

TRICO BANCSHARES /  
Form 10-Q  
May 10, 2013  
Table of Contents

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

**FORM 10-Q**

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
for the quarterly period ended: March 31, 2013

.. **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
for the transition period from            to            .

Commission File Number: 000-10661

**TriCo Bancshares**

(Exact Name of Registrant as Specified in Its Charter)

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

**CALIFORNIA**  
(State or Other Jurisdiction)  
of Incorporation or Organization)

**94-2792841**  
(I.R.S. Employer)  
Identification Number)

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

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  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

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

Common stock, no par value: 16,017,127 shares outstanding as of May 3, 2013

**Table of Contents**

TriCo Bancshares

FORM 10-Q

TABLE OF CONTENTS

	Page
<u>Forward-Looking Statements</u>	1
<u>PART I FINANCIAL INFORMATION</u>	2
<u>Item 1 Financial Statements</u>	2
<u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	41
<u>Item 3 Quantitative and Qualitative Disclosures about Market Risk</u>	60
<u>Item 4 Controls and Procedures</u>	60
<u>PART II OTHER INFORMATION</u>	60
<u>Item 1 Legal Proceedings</u>	60
<u>Item 1A Risk Factors</u>	60
<u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	60
<u>Item 6 Exhibits</u>	60
<u>Signatures</u>	62
Exhibits	

**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

This report on Form 10-Q contains forward-looking statements about TriCo Bancshares (the "Company") that are subject to the protection of the safe harbor provisions contained in the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on the current knowledge and belief of the Company's management ("Management") 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, it may mean the Company is 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. The reader is directed to the Company's annual report on Form 10-K for the year ended December 31, 2012, and Part II, Item 1A of this report for further discussion of factors which could affect the Company's business and cause actual results to differ materially from those suggested by any forward-looking statement made in this report. Such Form 10-K and this report should be read to put any forward-looking statements in context and to gain a more complete understanding of the risks and uncertainties involved in the Company's business. Any forward-looking statement may turn out to be wrong and cannot be guaranteed. The Company does not intend to update any forward-looking statement after the date of this report.

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****TRICO BANCSHARES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands, except share data; unaudited)

	At March 31, 2013	At December 31, 2012
<b>Assets:</b>		
Cash and due from banks	\$ 70,023	\$ 81,086
Cash at Federal Reserve and other banks	732,248	667,813
Cash and cash equivalents	802,271	748,899
Securities available-for-sale	144,454	163,027
Restricted equity securities	9,647	9,647
Loans held for sale	7,931	12,053
Loans	1,532,362	1,564,823
Allowance for loan losses	(39,867)	(42,648)
Total loans, net	1,492,495	1,522,175
Foreclosed assets, net	6,124	7,498
Premises and equipment, net	29,468	26,985
Cash value of life insurance	51,008	50,582
Accrued interest receivable	7,201	6,636
Goodwill	15,519	15,519
Other intangible assets, net	1,040	1,092
Mortgage servicing rights	4,984	4,552
Indemnification asset	1,807	1,997
Other assets	38,484	38,607
Total assets	\$ 2,612,433	\$ 2,609,269
<b>Liabilities and Shareholders' Equity:</b>		
<b>Liabilities:</b>		
<b>Deposits:</b>		
Noninterest-bearing demand	\$ 639,420	\$ 684,833
Interest-bearing	1,646,130	1,604,869
Total deposits	2,285,550	2,289,702
Accrued interest payable	975	1,036
Reserve for unfunded commitments	3,175	3,615
Other liabilities	37,340	35,122
Other borrowings	8,125	9,197
Junior subordinated debt	41,238	41,238
Total liabilities	2,376,403	2,379,910
<b>Commitments and contingencies (Note 18)</b>		

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Shareholders' equity:

Common stock, no par value: 50,000,000 shares authorized; issued and outstanding:		
16,005,191 at March 31, 2013	85,995	
16,000,838 at December 31, 2012		85,561
Retained earnings	148,497	141,639
Accumulated other comprehensive income, net of tax	1,538	2,159
Total shareholders' equity	236,030	229,359
Total liabilities and shareholders' equity	\$ 2,612,433	\$ 2,609,269

See accompanying notes to unaudited condensed consolidated financial statements.

