losses a prudent course and could cause higher loan loss charge-offs, thus adversely affecting the Company's net earnings.

Premiums for Deposit Insurance

Deposit accounts in the Bank are insured by the FDIC, generally up to a maximum of \$250,000 per separately insured depositor. The Bank's deposits are subject to FDIC deposit insurance assessments. The Bank pays insurance assessments based on its consolidated total assets less tangible equity capital. This assessment is based on the risk category of the institution. To determine the total base assessment rate, the FDIC first establishes an institution's initial base assessment rate. This initial base assessment rate ranges, depending on the risk category of the institution, from 5 to 35 basis points. The FDIC then adjusts the initial base assessment based upon an institution's levels of unsecured debt, secured liabilities, and brokered deposits. The total base assessment rate ranges from 2.5 to 45 basis points of the institution's average consolidated total assets less tangible equity capital.

In May of 2009, the FDIC adopted a final rule imposing a five basis point special assessment on each insured depository institution's assets minus Tier 1 capital as of June 30, 2009. As a result, the Bank's expense for deposit insurance for the fiscal year ended December 31, 2009 includes approximately \$933,000 for this emergency assessment which was levied as of June 30, 2009 and paid on September 30, 2009.

In November of 2009, the FDIC adopted an amendment to its assessment regulations to require insured institutions to prepay, on December 30, 2009, their estimated quarterly risk-based assessments for the fourth quarter of calendar 2009 and for all of the calendar years 2010, 2011 and 2012. The amount of the prepayment was generally determined based upon an institution's assessment rate in effect on September 30, 2009, adjusted to reflect a 5% growth and as an assessment rate increase of three cents per \$100 of deposits effective January 1, 2011. The Bank's prepayment amount was \$10,544,000.

The Dodd-Frank Act broadens the base for FDIC insurance assessments and requires the FDIC to revise its regulations so that deposit insurance assessments will be based on the average consolidated total assets less tangible equity capital of a financial institution. Assessment rates on this larger assessment base will initially range from 5 to 35 basis points. After potential adjustment for certain risk elements, the range will be 2.5 to 45 basis points.

On November 21, 2008, the Board of Directors of the FDIC adopted a final rule relating to the Temporary Liquidity Guarantee Program (TLG Program). The TLG Program was intended to counter the system-wide crisis in the nation's financial sector. Under the TLG Program the FDIC (i) guaranteed, through the earlier of maturity or June 30, 2012, certain newly issued senior unsecured debt issued by participating institutions on or after October 14, 2008, and before June 30, 2009 and (ii) provided unlimited FDIC deposit insurance coverage for non-interest bearing transaction deposit accounts, Negotiable Order of Withdrawal (NOW) accounts paying not more than 0.25% interest per annum and Interest on Lawyers Trust Accounts (IOLTA) accounts held at participating FDIC-insured institutions through December 31, 2010. The Dodd-Frank Act extends unlimited deposit insurance to non-interest bearing transaction accounts through December 31, 2012. Coverage under the TLG Program was available for the first 30 days without charge. The fee assessment for coverage of senior unsecured debt ranges from 50 basis points to 100 basis points per annum, depending on the initial maturity of the debt. The fee assessment for deposit insurance coverage is 10 basis points per quarter on amounts in covered accounts exceeding \$250,000. On December 5, 2008, the Company elected to participate in both guarantee programs. As of December 31, 2011, the Company had issued no debt under the TLG Program.

Securities Laws

The Company is subject to the periodic reporting requirements of the Securities and Exchange Act of 1934, as amended, which include filing annual, quarterly and other current reports with the Securities and Exchange Commission. The Sarbanes-Oxley Act was enacted in 2002 to protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to securities laws. Among other things, this act:

prohibits a registered public accounting firm from performing specified nonaudit services contemporaneously with a mandatory audit,

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requires the chief executive officer and chief financial officer of an issuer to certify each annual or quarterly report filed with the Securities and Exchange Commission,

requires an issuer to disclose all material off-balance sheet transactions that may have a material effect on an issuer's financial status, and

prohibits insider transactions in an issuer's stock during lock-out periods of an issuer's pension plans.

The Company is also required to comply with the rules and regulations of The NASDAQ Stock Market, Inc., on which its common stock is listed.

Table of Contents

ITEM 1A. RISK FACTORS

In analyzing whether to make or continue an investment in the Company, investors should consider, among other factors, the following:

Risks Related to the Nature and Geographic Area of Our Business

The economic downturn in the United States and in California in particular could hurt our profits.

The economies of the United States and California are experiencing an economic slowdown marked by increase unemployment and slower economic growth. Business activity across a wide range of industries and regions is greatly reduced and local governments and many businesses are in serious difficulty due to the lack of consumer spending, declines in the value of real estate and the lack of liquidity in the credit markets. Unemployment has increased significantly.

Since mid-2007, and through 2011, the financial services industry and the securities markets generally were materially and adversely affected by significant declines in the values of nearly all asset classes and by a serious lack of liquidity. This was initially triggered by declines in home prices and the values of subprime mortgages, but spread to all mortgage and real estate asset classes, to leveraged bank loans and to nearly all asset classes, including equities. The global markets have been characterized by substantially increased volatility and short-selling and an overall loss of investor confidence, initially in financial institutions, but more recently in companies in a number of other industries and in the broader markets.

Overall, during 2011, the business environment has been adverse for many households and businesses in California and the United States. There can be no assurance that these conditions will improve in the near term. Such conditions could adversely affect the credit quality of the Company's loans, results of operations and financial condition.

Our business may be adversely affected by business conditions in Northern and Central California.

We conduct most of our business in Northern and Central California. As a result of this geographic concentration, our results are impacted by the difficult economic conditions in California. The current and on-going deterioration in the economic conditions in California could result in the following consequences, any of which could have a material adverse effect on our business, financial condition, results of operations and cash flows:

problem assets and foreclosures may increase,

demand for our products and services may decline,

low cost or non-interest bearing deposits may decrease, and

collateral for loans made by us, especially real estate, may decline in value, in turn reducing customers' borrowing power, and reducing the value of assets and collateral associated with our existing loans.

In view of the concentration of our operations and the collateral securing our loan portfolio in both Northern and Central California, we may be particularly susceptible to the adverse effects of any of these consequences, any of which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We are exposed to risks in connection with the loans we make.

A significant source of risk for us arises from the possibility that we will sustain losses because borrowers, guarantors and related parties may fail to perform in accordance with the terms of their loans. Our earnings are significantly affected by our ability to properly originate, underwrite and service loans. We have underwriting and credit monitoring procedures and credit policies, including the establishment and review of the allowance for loan losses, that we believe to be appropriate to minimize this risk by assessing the likelihood of nonperformance, tracking loan

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performance and diversifying our respective loan portfolios. Such policies and procedures, however, may not prevent unexpected losses that could adversely affect our results of operations. We could sustain losses if we incorrectly assess the creditworthiness of our borrowers or fail to detect or respond to deterioration in asset quality in a timely manner.

Our allowance for loan losses may not be adequate to cover actual losses.

Like all financial institutions, we maintain an allowance for loan losses to provide for loan defaults and non-performance. Our allowance for loan losses may not be adequate to cover actual loan losses, and future provisions for loan losses could materially and adversely affect our business, financial condition, results of operations and cash flows. The allowance for loan losses reflects our estimate of the probable losses in our loan portfolio at the relevant balance sheet date. Our allowance for loan losses is based on prior experience, as well as an evaluation of the known risks in the current portfolio, composition and growth of the loan portfolio and economic factors. The determination of an appropriate level of loan loss allowance is an inherently difficult process and is based on numerous assumptions. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, that may be beyond our control and these losses

Table of Contents

may exceed current estimates. Federal and state regulatory agencies, as an integral part of their examination process, review our loans and allowance for loan losses. While we believe that our allowance for loan losses is adequate to cover current losses, we cannot assure you that we will not increase the allowance for loan losses further or that the allowance will be adequate to absorb loan losses we actually incur. Either of these occurrences could have a material adverse effect on our business, financial condition and results of operations.

A significant majority of the loans in our portfolio are secured by real estate and the downturn in our real estate markets could hurt our business.

The downturn in our real estate markets could hurt our business because many of our loans are secured by real estate. Real estate values and real estate markets are generally affected by changes in national, regional or local economic conditions, fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax laws and other governmental statutes, regulations and policies and acts of nature. As real estate prices decline, the value of real estate collateral securing our loans is reduced. As a result, our ability to recover on defaulted loans by foreclosing and selling the real estate collateral could then be diminished and we would be more likely to suffer losses on defaulted loans. As of December 31, 2011, approximately 88.8% of the book value of our loan portfolio consisted of loans collateralized by various types of real estate. Substantially all of our real estate collateral is located in California. So if there is a significant further decline in real estate values in California, the collateral for our loans will provide less security. Real estate values could also be affected by, among other things, earthquakes and national disasters particular to California in particular. Any such downturn could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We depend on key personnel and the loss of one or more of those key personnel may materially and adversely affect our prospects.

Competition for qualified employees and personnel in the banking industry is intense and there are a limited number of qualified persons with knowledge of, and experience in, the California community banking industry. The process of recruiting personnel with the combination of skills and attributes required to carry out our strategies is often lengthy. Our success depends to a significant degree upon our ability to attract and retain qualified management, loan origination, finance, administrative, marketing and technical personnel and upon the continued contributions of our management and personnel. In particular, our success has been and continues to be highly dependent upon the abilities of our senior management team of Messrs. Smith, O Sullivan, Bailey, Reddish, Carney, Miller and Rios, who have expertise in banking and experience in the California markets we serve and have targeted for future expansion. We also depend upon a number of other key executives who are California natives or are long-time residents and who are integral to implementing our business plan. The loss of the services of any one of our senior executive management team or other key executives could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We are exposed to risk of environmental liabilities with respect to properties to which we take title.

In the course of our business, we may foreclose and take title to real estate and could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean-up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. If we become subject to significant environmental liabilities, our business, financial condition, results of operations and cash flows could be materially adversely affected.

Strong competition in California could hurt our profits.

Competition in the banking and financial services industry is intense. Our profitability depends upon our continued ability to successfully compete. We compete exclusively in northern and central California for loans, deposits and customers with commercial banks, savings and loan associations, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms. In particular, our competitors include several major financial companies whose greater resources may afford them a marketplace advantage by enabling them to maintain numerous locations and mount extensive promotional and advertising campaigns. Additionally, banks and other financial institutions with larger capitalization and financial intermediaries not subject to bank regulatory restrictions may have larger lending limits which would allow them to serve the credit needs of larger customers. Areas of competition include interest rates for loans and deposits, efforts to obtain loan and deposit customers and a range in quality of products and services provided, including new technology-driven products and services. Technological innovation continues to contribute to greater competition in domestic and international financial services markets as technological advances enable more companies to provide financial services. We also face competition from out-of-state financial intermediaries that have opened loan production offices or that solicit deposits in our market areas. If we are unable to attract and retain banking customers, we may be unable to continue our loan growth and level of deposits and our business, financial condition, results of operations and cash flows may be adversely affected.

Table of Contents

Our previous results may not be indicative of our future results.

We may not be able to sustain our historical rate of growth and level of profitability or may not even be able to grow our business or continue to be profitable at all. Various factors, such as economic conditions, regulatory and legislative considerations and competition, may also impede or prohibit our ability to expand our market presence and financial performance. If we experience a significant decrease in our historical rate of growth, our results of operations and financial condition may be adversely affected due to a high percentage of our operating costs being fixed expenses.

We may be adversely affected by the soundness of other financial institutions.

Financial services institutions are interrelated as a result of clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and routinely executes transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, and other institutional clients. Many of these transactions expose us to credit risk in the event of a default by a counterparty or client. In addition, our credit risk may be exacerbated when the collateral that we hold cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due to us. Any such losses could have a material adverse effect on our financial condition and results of operations.

Recent health care legislation could increase our expenses or require us to pass further costs on to our employees, which could adversely affect our operations, financial condition and earnings.

Legislation enacted in 2010 requires companies to provide expanded health care coverage to their employees, such as affordable coverage to part-time employees and coverage to dependent adult children of employees. Companies will also be required to enroll new employees automatically into their health plans. Compliance with these and other new requirements of the health care legislation will increase our employee benefits expense, and may require us to pass these costs on to our employees, which could give us a competitive disadvantage in hiring and retaining qualified employees.

Market and Interest Rate Risk

Decreasing interest rates could hurt our profits.

Our ability to earn a profit, like that of most financial institutions, depends on our net interest income, which is the difference between the interest income we earn on our interest-earning assets, such as mortgage loans and investments, and the interest expense we pay on our interest-bearing liabilities, such as deposits. Our profitability depends on our ability to manage our assets and liabilities during periods of changing market interest rates. Recently, the FRB has maintained the targeted federal funds rate at record low levels. A sustained decrease in market interest rates could adversely affect our earnings. When interest rates decline, borrowers tend to refinance higher-rate, fixed-rate loans at lower rates. Under those circumstances, we would not be able to reinvest those prepayments in assets earning interest rates as high as the rates on the prepaid loans on investment securities. In addition, our commercial real estate and commercial loans, which carry interest rates that adjust in accordance with changes in the prime rate, will adjust to lower rates.

Our business is subject to interest rate risk and variations in interest rates may negatively affect our financial performance.

Because of the differences in the maturities and repricing characteristics of our interest-earning assets and interest-bearing liabilities, changes in interest rates do not produce equivalent changes in interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. Accordingly, fluctuations in interest rates could adversely affect our interest rate spread and, in turn, our profitability. In addition, loan origination volumes are affected by market interest rates. Rising interest rates, generally, are associated with a lower volume of loan originations while lower interest rates are usually associated with higher loan originations. Conversely, in rising interest rate environments, loan repayment rates may decline and in falling interest rate environments, loan repayment rates may increase. Although we have been successful in generating new loans during 2011, the continuation of historically low long-term interest rate levels may cause additional refinancing of commercial real estate and 1-4 family residence loans, which may depress our loan volumes or cause rates on loans to decline. In addition, an increase in the general level of short-term interest rates on variable rate loans may adversely affect the ability of certain borrowers to pay the interest on and principal of their obligations or reduce the amount they wish to borrow. Additionally, if short-term market rates rise, in order to retain existing deposit customers and attract new deposit customers we may need to increase rates we pay on deposit accounts. Accordingly, changes in levels of market interest rates could materially and adversely affect our net interest spread, asset quality, loan origination volume, business, financial condition, results of operations and cash flows.

Table of Contents

Regulatory Risks

Recently enacted financial reform legislation will, among other things, create a new Consumer Financial Protection Bureau, tighten capital standards and result in new laws and regulations that are expected to increase our costs of operations.

On July 21, 2010, the President signed the Dodd-Frank Act. This new law significantly changes the current bank regulatory structure and affects the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for many months or years.

Among other things, the Dodd-Frank Act creates a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit unfair, deceptive or abusive acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than \$10 billion in assets. Banks such as the Bank with \$10 billion or less in assets will continue to be examined for compliance with the consumer laws by their primary bank regulators. The Dodd-Frank Act also weakens the federal preemption rules that have been applicable for national banks and federal savings associations, and gives state attorneys general the ability to enforce federal consumer protection laws.

The Dodd-Frank Act requires minimum leverage (Tier 1) and risk based capital requirements for bank and savings and loan holding companies that are no less than those applicable to banks, which will exclude certain instruments that previously have been eligible for inclusion by bank holding companies as Tier 1 capital, such as trust preferred securities (unless such securities were issued prior to May 19, 2010 by a bank holding company with less than \$15 billion in assets).

It is difficult to predict at this time what specific impact the Dodd-Frank Act and the yet to be written implementing rules and regulations will have on community banks. However, it is expected that at a minimum they will increase our operating and compliance costs and could increase our interest expense.

We operate in a highly regulated environment and we may be adversely affected by changes in laws and regulations. Regulations may prevent or impair our ability to pay dividends, engage in acquisitions or operate in other ways.

We are subject to extensive regulation, supervision and examination by the DFI, FDIC, and the FRB. See Item 1 Regulation and Supervision of this report for information on the regulation and supervision which governs our activities. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on our operations, the classification of our assets and determination of the level of our allowance for loan losses. Banking regulations, designed primarily for the protection of depositors, may limit our growth and the return to you, our investors, by restricting certain of our activities, such as:

the payment of dividends to our shareholders,

possible mergers with or acquisitions of or by other institutions,

desired investments,

loans and interest rates on loans,

interest rates paid on deposits,

the possible expansion of branch offices, and

the ability to provide securities or trust services.

We also are subject to capitalization guidelines set forth in federal legislation and could be subject to enforcement actions to the extent that we are found by regulatory examiners to be undercapitalized. We cannot predict what changes, if any, will be made to existing federal and state legislation and regulations or the effect that such changes may have on our future business and earnings prospects. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material impact on our operations.

Compliance with changing regulation of corporate governance and public disclosure may result in additional risks and expenses.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Dodd-Frank Act, the Sarbanes-Oxley Act of 2002 and new SEC regulations, are creating additional expense for publicly-traded companies such as TriCo. The application of these laws, regulations and standard may evolve over time as new guidance is provided by regulatory and governing bodies, which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We are committed to maintaining

Table of Contents

high standards of corporate governance and public disclosure. As a result, our efforts to comply with evolving laws, regulations and standards have resulted in, and are likely to continue to result in, increased expenses and a diversion of management time and attention. In particular, our efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002 and the related regulations regarding management's required assessment of its internal control over financial reporting and its external auditors' audit of that assessment has required the commitment of significant financial and managerial resources. We expect these efforts to require the continued commitment of significant resources. Further, the members of our board of directors, members of our audit or compensation and management succession committees, our chief executive officer, our chief financial officer and certain other executive officers could face an increased risk of personal liability in connection with the performance of their duties. It may also become more difficult and more expensive to obtain director and officer liability insurance. As a result, our ability to attract and retain executive officers and qualified board and committee members could be more difficult.

We could be adversely affected by new regulations.

Federal and state governments and regulators could pass legislation and adopt policies responsive to current credit conditions that would have an adverse affect on the Company and its financial performance. For example, the Company could experience higher credit losses because of federal or state legislation or regulatory action that limits the Bank's ability to foreclose on property or other collateral or makes foreclosure less economically feasible.

We could face increased deposit insurance costs.

The FDIC insures deposits at FDIC insured financial institutions up to certain limits. The FDIC charges insured financial institutions premiums to maintain the Deposit Insurance Fund. If the Deposit Insurance Fund suffers further losses, the FDIC could increase assessments rates or impose additional special assessments on the banking industry to replenish the Deposit Insurance Fund. The Company's profitability could be reduced by any increase in assessment rates or special assessments.

Risks Related to Growth and Expansion

If we cannot attract deposits, our growth may be inhibited.

We plan to increase the level of our assets, including our loan portfolio. Our ability to increase our assets depends in large part on our ability to attract additional deposits at favorable rates. We intend to seek additional deposits by offering deposit products that are competitive with those offered by other financial institutions in our markets and by establishing personal relationships with our customers. We cannot assure you that these efforts will be successful. Our inability to attract additional deposits at competitive rates could have a material adverse effect on our business, financial condition, results of operations and cash flows.

There are potential risks associated with future acquisitions and expansions.

We intend to continue to explore expanding our branch system through opening new bank branches and in-store branches in existing or new markets in northern and central California. In the ordinary course of business, we evaluate potential branch locations that would bolster our ability to cater to the small business, individual and residential lending markets in California. Any given new branch, if and when opened, will have expenses in excess of revenues for varying periods after opening that may adversely affect our results of operations or overall financial condition.

In addition, to the extent that we acquire other banks in the future, our business may be negatively impacted by certain risks inherent with such acquisitions. These risks include:

incurring substantial expenses in pursuing potential acquisitions without completing such acquisitions,

losing key clients as a result of the change of ownership,

the acquired business not performing in accordance with our expectations,

difficulties arising in connection with the integration of the operations of the acquired business with our operations,

needing to make significant investments and infrastructure, controls, staff, emergency backup facilities or other critical business functions that become strained by our growth,

management needing to divert attention from other aspects of our business,

potentially losing key employees of the acquired business,

incurring unanticipated costs which could reduce our earnings per share,

assuming potential liabilities of the acquired company as a result of the acquisition, and

an acquisition may dilute our earnings per share, in both the short and long term, or it may reduce our tangible capital ratios.

Table of Contents

As result of these risks, any given acquisition, if and when consummated, may adversely affect our results of operations or financial condition. In addition, because the consideration for an acquisition may involve cash, debt or the issuance of shares of our stock and may involve the payment of a premium over book and market values, existing shareholders may experience dilution in connection with any acquisition.

Our growth and expansion may strain our ability to manage our operations and our financial resources.

Our financial performance and profitability depend on our ability to execute our corporate growth strategy. In addition to seeking deposit and loan and lease growth in our existing markets, we may pursue expansion opportunities in new markets. Continued growth, however, may present operating and other problems that could adversely affect our business, financial condition, results of operations and cash flows. Accordingly, there can be no assurance that we will be able to execute our growth strategy or maintain the level of profitability that we have recently experienced.

Our growth may place a strain on our administrative, operational and financial resources and increase demands on our systems and controls. This business growth may require continued enhancements to and expansion of our operating and financial systems and controls and may strain or significantly challenge them. In addition, our existing operating and financial control systems and infrastructure may not be adequate to maintain and effectively monitor future growth. Our continued growth may also increase our need for qualified personnel. We cannot assure you that we will be successful in attracting, integrating and retaining such personnel.

Our decisions regarding the fair value of assets acquired from Citizens and Granite, including the FDIC loss sharing assets associated with Granite, could be inaccurate which could materially and adversely affect our business, financial condition, results of operations, and future prospects.

Management makes various assumptions and judgments about the collectability of acquired loans, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of secured loans. In FDIC-assisted acquisitions that include loss sharing agreements, such as our acquisition of Granite, we may record a loss sharing asset that we consider adequate to absorb future losses which may occur in the acquired loan portfolio. In determining the size of the loss sharing asset, we analyze the loan portfolio based on historical loss experience, volume and classification of loans, volume and trends in delinquencies and nonaccruals, local economic conditions, and other pertinent information.

If our assumptions are incorrect, the balance of the FDIC indemnification asset may at any time be insufficient to cover future loan losses, and credit loss provisions may be needed to respond to different economic conditions or adverse developments in the acquired loan portfolio. Any increase in future loan losses could have a negative effect on our operating results.

Our ability to obtain reimbursement under the loss sharing agreement on covered assets purchased from the FDIC depends on our compliance with the terms of the loss sharing agreement.

We must certify to the FDIC on a quarterly basis our compliance with the terms of the FDIC loss sharing agreement as a prerequisite to obtaining reimbursement from the FDIC for realized losses on covered assets. The required terms of the agreements are extensive and failure to comply with any of the guidelines could result in a specific asset or group of assets permanently losing their loss sharing coverage. Additionally, Management may decide to forgo loss share coverage on certain assets to allow greater flexibility over the management of certain assets. As of December 31, 2011, \$52,135,000, or 2.0%, of the Company's assets were covered by the aforementioned FDIC loss sharing agreements.

Risks Relating to Dividends and Our Common Stock

Our future ability to pay dividends is subject to restrictions.

Since we are a holding company with no significant assets other than the Bank, we currently depend upon dividends from the Bank for a substantial portion of our revenues. Our ability to continue to pay dividends in the future will continue to depend in large part upon our receipt of dividends or other capital distributions from the Bank. The ability of the Bank to pay dividends or make other capital distributions to us is subject to the restrictions in the California Financial Code and the regulatory authority of the DFI. As of December 31, 2011, the Bank could have paid \$14,073,000 in dividends without the prior approval of the DFI. The amount that the Bank may pay in dividends is further restricted due to the fact that the Bank must maintain a certain minimum amount of capital to be considered a well capitalized institution as further described under Item 1 Capital Requirements in this report.

From time to time, we may become a party to financing agreements or other contractual arrangements that have the effect of limiting or prohibiting us or the Bank from declaring or paying dividends. Our holding company expenses and obligations with respect to our trust preferred

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securities and corresponding junior subordinated deferrable interest debentures issued by us may limit or impair our ability to declare or pay dividends. Finally, our ability to pay dividends is also subject to the restrictions of the California Corporations Code. See Regulation and Supervision Restrictions on Dividends and Distributions .

Table of Contents

Only a limited trading market exists for our common stock, which could lead to price volatility.

Our common stock is quoted on the NASDAQ Global Select Market and trading volumes have been modest. The limited trading market for our common stock may cause fluctuations in the market value of our common stock to be exaggerated, leading to price volatility in excess of that which would occur in a more active trading market of our common stock. In addition, even if a more active market in our common stock develops, we cannot assure you that such a market will continue or that shareholders will be able to sell their shares.

Anti-takeover provisions and federal law may limit the ability of another party to acquire us, which could cause our stock price to decline.

Various provisions of our articles of incorporation and bylaws could delay or prevent a third party from acquiring us, even if doing so might be beneficial to our shareholders. These provisions provide for, among other things:

specified actions that the Board of Directors shall or may take when an offer to merge, an offer to acquire all assets or a tender offer is received,

a shareholder rights plan which could deter a tender offer by requiring a potential acquiror to pay a substantial premium over the market price of our common stock,

advance notice requirements for proposals that can be acted upon at shareholder meetings, and

the authorization to issue preferred stock by action of the board of directors acting alone, thus without obtaining shareholder approval.

The Bank Holding Company Act of 1956, as amended, and the Change in Bank Control Act of 1978, as amended, together with federal regulations, require that, depending on the particular circumstances, either FRB approval must be obtained or notice must be furnished to the FRB and not disapproved prior to any person or entity acquiring control of a bank holding company such as TriCo. These provisions may prevent a merger or acquisition that would be attractive to shareholders and could limit the price investors would be willing to pay in the future for our common stock.

The amount of common stock owned by, and other compensation arrangements with, our officers and directors may make it more difficult to obtain shareholder approval of potential takeovers that they oppose.

As of March 2, 2012, directors and executive officers beneficially owned approximately 15.83% of our common stock and our ESOP owned approximately 8.48%. Agreements with our senior management also provide for significant payments under certain circumstances following a change in control. These compensation arrangements, together with the common stock and option ownership of our board of directors and management, could make it difficult or expensive to obtain majority support for shareholder proposals or potential acquisition proposals of us that our directors and officers oppose.

We may issue additional common stock or other equity securities in the future which could dilute the ownership interest of existing shareholders.

In order to maintain our capital at desired or regulatorily-required levels, or to fund future growth, our board of directors may decide from time to time to issue additional shares of common stock, or securities convertible into, exchangeable for or representing rights to acquire shares of our common stock. The sale of these shares may significantly dilute your ownership interest as a shareholder. New investors in the future may also have rights, preferences and privileges senior to our current shareholders which may adversely impact our current shareholders.

Holders of our junior subordinated debentures have rights that are senior to those of our common stockholders.

We have supported our continued growth through the issuance of trust preferred securities from special purpose trusts and accompanying junior subordinated debentures. At December 31, 2011, we had outstanding trust preferred securities and accompanying junior subordinated debentures totaling \$41,238,000. Payments of the principal and interest on the trust preferred securities are conditionally guaranteed by us. Further, the

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accompanying junior subordinated debentures we issued to the trusts are senior to our shares of common stock. As a result, we must make payments on the junior subordinated debentures before any dividends can be paid on our common stock and, in the event of our bankruptcy, dissolution or liquidation, the holders of the junior subordinated debentures must be satisfied before any distributions can be made on our common stock.

Table of Contents

Risks Relating to Systems, Accounting and Internal Controls

If we fail to maintain an effective system of internal and disclosure controls, we may not be able to accurately report our financial results or prevent fraud. As a result, current and potential shareholders could lose confidence in our financial reporting, which would harm our business and the trading price of our securities.

Effective internal control over financial reporting and disclosure controls and procedures are necessary for us to provide reliable financial reports and effectively prevent fraud and to operate successfully as a public company. If we cannot provide reliable financial reports or prevent fraud, our reputation and operating results would be harmed. We continually review and analyze our internal control over financial reporting for Sarbanes-Oxley Section 404 compliance. As part of that process we may discover material weaknesses or significant deficiencies in our internal control as defined under standards adopted by the Public Company Accounting Oversight Board that require remediation. Material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected in a timely basis. Significant deficiency is a deficiency or combination of deficiencies, in internal control over financial reporting that is less severe than material weakness, yet important enough to merit attention by those responsible for the oversight of the Company's financial reporting.

As a result of weaknesses that may be identified in our internal control, we may also identify certain deficiencies in some of our disclosure controls and procedures that we believe require remediation. If we discover weaknesses, we will make efforts to improve our internal and disclosure control. However, there is no assurance that we will be successful. Any failure to maintain effective controls or timely effect any necessary improvement of our internal and disclosure controls could harm operating results or cause us to fail to meet our reporting obligations, which could affect our ability to remain listed with The NASDAQ Global Select Market. Ineffective internal and disclosure controls could also cause investors to lose confidence in our reported financial information, which would likely have a negative effect on the trading price of our securities.

We rely on communications, information, operating and financial control systems technology and we may suffer an interruption in or breach of the security of those systems.

We rely heavily on our communications, information, operating and financial control systems technology to conduct our business. We rely on third party services providers to provide many of these systems. Any failure, interruption or breach in security of these systems could result in failures or interruptions in our customer relationship management, general ledger, deposit, servicing and loan origination systems. We cannot assure you that such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed by us or the third parties service providers on which we rely. The occurrence of any failures, interruptions or security breaches could damage our reputation, result in a loss of customers, expose us to possible financial liability, lead to additional regulatory scrutiny or require that we make expenditures for remediation or prevention. Any of these circumstances could have a material adverse effect on our business, financial condition, results of operations and cash flows.

A failure to implement technological advances could negatively impact our business.

The banking industry is undergoing technological changes with frequent introductions of new technology-driven products and services. In addition to improving customer services, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend, in part, on our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources than we do to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or successfully market such products and services to our customers.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

Table of Contents

ITEM 2. PROPERTIES

The Company is engaged in the banking business through 68 offices in 23 counties in Northern and Central California including ten offices in Shasta County, nine in Butte County, seven in Sacramento and Nevada Counties, six in Placer County, four in Stanislaus County, three each in Siskiyou, Sutter and Kern Counties, two each in Glenn and Yolo Counties, and one each in Contra Costa, Del Norte, Fresno, Lake, Lassen, Madera, Mendocino, Merced, Napa, Tehama, Tulare, and Yuba Counties. All offices are constructed and equipped to meet prescribed security requirements.

The Company owns eighteen branch office locations, four administrative buildings, and one other building that it leases out. The Company leases fifty branch office locations, and three administrative buildings. Most of the leases contain multiple renewal options and provisions for rental increases, principally for changes in the cost of living index, property taxes and maintenance.