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

(In thousands, except per share data; unaudited)

	Three months ended March 31,	
	2013	2012
<b>Interest and dividend income:</b>		
Loans, including fees	\$ 24,072	\$ 24,929
<b>Debt securities:</b>		
Taxable	1,131	1,746
Tax exempt	101	108
Dividends	56	13
Interest bearing cash at Federal Reserve and other banks	446	368
<b>Total interest and dividend income</b>	<b>25,806</b>	<b>27,164</b>
<b>Interest expense:</b>		
Deposits	925	1,184
Other borrowings	1	606
Junior subordinated debt	311	338
<b>Total interest expense</b>	<b>1,237</b>	<b>2,128</b>
<b>Net interest income</b>	<b>24,569</b>	<b>25,036</b>
(Benefit from) provision for loan losses	(1,108)	3,996
<b>Net interest income after provision for loan losses</b>	<b>25,677</b>	<b>21,040</b>
<b>Noninterest income:</b>		
Service charges and fees	5,929	5,952
Gain on sale of loans	2,294	1,650
Commissions on sale of non-deposit investment products	761	819
Increase in cash value of life insurance	426	450
Change in indemnification asset	(101)	(353)
Gain (loss) on sale of foreclosed assets	551	(358)
Other	358	105
<b>Total noninterest income</b>	<b>10,218</b>	<b>8,265</b>
<b>Noninterest expense:</b>		
Salaries and related benefits	12,961	12,762
Other	8,640	10,153
<b>Total noninterest expense</b>	<b>21,601</b>	<b>22,915</b>
<b>Income before income taxes</b>	<b>14,294</b>	<b>6,390</b>
<b>Provision for income taxes</b>	<b>5,817</b>	<b>2,459</b>
<b>Net income</b>	<b>\$ 8,477</b>	<b>\$ 3,931</b>

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Earnings per share:		
Basic	\$ 0.53	\$ 0.25
Diluted	\$ 0.53	\$ 0.25

See accompanying notes to unaudited condensed consolidated financial statements.



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

(In thousands; unaudited)

	Three months ended March 31,	
	2013	2012
Net income	\$ 8,477	\$ 3,931
Other comprehensive loss, net of tax:		
Decrease in unrealized gains on available-for-sale securities arising during the period	(621)	(153)
Other comprehensive loss	(621)	(153)
Comprehensive income	\$ 7,856	\$ 3,778

See accompanying notes to unaudited condensed consolidated financial statements.

**TRICO BANCSHARES****CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

(In thousands, except share and per share data; unaudited)

	Shares of Common Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2011	15,978,958	\$ 84,079	\$ 128,551	\$ 3,811	\$ 216,441
Net income			3,931		3,931
Other comprehensive loss				(153)	(153)
Stock option vesting		257			257
Dividends paid (\$ 0.09 per share)			(1,438)		(1,438)
Balance at March 31, 2012	15,978,958	\$ 84,336	\$ 131,044	\$ 3,658	\$ 219,038
Balance at December 31, 2012	16,000,838	\$ 85,561	\$ 141,639	\$ 2,159	\$ 229,359
Net income			8,477		8,477
Other comprehensive loss				(621)	(621)
Stock option vesting		236			236
Stock options exercised	20,000	262			262
Tax benefit of stock options exercised		20			20
Repurchase of common stock	(15,647)	(84)	(178)		(262)
Dividends paid (\$ 0.09 per share)			(1,441)		(1,441)
Balance at March 31, 2013	16,005,191	\$ 85,995	\$ 148,497	\$ 1,538	\$ 236,030

See accompanying notes to unaudited condensed consolidated financial statements.



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

(In thousands; unaudited)

	For the three months ended March 31,	
	2013	2012
<b>Operating activities:</b>		
Net income	\$ 8,477	\$ 3,931
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of premises and equipment, and amortization	982	1,018
Amortization of intangible assets	52	53
(Benefit from) provision for loan losses	(1,108)	3,996
Amortization of investment securities premium, net	214	329
Originations of loans for resale	(53,415)	(58,041)
Proceeds from sale of loans originated for resale	59,338	63,491
Gain on sale of loans	(2,294)	(1,650)
Change in market value of mortgage servicing rights	61	369
Provision for losses on foreclosed assets	27	83
(Gain) loss on sale of foreclosed assets	(551)	358
Loss on disposal of fixed assets	16	235
Increase in cash value of life insurance	(426)	(450)
Life insurance proceeds	706	2,811
Stock option vesting expense	236	257
Stock option tax benefits	(20)	
Change in:		
Reserve for unfunded commitments	(440)	(190)
Interest receivable	(565)	217
Interest payable	(61)	(87)
Other assets and liabilities, net	2,056	1,223
<b>Net cash from operating activities</b>	<b>13,285</b>	<b>17,953</b>
<b>Investing activities:</b>		
Proceeds from maturities of securities available-for-sale	17,286	20,060
Purchases of securities available-for-sale		(3,588)
Net redemption of restricted equity securities		102
Loan principal decrease, net	25,051	33,795
Proceeds from sale of foreclosed assets	7,635	3,021
Improvements of foreclosed assets		(225)
Proceeds from sale of premises and equipment	1	
Purchases of premises and equipment	(3,241)	(938)
<b>Net cash from investing activities</b>	<b>46,732</b>	<b>52,227</b>
<b>Financing activities:</b>		
Net decrease in deposits	(4,152)	(20,790)
Net change in short-term other borrowings	(1,072)	(3,467)
Stock option excess tax benefits	20	
Dividends paid	(1,441)	(1,438)
<b>Net cash used for financing activities</b>	<b>(6,645)</b>	<b>(25,695)</b>

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Net change in cash and cash equivalents	53,372	44,485
Cash and cash equivalents at beginning of period	748,899	637,275
Cash and cash equivalents at end of period	\$ 802,271	\$ 681,760
Supplemental disclosure of noncash activities:		
Loans transferred to other real estate owned	\$ 5,737	\$ 1,694
Unrealized net loss on securities available for sale	\$ (1,073)	\$ (265)
Supplemental disclosure of cash flow activity:		
Cash paid for interest expense	\$ 1,298	\$ 2,215
Cash paid for income taxes	\$ 2,600	

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

---

**Table of Contents****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****Note 1 Summary of Significant Accounting Policies****Description of Business**

TriCo Bancshares is a California corporation organized to act as a bank holding company for Tri Counties Bank (the Bank). The Bank is a state-chartered financial institution that is engaged 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 25 in-store branches. The Company also formed two subsidiary business trusts, TriCo Capital Trust I and TriCo Capital Trust II (collectively, the Trusts), to issue trust preferred securities.

**Basis of Presentation**

The following unaudited condensed financial statements of the Company have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. In the opinion of Management, all adjustments, consisting solely of normal recurring adjustments, considered necessary for a fair presentation of results for the interim periods presented have been included. These interim condensed consolidated financial statements should be read in conjunction with the financial statements and related notes contained in the Company's 2012 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 18, 2013.

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned financial subsidiary, Tri Counties Bank. All significant intercompany balances and transactions have been eliminated. TriCo Capital Trust I and TriCo Capital Trust II, which were formed solely for the purpose of issuing trust preferred securities, are unconsolidated subsidiaries as the Company is not the primary beneficiary of the trusts and they are not considered variable interest entities. Operating results for the three months ended March 31, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. Certain amounts in the consolidated financial statements for the year ended December 31, 2012 and for the three months ended March 31, 2012 may have been reclassified to conform to the presentation of the condensed consolidated financial statements in 2013.

**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, indemnification asset, foreclosed assets, goodwill and other intangible assets, income taxes, fair value of assets acquired and liabilities assumed in business combinations, the valuation of securities available-for-sale, 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 under the acquisition method of accounting. 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**

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

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. Net cash flows are reported for loan and deposit transactions and other borrowings.

---

**Table of Contents****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 three months ended March 31, 2013, and the year ended December 31, 2012, 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 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 three months ended March 31, 2013, and the year ended December 31, 2012.

**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. 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 that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal amount

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

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. The allowance is maintained at a level which, in management's judgment, is adequate to absorb probable incurred credit losses inherent in the loan portfolio as of the balance sheet date. 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 result in the loan being classified as a TDR, 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.

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 were based on historical loss experience by product type and prior risk rating.

During the three months ended March 31, 2013, the Company changed the method it uses to estimate net sale proceeds from real estate collateral sales when calculating the allowance for loan losses associated with impaired real estate collateral dependent loans. Previously, the Company used the greater of fifteen percent or actual estimated selling costs. Currently, the Company uses the actual estimated selling costs, and an adjustment to appraised value based on the age of the appraisal. These changes are intended to more accurately reflect the estimated net sale proceeds from the sale of impaired collateral dependent real estate loans. This change in methodology resulted in the allowance for loan losses as of March 31, 2013 being \$494,000 more than it would have been without this change in methodology.

Loans purchased or acquired in a business combination are referred to as acquired loans. Acquired loans are valued as of the 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*

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

*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

## Table of Contents

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 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 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 the acquisition of certain assets and liabilities of Granite Community Bank ( Granite ) and Citizens Bank of Northern California ( Citizens ).

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 consolidated 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.

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 less estimated costs to sell 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. Gain or loss on sale of foreclosed assets is included in noninterest income. 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.

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Covered foreclosed assets are initially recorded at estimated fair value less estimated costs to sell 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.

---

## **Table of Contents**

### **Premises and Equipment**

Land is carried at cost. Land improvements, 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 an identifiable intangible asset consisting of core deposit intangibles (CDI). CDI are amortized over their respective estimated useful lives, and reviewed for impairment.

### **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 consolidated 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. The Company may choose 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, the Company determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then goodwill is deemed not to be impaired. However, if the Company concludes otherwise, or if the Company elected not to first assess qualitative factors, then the Company performs the first step of a 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. Second, if the carrying amount of the 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. Goodwill was not impaired as of December 31, 2012 or 2011 because the fair value of the reporting unit exceeded its carrying value.