ITEM 3. LEGAL PROCEEDINGS

Neither the Company nor its subsidiaries, are party to any material pending legal proceeding, nor is their property the subject of any material pending legal proceeding, except routine legal proceedings arising in the ordinary course of their business. None of these proceedings is expected to have a material adverse impact upon the Company's business, consolidated financial position or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Inapplicable.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Common Stock Market Prices and Dividends**

The Company's common stock is traded on the NASDAQ Global Select Market System (NASDAQ) under the symbol TCBK. The following table shows the high and the low closing sale prices for the common stock for each quarter in the past two years, as reported by NASDAQ:

2011:	High	Low
Fourth quarter	\$ 15.32	\$ 11.58
Third quarter	\$ 15.50	\$ 11.75
Second quarter	\$ 16.58	\$ 13.18
First quarter	\$ 16.76	\$ 14.53
2010:		
Fourth quarter	\$ 16.59	\$ 14.21
Third quarter	\$ 18.99	\$ 13.46
Second quarter	\$ 22.99	\$ 16.93
First quarter	\$ 20.73	\$ 16.65

As of March 2, 2012 there were approximately 1,509 shareholders of record of the Company's common stock. On March 2, 2012, the closing sales price was \$15.64.

The Company has paid cash dividends on its common stock in every quarter since March 1990, and it is currently the intention of the Board of Directors of the Company to continue payment of cash dividends on a quarterly basis. There is no assurance, however, that any dividends will be paid since they are dependent upon earnings, financial condition and capital requirements of the Company and the Bank. As of December 31, 2011, \$14,073,000 was available for payment of dividends by the Company to its shareholders, under applicable laws and regulations. The Company paid cash dividends of \$0.09 per common share in each of the quarters ended December 31, 2011, September 30, 2011, June 30, 2011, and March 31, 2011, December 31, 2010, September 30, 2010 and June 30, 2010 and \$0.13 per common share in the quarter ended March 31, 2010.

Stock Repurchase Plan

The Company adopted a stock repurchase plan on August 21, 2007 for the repurchase of up to 500,000 shares of the Company's common stock from time to time as market conditions allow. The 500,000 shares authorized for repurchase under this plan represented approximately 3.2% of the Company's approximately 15,815,000 common shares outstanding as of August 21, 2007. This plan has no stated expiration date for the repurchases. As of December 31, 2011, the Company had purchased 166,600 shares under this plan. The following table shows the repurchases made by the Company or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Exchange Act) during the fourth quarter of 2011:

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans or programs	(d) Maximum number of shares that may yet be purchased under the plans or programs
Oct. 1-31, 2011				333,400
Nov. 1-30, 2011				333,400
Dec. 1-31, 2011				333,400
Total				333,400

Table of Contents

The following graph presents the cumulative total yearly shareholder return from investing \$100 on December 31, 2006, in each of TriCo common stock, the Russell 3000 Index, and the SNL Western Bank Index. The SNL Western Bank Index compiled by SNL Financial includes banks located in California, Oregon, Washington, Montana, Hawaii and Alaska with market capitalization similar to that of TriCo s. The amounts shown assume that any dividends were reinvested.

TriCo Bancshares

<i>Index</i>	<i>Period Ending</i>					
	<i>12/31/06</i>	<i>12/31/07</i>	<i>12/31/08</i>	<i>12/31/09</i>	<i>12/31/10</i>	<i>12/31/11</i>
TriCo Bancshares	100.00	72.59	96.64	66.58	66.16	59.77
Russell 3000	100.00	105.14	65.92	84.60	98.92	99.93
SNL Western Bank	100.00	83.53	81.33	74.68	84.62	76.45

Equity Compensation Plans

The following table shows shares reserved for issuance for outstanding options, stock appreciation rights and warrants granted under our equity compensation plans as of December 31, 2011. All of our equity compensation plans have been approved by shareholders.

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans not approved by shareholders			
Equity compensation plans approved by shareholders	1,250,935	\$ 17.18	251,000
Total	1,250,935	\$ 17.18	251,000

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA**

The following selected consolidated financial data are derived from our consolidated financial statements. This data should be read in connection with our consolidated financial statements and the related notes located at Item 8 of this report.

TRICO BANCSHARES**Financial Summary**

(in thousands, except per share amounts)

Year ended December 31,	2011	2010	2009	2008	2007
Interest income	\$ 102,982	\$ 104,572	\$ 112,333	\$ 121,112	\$ 127,268
Interest expense	10,238	14,133	20,615	31,552	40,582
Net interest income	92,744	90,439	91,718	89,560	86,686
Provision for loan losses	23,060	37,458	31,450	20,950	3,032
Noninterest income	42,813	32,695	30,329	27,087	27,590
Noninterest expense	82,715	77,205	75,450	68,738	68,906
Income before income taxes	29,782	8,471	15,147	26,959	42,338
Provision for income taxes	11,192	2,466	5,185	10,161	16,645
Net income	\$ 18,590	\$ 6,005	\$ 9,962	\$ 16,798	\$ 25,693
Earnings per share:					
Basic	\$ 1.17	\$ 0.38	\$ 0.63	\$ 1.07	\$ 1.62
Diluted	\$ 1.16	\$ 0.37	\$ 0.62	\$ 1.05	\$ 1.57
Per share:					
Dividends paid	\$ 0.36	\$ 0.40	\$ 0.52	\$ 0.52	\$ 0.52
Book value at December 31	\$ 13.55	\$ 12.64	\$ 12.71	\$ 12.56	\$ 11.87
Tangible book value at December 31	\$ 12.49	\$ 11.62	\$ 11.71	\$ 11.54	\$ 10.82
Average common shares outstanding	15,935	15,860	15,783	15,771	15,898
Average diluted common shares outstanding	16,000	16,010	16,011	16,050	16,364
Shares outstanding at December 31	15,979	15,860	15,787	15,756	15,912
At December 31:					
Loans, net	\$ 1,505,118	\$ 1,377,000	\$ 1,460,097	\$ 1,563,259	\$ 1,534,635
Total assets	2,555,597	2,189,789	2,170,520	2,043,190	1,980,621
Total deposits	2,190,536	1,852,173	1,828,512	1,669,270	1,545,223
Debt financing and notes payable	72,541	62,020	66,753	102,005	116,126
Junior subordinated debt	41,238	41,238	41,238	41,238	41,238
Shareholders' equity	216,441	200,397	200,649	197,932	188,878
Financial Ratios:					
For the year:					
Return on assets	0.82%	0.27%	0.48%	0.85%	1.36%
Return on equity	8.93%	2.94%	4.89%	8.70%	14.20%
Net interest margin ¹	4.43%	4.45%	4.77%	4.96%	5.07%
Net loan losses to average loans	1.37%	2.07%	1.53%	0.69%	0.17%
Efficiency ratio ¹	60.88%	62.49%	61.53%	58.59%	59.86%
Average equity to average assets	9.15%	9.25%	9.73%	9.72%	9.55%
At December 31:					
Equity to assets	8.47%	9.15%	9.24%	9.69%	9.54%
Total capital to risk-adjusted assets	13.94%	14.20%	13.36%	12.42%	11.90%
Allowance for loan losses to loans	2.96%	3.00%	2.37%	1.73%	1.12%

¹ Fully taxable equivalent

21

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****General**

As TriCo Bancshares (referred to in this report as we, our or the Company) has not commenced any business operations independent of Tri Counties Bank (the Bank), the following discussion pertains primarily to the Bank. Average balances, including such balances used in calculating certain financial ratios, are generally comprised of average daily balances for the Company. Within Management's Discussion and Analysis of Financial Condition and Results of Operations, interest income and net interest income are generally presented on a fully tax-equivalent (FTE) basis. The presentation of interest income and net interest income on a FTE basis is a common practice within the banking industry. Interest income and net interest income are shown on a non-FTE basis in the Part I Financial Information section of this Form 10-Q, and a reconciliation of the FTE and non-FTE presentations is provided below in the discussion of net interest income.

Critical Accounting Policies and Estimates

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those that materially affect the financial statements and are related to the adequacy of the allowance for loan losses, investments, mortgage servicing rights, fair value measurements, retirement plans and intangible assets. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The Company's policies related to estimates on the allowance for loan losses, other than temporary impairment of investments and impairment of intangible assets, can be found in Note 1 in the financial statements at Item 8 of this report.

As the Company has not commenced any business operations independent of the Bank, the following discussion pertains primarily to the Bank. Average balances, including balances used in calculating certain financial ratios, are generally comprised of average daily balances for the Company. Within Management's Discussion and Analysis of Financial Condition and Results of Operations, certain performance measures including interest income, net interest income, net interest yield, and efficiency ratio are generally presented on a fully tax-equivalent (FTE) basis. The Company believes the use of these non-generally accepted accounting principles (non-GAAP) measures provides additional clarity in assessing its results.

On September 23, 2011, the California Department of Financial Institutions closed Citizens Bank of Northern California (Citizens), Nevada City, California and appointed the FDIC as receiver. That same date, the Bank assumed the banking operations of Citizens from the FDIC under a whole bank purchase and assumption agreement without loss sharing. With this agreement, the Bank added seven traditional bank branches including two in Grass Valley, and one in each of Nevada City, Penn Valley, Lake of the Pines, Truckee, and Auburn, California. This acquisition is consistent with the Bank's community banking expansion strategy and provides further opportunity to fill in the Bank's market presence in the Northern California market.

On May 28, 2010, the Office of the Comptroller of the Currency closed Granite Community Bank (Granite), Granite Bay, California and appointed the FDIC as receiver. That same date, the Bank assumed the banking operations of Granite from the FDIC under a whole bank purchase and assumption agreement with loss sharing. Under the terms of the loss sharing agreement, the FDIC will cover a substantial portion of any future losses on loans, related unfunded loan commitments, other real estate owned (OREO)/foreclosed assets and accrued interest on loans for up to 90 days. The FDIC will absorb 80% of losses and share in 80% of loss recoveries on the covered assets acquired from Granite. The loss sharing arrangements for non-single family residential and single family residential loans are in effect for 5 years and 10 years, respectively, and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition date. With this agreement, the Bank added one traditional bank branch in each of Granite Bay and Auburn, California. This acquisition is consistent with the Bank's community banking expansion strategy and provides further opportunity to fill in the Bank's market presence in the greater Sacramento, California market.

Table of Contents

The Company refers to loans and foreclosed assets that are covered by loss sharing agreements as covered loans and covered foreclosed assets, respectively. In addition, the Company refers to loans purchased or obtained in a business combination as purchased credit impaired (PCI) loans, or purchased non-credit impaired (PNCI) loans. The Company refers to loans that it originates as originated loans. Additional information regarding the Citizens and Granite Bank acquisitions can be found in Note 2 in the financial statements at Item 8 of this report. Additional information regarding the definitions and accounting for originated, PNCI and PCI loans can be found in Notes 1, 2, 4 and 5 in the financial statements at Item 8 of this report, and under the heading *Asset Quality and Non-Performing Assets* below.

Geographical Descriptions

For the purpose of describing the geographical location of the Company's loans, the Company has defined northern California as that area of California north of, and including, Stockton; central California as that area of the State south of Stockton, to and including, Bakersfield; and southern California as that area of the State south of Bakersfield.

Results of Operations**Overview**

The following discussion and analysis is designed to provide a better understanding of the significant changes and trends related to the Company and the Bank's financial condition, operating results, asset and liability management, liquidity and capital resources and should be read in conjunction with the consolidated financial statements of the Company and the related notes at Item 8 of this report.

Following is a summary of the components of net income for the periods indicated (dollars in thousands):

	Year ended December 31,		
	2011	2010	2009
Components of Net Income			
Net interest income	\$ 92,744	\$ 90,439	\$ 91,718
Provision for loan losses	(23,060)	(37,458)	(31,450)
Noninterest income	42,813	32,695	30,329
Noninterest expense	(82,715)	(77,205)	(75,450)
Taxes	(11,192)	(2,466)	(5,185)
Net income	\$ 18,590	\$ 6,005	\$ 9,962
Net income per average fully-diluted share	\$ 1.16	\$ 0.37	\$ 0.62
Net income as a percentage of average shareholders' equity	8.93%	2.94%	4.89%
Net income as a percentage of average total assets	0.82%	0.27%	0.48%

Net Interest Income

The Company's primary source of revenue is net interest income, which is the difference between interest income on earning assets and interest expense on interest-bearing liabilities.

Following is a summary of the Company's net interest income for the periods indicated (dollars in thousands):

	Year ended December 31,		
	2011	2010	2009
Components of Net Interest Income			
Interest income	\$ 102,982	\$ 104,572	\$ 112,333
Interest expense	(10,238)	(14,133)	(20,615)

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Net interest income	92,744	90,439	91,718
FTE adjustment	309	413	572
Net interest income (FTE)	\$ 93,053	\$ 90,852	\$ 92,290
Net interest margin (FTE)	4.43%	4.45%	4.77%

Net interest income (FTE) for the year ended December 31, 2011 was \$93,053,000, an increase of \$2,201,000 or 2.4% compared to the year ended December 31, 2010. The increase in net interest income during 2011 when compared to 2010 is mainly due to the acquisition of Citizens on September 23, 2011 and its associated net interest income of \$6,117,000 from September 23, 2011 to December 31, 2011. Included in the net interest income associated with the Citizens acquisition is \$3,146,000 from the accretion of loan purchase discounts. Also contributing to the increase in net interest income was a reduction in deposit rates and the flow of deposits from relatively higher paying time deposits to lower paying non-maturity deposits. Partially offsetting the increase in net interest income related to the Citizens acquisition and the deposit rate and volume changes were organic loan payoffs in excess of loan production during 2011. These loan payoffs in excess of loan production and deposit growth during 2011 were deployed into lower yielding short-term interest-earning balances at the Federal Reserve Bank. During 2011, investment opportunities continued to be unattractive given their low market yields and interest rate risk profile.

Table of Contents

Net interest income (FTE) for the year ended December 31, 2010 was \$90,852,000, a decrease of \$1,438,000 or 1.6% compared to the year ended December 31, 2009. This decrease in net interest income was attributable to a change in the mix of interest-earning assets, with average loan balances decreasing and other categories of lower yielding assets increasing. The decrease in average loan balances was due to decreased loan demand and unfavorable credit risks associated with loans in the economic environment that persisted throughout 2010. While the Company was able to continue to lower interest-bearing liability rates, and thus interest expense, sufficiently to overcome the decrease in interest income due to decreases in the average yield on interest-earning assets during 2010, it was not sufficient to overcome the decrease in average loan balances during 2010. The Yield and Volume/Rate tables shown below are useful in illustrating and quantifying the developments that affected net interest income during 2010.

Summary of Average Balances, Yields/Rates and Interest Differential Yield Tables

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

	Year ended December 31, 2011		
	Average balance	Interest income/expense	Rates earned/paid
Assets			
Loans	\$ 1,442,821	\$ 92,691	6.42%
Investment securities - taxable	262,306	8,760	3.34%
Investment securities - nontaxable	11,403	833	7.31%
Cash at Federal Reserve and other banks	386,067	1,007	0.26%
Total earning assets	2,102,597	103,291	4.91%
Other assets	173,311		
Total assets	\$ 2,275,908		
Liabilities and shareholders' equity			
Interest-bearing demand deposits	\$ 410,870	\$ 1,217	0.30%
Savings deposits	661,480	1,421	0.21%
Time deposits	415,319	3,921	0.94%
Other borrowings	63,602	2,420	3.80%
Junior subordinated debt	41,238	1,259	3.05%
Total interest-bearing liabilities	1,592,509	10,238	0.64%
Noninterest-bearing demand	442,174		
Other liabilities	33,005		
Shareholders' equity	208,220		
Total liabilities and shareholders' equity	\$ 2,275,908		
Net interest spread ⁽¹⁾			4.27%
Net interest income and interest margin ⁽²⁾		\$ 93,053	4.43%

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- (1) Net interest spread represents the average yield earned on interest-earning assets less the average rate paid on interest-bearing liabilities.
- (2) Net interest margin is computed by dividing net interest income by total average earning assets.

Table of Contents**Summary of Average Balances, Yields/Rates and Interest Differential Yield Tables (continued)**

	Year ended December 31, 2010		
	Average balance	Interest income/expense	Rates earned/paid
Assets			
Loans	\$ 1,464,606	\$ 93,073	6.35%
Investment securities taxable	263,059	10,039	3.82%
Investment securities nontaxable	14,717	1,113	7.56%
Cash at Federal Reserve and other banks	296,970	760	0.26%
Total earning assets	2,039,352	104,985	5.15%
Other assets	169,290		
Total assets	\$ 2,208,642		
Liabilities and shareholders equity			
Interest-bearing demand deposits	\$ 384,077	2,242	0.58%
Savings deposits	552,104	2,277	0.41%
Time deposits	544,018	5,928	1.09%
Other borrowings	62,110	2,412	3.88%
Junior subordinated debt	41,238	1,274	3.09%
Total interest-bearing liabilities	1,583,547	14,133	0.89%
Noninterest-bearing demand	385,704		
Other liabilities	35,196		
Shareholders equity	204,195		
Total liabilities and shareholders equity	\$ 2,208,642		
Net interest spread ⁽¹⁾			4.26%
Net interest income and interest margin ⁽²⁾		\$ 90,852	4.45%

	Year ended December 31, 2009		
	Average balance	Interest income/expense	Rates earned/paid
Assets			
Loans	\$ 1,542,147	\$ 99,996	6.48%
Investment securities taxable	232,636	11,019	4.74%
Investment securities nontaxable	20,782	1,558	7.50%
Cash at Federal Reserve and other banks	141,172	332	0.24%
Total earning assets	1,936,717	112,905	5.83%
Other assets	156,551		
Total assets	\$ 2,093,268		
Liabilities and shareholders equity			

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Interest-bearing demand deposits	\$ 296,997	2,060	0.69%
Savings deposits	444,105	3,166	0.71%
Time deposits	637,480	12,665	1.99%
Other borrowings	73,121	1,221	1.67%
Junior subordinated debt	41,238	1,503	3.64%
Total interest-bearing liabilities	1,492,941	20,615	1.38%
Noninterest-bearing demand	359,693		
Other liabilities	37,025		
Shareholders' equity	203,609		
Total liabilities and shareholders' equity	\$ 2,093,268		
Net interest spread ⁽¹⁾			4.45%
Net interest income and interest margin ⁽²⁾		\$ 92,290	4.77%

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

(2) Net interest margin is computed by dividing net interest income by total average earning assets.

Table of Contents**Summary of Changes in Interest Income and Expense due to Changes in Average Asset and Liability Balances and Yields Earned and Rates Paid Volume/Rate Tables**

The following table sets forth a summary of the changes in the Company's interest income and interest expense from changes in average asset and liability balances (volume) and changes in average interest rates for the periods indicated. The rate/volume variance has been included in the rate variance. Amounts are calculated on a fully taxable equivalent basis:

	2011 over 2010			2010 over 2009		
	Volume	Yield/ Rate	Total	Volume	Yield/ Rate	Total
(dollars in thousands)						
Increase (decrease) in interest income:						
Loans	\$ (1,383)	\$ 1,001	\$ (382)	\$ (5,025)	\$ (1,898)	\$ (6,923)
Investments taxable	(29)	(1,250)	(1,279)	1,442	(2,422)	(980)
Investments nontaxable	(251)	(29)	(280)	(455)	10	(445)
Cash at Federal Reserve and other banks	232	15	247	374	54	428
Total	(1,431)	(263)	(1,694)	(3,664)	(4,256)	(7,920)
Increase (decrease) in interest expense:						
Demand deposits (interest-bearing)	155	(1,180)	(1,025)	601	(419)	182
Savings deposits	448	(1,304)	(856)	767	(1,656)	(889)
Time deposits	(1,403)	(604)	(2,007)	(1,860)	(4,877)	(6,737)
Other borrowings	58	(50)	8	(184)	1,375	1,191
Junior subordinated debt		(15)	(15)		(229)	(229)
Total	(742)	(3,153)	(3,895)	(676)	(5,806)	(6,482)
Increase (decrease) in net interest income	\$ (689)	\$ 2,890	\$ 2,201	\$ (2,988)	\$ 1,550	\$ (1,438)

Provision for Loan Losses

The provision for loan losses was \$23,060,000 and \$37,458,000 for the years ended December 31, 2011, and 2010, respectively. The decreases in the provision for loan losses for the year ended December 31, 2011 as compared to the year ended December 31, 2010 was primarily the result of changes in the make-up of the originated loan portfolio and the Bank's loss factors related to the originated loan portfolio in reaction to decreased losses in the construction, commercial real estate, commercial & industrial (C&I), home equity and auto indirect loan portfolios. Included in the provision for loan losses for the year ended December 31, 2011 is \$1,562,000 related to loans acquired in the Citizens acquisition and \$1,248,000 related to loans acquired in the Granite acquisition.

The provision for loan losses was \$37,458,000 and \$31,450,000 for the years ended December 31, 2010, and 2009, respectively. The increases in the provision for loan losses for the year ended December 31, 2010 as compared to the year ended December 31, 2009 was primarily the result of changes in the make-up of the originated loan portfolio and the Bank's loss factors related to the originated loan portfolio in reaction to increased losses in the construction, commercial real estate, commercial & industrial (C&I), home equity and auto indirect loan portfolios, and decreases in expected cash flows of certain PCI loan pools. Included in the provision for loan losses for the year ended December 31, 2010 is \$1,608,000 related to loans acquired in the Granite acquisition on May 28, 2010. Prior to May 28, 2010, the Company had no PCI loans.

Management re-evaluates the loss ratios and assumptions of its originated and PNCI loan portfolios and makes changes as appropriate based upon, among other things, changes in loss rates experienced, collateral support for underlying loans, changes and trends in the economy, and changes in the loan mix. Management also re-evaluates expected cash flows for its PCI loan portfolio quarterly and makes changes as appropriate based upon, among other things, changes in loan repayment experience, changes in loss rates experienced, and collateral support for underlying loans.

The provision for loan losses related to originated and PNCI loans is based on management's evaluation of inherent risks in these loan portfolios and a corresponding analysis of the allowance for loan losses. The provision for loan losses related to PCI loan portfolio is based on changes in

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estimated cash flows expected to be collected on PCI loans. Additional discussion on loan quality, our procedures to measure loan impairment, and the allowance for loan losses is provided under the heading *Asset Quality and Non-Performing Assets* below.

Table of Contents**Noninterest Income**

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

	Year ended December 31,		
	2011	2010	2009
Components of Noninterest Income			
Service charges on deposit accounts	\$ 14,776	\$ 15,296	\$ 16,080
ATM fees and interchange	7,058	6,078	4,925
Other service fees	1,722	1,452	1,229
Mortgage banking service fees	1,495	1,303	1,140
Change in value of mortgage servicing rights	(1,107)	(1,029)	(552)
Total service charges and fees	23,944	23,100	22,822
Gain on sale of loans	3,037	3,647	3,466
Commissions on sale of nondeposit investment products	2,105	1,209	1,632
Increase in cash value of life insurance	1,885	1,847	1,879
Change in indemnification asset	2,059	1,274	
Gain on disposition of foreclosed assets	680	562	168
Legal settlement		400	
Bargain purchase gain	7,575	232	
Gain on life insurance death benefit	789		
Other noninterest income	739	424	362
Total noninterest income	\$ 42,813	\$ 32,695	\$ 30,329

Noninterest income increased \$10,118,000 (30.9%) to \$42,813,000 in 2011. Service charges on deposit accounts were down \$520,000 (3.4%) due to new overdraft regulations that became effective on July 1, 2010 and caused a decrease in non-sufficient funds fees. ATM fees and interchange income was up \$980,000 (16.1%) due to increased customer point-of-sale transactions that are the result of incentives for such usage. Overall, mortgage banking activities, which includes mortgage banking servicing fees, change in value of mortgage servicing rights, and gain on sale of loans, accounted for \$3,425,000 of noninterest income in the 2011 compared to \$3,921,000 in 2010. Commissions on sale of nondeposit investment products increased \$896,000 (74.1%) in 2011 due to increased focus and resources deployed in that area. The change in indemnification asset of \$2,059,000 recorded in 2011 is primarily due to an increase in estimated loan losses from the loan portfolio and foreclosed assets acquired in the Granite acquisition on May 28, 2010, and the fact that such losses are generally covered at the rate of 80% by the FDIC. The actual increase in estimated losses is reflected in decreased interest income, increased provision for loan losses and/or increased provision for foreclosed asset losses. The September 23, 2011 acquisition of Citizens added noninterest income totaling \$8,029,000 through December 31, 2011 including a bargain purchase gain of \$7,575,000. Also during 2011, the Company recorded a \$789,000 gain on life insurance death benefit due to the passing of an insured former employee.

Noninterest income increased \$2,366,000 (7.8%) to \$32,695,000 in 2010. Service charges on deposit accounts were down \$784,000 (4.9%) due to new overdraft regulations that became effective on July 1, 2010 and caused a decrease in non-sufficient funds fees. ATM fees and interchange income was up \$1,153,000 (23.4%) due to increased customer point-of-sale transactions that are the result of incentives for such usage. Overall, mortgage banking activities, which includes mortgage banking servicing fees, change in value of mortgage servicing rights, and gain on sale of loans, accounted for \$3,921,000 of noninterest income in the 2010 compared to \$4,054,000 in 2009. Commissions on sale of nondeposit investment products decreased \$423,000 (25.9%) in 2010 due to lower demand for investment products. The change in indemnification asset of \$1,274,000 recorded in 2010 is primarily due to an increase in estimated loan losses from the loan portfolio and foreclosed assets acquired in the Granite acquisition on May 28, 2010, and the fact that such losses are generally covered at the rate of 80% by the FDIC. The actual increase in estimated losses is reflected in decreased interest income, increased provision for loan losses and/or increased provision for foreclosed asset losses. The May 28, 2010 acquisition of Granite added noninterest income totaling \$1,586,000 through December 31, 2010 including change in indemnification asset of \$1,274,000.

Table of Contents**Noninterest Expense**

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

	Year ended December 31,		
	2011	2010	2009
Components of Noninterest Expense			
Salaries and related benefits:			
Base salaries, net of deferred loan origination costs	\$ 29,753	\$ 28,255	\$ 27,110
Incentive compensation	3,735	1,844	2,792
Benefits and other compensation costs	10,715	10,006	9,908
Total salaries and related benefits	44,203	40,105	39,810
Other noninterest expense:			
Occupancy	6,198	5,717	5,096
Equipment	3,770	3,975	3,709
Data processing and software	3,980	3,163	2,807
Assessments	2,491	3,253	3,750
ATM network charges	1,939	1,851	2,433
Advertising	2,649	2,340	2,175
Professional fees	2,004	2,478	1,783
Telecommunications	1,875	1,817	1,689
Postage	935	1,037	991
Courier service	953	826	796
Foreclosed asset expense	755	625	491
Intangible amortization	177	307	328
Operational losses	600	394	314
Provision for foreclosed asset losses	1,984	1,522	220
Change in reserve for unfunded commitments	100	(1,000)	1,075
Other	8,102	8,795	7,983
Total other noninterest expenses	38,512	37,100	35,640
Total noninterest expense	\$ 82,715	\$ 77,205	\$ 75,450
Average full time equivalent staff	687	667	641
Noninterest expense to revenue (FTE)	60.88%	62.49%	61.53%

Salary and benefit expenses increased \$4,098,000 (10.2%) to \$44,203,000 in 2011 compared to 2010. The operations of Citizens from September 23, 2011 to December 31, 2011 added \$751,000 to salaries and benefits expense. Base salaries increased \$1,498,000 (5.3%) to \$29,753,000 in 2011. The increase in base salaries was mainly due to 3.0% increase in average full time equivalent staff and annual merit increases. Incentive and commission related salary expenses increased \$1,891,000 (103%) to \$3,735,000 in 2011 due primarily to increases in management bonuses and other incentives tied to net income. Benefits expense, including retirement, medical and workers' compensation insurance, and taxes, increased \$709,000 (7.1%) to \$10,715,000 during 2011. Included in benefits expense in 2011 was employee stock option expense of \$636,000 compared to \$550,000 in 2010.

Salary and benefit expenses increased \$295,000 (0.7%) to \$40,105,000 in 2010 compared to 2009. Base salaries increased \$1,145,000 (4.2%) to \$28,255,000 in 2010. The increase in base salaries was mainly due to 4.1% increase in average full time equivalent staff. Incentive and commission related salary expenses decreased \$948,000 (34.0%) to \$1,844,000 in 2010 due primarily to decreases in management bonuses and other incentives tied to net income. Benefits expense, including retirement, medical and workers' compensation insurance, and taxes, increased \$98,000 (1.0%) to \$10,006,000 during 2010. Included in benefits expense in 2010 was \$550,000 for expensing of employee stock options compared to \$402,000 in 2009.

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Other noninterest expenses increased \$1,412,000 (3.8%) to \$38,512,000 in 2011. The operations of Citizens from September 23, 2011 to December 31, 2011 added \$1,114,000 to other noninterest expense. Changes in the various categories of other noninterest expense are reflected in the table above. The changes are indicative of the economic environment which has lead to increases in professional loan collection expenses, provision for foreclosed asset losses, and foreclosed asset expenses. Occupancy expense increased primarily due to seven branches and one admin facility acquired in the Citizens acquisition on September 23, 2011, and two branches acquired in the Granite acquisition on May 28, 2010. Included in the \$1,114,000 of Citizens related other noninterest expense were \$296,000 of provision for foreclosed assets expense and \$271,000 of information systems expense including system conversion expense as the Company has begun work to convert the Citizens systems to the Company's systems. Partially offsetting these increases was a \$762,000 decrease in regulatory and deposit insurance assessments.

Table of Contents

Other noninterest expenses increased \$1,460,000 (4.1%) to \$37,100,000 in 2010. Changes in the various categories of other noninterest expense are reflected in the table above. The changes are indicative of the economic environment which has led to increases in professional loan collection expenses, provision for foreclosed asset losses, and foreclosed asset expenses. Occupancy and equipment expenses increased primarily due to four new branch openings, one each in the third and fourth quarters of 2009 and one each in the first and second quarters of 2010, and three branches and one admin facility acquired in the Granite acquisition on May 28, 2010. The May 28, 2010 acquisition of Granite added noninterest expenses totaling \$2,078,000 through December 31, 2010 including salaries and benefits expense of \$521,000 and provision for foreclosed asset losses of \$625,000. Partially offsetting these increases was a \$2,075,000 decrease in change in reserve for unfunded commitments due to a reduction in estimated usage of such commitments.

Income Taxes

The effective tax rate on income was 37.6%, 29.1%, and 34.2% in 2011, 2010, and 2009, respectively. The effective tax rate was greater than the federal statutory tax rate due to state tax expense of \$2,845,000, \$543,000, and \$1,273,000, respectively, in these years. Tax-exempt income of \$514,000, \$700,000, and \$986,000, respectively, from investment securities, and \$2,674,000, \$1,847,000, and \$1,879,000, respectively, from increase in cash value and gain on death benefit of life insurance in these years helped to reduce the effective tax rate.

Financial Condition**Investment Securities**

During 2011 the Company did not sell any investment securities. During 2011 the Company received proceeds from maturities of securities totaling \$84,016,000, and used \$25,456,000 to purchase securities. During 2010 the Company did not sell any investment securities. During 2010 the Company received proceeds from maturities of securities totaling \$92,427,000, and used \$156,348,000 to purchase securities. The following table shows the Company's investment securities balances at the dates indicated:

(dollars in thousands)	Year ended December 31,				
	2011	2010	2009	2008	2007
Securities Available-for-sale:					
Obligations of US government corporations and agencies	\$ 217,384	\$ 264,181	\$ 193,130	\$ 242,977	\$ 203,774
Obligations of states and political subdivisions	10,028	12,541	17,953	22,665	27,648
Corporate bonds	1,811	549	539	919	1,005
Total investment securities	\$ 229,223	\$ 277,271	\$ 211,622	\$ 266,561	\$ 232,427

Additional information about the investment portfolio is provided in Note 3 in the financial statements at Item 8 of this report.

Restricted Equity Securities

Restricted equity securities were \$10,610,000 at December 31, 2011 and \$9,133,000 at December 31, 2010. The entire balance of restricted equity securities at December 31, 2011 and December 31, 2010 represents the Bank's investment in the Federal Home Loan Bank of San Francisco (FHLB). The increase of \$1,477,000 is attributable to the redemption of \$514,000 of FHLB stock, offset in part by the mandatory purchase of \$66,000 of FHLB stock, and the purchase of \$1,925,000 of FHLB stock via the FDIC-assisted acquisition of Citizens.

FHLB stock is carried at par and does not have a readily determinable fair value. While technically these are considered equity securities, there is no market for the FHLB stock. Therefore, the shares are considered as restricted investment securities. Management periodically evaluates FHLB stock for other-than-temporary impairment. Management's determination of whether these investments are impaired is based on its assessment of the ultimate recoverability of cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of cost is influenced by criteria such as (1) the significance of any decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, (3) the impact of legislative and regulatory changes on institutions and, accordingly, the customer base of the FHLB, and (4) the liquidity position of the FHLB.

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As a member of the FHLB system, the Company is required to maintain a minimum level of investment in FHLB stock based on specific percentages of its outstanding mortgages, total assets, or FHLB advances. The Company may request redemption at par value of any stock in excess of the minimum required investment. Stock redemptions are at the discretion of the FHLB.

Table of Contents**Loans**

The Bank concentrates its lending activities in four principal areas: real estate mortgage loans (residential and commercial loans), consumer loans, commercial loans (including agricultural loans), and real estate construction loans. The interest rates charged for the loans made by the Bank vary with the degree of risk, the size and maturity of the loans, the borrower's relationship with the Bank and prevailing money market rates indicative of the Bank's cost of funds.

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

Loan Portfolio Composite

The following table shows the Company's loan balances, including net deferred loan costs, at the dates indicated:

(dollars in thousands)	Year ended December 31,				
	2011	2010	2009	2008	2007
Real estate mortgage	\$ 965,922	\$ 835,471	\$ 844,053	\$ 839,687	\$ 761,331
Consumer	406,330	395,771	428,722	477,435	489,982
Commercial	139,131	143,413	164,094	190,295	165,334
Real estate construction	39,649	44,916	58,701	83,432	135,319
Total loans	\$ 1,551,032	\$ 1,419,571	\$ 1,495,570	\$ 1,590,849	\$ 1,551,966

The following table shows the Company's loan balances, including net deferred loan costs, as a percentage of total loans at the dates indicated:

(dollars in thousands)	Year ended December 31,				
	2011	2010	2009	2008	2007
Real estate mortgage	62.2%	58.8%	56.4%	52.8%	49.1%
Consumer	26.2%	27.9%	28.7%	30.0%	31.6%
Commercial	9.0%	10.1%	11.0%	12.0%	10.7%
Real estate construction	2.6%	3.2%	3.9%	5.2%	8.7%
Total loans	100.0%	100.0%	100.0%	100.0%	100.0%

At December 31, 2011 loans, including net deferred loan costs, totaled \$1,551,032,000 which was a 9.3% (\$131,461,000) increase over the balances at the end of 2010. This increase in loans during 2011 included \$167,484,000 of loans acquired in the Citizens acquisition on September 23, 2011. Demand for commercial real estate (real estate mortgage) loans was weak during 2011. Demand for home equity loans and lines of credit was weak to modest during 2011. Real estate construction loans declined during 2011 as did auto dealer loans.

At December 31, 2010 loans, including net deferred loan costs, totaled \$1,419,571,000 which was a 5.1% (\$75,999,000) decrease over the balances at the end of 2009. This decrease in loans during 2010 was net of \$64,802,000 of loans acquired in the Granite acquisition on May 28, 2010. Demand for commercial real estate (real estate mortgage) loans was weak during 2010. Demand for home equity loans and lines of credit were weak to modest during 2010. Real estate construction loans declined during 2010 as did auto dealer loans.

Asset Quality and Nonperforming Assets**Nonperforming Assets**

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Loans originated by the Company, i.e., not purchased or acquired in a business combination, are reported at the principal amount outstanding, net of deferred loan fees and costs. 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 actual life of the loan. Originated loans on which the accrual of interest has been discontinued are designated as nonaccrual loans.

Originated loans are placed in nonaccrual status when reasonable doubt exists as to the full, timely collection of interest or principal, or a loan becomes contractually past due by 90 days or more with respect to interest or principal and is not well secured and in the process of collection. When an originated 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 loan is estimated to be fully collectible as to both principal and interest.

Table of Contents

An allowance for loan losses for originated loans is established through a provision for loan losses charged to expense. Originated loans and deposit related overdrafts are charged against the allowance for loan losses when Management believes that the collectability of the principal is unlikely or, with respect to consumer installment loans, according to an established delinquency schedule. The allowance is an amount that Management believes will be adequate to absorb probable losses inherent in existing loans and leases, based on evaluations of the collectability, impairment and prior loss experience of loans and leases. The evaluations take into consideration such factors as changes in the nature and size of the portfolio, overall portfolio quality, loan concentrations, specific problem loans, and current economic conditions that may affect the borrower's ability to pay. The Company defines an originated loan as impaired when it is probable the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired originated loans are measured based on the present value of expected future cash flows discounted at the loan's original effective interest rate. As a practical expedient, impairment may be measured based on the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through a valuation allowance.

In situations related to originated loans where, for economic or legal reasons related to a borrower's financial difficulties, the Company grants a concession for other than an insignificant period of time to the borrower that the Company would not otherwise consider, the related loan is classified as a troubled debt restructuring (TDR). The Company strives to identify borrowers in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where the Company grants the borrower new terms that provide for a reduction of either interest or principal, the Company measures any impairment on the restructuring as noted above for impaired loans. TDR loans are classified as impaired until they are fully paid off or charged off. Loans that are in nonaccrual status at the time they become TDR loans, remain in nonaccrual status until the borrower demonstrates a sustained period of performance which the Company generally believes to be six consecutive months of payments, or equivalent. Otherwise, TDR loans are subject to the same nonaccrual and charge-off policies as noted above with respect to their restructured principal balance.

Credit risk is inherent in the business of lending. As a result, the Company maintains an allowance for loan losses to absorb losses inherent in the Company's originated loan portfolio. This is maintained through periodic charges to earnings. These charges are included in the Consolidated Income Statements as provision for loan losses. All specifically identifiable and quantifiable losses are immediately charged off against the allowance. However, for a variety of reasons, not all losses are immediately known to the Company and, of those that are known, the full extent of the loss may not be quantifiable at that point in time. The balance of the Company's allowance for originated loan losses is meant to be an estimate of these unknown but probable losses inherent in the portfolio.

The Company formally assesses the adequacy of the allowance for originated loan losses on a quarterly basis. Determination of the adequacy is based on ongoing assessments of the probable risk in the outstanding originated loan portfolio, and to a lesser extent the Company's originated loan commitments. These assessments include the periodic re-grading of credits based on changes in their individual credit characteristics including delinquency, seasoning, recent financial performance of the borrower, economic factors, changes in the interest rate environment, growth of the portfolio as a whole or by segment, and other factors as warranted. Loans are initially graded when originated. They are re-graded as they are renewed, when there is a new loan to the same borrower, when identified facts demonstrate heightened risk of nonpayment, or if they become delinquent. Re-grading of larger problem loans occurs at least quarterly. Confirmation of the quality of the grading process is obtained by independent credit reviews conducted by consultants specifically hired for this purpose and by various bank regulatory agencies.

The Company's method for assessing the appropriateness of the allowance for originated loan losses includes specific allowances for impaired originated loans and leases, formula allowance factors for pools of credits, and allowances for changing environmental factors (e.g., interest rates, growth, economic conditions, etc.). Allowance factors for loan pools are based on historical loss experience by product type. Allowances for impaired loans are based on analysis of individual credits. Allowances for changing environmental factors are Management's best estimate of the probable impact these changes have had on the originated loan portfolio as a whole. The allowance for originated loans is included in the allowance for loan losses.

Acquired loans are valued as of acquisition date in accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Topic 805, *Business Combinations*. Loans purchased with evidence of credit deterioration since origination for which it is probable that all contractually required payments will not be collected are referred to as purchased credit impaired (PCI) loans. PCI loans are accounted for under FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. In addition, because of the significant credit discounts associated with the loans acquired in the Granite acquisition, the Company elected to account for all loans acquired in the Granite acquisition under FASB ASC Topic 310-30, and classify them all as PCI loans. Under FASB ASC Topic 805 and FASB ASC Topic 310-30, PCI loans are recorded at fair value at acquisition date, factoring in credit losses expected to be incurred over the life of the loan. Accordingly, an allowance for loan losses is not carried over or recorded as of the

Table of Contents

acquisition date. Fair value is defined as the present value of the future estimated principal and interest payments of the loan, with the discount rate used in the present value calculation representing the estimated effective yield of the loan. The difference between contractual future payments and estimated future payments is referred to as the nonaccretable difference. The difference between estimated future payments and the present value of the estimated future payments is referred to as the accretable yield. The accretable yield represents the amount that is expected to be recorded as interest income over the remaining life of the loan. If after acquisition, the Company determines that the future cash flows of a PCI loan are expected to be more than the originally estimated, an increase in the discount rate (effective yield) would be made such that the newly increased accretable yield would be recognized, on a level yield basis, over the remaining estimated life of the loan. If after acquisition, the Company determines that the future cash flows of a PCI loan are expected to be less than the previously estimated, the discount rate would first be reduced until the present value of the reduced cash flow estimate equals the previous present value however, the discount rate may not be lowered below its original level. If the discount rate has been lowered to its original level and the present value has not been sufficiently lowered, an allowance for loan loss would be established through a provision for loan losses charged to expense to decrease the present value to the required level. If the estimated cash flows improve after an allowance has been established for a loan, the allowance may be partially or fully reversed depending on the improvement in the estimated cash flows. Only after the allowance has been fully reversed may the discount rate be increased. PCI loans are put on nonaccrual status when cash flows cannot be reasonably estimated. PCI loans are charged off when evidence suggests cash flows are not recoverable. Foreclosed assets from PCI loans are recorded in foreclosed assets at fair value with the fair value at time of foreclosure representing cash flow from the loan. ASC 310-30 allows PCI loans with similar risk characteristics and acquisition time frame to be pooled and have their cash flows aggregated as if they were one loan.

Acquired loans that are not PCI loans are referred to as purchased not credit impaired (PNCI) loans. PNCI loans are accounted for under FASB ASC Topic 310-20, *Receivables - Nonrefundable Fees and Other Costs*, in which interest income is accrued on a level-yield basis for performing loans. For income recognition purposes, this method assumes that all contractual cash flows will be collected, and no allowance for loan losses is established at the time of acquisition. Post-acquisition date, an allowance for loan losses may need to be established for acquired PNCI loans through a provision charged to earnings for credit losses incurred subsequent to acquisition. Under ASC 310-20, the loss would be measured based on the shortfall in relation to the contractual note requirements.

Loans are also categorized as covered or noncovered. Covered loans refer to loans covered by a FDIC loss sharing agreement. Noncovered loans refer to loans not covered by a FDIC loss sharing agreement.

Originated loans and PNCI 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, the full and timely collection of additional interest or principal becomes uncertain, the loan is classified as doubtful by internal credit review or bank regulatory agencies, a portion of the principal balance has been charged off, or the Company takes possession of the collateral. Loans that are placed on nonaccrual even though the borrowers continue to repay the loans as scheduled are classified as performing nonaccrual and are included in total nonperforming loans. The reclassification of loans as nonaccrual does not necessarily reflect Management's judgment as to whether they are collectible.

Interest income on originated nonaccrual loans that would have been recognized during the years ended December 31, 2011 and 2010, if all such loans had been current in accordance with their original terms, totaled \$5,422,000 and \$5,169,000, respectively. Interest income actually recognized on these originated loans during the years ended December 31, 2011 and 2010 was \$1,497,000 and \$1,956,000, respectively. Interest income on PNCI nonaccrual loans that would have been recognized during the year ended December 31, 2011, if all such loans had been current in accordance with their original terms, totaled \$4,000. Interest income actually recognized on these PNCI loans during the year ended December 31, 2011 was \$5,000. During the year ended December 31, 2010, the Company had no PNCI loans.

The Company's policy is to place originated loans and PNCI loans 90 days or more past due on nonaccrual status. In some instances when an originated loan is 90 days past due Management does not place it on nonaccrual status because the loan is well secured and in the process of collection. A loan is considered to be in the process of collection if, based on a probable specific event, it is expected that the loan will be repaid or brought current. Generally, this collection period would not exceed 30 days. Loans where the collateral has been repossessed are classified as foreclosed assets.

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.

Table of Contents

The following tables set forth the amount of the Bank's nonperforming assets as of the dates indicated. For purposes of the following table, PCI other loans that are 90 days past due and still accruing are not considered nonperforming loans:

(dollars in thousands)	2011	2010	December 31, 2009	2008	2007
Performing nonaccrual loans	\$ 61,164	\$ 36,518	\$ 22,870	\$ 22,600	\$ 9,098
Nonperforming nonaccrual loans	23,647	39,224	26,301	9,994	4,227
Total nonaccrual loans	84,811	75,742	49,171	32,594	13,325
Originated and PNCI loans 90 days past due and still accruing	920	245	700	187	
Total nonperforming loans	85,731	75,987	49,871	32,781	13,325
Noncovered foreclosed assets	13,268	5,000	3,726	1,185	187
Covered foreclosed assets	3,064	4,913			
Total nonperforming assets	\$ 102,063	\$ 85,900	\$ 53,597	\$ 33,966	\$ 13,512
U.S. government, including its agencies and its government-sponsored agencies, guaranteed portion of nonperforming loans	\$ 3,061	\$ 3,937	\$ 4,975	\$ 5,256	\$ 5,814
Indemnified portion of covered foreclosed assets	\$ 2,451	\$ 3,930			
Nonperforming assets to total assets	3.99%	3.92%	2.24%	1.41%	0.39%
Nonperforming loans to total loans	5.53%	5.35%	2.99%	1.73%	0.48%
Allowance for loan losses to nonperforming loans	54%	56%	79%	100%	231%
Allowance for loan losses, unamortized loan fees, and discounts to loan principal balances owed	6.34%	3.74%	2.48%	1.79%	1.13%

(dollars in thousands)	December 31, 2011				
	Originated	PNCI	PCI cash basis	PCI -other	Total
Performing nonaccrual loans	\$ 52,208	\$ 97	\$ 8,859		\$ 61,164
Nonperforming nonaccrual loans	23,067	13	567		23,647
Total nonaccrual loans	75,275	110	9,426		84,811
Originated and PNCI loans 90 days past due and still accruing	500	420			920
Total nonperforming loans	75,775	530	9,426		85,731
Noncovered foreclosed assets	6,209			7,059	13,268
Covered foreclosed assets				3,064	3,064
Total nonperforming assets	\$ 81,984	\$ 530	\$ 9,426	\$ 10,123	\$ 102,063
U.S. government, including its agencies and its government-sponsored agencies, guaranteed portion of nonperforming loans	\$ 3,061				\$ 3,061
Indemnified portion of covered foreclosed assets				\$ 2,451	\$ 2,451
Nonperforming assets to total assets					3.99%
Nonperforming loans to total loans	5.67%	0.39%	100.00%		5.53%
Allowance for loan losses to nonperforming loans	55%	46%	11%	n/m	54%
Allowance for loan losses, unamortized loan fees, and discounts to loan principal balances owed	3.27%	12.13%	62.09%	27.37%	6.34%
n/m not meaningful					

Table of Contents

(dollars in thousands)	Originated	December 31, 2010					Total
		PNCI	PCI	cash basis	PCI	other	
Performing nonaccrual loans	\$ 36,518						\$ 36,518
Nonperforming nonaccrual loans	39,224						39,224
Total nonaccrual loans	75,742						75,742
Originated loans 90 days past due and still accruing	245						245
Total nonperforming loans	75,987						75,987
Noncovered foreclosed assets	5,000						5,000
Covered foreclosed assets						\$ 4,913	4,913
Total nonperforming assets	\$ 80,987					\$ 4,913	\$ 85,900
U.S. government, including its agencies and its government-sponsored agencies, guaranteed portion of nonperforming loans	\$ 3,937						\$ 3,937
Indemnified portion of covered foreclosed assets						\$ 3,930	\$ 3,930
Nonperforming assets to total assets							3.92%
Nonperforming loans to total loans	5.35%						5.35%
Allowance for loan losses to nonperforming loans	54%					n/m	56%
Allowance for loan losses, unamortized loan fees, and discounts to loan principal balances owed	3.13%					16.66%	3.74%
n/m not meaningful							

The following table shows the activity in the balance of nonperforming assets for the year ended December 31, 2011:

(dollars in thousands):	Balance at December 31, 2011	New NPA	Advances/ Capitalized Costs	Pay- downs / Sales	Charge-offs/ Write-downs	Transfers to Foreclosed Assets	Category Changes	Balance at December 31, 2010
Real estate mortgage:								
Residential	\$ 8,525	\$ 2,907	\$ 81	\$ (3,120)	\$ (1,655)	\$ (1,459)		\$ 11,771
Commercial	44,685	23,488	12	(11,357)	(4,451)	(1,952)	20	38,925
Consumer								
Home equity lines	16,983	20,247	1,112	(2,505)	(9,746)	(2,667)	(62)	10,604
Home equity loans	558	600	203	(135)	(789)	(84)	62	701
Auto indirect	508	551	4	(916)	(427)			1,296
Other consumer	110	505	1	(362)	(117)			83
Commercial	8,068	9,597	194	(3,787)	(2,534)		(20)	4,618
Construction:								
Residential	5,627	460	53	(311)	(634)	(771)	(287)	7,117
Commercial	667	642		(481)	(653)		287	872
Total nonperforming loans	85,731	58,997	1,660	(22,974)	(21,006)	(6,933)		75,987
Noncovered foreclosed assets	13,268	8,413		(5,794)	(1,259)	6,908		5,000
Covered foreclosed assets	3,064		9	(1,158)	(725)	25		4,913
Total nonperforming assets	\$ 102,063	\$ 67,410	\$ 1,669	\$ (29,926)	\$ (22,990)			\$ 85,900

Table of Contents

The following tables and narratives describe the activity in the balance of nonperforming assets during each of the three-month periods ending March 31, June 30, September 30, and December 31, 2011. These tables and narratives are presented in chronological order:

Changes in nonperforming assets during the three months ended December 31, 2011

(dollars in thousands):	Balance at December 31, 2011	New NPA	Advances/ Capitalized Costs	Pay- downs / Sales	Charge-offs/ Write-downs	Transfers to Foreclosed Assets	Category Changes	Balance at September 30, 2011
Real estate mortgage:								
Residential	\$ 8,525	\$ 496	\$ 10	\$ (389)	\$ (39)			\$ 8,447
Commercial	44,685	7,231	2	(4,807)	(1,287)	(680)		44,226
Consumer								
Home equity lines	16,983	4,657	53	(840)	(2,356)	(176)	(50)	15,695
Home equity loans	558	172	146	(62)	(239)		50	491
Auto indirect	508	77	2	(220)	(87)			736
Other consumer	110	63		(20)	(37)			104
Commercial	8,068	2,186	58	(2,069)	(327)			8,220
Construction:								
Residential	5,627	197	12	(65)	(204)	(439)		6,126
Commercial	667	163		(16)	(502)			1,022
Total nonperforming loans	85,731	15,242	283	(8,488)	(5,078)	(1,295)		85,067
Noncovered foreclosed assets	13,268			(1,939)	(460)	1,270		14,397
Covered foreclosed assets	3,064		9	(311)	(132)	25		3,473
Total nonperforming assets	\$ 102,063	\$ 15,242	\$ 293	\$ (10,738)	\$ (5,670)			\$ 102,937

Nonperforming assets decreased during the fourth quarter of 2011 by \$874,000 (0.85%) to \$102,063,000 at December 31, 2011 compared to \$102,937,000 at September 30, 2011. The decrease in nonperforming assets during the fourth quarter of 2011 was primarily the result of new nonperforming loans of \$15,242,000, advances on existing nonperforming loans and capitalized costs on foreclosed assets of \$293,000, less pay-downs or upgrades of nonperforming loans to performing status totaling \$8,488,000, less dispositions of foreclosed assets totaling \$2,250,000, less loan charge-offs of \$5,078,000, and less write-downs of foreclosed assets of \$592,000.

The \$15,242,000 in new nonperforming loans during the fourth quarter of 2011 was comprised of increases of \$496,000 on seven residential real estate loans, \$7,231,000 on 10 commercial real estate loans, \$4,829,000 on 55 home equity lines and loans, \$77,000 on 19 indirect auto loans, \$63,000 on 22 consumer loans, \$2,186,000 on 19 C&I loans, \$197,000 on two residential construction loans, and \$163,000 on a two commercial construction loans.

The \$7,231,000 in new nonperforming commercial real estate loans was primarily made up of a single loan in the amount of \$1,530,000 secured by a commercial warehouse in northern California, a single loan in the amount of \$351,000 secured by a commercial manufacturing facility in northern California, a single loan in the amount of \$420,000 secured by a single family residence in northern California, a single loan in the amount of \$529,000 secured by a single family residence in central California, two loans in the amount of \$3,022,000 secured by a agricultural production land and structures in central California, and a single loan in the amount of \$642,000 secured by a commercial office building in northern California. Related charge-offs are discussed below.

The \$2,186,000 in new nonperforming C&I loans was primarily made up of a single loan in the amount of \$1,823,000 secured by dairy livestock in central California. Related charge-offs are discussed below.

Loan charge-offs during the three months ended December 31, 2011

In the fourth quarter of 2011, the Company recorded \$5,078,000 in loan charge-offs and \$262,000 in deposit overdraft charge-offs less \$328,000 in loan recoveries and \$197,000 in deposit overdraft recoveries resulting in \$4,815,000 of net charge-offs. Primary causes of the loan charges taken in the fourth quarter of 2011 were gross charge-offs of \$39,000 on two residential real estate loans, \$1,287,000 on 14 commercial real estate loans, \$2,595,000 on 57 home equity lines and loans, \$87,000 on 34 indirect auto loans, \$37,000 on 20 other consumer loans, \$327,000 on

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18 C&I loans, \$204,000 on four residential construction loans, and \$502,000 on two commercial construction loans.

The \$1,287,000 in charge-offs the bank took in its commercial real estate portfolio was primarily comprised of a \$323,000 charge on a loan secured by mixed use commercial property in central California and a \$346,000 charge on a loan secured by a multi-family residence in central California. The remaining \$618,000 was spread over 12 loans spread throughout the Company's footprint.

The \$502,000 in charge-offs the Bank took in its commercial construction portfolio was comprised entirely of two unsecured lines of credit extended to real estate developers in northern California.

Table of Contents

Differences between the amounts explained in this section and the total charge-offs listed for a particular category are generally made up of individual charges of less than \$250,000 each. Generally losses are triggered by non-performance by the borrower and calculated based on any difference between the current loan amount and the current value of the underlying collateral less any estimated costs associated with the disposition of the collateral.

Changes in nonperforming assets during the three months ended September 30, 2011

(dollars in thousands):	Balance at September 30, 2011	New NPA	Advances/ Capitalized Costs	Pay- downs / Sales	Charge-offs/ Write-downs	Transfers to Foreclosed Assets	Category Changes	Balance at June 30, 2011
Real estate mortgage:								
Residential	\$ 8,447	\$ 179		\$ (1,524)	\$ (170)	\$ (662)		\$ 10,624
Commercial	44,226	5,155	9	(2,594)	(1,176)			42,832
Consumer								
Home equity lines	15,695	11,309	12	(556)	(1,861)	(572)		7,363
Home equity loans	491	376		(24)	(287)			426
Auto indirect	736	168	1	(191)	(105)			863
Other consumer	104	54		(17)	(26)			93
Commercial	8,220	4,700	136	(347)	(449)			4,180
Construction:								
Residential	6,126	58		(49)		(133)		6,250
Commercial	1,022			(11)	(56)			1,089
Total nonperforming loans	85,067	21,999	158	(5,313)	(4,130)	(1,367)		73,720
Noncovered foreclosed assets	14,397	8,413		(941)	(306)	1,367		5,864
Covered foreclosed assets	3,473							3,473
Total nonperforming assets	\$ 102,937	\$ 30,412	\$ 158	\$ (6,254)	\$ (4,436)			\$ 83,057

Nonperforming assets increased during the third quarter of 2011 by \$19,880,000 (23.9%) to \$102,937,000 at September 30, 2011 compared to \$83,057,000 at June 30, 2011. The increase in nonperforming assets during the third quarter of 2011 was primarily the result of new nonperforming loans of \$21,999,000 including \$10,761,000 of PCI cash basis loans from the Citizens acquisition, new foreclosed assets of \$8,413,000 also from the Citizens acquisition, advances on existing nonperforming loans and capitalized costs on foreclosed assets of \$158,000, less pay-downs or upgrades of nonperforming loans to performing status totaling \$5,313,000, less dispositions of foreclosed assets totaling \$941,000, less loan charge-offs of \$4,130,000, and less write-downs of foreclosed assets of \$306,000.

The \$21,999,000 in new nonperforming loans during the third quarter of 2011 was comprised of increases of \$179,000 on two residential real estate loans, \$5,155,000 on 11 commercial real estate loans, \$2,710,000 on 40 home equity lines and loans, \$8,975,000 on 235 home equity lines of credit from the Citizens acquisition, \$168,000 on 30 indirect auto loans, \$54,000 on 21 consumer loans, \$3,005,000 on 23 C&I loans, \$1,695,000 on 36 C&I revolving lines of credit from the Citizens acquisition, and \$58,000 on a single residential construction loan.

The \$5,155,000 in new nonperforming commercial real estate loans was primarily made up of two loans in the amount of \$277,000 secured by a commercial warehouse in northern California, three loans in the amount of \$431,000 secured by a single family residences in northern California, two loans in the amount of \$655,000 secured by a mixed use commercial property in northern California, a single loan in the amount of \$723,000 secured by mixed use commercial property in central California, and a single loan in the amount of \$3,009,000 secured by a commercial mini storage facility in central California. Related charge-offs are discussed below.

The \$4,700,000 in new nonperforming C&I loans was primarily made up of two loans in the amount of \$2,350,000 secured by dairy livestock in central California as well as the acquired revolving lines of credit discussed above. Related charge-offs are discussed below.

Loan charge-offs during the three months ended September 30, 2011

In the third quarter of 2011, the Company recorded \$4,130,000 in loan charge-offs and \$298,000 in deposit overdraft charge-offs less \$517,000 in loan recoveries and \$180,000 in deposit overdraft recoveries resulting in \$3,731,000 of net charge-offs. Primary causes of the loan charges

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taken in the third quarter of 2011 were gross charge-offs of \$170,000 on six residential real estate loans, \$1,176,000 on five commercial real estate loans, \$2,148,000 on 48 home equity lines and loans, \$105,000 on 23 indirect auto loans, \$26,000 on 20 other consumer loans, \$449,000 on 19 C&I loans, and \$56,000 on a single commercial construction loan.

The \$1,176,000 in charge-offs the bank took in its commercial real estate portfolio was primarily the result of a \$825,000 charge on a loan secured by mixed use commercial property in northern California. The remaining \$351,000 was spread over four loans spread throughout the Company's footprint.

Table of Contents

Differences between the amounts explained in this section and the total charge-offs listed for a particular category are generally made up of individual charges of less than \$250,000 each. Generally losses are triggered by non-performance by the borrower and calculated based on any difference between the current loan amount and the current value of the underlying collateral less any estimated costs associated with the disposition of the collateral.

Changes in nonperforming assets during the three months ended June 30, 2011

(dollars in thousands):	Balance at June 30, 2011	New NPA	Advances/ Capitalized Costs	Pay- downs / Sales	Charge-offs/ Write-downs	Transfers to Foreclosed Assets	Category Changes	Balance at March 31, 2011
Real estate mortgage:								
Residential	\$ 10,624	\$ 416	\$ 9	\$ (831)	\$ (321)	\$ (797)		\$ 12,148
Commercial	42,832	10,659	1	(1,680)	(1,621)	(361)		35,834
Consumer								
Home equity lines	7,363	1,615	466	(486)	(1,928)	(1,337)		9,033
Home equity loans	426	41	57	(41)	(264)	(84)		717
Auto indirect	863	133		(228)	(100)			1,058
Other consumer	93	47	1	(12)	(21)			78
Commercial	4,180	909		(857)	(202)			4,330
Construction:								
Residential	6,250	205	29	(73)	(395)	(169)		6,653
Commercial	1,089			(18)	(95)			1,202
Total nonperforming loans	73,720	14,025	563	(4,226)	(4,947)	(2,748)		71,053
Noncovered foreclosed assets	5,864			(931)	(425)	2,748		4,472
Covered foreclosed assets	3,473			(825)	(213)			4,511
Total nonperforming assets	\$ 83,057	\$ 14,025	\$ 563	\$ (5,982)	\$ (5,585)			\$ 80,036

Nonperforming assets increased during the second quarter of 2011 by \$3,021,000 (3.8%) to \$83,057,000 at June 30, 2011 compared to \$80,036,000 at March 31, 2011. The increase in nonperforming assets during the second quarter of 2011 was primarily the result of new nonperforming loans of \$14,025,000, advances on existing nonperforming loans and capitalized costs on foreclosed assets of \$563,000, less pay-downs or upgrades of nonperforming loans to performing status totaling \$4,226,000, less dispositions of foreclosed assets totaling \$1,756,000, less loan charge-offs of \$4,947,000, and less write-downs of foreclosed assets of \$638,000.

The \$14,025,000 in new nonperforming loans during the second quarter of 2011 was comprised of increases of \$416,000 on three residential real estate loans, \$10,659,000 on 11 commercial real estate loans, \$1,656,000 on 13 home equity lines and loans, \$133,000 on 32 indirect auto loans, \$47,000 on 16 consumer loans, \$909,000 on 10 C&I loans, and \$205,000 on a single residential construction loan.