### **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. 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. Servicing fees are recorded in noninterest income when earned.

We account for MSR at fair value. 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 accounts 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.

## **Table of Contents**

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. A valuation allowance, if needed, reduces deferred tax assets to the expected amount most likely to be realized. Realization of deferred tax assets is dependent upon the generation of a sufficient level of future taxable income and recoverable taxes paid in prior years. Although realization is not assured, management believes it is more likely than not that all of the deferred tax assets will be realized. Interest and/or penalties related to income taxes are reported as a component of noninterest income.

### **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 consolidated 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**

FASB issued ASU No. 2012-06, *Business Combinations (Topic 805): Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution*. ASU 2012-06 requires that when a reporting entity recognizes an indemnification asset (in accordance with Subtopic 805-20) as a result of a government-assisted acquisition of a financial institution and subsequently a change in the cash flows expected to be collected on the indemnification asset occurs (as a result of a change in cash flows expected to be collected on the assets subject to indemnification), the reporting entity should subsequently account for the change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification. Any amortization of changes in value should be limited to the contractual term of the indemnification agreement (that is, the lesser of the term of the indemnification agreement and the remaining life of the indemnified assets). The Company adopted this Standard on January 1, 2013, and the adoption did not have a significant impact on the Company's consolidated financial statements.

FASB issued ASU No. 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. ASU 2013-02 amends recent guidance related to the reporting of comprehensive income to enhance the reporting of reclassifications out of accumulated other comprehensive income. The Company adopted this Standard on January 1, 2013, and the adoption did not have a significant impact on the Company's consolidated financial statements.

**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.

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.



**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	March 31, 2013		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Securities Available-for-Sale		(in thousands)		
Obligations of U.S. government corporations and agencies	\$ 126,912	\$ 7,052		\$ 133,964
Obligations of states and political subdivisions	8,315	263		8,578
Corporate debt securities	1,866	46		1,912
Total securities available-for-sale	\$ 137,093	\$ 7,361		\$ 144,454

	Amortized Cost	December 31, 2012		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Securities Available-for-Sale		(in thousands)		
Obligations of U.S. government corporations and agencies	\$ 143,633	\$ 8,068		\$ 151,701
Obligations of states and political subdivisions	9,098	323		9,421
Corporate debt securities	1,862	43		1,905
Total securities available-for-sale	\$ 154,593	\$ 8,434		\$ 163,027

No investment securities were sold during the three months ended March 31, 2013 or the year ended December 31, 2012. Investment securities with an aggregate carrying value of \$67,078,000 and \$66,911,000 at March 31, 2013 and December 31, 2012, 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 March 31, 2013 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 March 31, 2013, obligations of U.S. government corporations and agencies with a cost basis totaling \$126,912,000 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 March 31, 2013, the Company estimates the average remaining life of these mortgage-backed securities issued by U.S. government corporations and agencies to be approximately 3.5 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
Investment Securities	(in thousands)	
Due in one year	\$ 2,692	\$ 2,766
Due after one year through five years	4,637	4,872
Due after five years through ten years	43,900	45,569
Due after ten years	85,864	91,247
Totals	\$ 137,093	\$ 144,454

At March 31, 2013 and December 31, 2012, the Company had no investment securities with gross unrealized losses.



**Table of Contents****Note 4 Loans**

A summary of loan balances follows (in thousands):