The \$10,659,000 in new nonperforming commercial real estate loans was primarily made up of two loans in the amount of \$664,000 secured by a commercial warehouse in northern California, two loans in the amount of \$1,541,000 secured by commercial retail buildings in northern California, one loan in the amount of \$1,859,000 secured by a commercial manufacturing facility in northern California, one loan in the amount of \$3,145,000 secured by mixed use commercial property in northern California, a single loan in the amount of \$2,665,000 secured by multi-family residential property in central California, and two loans in the amount of \$716,000 secured by a commercial manufacturing facility in central California. Related charge-offs are discussed below.

The \$909,000 in new nonperforming C&I loans was primarily made up of a single loan in the amount of \$675,000 secured by accounts receivable, inventory and equipment in northern California. Related charge-offs are discussed below.

Loan charge-offs during the three months ended June 30, 2011

In the second quarter of 2011, the Company recorded \$4,947,000 in loan charge-offs and \$283,000 in deposit overdraft charge-offs less \$407,000 in recoveries resulting in \$4,823,000 of net charge-offs. Primary causes of the loan charges taken in the second quarter of 2011 were gross charge-offs of \$321,000 on 11 residential real estate loans, \$1,621,000 on five commercial real estate loans, \$2,192,000 on 51 home equity

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lines and loans, \$100,000 on 43 indirect auto loans, \$21,000 on other consumer loans, \$202,000 on six C&I loans, \$395,000 on two residential construction loans and \$95,000 on a single commercial construction loan.

The \$1,621,000 in charge-offs the bank took in its commercial real estate portfolio was primarily the result of a \$697,000 charge on a loan secured by a commercial office building in northern California and a \$603,000 charge on a loan secured by a commercial retail building in northern California. The remaining \$321,000 was spread over three loans spread throughout the Company's footprint.

Table of Contents

The \$395,000 in charge-offs the bank took in its residential construction portfolio was the result of a \$323,000 charge taken on a loan secured by single family residential development land in central California and a \$71,000 charge taken on a loan secured by a single family residential lot in central California.

Differences between the amounts explained in this section and the total charge-offs listed for a particular category are generally made up of individual charges of less than \$250,000 each. Generally losses are triggered by non-performance by the borrower and calculated based on any difference between the current loan amount and the current value of the underlying collateral less any estimated costs associated with the disposition of the collateral.

Changes in nonperforming assets during the three months ended March 31, 2011

(dollars in thousands):	Balance at March 31, 2011	New NPA	Advances/ Capitalized Costs	Pay- downs / Sales	Charge-offs/ Write-downs	Transfers to Foreclosed Assets	Category Changes	Balance at December 31, 2010
Real estate mortgage:								
Residential	\$ 12,148	\$ 1,816	\$ 62	\$ (376)	\$ (1,125)			\$ 11,771
Commercial	35,834	443		(2,275)	(368)	(911)	20	38,925
Consumer								
Home equity lines	9,033	2,654	581	(623)	(3,601)	(582)		10,604
Home equity loans	717	23		(7)				701
Auto indirect	1,058	173	1	(277)	(135)			1,296
Other consumer	78	237		(13)	(229)			83
Commercial	4,330	1,802		(514)	(1,556)		(20)	4,618
Construction:								
Residential	6,653		12	(124)	(35)	(30)	(287)	7,117
Commercial	1,202	479		(436)			287	872
Total nonperforming loans	71,053	7,627	656	(4,645)	(7,049)	(1,523)		75,987
Noncovered foreclosed assets	4,472			(1,983)	(68)	1,523		5,000
Covered foreclosed assets	4,511			(21)	(381)			4,913
Total nonperforming assets	\$ 80,036	\$ 7,627	656	\$ (6,649)	\$ (7,498)			\$ 85,900

Nonperforming assets decreased during the first quarter of 2011 by \$5,864,000 (6.8%) to \$80,036,000 at March 31, 2011 compared to \$85,900,000 at December 31, 2010. The decrease in nonperforming assets during the first quarter of 2011 was primarily the result of new nonperforming loans of \$7,627,000, advances on existing nonperforming loans and capitalized costs on foreclosed assets of \$656,000, less pay-downs or upgrades of nonperforming loans to performing status totaling \$4,645,000, less dispositions of foreclosed assets totaling \$2,004,000, less loan charge-offs of \$7,049,000, and less write-downs of foreclosed assets of \$449,000.

The primary causes of the \$7,627,000 in new nonperforming loans during the first quarter of 2011 were increases of \$1,816,000 on seven residential real estate loans, \$443,000 on five commercial real estate loans, \$2,677,000 on 42 home equity lines and loans, \$173,000 on 36 indirect auto loans, \$237,000 on 18 consumer loans, \$1,802,000 on 35 C&I loans, and \$479,000 on a single commercial construction loan.

The \$1,802,000 in new nonperforming C&I loans was primarily made up of a \$499,000 loan secured by livestock in central California. Related charge-offs are discussed below.

The \$479,000 in new nonperforming construction loans consisted entirely of a single unsecured loan to a real estate developer in northern California. Related charge-offs are discussed below.

Loan charge-offs during the three months ended March 31, 2011

In the first quarter of 2011, the Company recorded \$7,049,000 in loan charge-offs less \$701,000 in recoveries resulting in \$6,348,000 of net loan charge-offs. Primary causes of the charges taken in the first quarter of 2011 were gross charge-offs of \$1,125,000 on 19 residential real estate loans, \$368,000 on six commercial real estate loans, \$3,601,000 on 75 home equity lines and loans, \$135,000 on 42 auto indirect loans,

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\$229,000 on other consumer loans and overdrafts, \$1,556,000 on 42 C&I loans, and \$35,000 on two residential construction loans.

The \$1,556,000 in charge-offs the bank took in its C&I portfolio was primarily the result of \$300,000 on an asset-based line of credit secured by accounts receivable and inventory in northern California. The remaining \$1,256,000 was spread over 41 loans spread throughout the Company's footprint.

Differences between the amounts explained in this section and the total charge-offs listed for a particular category are generally made up of individual charges of less than \$250,000 each. Generally losses are triggered by non-performance by the borrower and calculated based on any difference between the current loan amount and the current value of the underlying collateral less any estimated costs associated with the disposition of the collateral.

Table of Contents

Allowance for Loan Losses

The Company's allowance for loan losses is comprised of allowances for originated, PNCI and PCI loans. All such allowances are established through a provision for loan losses charged to expense.

Originated and PNCI loans, and deposit related overdrafts are charged against the allowance for originated loan losses when Management believes that the collectability of the principal is unlikely or, with respect to consumer installment loans, according to an established delinquency schedule. The allowances for originated and PNCI loan losses are amounts that Management believes will be adequate to absorb probable losses inherent in existing originated loans and leases, based on evaluations of the collectability, impairment and prior loss experience of those loans and leases. The evaluations take into consideration such factors as changes in the nature and size of the portfolio, overall portfolio quality, loan concentrations, specific problem loans, and current economic conditions that may affect the borrower's ability to pay. The Company defines an originated or PNCI loan as impaired when it is probable the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired originated and PNCI loans are measured based on the present value of expected future cash flows discounted at the loan's original effective interest rate. As a practical expedient, impairment may be measured based on the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through a valuation allowance.

In situations related to originated and PNCI loans where, for economic or legal reasons related to a borrower's financial difficulties, the Company grants a concession for other than an insignificant period of time to the borrower that the Company would not otherwise consider, the related loan is classified as a troubled debt restructuring (TDR). The Company strives to identify borrowers in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where the Company grants the borrower new terms that provide for a reduction of either interest or principal, the Company measures any impairment on the restructuring as noted above for impaired loans. TDR loans are classified as impaired until they are fully paid off or charged off. Loans that are in nonaccrual status at the time they become TDR loans, remain in nonaccrual status until the borrower demonstrates a sustained period of performance which the Company generally believes to be six consecutive months of payments, or equivalent. Otherwise, TDR loans are subject to the same nonaccrual and charge-off policies as noted above with respect to their restructured principal balance.

Credit risk is inherent in the business of lending. As a result, the Company maintains an allowance for loan losses to absorb losses inherent in the Company's originated and PNCI loan portfolios. These are maintained through periodic charges to earnings. These charges are included in the Consolidated Income Statements as provision for loan losses. All specifically identifiable and quantifiable losses are immediately charged off against the allowance. However, for a variety of reasons, not all losses are immediately known to the Company and, of those that are known, the full extent of the loss may not be quantifiable at that point in time. The balance of the Company's allowances for originated and PNCI loan losses are meant to be an estimate of these unknown but probable losses inherent in these portfolios.

Table of Contents

The Company formally assesses the adequacy of the allowance for originated and PNCI loan losses on a quarterly basis. Determination of the adequacy is based on ongoing assessments of the probable risk in the outstanding originated and PNCI loan portfolios, and to a lesser extent the Company's originated and PNCI loan commitments. These assessments include the periodic re-grading of credits based on changes in their individual credit characteristics including delinquency, seasoning, recent financial performance of the borrower, economic factors, changes in the interest rate environment, growth of the portfolio as a whole or by segment, and other factors as warranted. Loans are initially graded when originated or acquired. They are re-graded as they are renewed, when there is a new loan to the same borrower, when identified facts demonstrate heightened risk of nonpayment, or if they become delinquent. Re-grading of larger problem loans occurs at least quarterly. Confirmation of the quality of the grading process is obtained by independent credit reviews conducted by consultants specifically hired for this purpose and by various bank regulatory agencies.

The Company's method for assessing the appropriateness of the allowance for originated and PNCI loan losses includes specific allowances for impaired loans and leases, formula allowance factors for pools of credits, and allowances for changing environmental factors (e.g., interest rates, growth, economic conditions, etc.). Allowance factors for loan pools are based on historical loss experience by product type. Allowances for impaired loans are based on analysis of individual credits. Allowances for changing environmental factors are Management's best estimate of the probable impact these changes have had on the originated or PNCI loan portfolio as a whole. The allowances for originated and PNCI loans are included in the allowance for loan losses.

As noted above, the allowances for originated and PNCI loan losses consists of a specific allowance, a formula allowance, and an allowance for environmental factors. The first component, the specific allowance, results from the analysis of identified credits that meet management's criteria for specific evaluation. These loans are reviewed individually to determine if such loans are considered impaired. Impaired loans are those where management has concluded that it is probable that the borrower will be unable to pay all amounts due under the contractual terms. Impaired loans are specifically reviewed and evaluated individually by management for loss potential by evaluating sources of repayment, including collateral as applicable, and a specified allowance for loan losses is established where necessary.

The second component of the allowance for originated and PNCI loan losses, the formula allowance, is an estimate of the probable losses that have occurred across the major loan categories in the Company's originated and PNCI loan portfolios. This analysis is based on loan grades by pool and the loss history of these pools. This analysis covers the Company's entire originated and PNCI loan portfolios including unused commitments but excludes any loans that were analyzed individually and assigned a specific allowance as discussed above. The total amount allocated for this component is determined by applying loss estimation factors to outstanding loans and loan commitments. The loss factors are based primarily on the Company's historical loss experience tracked over a five-year period and adjusted as appropriate for the input of current trends and events. Because historical loss experience varies for the different categories of originated loans, the loss factors applied to each category also differ. In addition, there is a greater chance that the Company has suffered a loss from a loan that was graded less than satisfactory than if the loan was last graded satisfactory. Therefore, for any given category, a larger loss estimation factor is applied to less than satisfactory loans than to those that the Company last graded as satisfactory. The resulting formula allowance is the sum of the allocations determined in this manner.

The third component of the allowances for originated and PNCI loan losses, the environmental factor allowance, is a component that is not allocated to specific loans or groups of loans, but rather is intended to absorb losses that may not be provided for by the other components.

There are several primary reasons that the other components discussed above might not be sufficient to absorb the losses present in the originated and PNCI loan portfolios, and the environmental factor allowance is used to provide for the losses that have occurred because of them.

The first reason is that there are limitations to any credit risk grading process. The volume of originated and PNCI loans makes it impractical to re-grade every loan every quarter. Therefore, it is possible that some currently performing originated or PNCI loans not recently graded will not be as strong as their last grading and an insufficient portion of the allowance will have been allocated to them. Grading and loan review often must be done without knowing whether all relevant facts are at hand. Troubled borrowers may deliberately or inadvertently omit important information from reports or conversations with lending officers regarding their financial condition and the diminished strength of repayment sources.

Table of Contents

The second reason is that the loss estimation factors are based primarily on historical loss totals. As such, the factors may not give sufficient weight to such considerations as the current general economic and business conditions that affect the Company's borrowers and specific industry conditions that affect borrowers in that industry. The factors might also not give sufficient weight to other environmental factors such as changing economic conditions and interest rates, portfolio growth, entrance into new markets or products, and other characteristics as may be determined by Management.

Specifically, in assessing how much environmental factor allowance needed to be provided at December 31, 2011, management considered the following:

with respect to the economy, management considered the effects of changes in GDP, unemployment, CPI, debt statistics, housing starts, housing sales, auto sales, agricultural prices, and other economic factors which serve as indicators of economic health and trends and which may have an impact on the performance of our borrowers, and

with respect to changes in the interest rate environment, management considered the recent changes in interest rates and the resultant economic impact it may have had on borrowers with high leverage and/or low profitability; and

with respect to changes in energy prices, management considered the effect that increases, decreases or volatility may have on the performance of our borrowers, and

with respect to loans to borrowers in new markets and growth in general, management considered the relatively short seasoning of such loans and the lack of experience with such borrowers.

Each of these considerations was assigned a factor and applied to a portion or the entire originated and PNCI loan portfolios. Since these factors are not derived from experience and are applied to large non-homogeneous groups of loans, they are available for use across the portfolio as a whole.

Although the weakening economy and resultant recession called for an increase in the factor related to economic conditions, the reductions in interest rates and energy prices coupled with very little loan growth resulted in a decrease in these factors causing the overall Environmental Factors Allowance to decrease. Also, in prior years, the Bank maintained a separate factor for Real Estate Risk due to the fact that the Bank had little or no losses in this loan category but anticipated that such losses would be experienced at some time. During the course of 2008 the Bank eliminated this environmental factor and instead provided for this risk in the Formula Allowance based on actual and expected loss ratios. This not only resulted in a reduction of the Environmental Factors Allowance but also resulted in an increase in the Formula Allowance. The Formula Allowance was further increased due to increases in losses over the course of 2008 which in turn resulted in increases in the reserve factors for certain loan types accordingly. These increased factors primarily affected construction loans, HELOCs, and indirect auto loans.

Acquired loans are valued as of acquisition date in accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Topic 805, *Business Combinations*. Loans purchased with evidence of credit deterioration since origination for which it is probable that all contractually required payments will not be collected are referred to as purchased credit impaired (PCI) loans. PCI loans are accounted for under FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. In addition, because of the significant credit discounts associated with the loans acquired in the Granite acquisition, the Company elected to account for all loans acquired in the Granite acquisition under FASB ASC Topic 310-30, and classify them all as PCI loans. Under FASB ASC Topic 805 and FASB ASC Topic 310-30, PCI loans are recorded at fair value at acquisition date, factoring in credit losses expected to be incurred over the life of the loan. Accordingly, an allowance for loan losses is not carried over or recorded as of the acquisition date. Fair value is defined as the present value of the future estimated principal and interest payments of the loan, with the discount rate used in the present value calculation representing the estimated effective yield of the loan. The difference between contractual future payments and estimated future payments is referred to as the nonaccretable difference. The difference between estimated future payments and the present value of the estimated future payments is referred to as the accretable yield. The accretable yield represents the amount that is expected to be recorded as interest income over the remaining life of the loan. If after acquisition, the Company determines that the future cash flows of a PCI loan are expected to be more than the originally estimated, an increase in the discount rate (effective yield) would be made such that the newly increased accretable yield would be recognized, on a level yield basis, over the remaining estimated life of the loan. If after acquisition, the Company determines that the future cash flows of a PCI loan are expected to be less than the previously estimated, the discount rate would first be reduced until the present value of the reduced cash flow estimate equals the previous present value however, the discount rate may not be lowered below its original level. If the discount rate

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has been lowered to its original level and the present value has not been sufficiently lowered, an allowance for loan loss would be established through a provision for loan losses charged to expense to decrease the present value to the required level. If the estimated cash flows improve after an allowance has been established for a loan, the allowance may be partially or fully reversed depending on the improvement in the estimated cash flows. Only after the allowance has been fully reversed may the discount rate be increased. PCI loans are put on nonaccrual status when cash flows cannot be reasonably estimated. PCI loans are charged off when evidence suggests cash flows are not recoverable. Foreclosed assets from PCI loans are recorded in foreclosed assets at fair value with the fair value at time of foreclosure representing cash flow from the loan. ASC 310-30 allows PCI loans with similar risk characteristics and acquisition time frame to be pooled and have their cash flows aggregated as if they were one loan.

Table of Contents**The Components of the Allowance for Loan Losses**

The following table sets forth the Bank's allowance for loan losses as of the dates indicated (dollars in thousands):

	2011	2010	December 31, 2009	2008	2007
Allowance for originated and PNCI loan losses:					
Specific allowance	\$ 5,993	\$ 6,945	\$ 8,627	\$ 5,850	\$ 1,791
Formula allowance	32,023	31,070	23,361	17,989	9,888
Environmental factors allowance	3,687	2,948	3,485	3,751	5,652
Allowance for originated and PNCI loan losses	41,703	40,963	35,473	27,590	17,331
Allowance for PCI loan losses	4,211	1,608			
Allowance for loan losses	\$ 45,914	\$ 42,571	\$ 35,473	\$ 27,590	\$ 17,331

Allowance for loan losses to loans 2.96% 3.00% 2.37% 1.73% 1.12%

Based on the current conditions of the loan portfolio, management believes that the \$45,914,000 allowance for loan losses at December 31, 2011 is adequate to absorb probable losses inherent in the Bank's loan portfolio. No assurance can be given, however, that adverse economic conditions or other circumstances will not result in increased losses in the portfolio.

The following table summarizes the allocation of the allowance for loan losses between loan types:

(dollars in thousands)	2011	2010	December 31, 2009	2008	2007
Real estate mortgage	\$ 15,621	\$ 15,707	\$ 7,689	\$ 10,967	\$ 7,170
Consumer	20,506	17,779	17,026	8,470	6,796
Commercial	6,545	5,991	6,958	7,002	2,010
Real estate construction	3,242	3,094	3,800	1,151	1,355
Total allowance for loan losses	\$ 45,914	\$ 42,571	\$ 35,473	\$ 27,590	\$ 17,331

The following table summarizes the allocation of the allowance for loan losses between loan types as a percentage of the total allowance for loan losses:

	2011	2010	December 31, 2009	2008	2007
Real estate mortgage	34.0%	36.9%	21.7%	50.5%	46.1%
Consumer	44.7%	41.8%	48.0%	32.3%	34.5%
Commercial	14.2%	14.1%	19.6%	11.9%	10.6%
Real estate construction	7.1%	7.2%	10.7%	5.3%	8.8%
Total allowance for loan losses	100.0%	100.0%	100.0%	100.0%	100.0%

Table of Contents

The following tables summarize the activity in the allowance for loan losses, reserve for unfunded commitments, and allowance for losses (which is comprised of the allowance for loan losses and the reserve for unfunded commitments) for the years indicated (dollars in thousands):

	Year ended December 31,				
	2011	2010	2009	2008	2007
Allowance for loan losses:					
Balance at beginning of period	\$ 42,571	\$ 35,473	\$ 27,590	\$ 17,331	\$ 16,914
Provision for loan losses	23,060	37,458	31,450	20,950	3,032
Loans charged off:					
Real estate mortgage:					
Residential	(1,655)	(1,498)	(583)	(691)	
Commercial	(4,451)	(8,281)	(1,223)	(18)	
Consumer:					
Home equity lines	(9,746)	(11,221)	(7,487)	(2,942)	(678)
Home equity loans	(789)	(1,339)	(656)	(409)	
Auto indirect	(427)	(1,403)	(2,806)	(2,710)	(1,581)
Other consumer	(1,158)	(1,687)	(1,238)	(1,237)	(1,062)
Commercial	(2,534)	(3,539)	(3,219)	(709)	(437)
Construction:					
Residential	(634)	(4,666)	(7,737)	(3,203)	
Commercial	(653)	(94)	(89)		
Total loans charged off	(22,047)	(33,728)	(25,038)	(11,919)	(3,758)
Recoveries of previously charged-off loans:					
Real estate mortgage:					
Residential	126	2	40		
Commercial	127	1,456	71	58	57
Consumer:					
Home equity lines	573	138	98	13	1
Home equity loans	45	15			5
Auto indirect	379	505	484	441	261
Other consumer	839	816	677	685	640
Commercial	173	205	71	31	179
Construction:					
Residential	28	231	30		
Commercial	40				
Total recoveries of previously charged off loans	2,330	3,368	1,471	1,228	1,143
Net charge-offs	(19,717)	(30,360)	(23,567)	(10,691)	(2,615)
Balance at end of period	\$ 45,914	\$ 42,571	\$ 35,473	\$ 27,590	\$ 17,331
Reserve for unfunded commitments:					
Balance at beginning of period	\$ 2,640	\$ 3,640	\$ 2,565	\$ 2,090	\$ 1,849
Provision for losses unfunded commitments	100	(1,000)	1,075	475	241
Balance at end of period	\$ 2,740	\$ 2,640	\$ 3,640	\$ 2,565	\$ 2,090
Balance at end of period:					
Allowance for loan losses	\$ 45,914	\$ 42,571	\$ 35,473	\$ 27,590	\$ 17,331
Reserve for unfunded commitments	2,740	2,640	3,640	2,565	2,090
	\$ 48,654	\$ 45,211	\$ 39,113	\$ 30,155	\$ 19,421

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Allowance for loan losses and reserve for unfunded commitments

As a percentage of total loans at end of period:

Allowance for loan losses	2.96%	3.00%	2.37%	1.73%	1.12%
Reserve for unfunded commitments	0.18%	0.18%	0.24%	0.16%	0.13%

Allowance for loan losses and reserve for unfunded commitments

	3.14%	3.18%	2.61%	1.89%	1.25%
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Average total loans	\$ 1,442,821	\$ 1,464,606	\$ 1,542,147	\$ 1,549,014	\$ 1,511,331
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Ratios:

Net charge-offs during period to average loans outstanding during period	1.37%	2.07%	1.53%	0.69%	0.17%
Provision for loan losses to average loans outstanding	1.60%	2.56%	2.04%	1.35%	0.20%
Allowance for loan losses to loans at year end	2.96%	3.00%	2.37%	1.73%	1.12%

Table of Contents**Foreclosed Assets, Net of Allowance for Losses**

The following tables detail the components and summarize the activity in foreclosed assets, net of allowances for losses for the years indicated (dollars in thousands):

(dollars in thousands):	Balance at December 31, 2011	New NPA	Advances/ Capitalized Costs	Sales	Valuation Adjustments	Transfers from Loans	Category Changes	Balance at December 31, 2010
Noncovered:								
Land & Construction	\$ 5,034	\$ 4,027		\$ (735)	\$ (802)	\$ 333		\$ 2,211
Residential real estate	3,190	442		(3,816)	(318)	4,433		2,449
Commercial real estate	5,044	3,943		(1,243)	(139)	2,143		340
Total noncovered	13,268	8,412		(5,794)	(1,259)	6,909		5,000
Covered:								
Land & Construction	1,799		9	(917)	(334)	25		3,016
Residential real estate	180				(6)			186
Commercial real estate	1,085			(241)	(385)			1,711
Total covered	3,064		9	(1,158)	(725)	25		4,913
Total foreclosed assets	\$ 16,332	\$ 8,412	\$ 9	\$ (6,952)	\$ (1,984)	\$ 6,934		\$ 9,913

(dollars in thousands):	Balance at December 31, 2010	New NPA	Advances/ Capitalized Costs	Sales	Valuation Adjustments	Transfers from Loans	Category Changes	Balance at December 31, 2009
Noncovered:								
Land & Construction	\$ 2,211		\$ 139	(\$ 1,540)	(\$ 504)	\$ 2,971		\$ 1,145
Residential real estate	2,449			(2,040)	(174)	3,286		1,377
Commercial real estate	340			(725)	(219)	80		1,204
Total noncovered	5,000		139	(4,305)	(897)	6,337		3,726
Covered:								
Land & Construction	3,016	2,467		(305)	(174)	1,028		
Residential real estate	186					186		
Commercial real estate	1,711	2,162			(451)			
Total covered	4,913	4,629		(305)	(625)	1,214		
Total foreclosed assets	\$ 9,913	\$ 4,629	\$ 139	(\$ 4,610)	(\$ 1,522)	\$ 7,551		\$ 3,726

Intangible Assets

Intangible assets at December 31, 2011 and 2010 were comprised of the following:

December 31,
2011 2010

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	(dollars in thousands)	
Core-deposit intangible	\$ 1,301	\$ 580
Goodwill	15,519	15,519
Total intangible assets	\$ 16,820	\$ 16,099

The core-deposit intangible assets resulted from the Bank's acquisition of Citizens in 2011, Granite in 2010, and the 2003 acquisition of North State National Bank. The core-deposit intangible related to the North State National Bank acquisition became fully amortized in 2011. The goodwill intangible asset resulted from the North State National Bank acquisition. Amortization of core deposit intangible assets amounting to \$177,000, \$307,000, and \$328,000 was recorded in 2011, 2010, and 2009, respectively.

Deposits

Deposits at December 31, 2011 increased \$338,363,000 (18.3%) over the 2010 year-end balances to \$2,190,536,000. All categories of deposits were up in 2011 except time certificates. Included in the December 31, 2011 certificate of deposit balances is \$5,000,000 from the State of California. The Bank participates in a deposit program offered by the State of California whereby the State may make deposits at the Bank's request subject to collateral and creditworthiness constraints. The negotiated rates on these State deposits are generally more favorable than other wholesale funding sources available to the Bank.

Deposits at December 31, 2010 increased \$23,661,000 (1.3%) over the 2009 year-end balances to \$1,852,173,000. All categories of deposits were up in 2010 except time certificates. Included in the December 31, 2010 certificate of deposit balances is \$5,000,000 from the State of California.

Table of Contents

Long-Term Debt

See Note 16 to the consolidated financial statements at Item 8 of this report for information about the Company's other borrowings, including long-term debt.

Junior Subordinated Debt

See Note 17 to the consolidated financial statements at Item 8 of this report for information about the Company's junior subordinated debt.

Equity

See Note 19 and Note 29 in the consolidated financial statements at Item 8 of this report for a discussion of shareholders' equity and regulatory capital, respectively. Management believes that the Company's 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.

Market Risk Management

Overview. The goal for managing the assets and liabilities of the Bank is to maximize shareholder value and earnings while maintaining a high quality balance sheet without exposing the Bank to undue interest rate risk. The Board of Directors has overall responsibility for the Company's interest rate risk management policies. The Bank has an Asset and Liability Management Committee (ALCO) which establishes and monitors guidelines to control the sensitivity of earnings to changes in interest rates.

Asset/Liability Management. Activities involved in asset/liability management include but are not limited to lending, accepting and placing deposits, investing in securities and issuing debt. Interest rate risk is the primary market risk associated with asset/liability management. Sensitivity of earnings to interest rate changes arises when yields on assets change in a different time period or in a different amount from that of interest costs on liabilities. To mitigate interest rate risk, the structure of the balance sheet is managed with the goal that movements of interest rates on assets and liabilities are correlated and contribute to earnings even in periods of volatile interest rates. The asset/liability management policy sets limits on the acceptable amount of variance in net interest margin and market value of equity under changing interest environments. Market value of equity is the net present value of estimated cash flows from the Bank's assets, liabilities and off-balance sheet items. The Bank uses simulation models to forecast net interest margin and market value of equity.

Simulation of net interest margin and market value of equity under various interest rate scenarios is the primary tool used to measure interest rate risk. Using computer-modeling techniques, the Bank is able to estimate the potential impact of changing interest rates on net interest margin and market value of equity. A balance sheet forecast is prepared using inputs of actual loan, securities and interest-bearing liability (i.e. deposits/borrowings) positions as the beginning base.

In the simulation of net interest income, the forecast balance sheet is processed against various interest rate scenarios. These various interest rate scenarios include a flat rate scenario, which assumes interest rates are unchanged in the future, and rate ramp scenarios including -100, +100, and +200 basis points around the flat scenario. These ramp scenarios assume that interest rates increase or decrease evenly (in a ramp fashion) over a twelve-month period and remain at the new levels beyond twelve months.

Table of Contents

The following table summarizes the projected effect on net interest income and net income due to changing interest rates as measured against a flat rate (no interest rate change) scenario over the succeeding twelve month period. The simulation results shown below assume no changes in the structure of the Company's balance sheet over the twelve months being measured (a flat balance sheet scenario), and that deposit rates will track general interest rate changes by approximately 50%:

Interest Rate Risk Simulation of Net Interest Income and Net Income as of December 31, 2011

Change in Interest Rates (Basis Points)	Estimated Change in Net Interest Income (NII) (as % of flat NII)
+200 (ramp)	1.57%
+100 (ramp)	0.65%
+ 0 (flat)	
-100 (ramp)	(0.84%)

In the simulation of market value of equity, the forecast balance sheet is processed against various interest rate scenarios. These various interest rate scenarios include a flat rate scenario, which assumes interest rates are unchanged in the future, and rate shock scenarios including -100, +100, and +200 basis points around the flat scenario. These rate shock scenarios assume that interest rates increase or decrease immediately (in a shock fashion) and remain at the new level in the future.

The following table summarizes the effect on market value of equity due to changing interest rates as measured against a flat rate (no change) scenario:

Interest Rate Risk Simulation of Market Value of Equity as of December 31, 2011

Change in Interest Rates (Basis Points)	Estimated Change in Market Value of Equity (MVE) (as % of flat MVE)
+200 (shock)	10.03%
+100 (shock)	5.99%
+ 0 (flat)	
-100 (shock)	(16.64%)

These results indicate that given a flat balance sheet scenario, and if deposit rates track general interest rate changes by approximately 50%, the Company's balance sheet is neutral to slightly asset sensitive over a twelve month time horizon. Neutral sensitivity implies that net interest income does not change when interest rates change. Asset sensitive implies that net interest income increases when interest rates rise, and decrease when interest rates decrease. The asset liability management policy limits aggregate market risk, as measured in this fashion, to an acceptable level within the context of risk-return trade-offs.

The simulation results noted above do not incorporate any management actions that might moderate the negative consequences of interest rate deviations. In addition, the simulation results noted above contain various assumptions such as a flat balance sheet, and the rate that deposit interest rates change as general interest rates change. Therefore, they do not reflect likely actual results, but serve as estimates of interest rate risk.

As with any method of measuring interest rate risk, certain shortcomings are inherent in the method of analysis presented in the preceding tables. For example, although certain of the Bank's assets and liabilities may have similar maturities or repricing time frames, they may react in different degrees to changes in market interest rates. In addition, the interest rates on certain of the Bank's asset and liability categories may precede, or lag behind, changes in market interest rates. Also, the actual rates of prepayments on loans and investments could vary significantly from the assumptions utilized in deriving the results as presented in the preceding tables. Further, a change in U.S. Treasury rates accompanied by a change in the shape of the treasury yield curve could result in different estimations from those presented herein. Accordingly, the results in the preceding tables should not be relied upon as indicative of actual results in the event of changing market interest rates. Additionally, the resulting estimates of changes in market value of equity are not intended to represent, and should not be construed to represent, estimates of changes in the underlying value of the Bank.

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Interest rate sensitivity is a function of the repricing characteristics of the Bank's portfolio of assets and liabilities. One aspect of these repricing characteristics is the time frame within which the interest-bearing assets and liabilities are subject to change in interest rates either at replacement, repricing or maturity. An analysis of the repricing time frames of interest-bearing assets and liabilities is sometimes called a gap analysis because it shows the gap between assets and liabilities repricing or maturing in each of a number of periods. Another aspect of these repricing characteristics is the relative

Table of Contents

magnitude of the repricing for each category of interest earning asset and interest-bearing liability given various changes in market interest rates. Gap analysis gives no indication of the relative magnitude of repricing given various changes in interest rates. 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 gaps are measured as the difference between the volumes of assets and liabilities in the Bank's current portfolio that are subject to repricing at various time horizons.

The following interest rate sensitivity table shows the Bank's repricing gaps as of December 31, 2011. In this table transaction deposits, which may be repriced at will by the Bank, have been included in the less than 3-month category. The inclusion of all of the transaction deposits in the less than 3-month repricing category causes the Bank to appear liability sensitive. Because the Bank may reprice its transaction deposits at will, transaction deposits may or may not reprice immediately with changes in interest rates.

Due to the limitations of gap analysis, as described above, the Bank does not actively use gap analysis in managing interest rate risk. Instead, the Bank relies on the more sophisticated interest rate risk simulation model described above as its primary tool in measuring and managing interest rate risk.

Interest Rate Sensitivity (dollars in thousands)	December 31, 2011				
	Less than 3 months	3 - 6 months	Repricing within:		Over 5 years
			6 - 12 months	1 - 5 years	
Interest-earning assets:					
Cash at Federal Reserve and other banks	\$ 563,623				
Securities	20,113	22,989	32,312	107,181	46,628
Loans	502,614	77,789	159,769	655,319	155,541
Total interest-earning assets	1,086,350	100,778	192,081	762,500	202,169
Interest-bearing liabilities					
Transaction deposits	1,228,747				
Time	143,445	100,646	94,643	81,779	
Other borrowings	11,527	8,014	53,000		
Junior subordinated debt	41,238				
Total interest-bearing liabilities	\$ 1,424,957	\$ 108,660	\$ 147,643	\$ 81,779	
Interest sensitivity gap	\$ (338,607)	\$ (7,882)	\$ 44,438	\$ 680,721	\$ 202,169
Cumulative sensitivity gap	\$ (338,607)	\$ (346,489)	\$ (302,051)	\$ 378,670	\$ 580,839
As a percentage of earning assets:					
Interest sensitivity gap	(14.5%)	(0.3%)	1.9%	29.0%	8.6%
Cumulative sensitivity gap	(14.5%)	(14.8%)	(12.9%)	16.1%	24.7%

Liquidity

Liquidity refers to the Bank's ability to provide funds at an acceptable cost to meet loan demand and deposit withdrawals, as well as contingency plans to meet unanticipated funding needs or loss of funding sources. These objectives can be met from either the asset or liability side of the balance sheet. Asset liquidity sources consist of the repayments and maturities of loans, selling of loans, short-term money market investments, maturities of securities and sales of securities from the available-for-sale portfolio. These activities are generally summarized as investing activities in the Consolidated Statement of Cash Flows. Net cash provided by investing activities totaled approximately \$153,361,000 in 2011. A net decrease in investment balances and cash received from the Citizens acquisition were the major sources of funds in this category.

Liquidity may also be generated from liabilities through deposit growth and borrowings. These activities are included under financing activities in the Consolidated Statement of Cash Flows. In 2011, financing activities provide funds totaling \$81,184,000 due mainly to a \$98,464,000 increase in deposit balances. Dividends paid and a decrease in short-term other borrowings used \$5,742,000 and \$11,517,000 of funds, respectively. The Bank also had available correspondent banking lines of credit totaling \$5,000,000 at December 31, 2011. In addition, at December 31, 2011, the Company had loans and securities available to pledge towards future borrowings from the Federal Home Loan Bank and the Federal Reserve Bank of up to \$499,806,000 and \$70,816,000, respectively. As of December 31, 2011, the Company had \$72,541,000 of long-term debt and other borrowings as described in Note 16 of the consolidated financial statements of the Company and the related notes at Item 8 of this report. While these sources are expected to continue to provide significant amounts of funds in the future, their mix, as well as the

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possible use of other sources, will depend on future economic and market conditions. Liquidity is also provided or used through the results of operating activities. In 2011, operating activities provided cash of \$31,664,000.

The Bank classifies its entire investment portfolio as available for sale (AFS). The AFS securities plus cash and cash equivalents in excess of reserve requirements totaled \$846,355,000 at December 31, 2011, which was 33.1% of total assets at that time. This was up from \$634,986,000 and 29.0% at the end of 2010.

Table of Contents

It is anticipated that loan demand will be weak during 2012, although such demand will be dictated by economic and competitive conditions. The Company aggressively solicits non-interest bearing demand deposits and money market checking deposits, which are the least sensitive to interest rates. The growth of deposit balances is subject to heightened competition, the success of the Company's sales efforts, delivery of superior customer service and market conditions. The reduction in the federal funds rate to its current low level resulted in declining short-term interest rates, which could impact deposit volumes in the future. Depending on economic conditions, interest rate levels, and a variety of other conditions, deposit growth may be used to fund loans, to reduce short-term borrowings or purchase investment securities. However, due to concerns such as uncertainty in the general economic environment, competition and political uncertainty, loan demand and levels of customer deposits are not certain.

The principal cash requirements of the Company are dividends on common stock when declared. The Company is dependent upon the payment of cash dividends by the Bank to service its commitments. Shareholder dividends are expected to continue subject to the Board's discretion and continuing evaluation of capital levels, earnings, asset quality and other factors. The Company expects that the cash dividends paid by the Bank to the Company will be sufficient to meet this payment schedule. Dividends from the Bank are subject to certain regulatory restrictions.

The maturity distribution of certificates of deposit in denominations of \$100,000 or more is set forth in the following table. These deposits are generally more rate sensitive than other deposits and, therefore, are more likely to be withdrawn to obtain higher yields elsewhere if available. The Bank participates in a program wherein the State of California places time deposits with the Bank at the Bank's option. At December 31, 2011, 2010 and 2009, the Bank had \$5,000,000, \$5,000,000 and \$79,000,000, respectively, of these State deposits.

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

(dollars in thousands)	Amounts as of December 31,		
	2011	2010	2009
Time remaining until maturity:			
Less than 3 months	\$ 82,497	\$ 91,208	\$ 183,592
3 months to 6 months	49,613	49,976	62,925
6 months to 12 months	46,446	54,316	50,106
More than 12 months	41,818	40,491	25,453
Total	\$ 220,374	\$ 235,991	\$ 322,076

Table of Contents

Loan demand also affects the Bank's liquidity position. The following table presents the maturities of loans, net of deferred loan costs, at December 31, 2011:

	Within One Year	After One But Within 5 Years	After 5 Years	Total
	(dollars in thousands)			
Loans with predetermined interest rates:				
Real estate mortgage	\$ 78,540	\$ 116,291	\$ 95,733	\$ 290,564
Consumer	15,431	26,873	13,199	55,503
Commercial	13,568	23,078	4,310	40,956
Real estate construction	6,925	4,067	13,225	24,217
	\$ 114,464	\$ 170,309	\$ 126,467	\$ 411,240
Loans with floating interest rates:				
Real estate mortgage	\$ 35,730	\$ 180,336	\$ 459,292	\$ 675,358
Consumer	345	523	349,959	350,827
Commercial	72,265	23,058	2,852	98,175
Real estate construction	5,647	4,279	5,506	15,432
	\$ 113,987	\$ 208,196	\$ 817,609	\$ 1,139,792
Total loans	\$ 228,451	\$ 378,505	\$ 944,076	\$ 1,551,032

The maturity distribution and yields of the investment portfolio at December 31, 2011 is presented in the following table. The timing of the maturities indicated in the table below is based on final contractual maturities. Most mortgage-backed securities return principal throughout their contractual lives. As such, the weighted average life of mortgage-backed securities based on outstanding principal balance is usually significantly shorter than the final contractual maturity indicated below. Yields on tax exempt securities are shown on a tax equivalent basis. At December 31, 2011, the Bank had no held-to-maturity securities.

	Within One Year		After One Year but Through Five Years		After Five Years but Through Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(dollars in thousands)									
Securities Available-for-Sale										
Obligations of US government corporations and agencies	\$ 695	3.94%	\$ 14,907	4.08%	\$ 62,139	2.68%	\$ 139,643	4.13%	\$ 217,384	3.70%
Obligations of states and political subdivisions	361	7.75%	2,324	7.61%	3,970	7.28%	3,373	6.64%	10,028	7.16%
Corporate bonds			1,811	1.98%					1,811	1.98%
Total securities available-for-sale	\$ 1,056	5.42%	\$ 19,042	4.29%	\$ 66,109	2.95%	\$ 143,016	4.19%	\$ 229,223	3.85%

Off-Balance Sheet Items

The Bank has certain ongoing commitments under operating and capital leases. See Note 18 of the financial statements at Item 8 of this report for the terms. These commitments do not significantly impact operating results. As of December 31, 2011 commitments to extend credit and commitments related to the Bank's deposit overdraft privilege product were the Bank's only financial instruments with off-balance sheet risk. The Bank has not entered into any material contracts for financial derivative instruments such as futures, swaps, options, etc. Commitments to extend

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credit were \$534,370,000 and \$523,617,000 at December 31, 2011 and 2010, respectively, and represent 34.5% of the total loans outstanding at year-end 2011 versus 36.9% at December 31, 2010. Commitments related to the Bank's deposit overdraft privilege product totaled \$61,623,000 and \$38,600,000 at December 31, 2011 and 2010, respectively.

Table of Contents**Certain Contractual Obligations**

The following chart summarizes certain contractual obligations of the Company as of December 31, 2011:

(dollars in thousands)	Total	Less than one year	1-3 years	3-5 years	More than 5 years
Other collateralized borrowings, fixed rate of 0.05% payable on January 2, 2012	\$ 8,527	\$ 8,527			
Repurchase Agreement ⁽²⁾	50,000	50,000			
Junior subordinated debt ⁽³⁾	20,619				20,619
Junior subordinated debt ⁽⁴⁾	20,619				20,619
Operating lease obligations	8,881	2,773	3,918	1,478	712
Deferred compensation ⁽¹⁾	5,882	716	1,411	1,232	2,523
Supplemental retirement plans ⁽¹⁾	3,184	436	700	677	1,371
Total contractual obligations	\$ 117,712	\$ 62,452	\$ 6,029	\$ 3,387	\$ 45,844

- (1) These amounts represent known certain payments to participants under the Company's deferred compensation and supplemental retirement plans. See Note 25 in the financial statements at Item 8 of this report for additional information related to the Company's deferred compensation and supplemental retirement plan liabilities.
- (2) Repurchase agreement, rate is fixed at 4.72% and is callable in its entirety by counterparty on a quarterly basis, matures on August 30, 2012.
- (3) Junior subordinated debt, adjustable rate of three-month LIBOR plus 3.05%, callable in whole or in part by the Company on a quarterly basis beginning October 7, 2008, matures October 7, 2033.
- (4) Junior subordinated debt, adjustable rate of three-month LIBOR plus 2.55%, callable in whole or in part by the Company on a quarterly basis beginning July 23, 2009, matures July 23, 2034.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See Market Risk Management under Item 7 of this report which is incorporated herein.

Table of Contents

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
INDEX TO FINANCIAL STATEMENTS**

	Page
<u>Consolidated Balance Sheets as of December 31, 2011 and 2010</u>	52
<u>Consolidated Statements of Income for the years ended December 31, 2011, 2010, and 2009</u>	53
<u>Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2011, 2010, and 2009</u>	54
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010, and 2009</u>	55
<u>Notes to Consolidated Financial Statements</u>	56
<u>Management's Report on Internal Control over Financial Reporting</u>	100
<u>Report of Independent Registered Public Accounting Firm</u>	101

Table of Contents**TRICO BANCSHARES****CONSOLIDATED BALANCE SHEETS**

	At December 31,	
	2011	2010
	(in thousands, except share data)	
Assets:		
Cash and due from banks	\$ 73,652	\$ 57,254
Cash at Federal Reserve and other banks	563,623	313,812
Cash and cash equivalents	637,275	371,066
Securities available-for-sale	229,223	277,271
Restricted equity securities	10,610	9,133
Loans held for sale	10,219	4,988
Loans	1,551,032	1,419,571
Allowance for loan losses	(45,914)	(42,571)
Total loans, net	1,505,118	1,377,000
Foreclosed assets, net	16,332	9,913
Premises and equipment, net	19,893	19,120
Cash value of life insurance	50,403	50,541
Accrued interest receivable	7,312	7,131
Goodwill	15,519	15,519
Other intangible assets, net	1,301	580
Mortgage servicing rights	4,603	4,605
Indemnification asset	4,405	5,640
Other assets	43,384	37,282
Total assets	\$ 2,555,597	\$ 2,189,789
Liabilities and Shareholders' Equity:		
Liabilities:		
Deposits:		
Noninterest-bearing demand	\$ 541,276	\$ 424,070
Interest-bearing	1,649,260	1,428,103
Total deposits	2,190,536	1,852,173
Accrued interest payable	1,674	2,151
Reserve for unfunded commitments	2,740	2,640
Other liabilities	30,427	29,170
Other borrowings	72,541	62,020
Junior subordinated debt	41,238	41,238
Total liabilities	2,339,156	1,989,392
Commitments and contingencies (Note 18)		
Shareholders' equity:		
Common stock, no par value: 50,000,000 shares authorized; issued and outstanding:		
15,978,958 at December 31, 2011	84,079	
15,860,138 at December 31, 2010		81,554
Retained earnings	128,551	117,533
Accumulated other comprehensive income, net of tax	3,811	1,310

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Total shareholders' equity	216,441	200,397
Total liabilities and shareholders' equity	\$ 2,555,597	\$ 2,189,789

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**TRICO BANCSHARES****CONSOLIDATED STATEMENTS OF INCOME**

	Years ended December 31,		
	2011	2010	2009
	(in thousands, except per share data)		
Interest and dividend income:			
Loans, including fees	\$ 92,691	\$ 93,073	\$ 99,996
Debt securities:			
Taxable	8,733	10,007	11,000
Tax exempt	524	700	986
Dividends	27	32	19
Interest bearing cash at Federal Reserve and other banks	1,007	760	332
Total interest and dividend income	102,982	104,572	112,333
Interest expense:			
Deposits	6,559	10,447	17,891
Other borrowings	2,420	2,412	1,221
Junior subordinated debt	1,259	1,274	1,503
Total interest expense	10,238	14,133	20,615
Net interest income	92,744	90,439	91,718
Provision for loan losses	23,060	37,458	31,450
Net interest income after provision for loan losses	69,684	52,981	60,268
Noninterest income:			
Service charges and fees	23,944	23,100	22,822
Gain on sale of loans	3,037	3,647	3,466
Commissions on sale of non-deposit investment products	2,105	1,209	1,632
Increase in cash value of life insurance	1,885	1,847	1,879
Bargain purchase gain	7,575	232	
Other	4,267	2,660	530
Total noninterest income	42,813	32,695	30,329
Noninterest expense:			
Salaries and related benefits	44,203	40,105	39,810
Other	38,512	37,100	35,640
Total noninterest expense	82,715	77,205	75,450
Income before income taxes	29,782	8,471	15,147
Provision for income taxes	11,192	2,466	5,185
Net income	\$ 18,590	\$ 6,005	\$ 9,962
Earnings per share:			

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Basic	\$	1.17	\$	0.38	\$	0.63
Diluted	\$	1.16	\$	0.37	\$	0.62

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

TRICO BANCSHARES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years Ended December 31, 2011, 2010 and 2009

	Shares of Common Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
(in thousands, except share data)					
Balance at December 31, 2008	15,756,101	\$ 78,246	\$ 117,630	\$ 2,056	\$ 197,932
Comprehensive income:					
Net income			9,962		9,962
Change in net unrealized gain on Securities available for sale, net				1,070	1,070
Change in joint beneficiary agreement liability, net				2	2
Change in minimum pension liability, net				(850)	(850)
Total comprehensive income					10,184
Stock option vesting		477			477
Stock options exercised	58,213	887			887
Tax benefit of stock options exercised		30			30
Repurchase of common stock	(26,561)	(132)	(520)		(652)
Dividends paid (\$0.52 per share)			(8,209)		(8,209)
Balance at December 31, 2009	15,787,753	\$ 79,508	\$ 118,863	\$ 2,278	\$ 200,649
Comprehensive income:					
Net income			6,005		6,005
Change in net unrealized gain on Securities available for sale, net				(24)	(24)
Change in joint beneficiary agreement liability, net				(1)	(1)
Change in minimum pension liability, net				(943)	(943)
Total comprehensive income					5,037
Stock option vesting		800			800
Stock options exercised	146,403	1,229			1,229
Tax benefit of stock options exercised		390			390
Repurchase of common stock	(74,018)	(373)	(991)		(1,364)
Dividends paid (\$0.40 per share)			(6,344)		(6,344)
Balance at December 31, 2010	15,860,138	\$ 81,554	\$ 117,533	\$ 1,310	\$ 200,397
Comprehensive income:					
Net income			18,590		18,590
Change in net unrealized gain on Securities available for sale, net				1,504	1,504
Change in joint beneficiary agreement liability, net				(143)	(143)
Change in minimum pension liability, net				1,140	1,140
Total comprehensive income					21,091
Stock option vesting		830			830
Stock option forfeiture		(114)			(114)
Stock options exercised	296,250	2,428			2,428
Tax benefit of stock options exercised		296			296
Repurchase of common stock	(177,430)	(915)	(1,830)		(2,745)
Dividends paid (\$0.36 per share)			(5,742)		(5,742)

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Balance at December 31, 2011	15,978,958	\$ 84,079	\$ 128,551	\$	3,811	\$ 216,441
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The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**TRICO BANCSHARES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended December 31,		
	2011	2010	2009
	(in thousands)		
Operating activities:			
Net income	\$ 18,590	\$ 6,005	\$ 9,962
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of premises and equipment, and amortization	3,309	3,492	3,425
Amortization of intangible assets	177	307	328
Provision for loan losses	23,060	37,458	31,450
Amortization of investment securities premium, net	1,435	1,185	348
Originations of loans for resale	(119,855)	(179,504)	(119,290)
Proceeds from sale of loans originated for resale	116,556	181,259	121,088
Gain on sale of loans	(3,037)	(3,647)	(3,466)
Change in market value of mortgage servicing rights	1,107	1,029	551
Provision for losses on foreclosed assets	1,984	1,522	220
Gain on sale of foreclosed assets	(680)	(562)	(168)
Loss on disposal of fixed assets	15	58	138
Increase in cash value of life insurance	(1,885)	(1,847)	(1,879)
Stock option vesting expense	830	800	477
Stock option excess tax benefits	(296)	(390)	(30)
Bargain purchase gain	(7,575)	(232)	
Deferred income tax benefit	(1,691)	(4,867)	(3,515)
Change in:			
Reserve for unfunded commitments	100	(1,000)	1,075
Interest receivable	(181)	632	172
Interest payable	(477)	(1,463)	(2,532)
Other assets and liabilities, net	178	10,951	(12,411)
Net cash from operating activities	31,664	51,186	25,943
Investing activities:			
Proceeds from maturities of securities available-for-sale	84,016	92,427	85,833
Purchases of securities available-for-sale	(25,456)	(156,348)	(29,396)
Redemption (purchase) of restricted equity securities, net	449	837	(39)
Loan principal decreases, net	9,363	102,890	62,663
Proceeds from sale of premises and equipment	1	6	2
Improvement of foreclosed assets		(139)	
Proceeds from sale of other real estate owned	7,632	5,172	1,815
Purchases of premises and equipment	(3,350)	(3,156)	(2,633)
Cash received from acquisitions	80,706	18,764	
Net cash from investing activities	153,361	60,453	118,245
Financing activities:			
Net (decrease) increase in deposits	98,464	(71,340)	159,242
Payments of principal on long-term other borrowings			(90)
Net change in short-term other borrowings	(11,517)	(9,733)	(35,162)
Stock option excess tax benefits	296	390	30
Repurchase of common stock	(753)	(338)	
Dividends paid	(5,742)	(6,344)	(8,209)
Exercise of stock options	436	203	235

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Net cash from financing activities	81,184	(87,162)	116,046
Net change in cash and cash equivalents	266,209	24,477	260,234
Cash and cash equivalents and beginning of year	371,066	346,589	86,355
Cash and cash equivalents at end of year	\$ 637,275	\$ 371,066	\$ 346,589
Supplemental disclosure of noncash activities:			
Unrealized gain (loss) on securities available for sale	\$ 2,594	\$ (41)	\$ 1,846
Loans transferred to foreclosed assets	6,943	7,690	4,408
Market value of shares tendered by employees in-lieu of cash to pay for exercise of options and/or related taxes	1,992	1,026	652
Supplemental disclosure of cash flow activity:			
Cash paid for interest expense	10,715	15,596	23,147
Cash paid for income taxes	16,625	2,825	10,292
Assets acquired in acquisition	270,304	100,282	
Liabilities assumed in acquisition	\$ 262,729	\$ 100,050	

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

TRICO BANCSHARES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2011, 2010 and 2009

Note 1 Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, and its wholly-owned subsidiary, Tri Counties Bank (the Bank). All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, the Company evaluates its estimates, including those related to the adequacy of the allowance for loan losses, investments, intangible assets, income taxes and contingencies. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The allowance for loan losses, goodwill and other intangible assets, income taxes, fair value of assets acquired and liabilities assumed in business combinations, and the valuation of mortgage servicing rights are the only accounting estimates that materially affect the Company's consolidated financial statements.

As described in Note 2, the Bank assumed the banking operations of two failed financial institutions from the FDIC under whole bank purchase agreements. The acquired assets and assumed liabilities were measured at estimated fair value values as required by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 805, Business Combinations. The Company made significant estimates and exercised significant judgment in accounting for the acquisitions. The Company determined loan fair values based on loan file reviews, loan risk ratings, appraised collateral values, expected cash flows and historical loss factors. Foreclosed assets were primarily valued based on appraised values of the repossessed loan collateral. An identifiable intangible was also recorded representing the fair value of the core deposit customer base based on an evaluation of the cost of such deposits relative to alternative funding sources. The fair value of time deposits and borrowings were determined based on the present value of estimated future cash flows using current rates as of the acquisition date.

Significant Group Concentration of Credit Risk

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

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold.

Investment Securities

The Company classifies its debt and marketable equity securities into one of three categories: trading, available-for-sale or held-to-maturity. Trading securities are bought and held principally for the purpose of selling in the near term. Held-to-maturity securities are those securities which the Company has the ability and intent to hold until maturity. All other securities not included in trading or held-to-maturity are classified as available-for-sale. During the years ended December 31, 2011 and 2010, the Company did not have any securities classified as either held-to-maturity or trading. Available-for-sale securities are recorded at fair value. Unrealized gains and losses, net of the related tax effect, on available-for-sale securities are reported as a separate component of other accumulated comprehensive income (loss) in shareholders' equity until

realized. Premiums and discounts are amortized or accreted over the life of the related investment security as an adjustment to yield using the effective interest method. Dividend and interest income are recognized when earned. Realized gains and losses are derived from the amortized cost of the security sold.

The Company assesses other-than-temporary impairment (OTTI) based on whether it intends to sell a security or if it is likely that the Company would be required to sell the security before recovery of the amortized cost basis of the investment, which may be maturity. For debt securities, if we intend to sell the security or it is likely that we will be required to sell the security before recovering its cost basis, the entire impairment loss would be recognized in earnings as an OTTI. If we do not intend to sell the security and it is not likely that we will be required to sell the security but we do not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Projected cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for potential OTTI. The remaining impairment related to all other factors, the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to other comprehensive income (OCI). Impairment losses related to all other factors are presented as separate categories within OCI. The accretion of the amount recorded in OCI increases the carrying value of the investment and does not affect earnings. If there is an indication of additional credit losses the security is re-evaluated according to the procedures described above. No OTTI losses were recognized during the years ended December 31, 2011 and 2010.

Table of Contents**Restricted Equity Securities**

Restricted equity securities represent the Company's investment in the stock of the Federal Home Loan Bank of San Francisco (FHLB) and are carried at par value, which reasonably approximates its fair value. While technically these are considered equity securities, there is no market for the FHLB stock. Therefore, the shares are considered as restricted investment securities. Management periodically evaluates FHLB stock for other-than-temporary impairment. Management's determination of whether these investments are impaired is based on its assessment of the ultimate recoverability of cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of cost is influenced by criteria such as (1) the significance of any decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, (3) the impact of legislative and regulatory changes on institutions and, accordingly, the customer base of the FHLB, and (4) the liquidity position of the FHLB.

As a member of the FHLB system, the Company is required to maintain a minimum level of investment in FHLB stock based on specific percentages of its outstanding mortgages, total assets, or FHLB advances. The Company may request redemption at par value of any stock in excess of the minimum required investment. Stock redemptions are at the discretion of the FHLB.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by aggregate outstanding commitments from investors of current investor yield requirements. Net unrealized losses are recognized through a valuation allowance by charges to noninterest income.

Mortgage loans held for sale are generally sold with the mortgage servicing rights retained by the Company. The carrying value of mortgage loans sold is reduced by the cost allocated to the associated mortgage servicing rights. Gains or losses on the sale of loans that are held for sale are recognized at the time of the sale and determined by the difference between net sale proceeds and the net book value of the loans less the estimated fair value of any retained mortgage servicing rights.

Loans and Allowance for Loan Losses

Loans originated by the Company, i.e., not purchased or acquired in a business combination, are referred to as originated loans. Originated loans are reported at the principal amount outstanding, net of deferred loan fees and costs. 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 actual life of the loan. Originated loans on which the accrual of interest has been discontinued are designated as nonaccrual loans.

Originated loans are placed in nonaccrual status when reasonable doubt exists as to the full, timely collection of interest or principal, or a loan becomes contractually past due by 90 days or more with respect to interest or principal and is not well secured and in the process of collection. When an originated 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 loan is estimated to be fully collectible as to both principal and interest.

An allowance for loan losses for originated loans is established through a provision for loan losses charged to expense. Originated loans and deposit related overdrafts are charged against the allowance for loan losses when Management believes that the collectability of the principal is unlikely or, with respect to consumer installment loans, according to an established delinquency schedule. The allowance is an amount that Management believes will be adequate to absorb probable losses inherent in existing loans and leases, based on evaluations of the collectability, impairment and prior loss experience of loans and leases. The evaluations take into consideration such factors as changes in the nature and size of the portfolio, overall portfolio quality, loan concentrations, specific problem loans, and current economic conditions that may affect the borrower's ability to pay. The Company defines an originated loan as impaired when it is probable the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired originated loans are measured based on the present value of expected future cash flows discounted at the loan's original effective interest rate. As a practical expedient, impairment may be measured based on the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through a valuation allowance.

In situations related to originated loans where, for economic or legal reasons related to a borrower's financial difficulties, the Company grants a concession for other than an insignificant period of time to the borrower that the Company would not otherwise consider, the related loan is classified as a troubled debt restructuring (TDR). The Company strives to identify borrowers in financial difficulty early and work with them to

modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where the Company grants the borrower new terms that provide for a reduction of either interest or principal, the Company measures any impairment on the restructuring as noted above for impaired loans. TDR loans are classified as impaired until they are fully paid off or charged off. Loans that are in nonaccrual status at the time they become TDR loans, remain in nonaccrual status until the borrower demonstrates a sustained period of performance which the Company generally believes to be six consecutive months of payments, or equivalent. Otherwise, TDR loans are subject to the same nonaccrual and charge-off policies as noted above with respect to their restructured principal balance.

Credit risk is inherent in the business of lending. As a result, the Company maintains an allowance for loan losses to absorb losses inherent in the Company's originated loan portfolio. This is maintained through periodic charges to earnings. These charges are included in the Consolidated Statements of Income as provision for loan losses. All specifically identifiable and quantifiable losses are immediately charged off against the allowance. However, for a variety of reasons, not all losses are immediately known to the Company and, of those that are known, the full extent of the loss may not be quantifiable at that point in time. The balance of the Company's allowance for originated loan losses is meant to be an estimate of these unknown but probable losses inherent in the portfolio.

Table of Contents

The Company formally assesses the adequacy of the allowance for originated loan losses on a quarterly basis. Determination of the adequacy is based on ongoing assessments of the probable risk in the outstanding originated loan portfolio, and to a lesser extent the Company's originated loan commitments. These assessments include the periodic re-grading of credits based on changes in their individual credit characteristics including delinquency, seasoning, recent financial performance of the borrower, economic factors, changes in the interest rate environment, growth of the portfolio as a whole or by segment, and other factors as warranted. Loans are initially graded when originated. They are re-graded as they are renewed, when there is a new loan to the same borrower, when identified facts demonstrate heightened risk of nonpayment, or if they become delinquent. Re-grading of larger problem loans occurs at least quarterly. Confirmation of the quality of the grading process is obtained by independent credit reviews conducted by consultants specifically hired for this purpose and by various bank regulatory agencies.

The Company's method for assessing the appropriateness of the allowance for originated loan losses includes specific allowances for impaired originated loans and leases, formula allowance factors for pools of credits, and allowances for changing environmental factors (e.g., interest rates, growth, economic conditions, etc.). Allowance factors for loan pools are based on historical loss experience by product type. Allowances for impaired loans are based on analysis of individual credits. Allowances for changing environmental factors are Management's best estimate of the probable impact these changes have had on the originated loan portfolio as a whole. The allowance for originated loans is included in the allowance for loan losses.