	Originated	PNCI	March 31, 2013 PCI - Cash basis	PCI - Other	Total
<b>Mortgage loans on real estate:</b>					
Residential 1-4 family	\$ 125,875	\$ 5,075		\$ 5,010	\$ 135,960
Commercial	772,296	69,982		32,011	874,289
<b>Total mortgage loan on real estate</b>	<b>898,171</b>	<b>75,057</b>		<b>37,021</b>	<b>1,010,249</b>
<b>Consumer:</b>					
Home equity lines of credit	303,638	16,341	7,413	5,652	333,044
Home equity loans	12,533	347	48	155	13,083
Auto Indirect	2,821				2,821
Other	24,826	2,264		25	27,115
<b>Total consumer loans</b>	<b>343,818</b>	<b>18,952</b>	<b>7,461</b>	<b>5,832</b>	<b>376,063</b>
Commercial	106,275	779	36	8,393	115,483
<b>Construction:</b>					
Residential	14,498			5,023	19,521
Commercial	9,909			1,137	11,046
<b>Total construction</b>	<b>24,407</b>			<b>6,160</b>	<b>30,567</b>
<b>Total loans, net of deferred loan fees</b>	<b>\$ 1,372,671</b>	<b>\$ 94,788</b>	<b>\$ 7,497</b>	<b>\$ 57,406</b>	<b>\$ 1,532,362</b>
<b>Total principal balance of loans owed, net of charge-offs</b>	<b>\$ 1,375,615</b>	<b>\$ 107,268</b>	<b>\$ 18,783</b>	<b>\$ 71,426</b>	<b>\$ 1,573,092</b>
Unamortized net deferred loan fees	(2,944)				(2,944)
Discounts to principal balance of loans owed, net of charge-offs		(12,480)	(11,286)	(14,020)	(37,786)
<b>Total loans, net of unamortized deferred loan fees</b>	<b>\$ 1,372,671</b>	<b>\$ 94,788</b>	<b>\$ 7,497</b>	<b>\$ 57,406</b>	<b>\$ 1,532,362</b>
<b>Noncovered loans</b>	<b>\$ 1,372,671</b>	<b>\$ 94,788</b>	<b>\$ 7,497</b>	<b>\$ 17,614</b>	<b>\$ 1,492,570</b>
Covered loans				39,792	39,792
<b>Total loans, net of unamortized deferred loan fees</b>	<b>\$ 1,372,671</b>	<b>\$ 94,788</b>	<b>\$ 7,497</b>	<b>\$ 57,406</b>	<b>\$ 1,532,362</b>
Allowance for loan losses	\$ 32,698	\$ 2,867	\$ 1,039	\$ 3,263	\$ 39,867

**Table of Contents****Note 4 Loans (continued)**

A summary of loan balances follows (in thousands):

	Originated	PNCI	December 31, 2012		Total
			PCI - Cash basis	PCI - Other	
<b>Mortgage loans on real estate:</b>					
Residential 1-4 family	\$ 121,255	\$ 5,413		\$ 5,016	\$ 131,684
Commercial	775,124	72,090	\$ 1,289	29,943	878,446
<b>Total mortgage loan on real estate</b>	<b>896,379</b>	<b>77,503</b>	<b>1,289</b>	<b>34,959</b>	<b>1,010,130</b>
<b>Consumer:</b>					
Home equity lines of credit	311,671	16,788	7,612	5,954	342,025
Home equity loans	13,011	342	49	155	13,557
Auto Indirect	3,816				3,816
Other	24,263	2,418		32	26,713
<b>Total consumer loans</b>	<b>352,761</b>	<b>19,548</b>	<b>7,661</b>	<b>6,141</b>	<b>386,111</b>
Commercial	125,122	869	22	9,515	135,528
<b>Construction:</b>					
Residential	11,877			6,582	18,459
Commercial	11,196			3,399	14,595
<b>Total construction</b>	<b>23,073</b>			<b>9,981</b>	<b>33,054</b>
<b>Total loans, net of deferred loan fees</b>	<b>\$ 1,397,335</b>	<b>\$ 97,920</b>	<b>\$ 8,972</b>	<b>\$ 60,596</b>	<b>\$ 1,564,823</b>
<b>Total principal balance of loans owed, net of charge-offs</b>	<b>\$ 1,400,147</b>	<b>\$ 111,286</b>	<b>\$ 20,621</b>	<b>\$ 75,277</b>	<b>\$ 1,607,331</b>
Unamortized net deferred loan fees	(2,812)				(2,812)
Discounts to principal balance of loans owed, net of charge-offs		(13,366)	(11,649)	(14,681)	(39,696)
<b>Total loans, net of unamortized deferred loan fees</b>	<b>\$ 1,397,335</b>	<b>\$ 97,920</b>	<b>\$ 8,972</b>	<b>\$ 60,596</b>	<b>\$ 1,564,823</b>
<b>Noncovered loans</b>	<b>\$ 1,397,335</b>	<b>\$ 97,920</b>	<b>\$ 8,972</b>	<b>\$ 18,708</b>	<b>\$ 1,522,935</b>
Covered loans				41,888	41,888
<b>Total loans, net of unamortized deferred loan fees</b>	<b>\$ 1,397,335</b>	<b>\$ 97,920</b>	<b>\$ 8,972</b>	<b>\$ 60,596</b>	<b>\$ 1,564,823</b>
Allowance for loan losses	\$ (35,769)	\$ (1,969)	\$ (1,054)	\$ (3,856)	\$ (42,648)

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

	Three months ended March 31,	
	2013	2012
<b>Change in accretable yield:</b>		
Balance at beginning of period	\$ 22,337	\$ 25,145
Accretion to interest income	(1,623)	(1,959)
Reclassification (to) from nonaccretable difference	(23)	1,429

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Balance at end of period	\$ 20,691	\$ 24,615
--------------------------	-----------	-----------