Loans purchased or acquired in a business combination are referred to as acquired loans. Acquired loans are valued as of acquisition date in accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Topic 805, *Business Combinations*. Loans acquired with evidence of credit deterioration since origination for which it is probable that all contractually required payments will not be collected are referred to as purchased credit impaired (PCI) loans. PCI loans are accounted for under FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. Under FASB ASC Topic 805 and FASB ASC Topic 310-30, PCI loans are recorded at fair value at acquisition date, factoring in credit losses expected to be incurred over the life of the loan. Accordingly, an allowance for loan losses is not carried over or recorded as of the acquisition date. Fair value is defined as the present value of the future estimated principal and interest payments of the loan, with the discount rate used in the present value calculation representing the estimated effective yield of the loan. Default rates, loss severity, and prepayment speed assumptions are periodically reassessed and our estimate of future payments is adjusted accordingly. The difference between contractual future payments and estimated future payments is referred to as the nonaccretable difference. The difference between estimated future payments and the present value of the estimated future payments is referred to as the accretable yield. The accretable yield represents the amount that is expected to be recorded as interest income over the remaining life of the loan. If after acquisition, the Company determines that the estimated future cash flows of a PCI loan are expected to be more than the originally estimated, an increase in the discount rate (effective yield) would be made such that the newly increased accretable yield would be recognized, on a level yield basis, over the remaining estimated life of the loan. If, after acquisition, the Company determines that the estimated future cash flows of a PCI loan are expected to be less than the previously estimated, the discount rate would first be reduced until the present value of the reduced cash flow estimate equals the previous present value however, the discount rate may not be lowered below its original level at acquisition. If the discount rate has been lowered to its original level and the present value has not been sufficiently lowered, an allowance for loan loss would be established through a provision for loan losses charged to expense to decrease the present value to the required level. If the estimated cash flows improve after an allowance has been established for a loan, the allowance may be partially or fully reversed depending on the improvement in the estimated cash flows. Only after the allowance has been fully reversed may the discount rate be increased. PCI loans are put on nonaccrual status when cash flows cannot be reasonably estimated. PCI loans on nonaccrual status are accounted for using the cost recovery method or cash basis method of income recognition. PCI loans are charged off when evidence suggests cash flows are not recoverable. Foreclosed assets from PCI loans are recorded in foreclosed assets at fair value with the fair value at time of foreclosure representing cash flow from the loan. ASC 310-30 allows PCI loans with similar risk characteristics and acquisition time frame to be pooled and have their cash flows aggregated as if they were one loan. The Company elected to use the pooled method of ASC 310-30 for PCI other loans in both the Citizens and Granite acquisitions.

Acquired loans that are not PCI loans are referred to as purchased not credit impaired (PNCI) loans. PNCI loans are accounted for under FASB ASC Topic 310-20, *Receivables - Nonrefundable Fees and Other Costs*, in which interest income is accrued on a level-yield basis for performing loans. For income recognition purposes, this method assumes that all contractual cash flows will be collected, and no allowance for loan losses is established at the time of acquisition. Post-acquisition date, an allowance for loan losses may need to be established for acquired loans through a provision charged to earnings for credit losses incurred subsequent to acquisition. Under ASC 310-20, the loss would be measured based on the probable shortfall in relation to the contractual note requirements, consistent with our allowance for loan loss policy for similar loans.

When referring to PNCI and PCI loans we will use the terms nonaccretable difference, accretable yield, or purchase discount. Nonaccretable difference is the difference between undiscounted contractual cash flows due and undiscounted cash flows we expect to collect, or put another way, it is the undiscounted contractual cash flows we do not expect to collect. Accretable yield is the difference between undiscounted cash flows we expect to collect and the value at which we have recorded the loan on our financial statements. On the date of acquisition, all purchased loans are recorded on our financial statements at estimated fair value. Purchase discount is the difference between the estimated fair value of loans on the date of acquisition and the principal amount owed by the borrower, net of charge-offs, on the date of acquisition. We may also refer to discounts to principal balance of loans owed, net of charge-offs. Discounts to principal balance of loans owed, net of charge-offs is the difference between principal balance of loans owed, net of charge-offs, and loans as recorded on our financial statements. Discounts to

principal balance of loans owed, net of charge-offs arise from purchase discounts, and equal the purchase discount on the acquisition date.

Table of Contents

Loans are also categorized as covered or noncovered. Covered loans refer to loans covered by a Federal Deposit Insurance Corporation (FDIC) loss sharing agreement. Noncovered loans refer to loans not covered by a FDIC loss sharing agreement.

Foreclosed Assets

Foreclosed assets include assets acquired through, or in lieu of, loan foreclosure. Foreclosed assets are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, management periodically performs valuations and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other noninterest expense. Foreclosed assets that are not subject to a FDIC loss-share agreement are referred to as noncovered foreclosed assets.

Foreclosed assets acquired through FDIC-assisted acquisitions that are subject to a FDIC loss-share agreement, and all assets acquired via foreclosure of covered loans are referred to as covered foreclosed assets. Covered foreclosed assets are reported exclusive of expected reimbursement cash flows from the FDIC. Foreclosed covered loan collateral is transferred into covered foreclosed assets at the loan's carrying value, inclusive of the acquisition date fair value discount.

Covered foreclosed assets are initially recorded at estimated fair value on the acquisition date based on similar market comparable valuations less estimated selling costs. Any subsequent valuation adjustments due to declines in fair value will be charged to noninterest expense, and will be mostly offset by noninterest income representing the corresponding increase to the FDIC indemnification asset for the offsetting loss reimbursement amount. Any recoveries of previous valuation adjustments will be credited to noninterest expense with a corresponding charge to noninterest income for the portion of the recovery that is due to the FDIC.

Premises and Equipment

Land is carried at cost. Buildings and equipment, including those acquired under capital lease, are stated at cost less accumulated depreciation and amortization. Depreciation and amortization expenses are computed using the straight-line method over the estimated useful lives of the related assets or lease terms. Asset lives range from 3-10 years for furniture and equipment and 15-40 years for land improvements and buildings.

Goodwill and Other Intangible Assets

Goodwill represents the excess of costs over fair value of net assets of businesses acquired. Goodwill and other intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment.

The Company has identifiable intangible assets consisting of core deposit intangibles (CDI) and minimum pension liability. CDI are amortized using an accelerated method over a period of ten years. Intangible assets related to minimum pension liability are adjusted annually based upon actuarial estimates.

Impairment of Long-Lived Assets and Goodwill

Long-lived assets, such as premises and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

As of December 31 of each year, goodwill is tested for impairment, and is tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. This determination is made at the reporting unit level and consists of two steps. First, the Company determines the fair value of a reporting unit and compares it to its carrying amount. Second, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value

after this allocation is the implied fair value of the reporting unit goodwill. Currently, and historically, the Company is comprised of only one reporting unit that operates within the business segment it has identified as community banking .

Mortgage Servicing Rights

Mortgage servicing rights (MSR) represent the Company's right to a future stream of cash flows based upon the contractual servicing fee associated with servicing mortgage loans. Our MSR arise from residential mortgage loans that we originate and sell, but retain the right to service the loans. For sales of residential mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on the fair values of the loan and the servicing right. The net gain from the retention of the servicing right is included in gain on sale of loans in noninterest income when the loan is sold. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. MSR are included in other assets. Servicing fees are recorded in noninterest income when earned.

Table of Contents

The determination of fair value of our MSR requires management judgment because they are not actively traded. The determination of fair value for MSR requires valuation processes which combine the use of discounted cash flow models and extensive analysis of current market data to arrive at an estimate of fair value. The cash flow and prepayment assumptions used in our discounted cash flow model are based on empirical data drawn from the historical performance of our MSR, which we believe are consistent with assumptions used by market participants valuing similar MSR, and from data obtained on the performance of similar MSR. The key assumptions used in the valuation of MSR include mortgage prepayment speeds and the discount rate. These variables can, and generally will, change from quarter to quarter as market conditions and projected interest rates change. The key risks inherent with MSR are prepayment speed and changes in interest rates. The Company uses an independent third party to determine fair value of MSR.

Indemnification Asset

The Company has elected to account for amounts receivable under loss-share agreements with the FDIC as indemnification assets in accordance with FASB ASC Topic 805, *Business Combinations*. FDIC indemnification assets are initially recorded at fair value, based on the discounted value of expected future cash flows under the loss-share agreements. The difference between the fair value and the undiscounted cash flows the Company expects to collect from the FDIC will be accreted into noninterest income over the life of the FDIC indemnification asset. FDIC indemnification assets are reviewed quarterly and adjusted for any changes in expected cash flows based on recent performance and expectations for future performance of the covered portfolios. These adjustments are measured on the same basis as the related covered loans and covered other real estate owned. Any increases in cash flow of the covered assets over those expected will reduce the FDIC indemnification asset and any decreases in cash flow of the covered assets under those expected will increase the FDIC indemnification asset. Increases and decreases to the FDIC indemnification asset are recorded as adjustments to noninterest income.

Reserve for Unfunded Commitments

The reserve for unfunded commitments is established through a provision for losses – unfunded commitments charged to noninterest expense. The reserve for unfunded commitments is an amount that Management believes will be adequate to absorb probable losses inherent in existing commitments, including unused portions of revolving lines of credits and other loans, standby letters of credits, and unused deposit account overdraft privilege. The reserve for unfunded commitments is based on evaluations of the collectability, and prior loss experience of unfunded commitments. The evaluations take into consideration such factors as changes in the nature and size of the loan portfolio, overall loan portfolio quality, loan concentrations, specific problem loans and related unfunded commitments, and current economic conditions that may affect the borrower's or depositor's ability to pay.

Income Taxes

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

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Company has entered into commitments to extend credit, including commitments under credit card arrangements, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded when they are funded.

Geographical Descriptions

For the purpose of describing the geographical location of the Company's loans, the Company has defined northern California as that area of California north of, and including, Stockton; central California as that area of the state south of Stockton, to and including, Bakersfield; and southern California as that area of the state south of Bakersfield.

Reclassifications

Certain amounts reported in previous financial statements have been reclassified to conform to the presentation in this report. These reclassifications did not affect previously reported net income or total shareholders' equity.

Recent Accounting Pronouncements

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FASB issued ASU No. 2010-28, *Intangibles - Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts*. This update modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist such as if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. This update was effective for the Company on January 1, 2011 and did not have a significant impact on the Company's financial statements.

FASB issued ASU No. 2011-02, *Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. This Update provides additional guidance relating to when creditors should classify loan modifications as troubled debt restructurings. This Update also ends the deferral issued in January 2010 of the disclosures about troubled debt restructurings required by ASU No. 2010-20. The provisions of ASU No. 2011-02 and the disclosure requirements of ASU No. 2010-20 are effective for the Company's interim reporting period ending September 30, 2011. The guidance applies retrospectively to restructurings occurring on or after January 1, 2011. The adoption of this Update did not have a material impact on the Company's consolidated financial statements.

FASB issued ASU No. 2011-03, *Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements*. This Update is intended to improve financial reporting of repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. ASU 2011-03 removes from the assessment of effective control (i) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (ii) the collateral maintenance guidance related to that criterion. ASU 2011-03 will be effective for the Company on January 1, 2012 and is not expected to have a significant impact on the Company's financial statements.

Table of Contents

FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU 2011-04 amends Topic 820, Fair Value Measurements and Disclosures, to converge the fair value measurement guidance in U.S. generally accepted accounting principles and International Financial Reporting Standards. ASU 2011-04 clarifies the application of existing fair value measurement requirements, changes certain principles in Topic 820 and requires additional fair value disclosures. ASU 2011-04 is effective for annual periods beginning after December 15, 2011, and is not expected to have a significant impact on the Company's financial statements.

FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220) Presentation of Comprehensive Income*. ASU 2011-05 amends Topic 220, Comprehensive Income, to require that all nonowner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, ASU 2011-05 requires entities to present, on the face of the financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement or statements where the components of net income and the components of other comprehensive income are presented. The option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. ASU 2011-05 is effective for annual periods beginning after December 15, 2011, and is not expected to have a significant impact on the Company's financial statements.

FASB issued ASU 2011-08, *Intangibles—Goodwill and Other (Topic 350) Testing Goodwill for Impairment*. ASU 2011-08 amends Topic 350, Intangibles—Goodwill and Other, to give entities the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. ASU 2011-08 is effective for annual and interim impairment tests beginning after December 15, 2011, and is not expected to have a significant impact on the Company's financial statements.

FASB issued ASU 2011-11, *Balance Sheet Disclosures about Offsetting Assets and Liabilities (Topic 210)*. ASU 2011-11 requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The Update is not expected to have a significant impact on the Company's financial statements.

FASB issued ASU 2011-12, *Comprehensive Income—Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. ASU 2011-12 updates and supersedes certain pending paragraphs relating to the presentation on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income. This Update is effective concurrent with ASU 2011-05, and is not expected to have a significant impact on the Company's financial statements.

Table of Contents**Note 2 Business Combinations**

On September 23, 2011, the California Department of Financial Institutions closed Citizens Bank of Northern California (Citizens), Nevada City, California and appointed the FDIC as receiver. That same date, the Bank assumed the banking operations of Citizens from the FDIC under a whole bank purchase and assumption agreement without loss sharing. With this agreement, the Bank added one administration building and seven traditional bank branches, including two in Grass Valley, and one in each of Nevada City, Penn Valley, Lake of the Pines, Truckee, and Auburn, California. This acquisition is consistent with the Bank's community banking expansion strategy and provides further opportunity to fill in the Bank's market presence in the Northern California market.

The operations of Citizens, included in the Company's operating results from September 23, 2011 to December 31, 2011, added approximately \$6,171,000 and \$54,000 to interest income and interest expense, respectively, \$1,462,000 to provision for loan losses, \$8,029,000 to noninterest income, including a bargain purchase gain of \$7,575,000, and \$1,865,000 to noninterest expense. Included in the \$6,171,000 of Citizens related interest income recorded from September 23, 2011 to December 31, 2011, is \$3,146,000 of interest income from fair value discount accretion. Such operating results are not necessarily indicative of future operating results. Citizens' results of operations prior to the acquisition are not included in the Company's operating results. As of December 31, 2011, nonrecurring expenses related to the Citizens acquisition were insignificant.

The assets acquired and liabilities assumed for the Citizens acquisition have been accounted for under the acquisition method of accounting (formerly the purchase method). The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the acquisition date. The fair values of the assets acquired and liabilities assumed were determined based on the requirements of the Fair Value Measurements and Disclosures topic of the FASB ASC. The tax treatment of FDIC assisted acquisitions is complex and subject to interpretations that may result in future adjustments of deferred taxes as of the acquisition date. The terms of the agreement provide for the FDIC to indemnify the Bank against claims with respect to liabilities of Citizens not assumed by the Bank and certain other types of claims identified in the agreement. The application of the acquisition method of accounting resulted in the recognition of a bargain purchase gain of \$7,575,000 in the Citizens acquisition.

A summary of the net assets received in the Citizens acquisition, at their estimated fair values, is presented below:

(in thousands)	Citizens September 23, 2011
Asset acquired:	
Cash and cash equivalents	\$ 80,707
Securities available-for-sale	9,353
Restricted equity securities	1,926
Loans	167,484
Core deposit intangible	898
Foreclosed assets	8,412
Other assets	1,524
Total assets acquired	\$ 270,304
Liabilities assumed:	
Deposits	\$ 239,899
Other borrowings	22,038
Other liabilities	792
Total liabilities assumed	\$ 262,729
Net assets acquired/bargain purchase gain	\$ 7,575

In FDIC-assisted transactions, only certain assets and liabilities are transferred to the acquirer and, depending on the nature and amount of the acquirer's bid, the FDIC may be required to make a cash payment to the acquirer. In the Citizens acquisition, net assets with a cost basis of \$26,682,000 were transferred to the Bank. In the Citizens acquisition, the Company recorded a bargain purchase gain of \$7,575,000 representing the excess of the estimated fair value of the assets acquired over the estimated fair value of the liabilities assumed.

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A summary of the estimated fair value adjustments resulting in the bargain purchase gain in the Citizens acquisition are presented below:

(in thousands)	Citizens September 23, 2011
Cost basis net assets acquired	\$ 26,682
Cash payment received from FDIC	44,140
Fair value adjustments:	
Cash and cash equivalents	539
Loans	(57,745)
Foreclosed assets	(5,609)
Core deposit intangible	898
Deposits	(382)
Borrowings	(28)
Other	(920)
Bargain purchase gain	\$ 7,575

Table of Contents

The Bank acquired only certain assets and assumed certain liabilities of Citizens. A significant portion of Citizens' operations, its facilities and its central operations and administrative functions were not retained by the Bank. Therefore, disclosure of supplemental pro forma financial information, especially prior period comparison is deemed neither practical nor meaningful given the troubled nature of Citizens prior to the date of acquisition. The Bank did not immediately acquire all the banking facilities, furniture or equipment of Citizens as part of the purchase and assumption agreement. However, the Bank had the option to lease the real estate and purchase the furniture and equipment from the FDIC. The term of this option expired 90 days from the acquisition date. Prior to the expiration of the option, The Bank agreed to purchase essentially all of the furniture and equipment, and assume all of the property leases except for the administration building and Citizen's Auburn branch. The Bank intends to transfer the operations of Citizen's Auburn branch to the Bank's existing branch in Auburn, and vacate the Citizen's administration building.

The Company identified the loans acquired in the Citizens acquisition as either PNCI or PCI loans. The Company identified certain of the Citizens PCI loans as having cash flows that were not reasonably estimable and elected to place these loans in nonaccrual status under the cash basis method for income recognition (PCI cash basis loans). The Company elected to use the ASC 310-30 pooled method of accounting for all other Citizens PCI loans (PCI other loans).

The following table presents a reconciliation of the undiscounted contractual cash flows, nonaccretable difference, accretable yield, fair value, purchase discount, and principal balance of loans for the various categories of Citizens PNCI and PCI loans as of the acquisition date. For PCI loans, the purchase discount does not necessarily represent cash flows to be collected as a portion of it is a nonaccretable difference:

(in thousands)	Citizens Loans		September 23, 2011	Total
	PNCI	PCI - other	PCI - cash basis	
Undiscounted contractual cash flows	\$ 230,106	\$ 69,346	\$ 35,205	\$ 334,657
Undiscounted cash flows not expected to be collected (nonaccretable difference)		(26,846)	(24,517)	(51,363)
Undiscounted cash flows expected to be collected	230,106	42,500	10,688	283,295
Accretable yield at acquisition	(105,664)	(10,146)		(115,810)
Estimated fair value of loans acquired at acquisition	124,442	32,354	10,688	167,484
Purchase discount	20,364	23,207	14,174	57,745
Principal balance loans acquired	\$ 144,806	\$ 55,561	\$ 24,863	\$ 225,229

In estimating the fair value of Citizens PNCI loans at the acquisition date, the Company calculated the contractual amount and timing of undiscounted principal and interest payments on an individual loan basis and then discounted those cash flows using an appropriate market rate of interest adjusted for liquidity and credit loss risks inherent in each loan. The Citizens PNCI loans expected accretable yield above represents undiscounted interest, and along with the purchase discount, is accounted for using an effective interest method consistent with our accounting for originated loans.

In estimating the fair value of Citizens PCI cash basis loans at the acquisition date, the Company calculated the contractual amount and timing of undiscounted principal and interest payments and estimated the amount of undiscounted expected principal recovery using historic loss rates or estimated collateral values if applicable. The difference between these two amounts represents the nonaccretable difference. The Company used its estimate of the amount of undiscounted expected principal recovery as the fair value of the Citizens PCI cash basis loans, and placed these loans in nonaccrual status. Interest income and principal reductions on these PCI cash basis loans are recorded only when they are received. At each financial reporting date, the carrying value of each PCI cash basis loan is compared to an updated estimate of expected principal payment or recovery for each loan. To the extent that the loan carrying amount exceeds the updated expected principal payment or recovery, a provision for loan loss would be recorded as a charge to income and an allowance for loan loss established.

In estimating the fair value of Citizens PCI other loans at the acquisition date, the Company calculated the contractual amount and timing of undiscounted principal and interest payments and estimated the amount and timing of undiscounted expected principal and interest payments. The difference between these two amounts represents the nonaccretable difference. On the acquisition date, the amount by which the undiscounted expected cash flows exceed the estimated fair value of the acquired loans is the accretable yield. The accretable yield is then measured at each financial reporting date and represents the difference between the remaining undiscounted expected cash flows and the current carrying value of the loans. For PCI loans the accretable yield is accreted into interest income over the life of the estimated remaining cash

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flows. For further information regarding the accounting for PCI other loans, and acquired loans in general, see the discussion under the heading Loans and Allowance for Loan Losses in Note 1 above.

Table of Contents

The following table presents the contractual maturity schedule of loans acquired in the Citizens acquisition and provides separate analyses with respect to fixed rate loans and floating rate loans as of September 23, 2011:

(in thousands)	Due Within one year	Due after one through five years	Maturing Due after five years	Total	% of total loans
Mortgage loans on real estate:					
Residential 1-4 family	\$ 155	\$ 362	\$ 2,467	\$ 2,984	1.3%
Commercial	7,131	20,563	104,169	131,863	58.5%
Total mortgage loan on real estate	7,286	20,925	106,636	134,847	59.8%
Consumer:					
Home equity lines of credit	16,907	16,129	16,954	49,990	22.2%
Home equity loans		387	636	1,023	0.5%
Auto Indirect	3	102		105	0.0%
Other	36	431	3,726	4,193	1.9%
Total consumer loans	16,946	17,049	21,316	55,311	24.6%
Commercial	4,966	11,572	1,389	17,927	8.0%
Construction:					
Residential	5,187	7,733	191	13,111	5.8%
Commercial	8	1,844	2,181	4,033	1.8%
Total construction	5,195	9,577	2,372	17,144	7.6%
Total loans, net of deferred loan fees	\$ 34,393	\$ 59,123	\$ 131,713	\$ 225,229	100.0%
Total fixed rate loans	\$ 10,467	\$ 17,214	\$ 50,232	\$ 77,913	34.6%
Total variable rate loans	23,926	41,909	81,481	147,316	65.4%
Total loans	\$ 34,393	\$ 59,123	\$ 131,713	\$ 225,229	100.0%

The weighted average contractual loan yield for Citizens loans acquired on September 23, 2011 was 6.01%

The Citizens acquisition increased the Bank's deposits by \$239,899,000 on September 23, 2011. The following table shows a summary of the deposits acquired and the weighted average interest rates in effect at the acquisition date:

	September 23, 2011	
	Amount	Weighted average interest rate
Noninterest-bearing demand	\$ 79,814	
Interest-bearing demand	37,551	0.02%
Savings	67,379	0.25%
Time deposits less than \$100,000	28,714	0.91%
Time deposits greater than \$100,000	26,059	1.01%
Time deposit fair value adjustment	382	
Total deposits	\$ 239,899	

At September 23, 2011, scheduled maturities of Citizens time deposits were as follows:

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Maturing during the 12-month period ending September 23,	(in thousands)
2012	\$ 45,250
2013	5,858
2014	1,074
2015	1,180
Thereafter	1,411
Total	\$ 54,773

As of September 23, 2011, Citizens had \$26,059,000 in time deposits of \$100,000 or more. The following table provides the scheduled maturities of these time deposits:

Maturing:	(in thousands)
3 months of less	\$ 9,450
Over 3 through 6 months	5,135
Over 6 through 12 months	5,998
Over 12 months	5,476
Total	\$ 26,059

Table of Contents

On May 28, 2010, the Office of the Comptroller of the Currency closed Granite Community Bank (Granite), Granite Bay, California and appointed the FDIC as receiver. That same date, the Bank assumed the banking operations of Granite from the FDIC under a whole bank purchase and assumption agreement with loss sharing. Under the terms of the loss sharing agreement, the FDIC will cover a substantial portion of any future losses on loans, related unfunded loan commitments, other real estate owned (OREO)/foreclosed assets and accrued interest on loans for up to 90 days. The FDIC will absorb 80% of losses and share in 80% of loss recoveries on the covered assets acquired from Granite. The loss sharing arrangements for non-single family residential and single family residential loans are in effect for 5 years and 10 years, respectively, and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition date. With this agreement, the Bank added one traditional bank branch in each of Granite Bay, Roseville and Auburn, California. This acquisition is consistent with the Bank's community banking expansion strategy and provides further opportunity to fill in the Bank's market presence in the greater Sacramento, California market.

The operations of Granite are included in the Company's operating results from May 28, 2010, and through December 31, 2010 added revenue of \$4,967,000, including a bargain purchase gain of \$232,000, noninterest expense of \$2,078,000 and a provision for loan losses of \$1,608,000, that resulted in a contribution to net income after-tax of approximately \$743,000. Such operating results are not necessarily indicative of future operating results. Granite's results of operations prior to the acquisition are not included in the Company's operating results. During the quarter ended September 30, 2010, the Company completed the conversion of Granite's information and product delivery systems. As of December 31, 2010, nonrecurring expenses related to the Granite acquisition and systems conversion were approximately \$250,000.

The assets acquired and liabilities assumed for the Granite acquisition have been accounted for under the acquisition method of accounting (formerly the purchase method). The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the acquisition dates. The fair values of the assets acquired and liabilities assumed were determined based on the requirements of the Fair Value Measurements and Disclosures topic of the FASB ASC. The tax treatment of FDIC assisted acquisitions is complex and subject to interpretations that may result in future adjustments of deferred taxes as of the acquisition date. The terms of the agreements provide for the FDIC to indemnify the Bank against claims with respect to liabilities of Granite not assumed by the Bank and certain other types of claims identified in the agreement. The application of the acquisition method of accounting resulted in the recognition of a bargain purchase gain of \$232,000 in the Granite acquisition. A summary of the net assets received in the Granite acquisition, at their estimated fair values, is presented below:

(in thousands)	Granite May 28, 2010
Asset acquired:	
Cash and cash equivalents	\$ 18,764
Securities available-for-sale	2,954
Restricted equity securities	696
Covered loans	64,802
Premises and equipment	17
Core deposit intangible	562
Covered foreclosed assets	4,629
FDIC indemnification asset	7,466
Other assets	392
Total assets acquired	\$ 100,282
Liabilities assumed:	
Deposits	\$ 95,001
Other borrowings	5,000
Other liabilities	49
Total liabilities assumed	100,050
Net assets acquired/bargain purchase gain	\$ 232

The loan portfolio and foreclosed assets acquired in the Granite acquisition are covered by a loss sharing agreement between the Bank and the FDIC, and are referred to as covered loans and covered foreclosed assets, respectively. These covered loans and covered foreclosed assets are

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recorded in Loans and Foreclosed assets, respectively, in the Company's consolidated balance sheet. Collectively these balances are referred to as covered assets.

In FDIC-assisted transactions, only certain assets and liabilities are transferred to the acquirer and, depending on the nature and amount of the acquirer's bid, the FDIC may be required to make a cash payment to the acquirer. In the Granite acquisition, net assets with a cost basis of \$4,345,000 were transferred to the Bank. In the Granite acquisition, the Company recorded a bargain purchase gain of \$232,000 representing the excess of the estimated fair value of the assets acquired over the estimated fair value of the liabilities assumed.

The Bank did not immediately acquire all the real estate, banking facilities, furniture or equipment of Granite as part of the purchase and assumption agreement. However, the Bank had the option to purchase or lease the real estate and furniture and equipment from the FDIC. During the quarter ended September 30, 2010, the Bank elected to close the Roseville branch and assume the leases for the Granite Bay and Auburn branches. The Bank purchased the existing furniture and equipment in the Granite Bay and Auburn branches from the FDIC for approximately \$100,000. A summary of the estimated fair value adjustments resulting in the bargain purchase gain in the Granite acquisition are presented below:

(in thousands)	Granite May 28, 2010
Cost basis net assets acquired	\$ 4,345
Cash payment received from FDIC	3,940
Fair value adjustments:	
Securities available-for-sale	(118)
Loans	(13,189)
Foreclosed assets	(2,616)
Core deposit intangible	562
FDIC indemnification asset	7,466
Deposits	(209)
Other	51
Bargain purchase gain	\$ 232

Table of Contents

Because of the significant credit discounts associated with the loans acquired in the Granite acquisition, the Company elected to account for all loans acquired in the Granite acquisition using the ASC 310-30 pooled method of accounting and thus categorize them as PCI other loans.

In estimating the fair value of the covered loans at the acquisition date, we (a) calculated the contractual amount and timing of undiscounted principal and interest payments and (b) estimated the amount and timing of undiscounted expected principal and interest payments. The difference between these two amounts represents the nonaccretable difference.

On the acquisition date, the amount by which the undiscounted expected cash flows exceed the estimated fair value of the acquired loans is the accretable yield. The accretable yield is then measured at each financial reporting date and represents the difference between the remaining undiscounted expected cash flows and the current carrying value of the loans.

The following table presents a reconciliation of the undiscounted contractual cash flows, nonaccretable difference, accretable yield, fair value, purchase discount, and principal balance of loans for the Granite loans as of the acquisition date. For PCI loans, the purchase discount does not necessarily represent cash flows to be collected as a portion of it is a nonaccretable difference:

(in thousands)	Granite Loans May 28, 2010 PCI - other
Undiscounted contractual cash flows	\$ 99,179
Undiscounted cash flows not expected to be collected (nonaccretable difference)	(11,226)
Undiscounted cash flows expected to be collected	87,953
Accretable yield at acquisition	(23,151)
Estimated fair value of loans acquired at acquisition	64,802
Purchase discount	13,189
Principal balance loans acquired	\$ 77,991

Table of Contents**Note 3 Investment Securities**

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

	Amortized Cost	December 31, 2011		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(in thousands)				
Securities Available-for-Sale				
Obligations of U.S. government corporations and agencies	\$ 207,284	\$ 10,100		\$ 217,384
Obligations of states and political subdivision	9,561	467		10,028
Corporate debt securities	1,848		\$ (37)	1,811
Total securities available-for-sale	\$ 218,693	\$ 10,567	\$ (37)	\$ 229,223

	Amortized Cost	December 31, 2010		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(in thousands)				
Securities Available-for-Sale				
Obligations of U.S. government corporations and agencies	\$ 255,884	\$ 8,623	\$ (326)	\$ 264,181
Obligations of states and political subdivisions	12,452	141	(52)	12,541
Corporate debt securities	1,000		(451)	549
Total securities available-for-sale	\$ 269,336	\$ 8,764	\$ (829)	\$ 277,271

No investment securities were sold in 2011 or 2010. Investment securities with an aggregate carrying value of \$110,763,000 and \$140,100,000 at December 31, 2011 and 2010, respectively, were pledged as collateral for specific borrowings, lines of credit and local agency deposits.

The amortized cost and estimated fair value of debt securities at December 31, 2011 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. At December 31, 2011, obligations of U.S. government corporations and agencies with a cost basis totaling \$207,284,000 consist almost entirely of mortgage-backed securities whose contractual maturity, or principal repayment, will follow the repayment of the underlying mortgages. For purposes of the following table, the entire outstanding balance of these mortgage-backed securities issued by U.S. government corporations and agencies is categorized based on final maturity date. At December 31, 2011, the Company estimates the average remaining life of these mortgage-backed securities issued by U.S. government corporations and agencies to be approximately 2.8 years. Average remaining life is defined as the time span after which the principal balance has been reduced by half.

	Amortized Cost	Estimated Fair Value
(in thousands)		
Investment Securities		
Due in one year	\$ 1,012	\$ 1,056
Due after one year through five years	18,126	19,042
Due after five years through ten years	64,480	66,109
Due after ten years	135,075	143,016
Totals	\$ 218,693	\$ 229,223

Table of Contents

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

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
(in thousands)						
December 31, 2011						
Securities Available-for-Sale:						
Obligations of U.S. government corporations and agencies	\$ 10				\$ 10	
Obligations of states and political subdivisions						
Corporate debt securities	1,811	\$ (37)			1,811	\$ (37)
Total securities available-for-sale	\$ 1,821	\$ (37)			\$ 1,821	\$ (37)

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
(in thousands)						
December 31, 2010						
Securities Available-for-Sale:						
Obligations of U.S. government corporations and agencies	\$ 54,760	\$ (326)			\$ 54,760	\$ (326)
Obligations of states and political subdivisions	1,345	(22)	\$ 513	\$ (30)	1,858	(52)
Corporate debt securities			549	(451)	549	(451)
Total securities available-for-sale	\$ 56,105	\$ (348)	\$ 1,062	\$ (481)	\$ 57,167	\$ (829)

Obligations of U.S. government corporations and agencies: Unrealized losses on investments in obligations of U.S. government corporations and agencies are caused by interest rate increases. The contractual cash flows of these securities are guaranteed by U.S. Government Sponsored Entities (principally Fannie Mae and Freddie Mac). It is expected that the securities would not be settled at a price less than the amortized cost of the investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell and more likely than not will not be required to sell, these investments are not considered other-than-temporarily impaired. At December 31, 2011, one debt security representing obligations of U.S. government corporations and agencies had an unrealized loss with aggregate depreciation of 0.035% from the Company's amortized cost basis.

Obligations of states and political subdivisions: The unrealized losses on investments in obligations of states and political subdivisions were caused by increases in required yields by investors in these types of securities. It is expected that the securities would not be settled at a price less than the amortized cost of the investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell and more likely than not will not be required to sell, these investments are not considered other-than-temporarily impaired. At December 31, 2011, no debt securities representing obligations of states and political subdivisions had unrealized losses.

Corporate debt securities: The unrealized losses on investments in corporate debt securities were caused by increases in required yields by investors in similar types of securities. It is expected that the securities would not be settled at a price less than the amortized cost of the investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell and more likely than not will not be required to sell, these investments are not considered other-than-temporarily impaired. At December 31, 2011, one corporate debt security had an unrealized loss with aggregate depreciation of 2.025% from the Company's amortized cost basis.

Table of Contents**Note 4 Loans**

A summary of loan balances follows (in thousands):

	Originated	December 31, 2011			Total
		PNCI	PCI - Cash basis	PCI - Other	
Mortgage loans on real estate:					
Residential 1-4 family	\$ 118,320	\$ 14,750		\$ 6,516	\$ 139,586
Commercial	699,682	93,428		33,226	826,336
Total mortgage loan on real estate	818,002	108,178		39,742	965,922
Consumer:					
Home equity lines of credit	321,834	20,902	\$ 8,615	5,954	357,305
Home equity loans	14,320	367		157	14,844
Auto Indirect	10,821				10,821
Other	20,270	3,041		49	23,360
Total consumer loans	367,245	24,310	8,615	6,160	406,330
Commercial	123,486	1,805	811	13,029	139,131
Construction:					
Residential	13,908			8,214	22,122
Commercial	12,744			4,783	17,527
Total construction	26,652			12,997	39,649
Total loans, net of deferred loan fees	\$ 1,335,385	\$ 134,293	\$ 9,426	\$ 71,928	\$ 1,551,032
Total principal balance of loans owed, net of charge-offs	\$ 1,337,693	\$ 152,549	\$ 22,137	\$ 94,660	\$ 1,607,039
Unamortized net deferred loan fees	(2,308)				(2,308)
Discounts to principal balance of loans owed, net of charge-offs		(18,256)	(12,711)	(22,732)	(53,699)
Total loans, net of unamortized deferred loan fees	\$ 1,335,385	\$ 134,293	\$ 9,426	\$ 71,928	\$ 1,551,032
Noncovered loans	\$ 1,335,385	\$ 134,293	\$ 9,426	\$ 22,857	\$ 1,501,961
Covered loans				49,071	49,071
Total loans, net of unamortized deferred loan fees	\$ 1,335,385	\$ 134,293	\$ 9,426	\$ 71,928	\$ 1,551,032
Allowance for loan loss	\$ (41,458)	\$ (245)	\$ (1,034)	\$ (3,177)	\$ (45,914)

Table of Contents

A summary of loan balances follows (in thousands):

	Originated	December 31, 2010		Total
		PNCI	PCI - Cash basis	
Mortgage loans on real estate:				
Residential 1-4 family	\$ 122,890		\$ 7,597	\$ 130,487
Commercial	679,245		25,739	704,984
Total mortgage loan on real estate	802,135		33,336	835,471
Consumer:				
Home equity lines of credit	330,737		7,072	337,809
Home equity loans	17,676			17,676
Auto Indirect	24,657			24,657
Other	15,629			15,629
Total consumer loans	388,699		7,072	395,771
Commercial	133,049		10,364	143,413
Construction:				
Residential	19,442		4,463	23,905
Commercial	21,011			21,011
Total construction	40,453		4,463	44,916
Total loans, net of deferred loan fees	\$ 1,364,336		\$ 55,235	\$ 1,419,571
Total principal balance of loans owed, net of charge-offs	\$ 1,366,113		\$ 64,349	\$ 1,430,462
Unamortized net deferred loan fees	(1,777)			(1,777)
Discounts to principal balance of loans owed, net of charge-offs			(9,114)	(9,114)
Total loans, net of unamortized deferred loan fees	\$ 1,364,336		\$ 55,235	\$ 1,419,571
Noncovered loans	\$ 1,364,336			\$ 1,364,336
Covered loans			\$ 55,235	55,235
Total loans, net of unamortized deferred loan fees	\$ 1,364,336		\$ 55,235	\$ 1,419,571
Allowance for loan loss	\$ (40,963)		\$ (1,608)	\$ (42,571)

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

	Year ended December 31,	
	2011	2010
Change in accretable yield:		
Balance at beginning of period	\$ 17,717	
Acquisitions	10,146	\$ 23,151
Accretion to interest income	(5,457)	(3,548)
Reclassification (to) from nonaccretable difference	2,739	(1,886)
Balance at end of period	\$ 25,145	\$ 17,717

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Throughout these financial statements, and in particular in this Note 4 and Note 5, when we refer to Loans or Allowance for loan losses we mean all categories of loans, including Originated, PNCI, PCI cash basis, and PCI other. When we are not referring to all categories of loans, we will indicate which we are referring to Originated, PNCI, PCI cash basis, or PCI other.

Table of Contents**Note 5 Allowance for Loan Losses**

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

(in thousands)	Allowance for Loan Losses - Year Ended December 31, 2011									
	RE Mortgage		Home Equity		Auto	Other	C&I	Construction		Total
	Resid.	Comm.	Lines	Loans	Indirect	Consum.		Resid.	Comm.	
Beginning balance	\$ 3,007	\$ 12,700	\$ 15,054	\$ 795	\$ 1,229	\$ 701	\$ 5,991	\$ 1,824	\$ 1,270	\$ 42,571
Charge-offs	(1,655)	(4,451)	(9,746)	(789)	(427)	(1,158)	(2,534)	(634)	(653)	(22,047)
Recoveries	126	127	573	45	379	839	173	28	40	2,330
Provision	926	4,841	12,377	1,050	(966)	550	2,915	599	768	23,060
Ending balance	\$ 2,404	\$ 13,217	\$ 18,258	\$ 1,101	\$ 215	\$ 932	\$ 6,545	\$ 1,817	\$ 1,425	\$ 45,914
Ending balance:										
Individ. evaluated for impairment	\$ 460	\$ 1,620	\$ 2,365	\$ 73	\$ 29	\$ 24	\$ 193	\$ 258	\$ 971	\$ 5,993
Loans pooled for evaluation	\$ 1,750	\$ 11,374	\$ 14,531	\$ 978	\$ 186	\$ 892	\$ 4,618	\$ 1,324	\$ 57	\$ 35,710
Loans acquired with deteriorated credit quality	\$ 194	\$ 223	\$ 1,362	\$ 50		\$ 16	\$ 1,734	\$ 235	\$ 397	\$ 4,211

(in thousands)	Loans, net of unearned fees As of December 31, 2011									
	RE Mortgage		Home Equity		Auto	Other	C&I	Construction		Total
	Resid.	Comm.	Lines	Loans	Indirect	Consum.		Resid.	Comm.	
Ending balance:										
Total loans	\$ 139,586	\$ 826,336	\$ 357,305	\$ 14,844	\$ 10,821	\$ 23,360	\$ 139,131	\$ 22,122	\$ 17,527	\$ 1,551,032
Individ. evaluated for impairment	\$ 10,167	\$ 71,893	\$ 9,388	\$ 661	\$ 571	\$ 109	\$ 9,526	\$ 5,627	\$ 6,899	\$ 114,841
Loans pooled for evaluation	\$ 122,903	\$ 721,217	\$ 333,348	\$ 14,026	\$ 10,250	\$ 23,202	\$ 115,765	\$ 8,281	\$ 5,845	\$ 1,354,837
Loans acquired with deteriorated credit quality	\$ 6,516	\$ 33,226	\$ 14,569	\$ 157		\$ 49	\$ 13,840	\$ 8,214	\$ 4,783	\$ 81,354

(in thousands)	Allowance for Loan Losses - Year Ended December 31, 2010									
	RE Mortgage		Home Equity		Auto	Other	C&I	Construction		Total
	Resid.	Comm.	Lines	Loans	Indirect	Consum.		Resid.	Comm.	
Beginning balance	\$ 2,618	\$ 5,071	\$ 13,483	\$ 940	\$ 1,986	\$ 616	\$ 6,958	\$ 2,067	\$ 1,734	\$ 35,473
Charge-offs	(1,498)	(8,281)	(11,221)	(1,339)	(1,403)	(1,687)	(3,539)	(4,666)	(94)	(33,728)
Recoveries	2	1,456	138	15	505	816	205	231		3,368
Provision	1,885	14,454	12,654	1,179	141	956	2,367	4,192	(370)	37,458
Ending balance	\$ 3,007	\$ 12,700	\$ 15,054	\$ 795	\$ 1,229	\$ 701	\$ 5,991	\$ 1,824	\$ 1,270	\$ 42,571

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Ending balance:

Individ. evaluated for impairment	\$ 1,654	\$ 1,042	\$ 2,933	\$ 78	\$ 239	\$ 14	\$ 590	\$ 116	\$ 279	\$ 6,945
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Loans pooled for evaluation

	\$ 1,348	\$ 11,658	\$ 12,097	\$ 717	\$ 991	\$ 687	\$ 4,334	\$ 1,196	\$ 990	\$ 34,018
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Loans acquired with deteriorated credit quality

	\$ 5		\$ 24				\$ 1,067	\$ 512		\$ 1,608
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(in thousands)	RE Mortgage		Home Equity		Auto		Other		Construction		Total
	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.		
Ending balance:											
Total loans	\$ 130,487	\$ 704,984	\$ 337,809	\$ 17,676	\$ 24,657	\$ 15,629	\$ 143,413	\$ 23,905	\$ 21,011	\$ 1,419,571	
Individ. evaluated for impairment	\$ 12,193	\$ 54,808	\$ 10,741	\$ 770	\$ 1,386	\$ 83	\$ 5,978	\$ 6,923	\$ 7,424	\$ 100,306	
Loans pooled for evaluation	\$ 110,697	\$ 624,437	\$ 319,996	\$ 16,906	\$ 23,271	\$ 15,546	\$ 127,071	\$ 12,519	\$ 13,587	\$ 1,264,030	
Loans acquired with deteriorated credit quality	\$ 7,597	\$ 25,739	\$ 7,072				\$ 10,364	\$ 4,463		\$ 55,235	

Table of Contents

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

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

Pass This grade represents loans ranging from acceptable to very little or no credit risk. These loans typically meet most if not all policy standards in regard to: loan amount as a percentage of collateral value, debt service coverage, profitability, leverage, and working capital.

Special Mention This grade represents Other Assets Especially Mentioned in accordance with regulatory guidelines and includes loans that display some potential weaknesses which, if left unaddressed, may result in deterioration of the repayment prospects for the asset or may inadequately protect the Company's position in the future. These loans warrant more than normal supervision and attention.

Substandard This grade represents Substandard loans in accordance with regulatory guidelines. Loans within this rating typically exhibit weaknesses that are well defined to the point that repayment is jeopardized. Loss potential is, however, not necessarily evident. The underlying collateral supporting the credit appears to have sufficient value to protect the Company from loss of principal and accrued interest, or the loan has been written down to the point where this is true. There is a definite need for a well defined workout/rehabilitation program.

Doubtful This grade represents Doubtful loans in accordance with regulatory guidelines. An asset classified as Doubtful has all the weaknesses inherent in a loan classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral, and financing plans.

Loss This grade represents Loss loans in accordance with regulatory guidelines. A loan classified as Loss is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off the loan, even though some recovery may be affected in the future. The portion of the loan that is graded loss should be charged off no later than the end of the quarter in which the loss is identified.

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

(in thousands)	RE Mortgage		Credit Quality Indicators			As of December 31, 2011			Construction		Total
	Resid.	Comm.	Home Equity Lines	Loans	Auto Indirect	Other Consum.	C&I	Resid.	Comm.		
Originated loans:											
Pass	\$ 103,611	\$ 574,167	\$ 305,290	\$ 13,478	\$ 9,686	\$ 19,871	\$ 107,877	\$ 6,872	\$ 5,387	\$ 1,146,239	
Special mention	1,020	46,518	1,295		33	10	6,709	903	430	56,918	
Substandard	13,689	78,997	15,249	842	1,102	389	8,900	6,133	6,927	132,228	
Total originated	\$ 118,320	\$ 699,682	\$ 321,834	\$ 14,320	\$ 10,821	\$ 20,270	\$ 123,486	\$ 13,908	\$ 12,744	\$ 1,335,385	

PNCI loans:

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Pass	\$ 14,576	\$ 83,735	\$ 20,053	\$ 367	\$ 3,034	\$ 1,707				\$ 123,472
Special mention		9,693	548		4					10,245
Substandard	174		301		3	98				576
Total PNCI	\$ 14,750	\$ 93,428	\$ 20,902	\$ 367	\$ 3,041	\$ 1,805				\$ 134,293
PCI loans	\$ 6,516	\$ 33,226	\$ 14,569	\$ 157	\$ 49	\$ 13,840	\$ 8,214	\$ 4,783		\$ 81,354
Total loans	\$ 139,586	\$ 826,336	\$ 357,305	\$ 14,844	\$ 10,821	\$ 23,360	\$ 139,131	\$ 22,122	\$ 17,527	\$ 1,551,032

(in thousands)	RE Mortgage		Credit Quality Indicators			As of December 31, 2010		Construction		Total
	Resid.	Comm.	Home Equity Lines	Loans	Auto Indirect	Other Consum.	C&I	Resid.	Comm.	
Originated loans:										
Pass	\$ 106,967	\$ 543,492	\$ 312,315	\$ 16,740	\$ 22,405	\$ 15,363	\$ 108,511	\$ 8,190	\$ 8,940	\$ 1,142,923
Special mention	1,259	60,171	1,884	23	45	11	14,518	3,395	4,397	85,703
Substandard	14,664	75,582	16,538	913	2,207	255	10,020	7,857	7,674	135,710
Total originated	\$ 122,890	\$ 679,245	\$ 330,737	\$ 17,676	\$ 24,657	15,629	\$ 133,049	\$ 19,442	\$ 21,011	\$ 1,364,336
PCI loans	\$ 7,597	\$ 25,739	\$ 7,072				\$ 10,364	\$ 4,463		\$ 55,235
Total loans	\$ 130,487	\$ 704,984	\$ 337,809	\$ 17,676	\$ 24,657	\$ 15,629	\$ 143,413	\$ 23,905	\$ 21,011	\$ 1,419,571

Table of Contents

Consumer loans, whether unsecured or secured by real estate, automobiles, or other personal property, are primarily susceptible to three primary risks; non-payment due to income loss, over-extension of credit and, when the borrower is unable to pay, shortfall in collateral value. Typically non-payment is due to loss of job and will follow general economic trends in the marketplace driven primarily by rises in the unemployment rate. Loss of collateral value can be due to market demand shifts, damage to collateral itself or a combination of the two.

Problem consumer loans are generally identified by payment history of the borrower (delinquency). The Bank manages its consumer loan portfolios by monitoring delinquency and contacting borrowers to encourage repayment, suggest modifications if appropriate, and, when continued scheduled payments become unrealistic, initiate repossession or foreclosure through appropriate channels. Collateral values may be determined by appraisals obtained through Bank approved, licensed appraisers, qualified independent third parties, public value information (blue book values for autos), sales invoices, or other appropriate means. Appropriate valuations are obtained at initiation of the credit and periodically (every 3-12 months depending on collateral type) once repayment is questionable and the loan has been classified.

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

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

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

Collateral values may be determined by appraisals obtained through Bank approved, licensed appraisers, qualified independent third parties, public value information (blue book values for autos), sales invoices, or other appropriate means. Appropriate valuations are obtained at initiation of the credit and periodically (every 3-12 months depending on collateral type) once repayment is questionable and the loan has been classified.

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

Table of Contents

The following table shows the ending balance of current, past due, and nonaccrual originated loans by loan category as of December 31, 2011:

(in thousands)	RE Mortgage		Analysis of Past Due and Nonaccrual Originated Loans				As of December 31, 2011			Total
	Resid.	Comm.	Home Equity Lines	Loans	Auto Indirect	Other Consum.	C&I	Construction Resid.	Comm.	
Originated loan balance:										
Past due:										
30-59 Days	\$ 1,715	\$ 7,509	\$ 2,586	\$ 52	\$ 181	\$ 46	\$ 683	\$ 921		\$ 13,693
60-89 Days	750	1,171	2,629	281	56	153	1,334	92		6,466
> 90 Days	3,279	9,892	3,129	114	130	5	4,929	2,088		23,566
Total past due	5,744	18,572	8,344	447	367	204	6,946	3,101		43,725
Current	112,576	681,110	313,490	13,873	10,454	20,066	116,540	10,807	12,744	1,291,660
Total orig. loans	\$ 118,320	\$ 699,682	\$ 321,834	\$ 14,320	\$ 10,821	\$ 20,270	\$ 123,486	\$ 13,908	\$ 12,744	\$ 1,335,385
> 90 Days and still accruing		\$ 500								\$ 500
Nonaccrual loans	\$ 8,525	\$ 43,765	\$ 8,307	\$ 509	\$ 509	\$ 109	\$ 7,257	\$ 5,627	\$ 667	\$ 75,275

The following table shows the ending balance of current, past due, and nonaccrual PNCI loans by loan category as of December 31, 2011:

(in thousands)	RE Mortgage		Analysis of Past Due and Nonaccrual PNCI Loans				As of December 31, 2011			Total
	Resid.	Comm.	Home Equity Lines	Loans	Auto Indirect	Other Consum.	C&I	Construction Resid.	Comm.	
PNCI loan balance:										
Past due:										
30-59 Days			\$ 118	\$ 63						\$ 181
60-89 Days	\$ 76			39						115
> 90 Days			420	14						434
Total past due			76	538	116					730
Current	14,674	92,890	20,786	\$ 367		\$ 3,041	\$ 1,805			133,563
Total PNCI loans	\$ 14,750	\$ 93,428	\$ 20,902	\$ 367		\$ 3,041	\$ 1,805			\$ 134,293
> 90 Days and still accruing		\$ 420								\$ 420
Nonaccrual loans				\$ 110						\$ 110

The following table shows the ending balance of current, past due, and nonaccrual originated loans by loan category as of December 31, 2010:

(in thousands)	RE Mortgage		Analysis of Past Due and Nonaccrual Originated Loans				As of December 31, 2010			Total
	Resid.	Comm.	Home Equity Lines	Loans	Auto Indirect	Other Consum.	C&I	Construction Resid.	Comm.	
Originated loan balance:										
Past due:										
30-59 Days			\$ 118	\$ 63						\$ 181
60-89 Days	\$ 76			39						115
> 90 Days			420	14						434
Total past due			76	538	116					730
Current	14,674	92,890	20,786	\$ 367		\$ 3,041	\$ 1,805			133,563
Total PNCI loans	\$ 14,750	\$ 93,428	\$ 20,902	\$ 367		\$ 3,041	\$ 1,805			\$ 134,293
> 90 Days and still accruing		\$ 420								\$ 420
Nonaccrual loans				\$ 110						\$ 110

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Originated loan balance:										
Past due:										
30-59 Days	\$ 2,822	\$ 11,191	\$ 3,546	\$ 158	\$ 604	\$ 68	\$ 1,405	\$ 270		\$ 20,064
60-89 Days	1,139	1,864	2,209		401	33	893		275	6,814
> 90 Days	7,980	20,748	6,843	694	403	7	401	1,781	612	39,469
Total past due	11,941	33,803	12,598	852	1,408	108	2,699	2,051	887	66,347
Current	110,949	645,442	318,139	16,824	23,249	15,521	130,350	17,391	20,124	1,297,989
Total loans	\$ 122,890	\$ 679,245	\$ 330,737	\$ 17,676	\$ 24,657	\$ 15,629	\$ 133,049	\$ 19,442	21,011	\$ 1,364,336
> 90 Days and still accruing										
		\$ 147						\$ 98		\$ 245
Nonaccrual loans										
	\$ 11,771	\$ 38,778	\$ 10,604	\$ 701	\$ 1,296	\$ 83	\$ 4,618	\$ 7,019	\$ 872	\$ 75,742

The Company had no PNCI loans at December 31, 2010.

Table of Contents

Impaired originated loans are those where management has concluded that it is probable that the borrower will be unable to pay all amounts due under the contractual terms. The following tables show the recorded investment (financial statement balance), unpaid principal balance, average recorded investment, and interest income recognized for impaired Originated and PNCI loans, segregated by those with no related allowance recorded and those with an allowance recorded for the periods indicated.

(in thousands)	Impaired Originated Loans As of December 31, 2011									
	RE Mortgage Resid.	RE Mortgage Comm.	Home Equity Lines	Home Equity Loans	Auto Indirect	Other Consum.	C&I	Construction Resid.	Construction Comm.	Total
With no related allowance recorded:										
Recorded investment	\$ 6,921	\$ 61,205	\$ 5,101	\$ 224	\$ 424	\$ 39	\$ 8,473	\$ 1,809	\$ 571	\$ 84,767
Unpaid principal	\$ 8,663	\$ 72,408	\$ 8,519	\$ 528	\$ 777	\$ 56	\$ 9,229	\$ 2,857	\$ 916	\$ 103,953
Average recorded Investment	\$ 6,557	\$ 53,346	\$ 5,228	\$ 458	\$ 569	\$ 44	\$ 6,687	\$ 3,942	\$ 3,590	\$ 80,421
Interest income Recognized	\$ 58	\$ 2,235	\$ 99	\$ 7	\$ 15	\$ 2	\$ 381		\$ 4	\$ 2,801
With an allowance recorded:										
Recorded investment	\$ 3,246	\$ 10,688	\$ 4,177	\$ 350	\$ 147	\$ 70	\$ 964	\$ 3,818	\$ 6,328	\$ 29,788
Unpaid principal	\$ 3,760	\$ 11,094	\$ 4,977	\$ 666	\$ 193	\$ 75	\$ 1,040	\$ 8,698	\$ 6,330	\$ 36,833
Related allowance	\$ 460	\$ 1,613	\$ 2,365	\$ 73	\$ 29	\$ 24	\$ 200	\$ 258	\$ 971	\$ 5,993
Average recorded Investment	\$ 4,611	\$ 10,019	\$ 4,770	\$ 215	\$ 407	\$ 52	\$ 1,023	\$ 2,334	\$ 3,578	\$ 27,009
Interest income Recognized	\$ 77	\$ 588	\$ 122	\$ 3	\$ 2	\$ 2	\$ 36	\$ (16)	\$ 387	\$ 1,201

As a result of adopting the amendments in ASU No. 2011-02 discussed in Note 1, the Company reassessed all loan modifications that occurred on or after January 1, 2011 for potential identification as TDRs. The Company identified ten credits totaling approximately \$3,800,000 with a related allowance of \$15,000 which are considered TDRs under the clarified guidance.

(in thousands)	Impaired PNCI Loans As of December 31, 2011									
	RE Mortgage Resid.	RE Mortgage Comm.	Home Equity Lines	Home Equity Loans	Auto Indirect	Other Consum.	C&I	Construction Resid.	Construction Comm.	Total
With no related allowance recorded:										
Recorded investment				\$ 110	\$ 87			\$ 89		\$ 286
Unpaid principal				\$ 126	\$ 89			\$ 98		\$ 313
Average recorded Investment				\$ 55	\$ 44			\$ 45		\$ 144
Interest income Recognized				\$ 5	\$ 2			\$ 3		\$ 10
With an allowance recorded:										
Recorded investment										
Unpaid principal										
Related allowance										

Average recorded Investment

Interest income Recognized

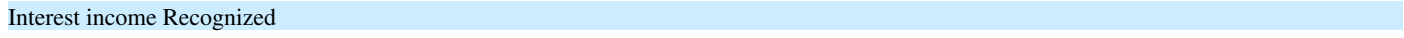


Table of Contents

(in thousands)	RE Mortgage		Impaired Originated Loans			As of December 31, 2010			Construction		Total
	Resid.	Comm.	Home Equity Lines	Loans	Auto Indirect	Other Consum.	C&I	Resid.	Comm.		
With no related allowance recorded:											
Recorded investment	\$ 6,192	\$ 45,487	\$ 5,354	\$ 691	\$ 714	\$ 49	\$ 4,900	\$ 6,075	\$ 6,609	\$ 76,071	
Unpaid principal	\$ 7,521	\$ 52,962	\$ 8,755	\$ 1,002	\$ 1,349	\$ 52	\$ 5,571	\$ 10,854	\$ 6,797	\$ 94,863	
Average recorded Investment	\$ 4,599	\$ 32,575	\$ 4,688	\$ 425	\$ 607	\$ 66	\$ 3,330	\$ 8,137	\$ 3,962	\$ 58,389	
Interest income Recognized	\$ 99	\$ 1,609	\$ 93	\$ 17	\$ 37	\$ 4	\$ 186	\$ 123	\$ 377	\$ 2,545	
With an allowance recorded:											
Recorded investment	\$ 5,975	\$ 9,349	\$ 5,362	\$ 79	\$ 667	\$ 34	\$ 1,081	\$ 850	\$ 828	\$ 24,225	
Unpaid principal	\$ 6,278	\$ 11,122	\$ 6,379	\$ 82	\$ 793	\$ 37	\$ 1,398	\$ 1,235	\$ 898	\$ 28,222	
Related allowance	\$ 1,654	\$ 1,042	\$ 2,933	\$ 78	\$ 239	\$ 14	\$ 590	\$ 116	\$ 279	\$ 6,945	
Average recorded Investment	\$ 4,204	\$ 5,844	\$ 4,373	\$ 326	\$ 1,112	\$ 84	\$ 1,285	\$ 1,597	\$ 563	\$ 19,388	
Interest income Recognized	\$ 222	\$ 506	\$ 129	\$ 5	\$ 17	\$ 1	\$ 46	\$ 14	\$ 22	\$ 962	

(in thousands)	RE Mortgage		Impaired Originated Loans			As of December 31, 2009			Construction		Total
	Resid.	Comm.	Home Equity Lines	Loans	Auto Indirect	Other Consum.	C&I	Resid.	Comm.		
With no related allowance recorded:											
Recorded investment	\$ 3,005	\$ 19,663	\$ 4,021	\$ 159	\$ 500	\$ 82	\$ 1,760	\$ 10,198	\$ 1,315	\$ 40,703	
Unpaid principal	\$ 3,518	\$ 24,310	\$ 5,395	\$ 379	\$ 833	\$ 155	\$ 1,847	\$ 14,639	\$ 1,466	\$ 52,542	
Average recorded Investment	\$ 3,084	\$ 12,047	\$ 2,979	\$ 121	\$ 309	\$ 51	\$ 1,423	\$ 5,945	\$ 658	\$ 26,617	
Interest income Recognized	\$ 20	\$ 878	\$ 78	\$ 13	\$ 31	\$ 10	\$ 153	\$ 221	\$ 10	\$ 1,414	
With an allowance recorded:											
Recorded investment	\$ 2,433	\$ 2,339	\$ 3,383	\$ 572	\$ 1,557	\$ 134	\$ 1,488	\$ 2,344	\$ 297	\$ 14,547	
Unpaid principal	\$ 2,478	\$ 2,546	\$ 4,085	\$ 579	\$ 1,906	\$ 138	\$ 1,529	\$ 3,275	\$ 297	\$ 16,833	
Related allowance	\$ 622	\$ 225	\$ 2,255	\$ 481	\$ 621	\$ 93	\$ 915	\$ 427	\$ 88	\$ 5,727	
Average recorded Investment	\$ 1,230	\$ 1,261	\$ 1,883	\$ 306	\$ 1,833	\$ 120	\$ 1,120	\$ 6,568	\$ 361	\$ 14,682	
Interest income Recognized	\$ 98	\$ 56	\$ 83	\$ 30	\$ 55	\$ 6	\$ 65	\$ 207	\$ 20	\$ 620	

At December 31, 2011, \$66,160,000 of Originated loans were TDR and classified as impaired. The Company had obligations to lend \$258,000 of additional funds on these TDR as of December 31, 2011. At December 31, 2011, \$176,000 of PNCI loans were TDR and classified as impaired. The Company had no obligations to lend additional funds on these TDR as of December 31, 2011.

At December 31, 2010, \$48,074,000 of Originated loans were TDR and classified as impaired. The Company had obligations to lend \$415,000 of additional funds on these TDR as of December 31, 2010. At December 31, 2010, the Company had no PNCI loans.