Throughout these consolidated 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)	RE Mortgage		Home Equity		Auto			Other		Construction		Total
	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.			
Beginning balance	\$ 3,523	\$ 8,782	\$ 21,367	\$ 1,155	\$ 243	\$ 696	\$ 4,703	\$ 1,400	\$ 779	\$ 42,648		
Charge-offs	(7)	(803)	(766)	(26)	(25)	(273)	(790)	(20)	(61)	(2,771)		
Recoveries		353	290	9	85	224	70	61	6	1,098		
(Benefit) provision	(173)	1,078	(1,568)	(1)	(155)	(84)	252	(105)	(352)	(1,108)		
Ending balance	\$ 3,343	\$ 9,410	\$ 19,323	\$ 1,137	\$ 148	\$ 563	\$ 4,235	\$ 1,336	\$ 372	\$ 39,867		

## Ending balance:

Individ. evaluated for impairment	\$ 479	\$ 1,804	\$ 1,613	\$ 50	\$ 7	\$ 8	\$ 823	\$ 219	\$ 42	\$ 5,045
-----------------------------------	--------	----------	----------	-------	------	------	--------	--------	-------	----------

## Loans pooled for evaluation

	\$ 2,498	\$ 7,326	\$ 16,496	\$ 1,006	\$ 141	\$ 555	\$ 1,935	\$ 438	\$ 125	\$ 30,520
--	----------	----------	-----------	----------	--------	--------	----------	--------	--------	-----------

## Loans acquired with deteriorated credit quality

	\$ 366	\$ 280	\$ 1,214	\$ 81			\$ 1,477	\$ 679	\$ 205	\$ 4,302
--	--------	--------	----------	-------	--	--	----------	--------	--------	----------

(In thousands)	RE Mortgage		Home Equity		Auto			Other		Construction		Total
	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.			
Ending balance:												
Total loans	\$ 135,960	\$ 874,289	\$ 333,044	\$ 13,083	\$ 2,821	\$ 27,115	\$ 115,483	\$ 19,521	\$ 11,046	\$ 1,532,362		

## Individ. evaluated for impairment

	\$ 6,238	\$ 64,812	\$ 8,721	\$ 576	\$ 176	\$ 97	\$ 5,867	\$ 3,410	\$ 343	\$ 90,240
--	----------	-----------	----------	--------	--------	-------	----------	----------	--------	-----------

## Loans pooled for evaluation

	\$ 124,712	\$ 777,466	\$ 311,258	\$ 12,304	\$ 2,645	\$ 26,993	\$ 101,187	\$ 11,088	\$ 9,566	\$ 1,377,219
--	------------	------------	------------	-----------	----------	-----------	------------	-----------	----------	--------------

## Loans acquired with deteriorated credit quality

	\$ 5,010	\$ 32,011	\$ 13,065	\$ 203		\$ 25	\$ 8,429	\$ 5,023	\$ 1,137	\$ 64,903
--	----------	-----------	-----------	--------	--	-------	----------	----------	----------	-----------

(In thousands)	RE Mortgage		Home Equity		Auto			Other		Construction		Total
	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.			
Beginning balance	\$ 2,404	\$ 13,217	\$ 18,258	\$ 1,101	\$ 215	\$ 932	\$ 6,545	\$ 1,817	\$ 1,425	\$ 45,914		
Charge-offs	(1,558)	(3,457)	(8,042)	(385)	(83)	(1,202)	(1,251)	(406)	(100)	(16,484)		
Recoveries	147	1,020	398	100	215	860	643	412		3,795		
(Benefit) provision	2,530	(1,998)	10,753	339	(104)	106	(1,234)	(423)	(546)	9,423		
Ending balance	\$ 3,523	\$ 8,782	\$ 21,367	\$ 1,155	\$ 243	\$ 696	\$ 4,703	\$ 1,400	\$ 779	\$ 42,648		

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Ending balance:																				
Individ. evaluated for impairment	\$	631	\$	515	\$	2,264	\$	81	\$	5	\$	47	\$	840	\$	11	\$	111	\$	4,505
Loans pooled for evaluation	\$	2,526	\$	8,026	\$	17,862	\$	995	\$	238	\$	649	\$	2,342	\$	430	\$	165	\$	33,233
Loans acquired with deteriorated credit quality	\$	366	\$	241	\$	1,241	\$	79					\$	1,521	\$	959	\$	503	\$	4,910

(In thousands)	Loans, net of unearned fees										Total
	RE Mortgage		Home Equity		Auto		Other		Construction		
	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.		
Ending balance:											
Total loans	\$ 131,684	\$ 878,446	\$ 342,025	\$ 13,557	\$ 3,816	\$ 26,713	\$ 135,528	\$ 18,459	\$ 14,595	\$ 1,564,823	
Individ. evaluated for impairment	\$ 6,586	\$ 71,077	\$ 10,056	\$ 528	\$ 197	\$ 121	\$ 8,562	\$ 3,596	\$ 607	\$ 101,330	
Loans pooled for evaluation	\$ 120,082	\$ 776,137	\$ 318,403	\$ 12,825	\$ 3,619	\$ 26,560	\$ 117,429	\$ 8,281	\$ 10,589	\$ 1,393,925	
Loans acquired with deteriorated credit quality	\$ 5,016	\$ 31,232	\$ 13,566	\$ 204		\$ 32	\$ 9,537	\$ 6,582	\$ 3,399	\$ 69,568	

**Table of Contents****Note 5 Allowance for Loan Losses (Continued)**

(In thousands)	RE Mortgage		Home Equity		Auto		Other		Construction		Total
	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.		
Beginning balance	\$ 2,404	\$ 13,217	\$ 18,258	\$ 1,101	\$ 215	\$ 932	\$ 6,545	\$ 1,817	\$ 1,425	\$ 45,914	
Charge-offs	(223)	(1,305)	(2,625)	(41)	(40)	(339)	(281)	(68)		(4,922)	
Recoveries	-	36	63	3	57	255	50			464	
Provision (benefit)	976	(1,967)	6,336	204	343	(248)	(1,764)	(77)	193	3,996	
Ending balance	\$ 3,157	\$ 9,981	\$ 22,032	\$ 1,267	\$ 575	\$ 600	\$ 4,550	\$ 1,672	\$ 1,618	\$ 45,452	
Ending balance:											
Individ. evaluated for impairment	\$ 582	\$ 1,041	\$ 1,578	\$ 59	\$ 14	\$ 17	\$ 357	\$ 80	\$ 1,048	\$ 4,776	
Loans pooled for evaluation	\$ 2,463	\$ 8,939	\$ 18,949	\$ 1,096	\$ 560	\$ 584	\$ 2,563	\$ 625	\$ 110	\$ 35,889	
Loans acquired with deteriorated credit quality	\$ 113		\$ 1,505	\$ 111			\$ 1,630	\$ 967	\$ 461	\$ 4,787	

(In thousands)	RE Mortgage		Home Equity		Auto		Other		Construction		Total
	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.		
Ending balance:											
Total loans	\$ 130,500	\$ 816,859	\$ 350,062	\$ 14,559	\$ 8,397	\$ 23,671	\$ 128,343	\$ 22,364	\$ 16,330	\$ 1,511,085	
Individ. evaluated for impairment	\$ 10,490	\$ 69,817	\$ 8,777	\$ 549	\$ 404	\$ 177	\$ 9,286	\$ 5,606	\$ 7,114	\$ 112,220	
Loans pooled for evaluation	\$ 113,808	\$ 714,579	\$ 327,018	\$ 13,805	\$ 7,993	\$ 23,446	\$ 106,689	\$ 7,569	\$ 5,552	\$ 1,320,459	
Loans acquired with deteriorated credit quality	\$ 6,202	\$ 32,463	\$ 14,267	\$ 205		\$ 48	\$ 12,368	\$ 9,189	\$ 3,664	\$ 78,406	

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.



## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

*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.

**Table of Contents****Note 5 Allowance for Loan Losses (Continued)**

The following tables present ending loan balances by loan category and risk grade as of the dates indicated:

(In thousands)	Credit Quality Indicators As of March 31, 2013									Total
	RE Mortgage		Home Equity		Auto			Construction		
	Resid.	Comm.	Lines	Loans	Indirect	Other Consumer	C&I	Resid.	Comm.	
<b>Originated loans:</b>										
Pass	\$ 116,293	686,714	\$ 288,765	\$ 11,508	\$ 2,185	\$ 24,007	\$ 96,302	\$ 10,487	\$ 9,200	\$ 1,245,461
Special mention	1,920	21,690	4,450	295	367	693	4,461	385	401	34,662
Substandard	7,662	63,892	10,423	730	269	126	5,512	3,626	308	92,548
<b>Total Originated loans</b>	<b>\$ 125,875</b>	<b>\$ 772,296</b>	<b>\$ 303,638</b>	<b>\$ 12,533</b>	<b>\$ 2,821</b>	<b>\$ 24,826</b>	<b>\$ 106,275</b>	<b>\$ 14,498</b>	<b>\$ 9,909</b>	<b>\$ 1,372,671</b>
<b>PNCI loans:</b>										
Pass	\$ 4,532	\$ 62,804	\$ 15,292	\$ 347		\$ 2,162	\$ 760			\$ 85,897
Special mention		3,711	282			61	19			4,073
Substandard	543	3,467	767			41				4,818
<b>Total PNCI loans</b>	<b>\$ 5,075</b>	<b>\$ 69,982</b>	<b>\$ 16,341</b>	<b>\$ 347</b>		<b>\$ 2,264</b>	<b>\$ 779</b>			<b>\$ 94,788</b>
<b>PCI loans</b>	<b>\$ 5,010</b>	<b>\$ 32,011</b>	<b>\$ 13,065</b>	<b>\$ 203</b>		<b>\$ 25</b>	<b>\$ 8,429</b>	<b>\$ 5,023</b>	<b>\$ 1,137</b>	<b>\$ 64,903</b>
<b>Total loans</b>	<b>\$ 135,960</b>	<b>\$ 874,289</b>	<b>\$ 333,044</b>	<b>\$ 13,083</b>	<b>\$ 2,821</b>	<b>\$ 27,115</b>	<b>\$ 115,483</b>	<b>\$ 19,521</b>	<b>\$ 11,046</b>	<b>\$ 1,532,362</b>