Table of Contents

The following tables show certain information regarding Troubled Debt Restructurings (TDRs) that occurred during the periods indicated:

(in thousands)	TDR Information for the Three Months Ended December 31, 2011									
	RE Mortgage		Home Equity		Auto	Other	C&I	Construction		Total
	Resid.	Comm.	Lines	Loans	Indirect	Consum.		Resid.	Comm.	
Number	4	19		2			12		1	38
Pre-mod outstanding principal balance	\$ 399	\$ 7,868		\$ 188			\$ 3,646		\$ 67	\$ 12,168
Post-mod outstanding principal balance	\$ 402	\$ 7,868		\$ 188			\$ 3,656		\$ 67	\$ 12,181
Financial impact due to TDR taken as additional provision		\$ 191					\$ 57			\$ 248
Number that defaulted during the period	3	3			1		2	1		10
Recorded investment of TDRs that defaulted during the period	\$ 393	\$ 569			\$ 13		\$ 191	\$ 1,404		\$ 2,570
Financial impact due to the default of previous TDR taken as charge-offs or additional provisions		\$ 50								\$ 50

(in thousands)	TDR Information for the Three Months Ended September 30, 2011									
	RE Mortgage		Home Equity		Auto	Other	C&I	Construction		Total
	Resid.	Comm.	Lines	Loans	Indirect	Consum.		Resid.	Comm.	
Number	1	4	2	1			9	1	2	20
Pre-mod outstanding principal balance	\$ 113	\$ 3,519	\$ 312	\$ 185			\$ 1,162	\$ 65	\$ 267	\$ 5,623
Post-mod outstanding principal balance	\$ 127	\$ 3,519	\$ 338	\$ 201			\$ 1,237	\$ 60	\$ 267	\$ 5,750
Financial impact due to TDR taken as additional provision							\$ 1	\$ 18		\$ 19
Number that defaulted during the period		2					2	1		5
Recorded investment of TDRs that defaulted during the period		\$ 299					\$ 209	\$ 420		\$ 929
Financial impact due to the default of previous TDR taken as charge-offs or additional provisions		\$ 45								\$ 45

Table of Contents

(in thousands)	TDR Information for the Three Months Ended June 30, 2011									
	RE Mortgage		Home Equity		Auto	Other	C&I	Construction		Total
	Resid.	Comm.	Lines	Loans	Indirect	Consum.		Resid.	Comm.	
Number	6	7	6	1	2		2	1		25
Pre-mod outstanding principal balance	\$ 1,516	\$ 1,441	\$ 936	\$ 84	\$ 40		\$ 106	\$ 700		\$ 4,823
Post-mod outstanding principal balance	\$ 1,598	\$ 1,461	\$ 1,024	\$ 92	\$ 40		\$ 106	\$ 700		\$ 5,021
Financial impact due to TDR taken as additional provision		\$ 2	\$ 12							\$ 14
Number that defaulted during the period					1					1
Recorded investment of TDRs that defaulted during the period						\$ 5				\$ 5
Financial impact due to the default of previous TDR taken as charge-offs or additional provisions										

(in thousands)	TDR Information for the Three Months Ended March 31, 2011									
	RE Mortgage		Home Equity		Auto	Other	C&I	Construction		Total
	Resid.	Comm.	Lines	Loans	Indirect	Consum.		Resid.	Comm.	
Number	3	7	6				7	3	1	27
Pre-mod outstanding principal balance	\$ 375	\$ 2,566	\$ 1,012				\$ 308	\$ 657	\$ 200	\$ 5,118
Post-mod outstanding principal balance	\$ 398	\$ 2,666	\$ 1,014				\$ 313	\$ 657	\$ 200	\$ 5,247
Financial impact due to TDR taken as additional provision		\$ 65	\$ 17				\$ 25	(\$ 11)		\$ 71
Number that defaulted during the period					2		2			4
Recorded investment of TDRs that defaulted during the period						\$ 21	\$ 439			\$ 460
Financial impact due to the default of previous TDR taken as charge-offs or additional provisions										

Modifications classified as Troubled Debt Restructurings can include one or a combination of the following:

Rate modifications

Term extensions

Interest only modifications, either temporary or long-term

Payment modifications

Collateral substitutions/additions

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

Typically if a TDR defaults during the period, the loan is then considered collateral dependent and, if it was not already considered collateral dependent, an appropriate provision will be reserved or charge will be taken. The additional provisions required resulting from default of previously modified TDRs are noted above.

Table of Contents**Note 6 Foreclosed Assets**

A summary of the activity in the balance of foreclosed assets follows (in thousands):

	Year ended December 31, 2011			Year ended December 31, 2010		
	Noncovered	Covered	Total	Noncovered	Covered	Total
Beginning balance, net	\$ 5,000	\$ 4,913	\$ 9,913	\$ 3,726		\$ 3,726
Acquisitions	8,412		8,412		\$ 4,629	4,629
Additions/transfers from loans	6,909	34	6,943	6,476	1,214	7,690
Dispositions/sales	(5,794)	(1,158)	(6,952)	(4,305)	(305)	(4,610)
Valuation adjustments	(1,259)	(725)	(1,984)	(897)	(625)	(1,522)
Ending balance, net	\$ 13,268	\$ 3,064	\$ 16,332	\$ 5,000	\$ 4,913	\$ 9,913
Ending valuation allowance	\$ (1,570)	\$ (776)	\$ (2,346)	\$ (699)	\$ (625)	\$ (1,324)
Ending number of foreclosed assets	62	11	73	31	13	44
Proceeds from sale of foreclosed assets	\$ 6,368	\$ 1,264	\$ 7,632	\$ 4,866	\$ 306	\$ 5,172
Gain (loss) on sale of foreclosed assets	\$ 574	\$ 106	\$ 680	\$ 561	\$ 1	\$ 562

Note 7 Premises and Equipment

Premises and equipment were comprised of:

	December 31,	
	2011	2010
	(in thousands)	
Premises	\$ 20,975	\$ 19,902
Furniture and equipment	24,340	26,009
	45,315	45,911
Less: Accumulated depreciation	(29,562)	(30,556)
	15,753	15,355
Land and land improvements	4,140	3,765
	\$ 19,893	\$ 19,120

Depreciation expense for premises and equipment amounted to \$2,561,000, \$2,731,000, and \$2,592,000 in 2011, 2010, and 2009, respectively.

Note 8 Cash Value of Life Insurance

A summary of the activity in the balance of cash value of life insurance follows (in thousands):

Year ended December 31,
2011 2010

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Beginning balance	\$ 50,541	\$ 48,694
Increase in cash value of life insurance	1,885	1,847
Gain on life insurance death benefit	789	
Death benefit	(2,812)	
Ending balance	\$ 50,403	\$ 50,541
End of period death benefit	\$ 96,132	\$ 97,701
Number of policies owned	139	140
Insurance companies used	6	6
Current and former employees and directors covered	38	39

As of December 31, 2011, the Bank was the owner and beneficiary of 139 life insurance policies, issued by six life insurance companies, covering 38 current and former employees and directors. These life insurance policies are recorded on the Companies financial statements at their reported cash (surrender) values. As a result of current tax law and the nature of these policies, the Bank records any increase in cash value of these policies as nontaxable noninterest income. If the Bank decided to surrender any of the policies prior to the death of the insured, such surrender may result in a tax expense related to the life-to-date cumulative increase in cash value of the policy. If the Bank retains such policies until the death of the insured, the Bank would receive nontaxable proceeds from the insurance company equal to the death benefit of the policies. The Bank has entered into Joint Beneficiary Agreements (JBAs) with certain of the insured that for certain of the policies provide some level of sharing of the death benefit, less the cash surrender value, among the Bank and the beneficiaries of the insured upon the receipt of death benefits. See Note 15 of these consolidated financial statements for additional information on of JBAs.

Table of Contents**Note 9 Goodwill and Other Intangible Assets**

The following table summarizes the Company's goodwill intangible as of December 31, 2011 and 2010.

(Dollar in Thousands)	December 31, 2011	Additions	Reductions	December 31, 2010
Goodwill	\$ 15,519			\$ 15,519

The following table summarizes the Company's core deposit intangibles as of December 31, 2011 and 2010.

(Dollar in Thousands)	December 31, 2011	Additions	Reductions	Fully Depreciated	December 31, 2010
Core deposit intangibles	\$ 1,460	\$ 898		\$ (3,365)	\$ 3,927
Accumulated amortization	(159)		\$ (177)	3,365	(3,347)
Core deposit intangibles, net	\$ 1,301	\$ 898	\$ (177)	\$	\$ 580

The Company recorded additions to CDI of \$898,000 in conjunction with the Citizens acquisition on September 23, 2011 and \$562,000 in conjunction with the Granite acquisition on May 28, 2010. The following table summarizes the Company's estimated core deposit intangible amortization (dollars in thousands):

Years Ended	Estimated Core Deposit Intangible Amortization
2012	\$ 209
2013	209
2014	209
2015	209
2016	209
Thereafter	\$ 256

Note 10 Mortgage Servicing Rights

The following tables summarize the activity in, and the main assumptions we used to determine the fair value of mortgage servicing rights for the periods indicated (dollars in thousands):

	Years ended December 31,		
	2011	2010	2009
Balance at beginning of period	\$ 4,605	\$ 4,089	\$ 2,972
Additions	1,105	1,545	1,668
Change in fair value	(1,107)	(1,029)	(551)
Balance at end of period	\$ 4,603	\$ 4,605	\$ 4,089
Contractually specified servicing fees, late fees and ancillary fees earned	\$ 1,472	\$ 1,303	\$ 1,139
Balance of loans serviced at:			
Beginning of period	\$ 573,300	\$ 505,947	\$ 431,195
End of period	\$ 598,185	\$ 573,300	\$ 505,947
Weighted-average prepayment speed (CPR)	19.3%	15.4%	17.3%

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Discount rate 9.0% 9.0% 9.0%

The changes in fair value of MSRs that occurred during 2011 and 2010 were mainly due to principal reductions and changes in estimate life of the MSRs.

Note 11 Indemnification Asset

A summary of the activity in the balance of indemnification asset follows (in thousands):

	Year ended December 31,	
	2011	2010
Beginning balance	\$ 5,640	
Additions		\$ 7,466
Effect of actual covered losses and change in estimated future covered losses	2,059	1,274
Reimbursable expenses incurred	393	160
Payments received	(3,687)	(3,260)
Ending balance	\$ 4,405	\$ 5,640

Table of Contents**Note 12 Other Assets**

Other assets were comprised of (in thousands):

	As of December 31,	
	2011	2010
Deferred tax asset, net	\$ 27,810	\$ 28,046
Prepaid expense including FDIC assessment and taxes	8,459	5,911
Software	1,530	1,127
Life insurance proceeds receivable	2,811	
Advanced compensation	1,363	
TriCo Capital Trust I & II	1,238	1,238
Miscellaneous other assets	173	960
Total other assets	\$ 43,384	\$ 37,282

The majority of prepaid expenses & miscellaneous other assets at December 31, 2011 and 2010 consisted of prepaid FDIC assessment. In November of 2009, the FDIC adopted an amendment to its assessment regulations to require insured institutions to prepay, on December 30, 2009, their estimated quarterly risk-based assessments for the fourth quarter of calendar 2009 and for all of the calendar years 2010, 2011 and 2012. The amount of the prepayment was generally determined based upon an institution's assessment rate in effect on September 30, 2009, adjusted to reflect a 5% growth and as an assessment rate increase of three cents per \$100 of deposits effective January 1, 2011. The Bank's prepayment amount was \$10,544,000.

Note 13 Deposits

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

	December 31,	
	2011	2010
Noninterest-bearing demand	\$ 541,276	\$ 424,070
Interest-bearing demand	431,565	395,413
Savings	797,182	585,850
Time certificates, \$100,000 and over	220,374	235,992
Other time certificates	200,139	210,848
Total deposits	\$ 2,190,536	\$ 1,852,173

Certificate of deposit balances of \$5,000,000 and \$5,000,000 from the State of California were included in time certificates, \$100,000 and over, at December 31, 2011 and 2010, respectively. The Bank participates in a deposit program offered by the State of California whereby the State may make deposits at the Bank's request subject to collateral and credit worthiness constraints. The negotiated rates on these State deposits are generally more favorable than other wholesale funding sources available to the Bank. Overdrawn deposit balances of \$1,343,000 and \$1,513,000 were classified as consumer loans at December 31, 2011 and 2010, respectively.

At December 31, 2011, the scheduled maturities of time deposits were as follows (in thousands):

	Scheduled Maturities
2012	\$ 338,734
2013	29,075

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2014	10,216
2015	24,742
2016	17,551
Thereafter	195
Total	\$ 420,513

Note 14 Reserve for Unfunded Commitments

The following tables summarize the activity in reserve for unfunded commitments for the periods indicated (dollars in thousands):

	Years ended December 31,		
	2011	2010	2009
Balance at beginning of period	\$ 2,640	\$ 3,640	\$ 2,565
Provision for losses Unfunded commitments	100	(1,000)	1,075
Balance at end of period	\$ 2,740	\$ 2,640	\$ 3,640

Table of Contents**Note 15 Other Liabilities**

Other liabilities were comprised of (in thousands):

	December 31,	
	2011	2010
Deferred compensation	\$ 8,209	\$ 8,289
Supplemental retirement	11,201	9,873
Additional minimum pension liability	3,802	5,770
Joint beneficiary agreements	2,323	1,851
Miscellaneous other liabilities	4,892	3,387
 Total other liabilities	 \$ 30,427	 \$ 29,170

Note 16 Other Borrowings

A summary of the balances of other borrowings follows:

	December 31,	
	2011	2010
	(in thousands)	
Borrowing under security repurchase agreement, rate is fixed at 4.72% and principal is callable in its entirety by lender on a quarterly basis until final maturity on August 30, 2012.	\$ 50,000	\$ 50,000
FHLB fixed rate borrowings:		
Matures January 25, 2012, effective rate 0.24%	3,000	
Matures April 6, 2012, effective rate 0.26%	5,013	
Matures April 25, 2012, effective rate 0.26%	3,001	
Matures July 25, 2012, effect rate 0.34%	3,000	
Other collateralized borrowings, fixed rate, as of		
December 31, 2011, of 0.05% payable on January 2, 2011	8,527	12,020
 Total other borrowings	 \$ 72,541	 \$ 62,020

During August 2007, the Company entered into a security repurchase agreement with principal balance of \$50,000,000 and terms as described above. As of December 31, 2011, the Company has pledged as collateral and sold under an agreement to repurchase investment securities with fair value of \$58,274,000 under this security repurchase agreement. The Company did not enter into any other repurchase agreements during 2011 or 2010. The average balance of repurchase agreements for 2011 and 2010 was \$50,000,000, with an average rate of 4.72% during both 2011 and 2010.

The Company had \$8,527,000 and \$12,020,000 of other collateralized borrowings at December 31, 2011 and December 31, 2010, respectively. Other collateralized borrowings are generally overnight maturity borrowings from non-financial institutions that are collateralized by securities owned by the Company. As of December 31, 2011, the Company has pledged as collateral and sold under agreements to repurchase investment securities with fair value of \$8,527,000 under these other collateralized borrowings.

As part of the Citizens acquisition on September 23, 2011, the Company assumed borrowings with principal balances totaling \$22,000,000 and fair values totaling \$22,028,000 of which principal balances totaling \$14,000,000 and unamortized fair value purchase adjustments totaling \$14,000 remain outstanding as of December 31, 2011. These borrowings from the Federal Home Loan Bank of San Francisco (FHLB) are now collateralized under the Bank's line of credit at the FHLB as described below.

The Company maintains a collateralized line of credit with the Federal Home Loan Bank of San Francisco. Based on the FHLB stock requirements at December 31, 2011, this line provided for maximum borrowings of \$513,806,000 of which \$14,000,000 was outstanding, leaving \$499,806,000 available. As of December 31, 2011, the Company has designated loans totaling \$1,042,866,000 as potential collateral

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under this collateralized line of credit with the FHLB.

The Company maintains a collateralized line of credit with the Federal Reserve Bank of San Francisco. As of December 31, 2011, this line provided for maximum borrowings of \$70,816,000 of which none was outstanding, leaving \$70,816,000 available. As of December 31, 2011, the Company has designated investment securities with fair value of \$424,000 and loans totaling \$84,743,000 as potential collateral under this collateralized line of credit with the FRB.

The Company has available unused correspondent banking lines of credit from commercial banks totaling \$5,000,000 for federal funds transactions at December 31, 2011.

Table of Contents**Note 17 Junior Subordinated Debt**

On July 31, 2003, the Company formed a subsidiary business trust, TriCo Capital Trust I, to issue trust preferred securities. Concurrently with the issuance of the trust preferred securities, the trust issued 619 shares of common stock to the Company for \$1,000 per share or an aggregate of \$619,000. In addition, the Company issued a Junior Subordinated Debenture to the Trust in the amount of \$20,619,000. The terms of the Junior Subordinated Debenture are materially consistent with the terms of the trust preferred securities issued by TriCo Capital Trust I. Also on July 31, 2003, TriCo Capital Trust I completed an offering of 20,000 shares of cumulative trust preferred securities for cash in an aggregate amount of \$20,000,000. The trust preferred securities are mandatorily redeemable upon maturity on October 7, 2033 with an interest rate that resets quarterly at three-month LIBOR plus 3.05%. TriCo Capital Trust I has the right to redeem the trust preferred securities on or after October 7, 2008. The trust preferred securities were issued through an underwriting syndicate to which the Company paid underwriting fees of \$7.50 per trust preferred security or an aggregate of \$150,000. The net proceeds of \$19,850,000 were used to finance the opening of new branches, improve bank services and technology, repurchase shares of the Company's common stock under its repurchase plan and increase the Company's capital. The trust preferred securities have not been and will not be registered under the Securities Act of 1933, as amended, or applicable state securities laws and were sold pursuant to an exemption from registration under the Securities Act of 1933. The trust preferred securities may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act of 1933, as amended, and applicable state securities laws.

The \$20,619,000 of junior subordinated debentures issued by TriCo Capital Trust I are reflected as junior subordinated debt in the consolidated balance sheets. The common stock issued by TriCo Capital Trust I are recorded in other assets in the consolidated balance sheets. As of December 31, 2011, The TriCo Capital Trust I debentures carried an interest rate of 3.45%.

On June 22, 2004, the Company formed a second subsidiary business trust, TriCo Capital Trust II, to issue trust preferred securities. Concurrently with the issuance of the trust preferred securities, the trust issued 619 shares of common stock to the Company for \$1,000 per share or an aggregate of \$619,000. In addition, the Company issued a Junior Subordinated Debenture to the Trust in the amount of \$20,619,000. The terms of the Junior Subordinated Debenture are materially consistent with the terms of the trust preferred securities issued by TriCo Capital Trust II. Also on June 22, 2004, TriCo Capital Trust II completed an offering of 20,000 shares of cumulative trust preferred securities for cash in an aggregate amount of \$20,000,000. The trust preferred securities are mandatorily redeemable upon maturity on July 23, 2034 with an interest rate that resets quarterly at three-month LIBOR plus 2.55%. TriCo Capital Trust II has the right to redeem the trust preferred securities on or after July 23, 2009. The trust preferred securities were issued through an underwriting syndicate to which the Company paid underwriting fees of \$2.50 per trust preferred security or an aggregate of \$50,000. The net proceeds of \$19,950,000 were used to finance the opening of new branches, improve bank services and technology, repurchase shares of the Company's common stock under its repurchase plan and increase the Company's capital. The trust preferred securities have not been and will not be registered under the Securities Act of 1933, as amended, or applicable state securities laws and were sold pursuant to an exemption from registration under the Securities Act of 1933. The trust preferred securities may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act of 1933, as amended, and applicable state securities laws.

The \$20,619,000 of junior subordinated debentures issued by TriCo Capital Trust II are reflected as junior subordinated debt in the consolidated balance sheets. The common stock issued by TriCo Capital Trust II is recorded in other assets in the consolidated balance sheets. As of December 31, 2011, The TriCo Capital Trust II debentures carried an interest rate of 2.96%.

The debentures issued by TriCo Capital Trust I and TriCo Capital Trust II, less the common securities of TriCo Capital Trust I and TriCo Capital Trust II, continue to qualify as Tier 1 or Tier 2 capital under interim guidance issued by the Board of Governors of the Federal Reserve System (Federal Reserve Board).

Table of Contents**Note 18 Commitments and Contingencies**

Restricted Cash Balances Reserves (in the form of deposits with the Federal Reserve Bank) of \$20,143,000 and \$13,351,000 were maintained to satisfy Federal regulatory requirements at December 31, 2011 and 2010. These reserves are included in cash and due from banks in the accompanying balance sheets.

Lease Commitments The Company leases 51 sites under non-cancelable operating leases. The leases contain various provisions for increases in rental rates, based either on changes in the published Consumer Price Index or a predetermined escalation schedule. Substantially all of the leases provide the Company with the option to extend the lease term one or more times following expiration of the initial term.

During 2009, the Company leased one branch building for which the lease was accounted for as a capital lease. The cost basis of the building under this capital lease was \$831,000 with accumulated depreciation of \$831,000 at December 31, 2009. This lease expired in December 2009. As of December 31, 2009, the cost basis and accumulated depreciation of \$831,000 for this building under capital lease were removed from the respective totals for premises and accumulated depreciation. Depreciation expense related to this building under capital lease was included in the depreciation expense for premises and equipment noted above in Note 7. The Company continues to occupy the building under a new operating lease. The Company currently does not have any capital leases.

At December 31, 2011, future minimum commitments under non-cancelable operating leases with initial or remaining terms of one year or more are as follows:

	Operating Leases (in thousands)
2012	\$ 2,773
2013	2,260
2014	1,658
2015	1,032
2016	446
Thereafter	712
Future minimum lease payments	\$ 8,881

Rent expense under operating leases was \$3,810,000 in 2011, \$3,049,000 in 2010, and \$2,753,000 in 2009. Rent expense was offset by rent income of \$32,000 in 2011, \$86,000 in 2010, and \$86,000 in 2009.

Financial Instruments with Off-Balance-Sheet Risk The Company 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, standby letters of credit, and deposit account overdraft privilege. Those instruments involve, to varying degrees, elements of risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to 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 Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The Company's exposure to loss in the event of nonperformance by the other party to the financial instrument for deposit account overdraft privilege is represented by the overdraft privilege amount disclosed to the deposit account holder.

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

(in thousands)	December 31, 2011	December 31, 2010
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Financial instruments whose amounts represent risk:

Commitments to extend credit:

Commercial loans	\$ 119,634	\$ 116,785
Consumer loans	380,489	380,269
Real estate mortgage loans	22,277	14,366
Real estate construction loans	6,646	7,174
Standby letters of credit	5,324	5,022
Deposit account overdraft privilege	61,623	38,600

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 Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company 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, residential properties, and income-producing commercial properties.

Table of Contents

Standby letters of credit are conditional commitments issued by the Company 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.

Deposit account overdraft privilege amount represents the unused overdraft privilege balance available to the Company's deposit account holders who have deposit accounts covered by an overdraft privilege. The Company has established an overdraft privilege for certain of its deposit account products whereby all holders of such accounts who bring their accounts to a positive balance at least once every thirty days receive the overdraft privilege. The overdraft privilege allows depositors to overdraft their deposit account up to a predetermined level. The predetermined overdraft limit is set by the Company based on account type.

Legal Proceedings The Bank owns 10,214 shares of Class B common stock of Visa Inc. which are convertible into Class A common stock at a conversion ratio of 0.4881 per Class A share. As of December 31, 2011, the value of the Class A shares was \$101.53 per share. Utilizing the conversion ratio, the value of unredeemed Class A equivalent shares owned by the Company was \$506,000 as of December 31, 2011, and has not been reflected in the accompanying financial statements. The shares of Visa Class B common stock are restricted and may not be transferred. Visa Member Banks are required to fund an escrow account to cover settlements, resolution of pending litigation and related claims. If the funds in the escrow account are insufficient to settle all the covered litigation, Visa may sell additional Class A shares, use the proceeds to settle litigation, and further reduce the conversion ratio. If funds remain in the escrow account after all litigation is settled, the Class B conversion ratio will be increased to reflect that surplus.

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

Other Commitments and Contingencies The Company has entered into employment agreements or change of control agreements with certain officers of the Company providing severance payments and accelerated vesting of benefits under supplemental retirement agreements to the officers in the event of a change in control of the Company and termination for other than cause or after a substantial and material change in the officer's title, compensation or responsibilities.

Mortgage loans sold to investors may be sold with servicing rights retained, with only the standard legal representations and warranties regarding recourse to the Bank. Management believes that any liabilities that may result from such recourse provisions are not significant.

Note 19 Shareholders Equity

Dividends Paid

The Bank paid to the Company cash dividends in the aggregate amounts of \$7,185,000, \$7,650,000, and \$9,060,000, in 2011, 2010, and 2009, respectively. The Bank is regulated by the Federal Deposit Insurance Corporation (FDIC) and the State of California Department of Financial Institutions. Absent approval from the Commissioner of Financial Institutions of California, California banking laws generally limit the Bank's ability to pay dividends to the lesser of (1) retained earnings or (2) net income for the last three fiscal years, less cash distributions paid during such period. Under this regulation, at December 31, 2011, the Bank may pay dividends of \$14,037,000.

Shareholders Rights Plan

On June 25, 2001, the Company announced that its Board of Directors adopted and entered into a Shareholder Rights Plan designed to protect and maximize shareholder value and to assist the Board of Directors in ensuring fair and equitable benefit to all shareholders in the event of a hostile bid to acquire the Company.

The Company adopted this Rights Plan to protect shareholders from coercive or otherwise unfair takeover tactics. In general terms, the Rights Plan imposes a significant penalty upon any person or group that acquires 15% or more of the Company's outstanding common stock without approval of the Company's Board of Directors. The Rights Plan was not adopted in response to any known attempt to acquire control of the Company.

Under the Rights Plan, a dividend of one Preferred Stock Purchase Right was declared for each common share held of record as of the close of business on July 10, 2001. No separate certificates evidencing the Rights will be issued unless and until they become exercisable.

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The Rights generally will not become exercisable unless an acquiring entity accumulates or initiates a tender offer to purchase 15% or more of the Company's common stock. In that event, each Right will entitle the holder, other than the unapproved acquirer and its affiliates, to purchase either the Company's common stock or shares in an acquiring entity at one-half of market value.

Table of Contents

The Rights' initial exercise price, which is subject to adjustment, is \$49.00 per Right. The Company's Board of Directors generally will be entitled to redeem the Rights at a redemption price of \$.01 per Right until an acquiring entity acquires a 15% position. The Rights were scheduled to expire on July 10, 2011, but on July 8, 2011, the Company extended the expiration date to July 10, 2021.

Stock Repurchase Plan

On August 21, 2007, the Board of Directors adopted a plan to repurchase, as conditions warrant, up to 500,000 shares of the Company's common stock on the open market. The timing of purchases and the exact number of shares to be purchased will depend on market conditions. The 500,000 shares authorized for repurchase under this stock repurchase plan represented approximately 3.2% of the Company's 15,814,662 outstanding common shares as of August 21, 2007. This stock repurchase plan has no expiration date. As of December 31, 2011, the Company had repurchased 166,600 shares under this plan.

Stock Repurchased Under Equity Compensation Plans

During the years ended December 31, 2011, 2010, and 2009, employees tendered 177,430, 74,018, and 26,561 shares, respectively, of the Company's common stock with market value of \$2,745,000, \$1,364,000, and \$652,000, respectively, in lieu of cash to exercise options to purchase shares of the Company's stock and to pay income taxes related to such exercises as permitted by the Company's shareholder-approved equity compensation plans. The tendered shares were retired. The market value of tendered shares is the last market trade price at closing on the day an option is exercised. Stock repurchased under equity incentive plans are not counted in the total of stock repurchased under the stock repurchase plan announced August 21, 2007.

Note 20 Stock Options and Other Equity-Based Incentive Instruments

In March 2009, the Company's Board of Directors adopted the TriCo Bancshares 2009 Equity Incentive Plan (2009 Plan) covering officers, employees, directors of, and consultants to, the Company. The 2009 Plan was approved by the Company's shareholders in May 2009. The 2009 Plan allows for the grant of the following types of equity awards (Awards): incentive stock options, nonstatutory stock options, performance awards, restricted stock, restricted stock unit awards and stock appreciation rights. Subject to certain adjustments, the maximum aggregate number of shares of TriCo's common stock which may be issued pursuant to or subject to Awards is 650,000. The number of shares available for issuance under the 2009 Plan shall be reduced by: (i) one share for each share of common stock issued pursuant to a stock option or a Stock Appreciation Right and (ii) two shares for each share of common stock issued pursuant to a Performance Award, a Restricted Stock Award or a Restricted Stock Unit Award. When Awards made under the 2009 Plan expire or are forfeited or cancelled, the underlying shares will become available for future Awards under the 2009 Plan. To the extent that a share of common stock pursuant to an Award that counted as two shares against the number of shares again becomes available for issuance under the 2009 Plan, the number of shares of common stock available for issuance under the 2009 Plan shall increase by two shares. Shares awarded and delivered under the 2009 Plan may be authorized but unissued, or reacquired shares. As of December 31, 2011, 399,000 options for the purchase of common shares remain outstanding, and 251,000 remain available for grant, under the 2009 Plan.

In May 2001, the Company adopted the TriCo Bancshares 2001 Stock Option Plan (2001 Plan) covering officers, employees, directors of, and consultants to, the Company. Under the 2001 Plan, the option exercise price cannot be less than the fair market value of the Common Stock at the date of grant except in the case of substitute options. Options for the 2001 Plan expire on the tenth anniversary of the grant date. Vesting schedules under the 2001 Plan are determined individually for each grant. As of December 31, 2011, 851,935 options for the purchase of common shares remain outstanding under the 2001 Plan. As of May 2009, as a result of the shareholder approval of the 2009 Plan, no new options may be granted under the 2001 Plan.

Stock option activity during 2011 is summarized in the following table:

	Number of Shares	Option Price per Share	Weighted Average Exercise Price	Weighted Average Fair Value on Date of Grant
Outstanding at December 31, 2010	1,425,185	\$ 8.05 to \$25.91	\$ 15.78	
Options granted	196,000	\$ 14.54 to \$14.54	\$ 14.54	\$ 6.27
Options exercised	(296,250)	\$ 8.05 to \$ 8.20	\$ 8.20	
Options forfeited	(74,000)	\$ 13.33 to \$25.91	\$ 19.11	

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Outstanding at December 31, 2011	1,250,935	\$ 11.72 to \$25.91	\$ 17.18
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Table of Contents

The following table shows the number, weighted-average exercise price, intrinsic value, and weighted average remaining contractual life of options exercisable, options not yet exercisable and total options outstanding as of December 31, 2011:

(dollars in thousands except exercise price)	Currently Exercisable	Currently Not Exercisable	Total Outstanding
Number of options	853,845	397,090	1,250,935
Weighted average exercise price	\$ 17.62	\$ 16.23	\$ 17.18
Intrinsic value (thousands)	\$ 438	\$ 19	\$ 457
Weighted average remaining contractual term (yrs.)	3.66	8.76	5.28

The 397,090 options that are not currently exercisable as of December 31, 2011 are expected to vest, on a weighted-average basis, over the next 3.40 years, and the Company is expected to recognize \$2,532,000 of pre-tax compensation costs related to these options as they vest. The Company did not modify any option grants in 2011, 2010, or 2009.

The following table shows the total intrinsic value of options exercised, the total fair value of options vested, total compensation costs for options recognized in income, and total tax benefit recognized in income related to compensation costs for options during the periods indicated:

	Years Ended December 31,		
	2011	2010	2009
Intrinsic value of options exercised	\$ 2,087,000	\$ 1,429,000	\$ 323,000
Fair value of options that vested	\$ 830,000	\$ 800,000	\$ 477,000
Total compensation costs for options recognized in income	\$ 830,000	\$ 800,000	\$ 477,000
Total tax benefit recognized in income related to compensation costs for options	\$ 349,000	\$ 336,000	\$ 197,000
Weighted average fair value of grants (per option)	\$ 6.27	\$ 7.93	\$ 4.24

The fair value of the Company's stock option grants is estimated on the measurement date, which, for the Company, is the date of grant. The fair value of stock options is estimated using the Black-Scholes option-pricing model. The Company estimated expected market price volatility and expected term of the options based on historical data and other factors. The weighted-average assumptions used to determine the fair value of options granted are detailed in the table below:

Assumptions used to value option grants:	Years Ended December 31,		
	2011	2010	2009
Average expected terms (years)	8.8	8.5	9.0
Volatility	51.2%	49.7%	46.4%
Annual rate of dividends	2.48%	2.05%	4.12%
Discount rate	1.70%	2.82%	2.85%

Note 21 Noninterest Income and Expenses

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

Years Ended
December 31,
2011