(In thousands)	Credit Quality Indicators As of December 31, 2012									Total
	RE Mortgage		Home Equity		Auto			Construction		
	Resid.	Comm.	Lines	Loans	Indirect	Other Consumer	C&I	Resid.	Comm.	
<b>Originated loans:</b>										
Pass	\$ 108,946	\$ 686,593	\$ 291,701	\$ 11,892	\$ 2,949	\$ 23,154	\$ 113,595	\$ 7,744	\$ 10,221	\$ 1,256,795
Special mention	3,122	21,184	6,955	555	531	958	3,224	285	356	37,170
Substandard	9,187	67,347	13,015	564	336	151	8,303	3,848	619	103,370
<b>Total Originated loans</b>	<b>\$ 121,255</b>	<b>\$ 775,124</b>	<b>\$ 311,671</b>	<b>\$ 13,011</b>	<b>\$ 3,816</b>	<b>\$ 24,263</b>	<b>\$ 125,122</b>	<b>\$ 11,877</b>	<b>\$ 11,196</b>	<b>\$ 1,397,335</b>
<b>PNCI loans:</b>										
Pass	\$ 4,968	\$ 64,917	\$ 15,915	\$ 342		\$ 2,240	\$ 848			\$ 89,230
Special mention		5,249	193			104	21			5,567
Substandard	436	1,924	680			74				3,114
Loss	9									9
<b>Total PNCI loans</b>	<b>\$ 5,413</b>	<b>\$ 72,090</b>	<b>\$ 16,788</b>	<b>\$ 342</b>		<b>\$ 2,418</b>	<b>\$ 869</b>			<b>\$ 97,920</b>
<b>PCI loans</b>	<b>\$ 5,016</b>	<b>\$ 31,232</b>	<b>\$ 13,566</b>	<b>\$ 204</b>		<b>\$ 32</b>	<b>\$ 9,537</b>	<b>\$ 6,582</b>	<b>\$ 3,399</b>	<b>\$ 69,568</b>
<b>Total loans</b>	<b>\$ 131,684</b>	<b>\$ 878,446</b>	<b>\$ 342,025</b>	<b>\$ 13,557</b>	<b>\$ 3,816</b>	<b>\$ 26,713</b>	<b>\$ 135,528</b>	<b>\$ 18,459</b>	<b>\$ 14,595</b>	<b>\$ 1,564,823</b>

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) or significant changes in the borrower's credit rating. Current credit scores are obtained for all consumer loans on a quarterly basis, and risk ratings are adjusted appropriately. 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

**Table of Contents**

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.

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

(In thousands) Originated loan balance:	Analysis of Past Due and Nonaccrual Originated Loans									Total
	RE Mortgage		Home Equity			Other		Construction		
	Resid.	Comm.	Lines	Loans	Auto Indirect	Consumer	C&I	Resid.	Comm.	
<b>Past due:</b>										
30-59 Days	\$ 1,305	\$ 2,326	\$ 2,635	\$ 109	\$ 28	\$ 50	\$ 333			\$ 6,786
60-89 Days	650	265	1,226		36	9	35			2,221
> 90 Days	732	7,852	2,072	217	94	2	2,616	31	75	13,691
<b>Total past due</b>	<b>2,687</b>	<b>10,443</b>	<b>5,933</b>	<b>326</b>	<b>158</b>	<b>61</b>	<b>2,984</b>	<b>31</b>	<b>75</b>	<b>22,698</b>
Current	123,188	761,853	297,705	12,207	2,663	24,765	103,291	14,467	9,834	1,349,973
<b>Total Originated loans</b>	<b>\$ 125,875</b>	<b>\$ 772,296</b>	<b>\$ 303,638</b>	<b>\$ 12,533</b>	<b>\$ 2,821</b>	<b>\$ 24,826</b>	<b>\$ 106,275</b>	<b>\$ 14,498</b>	<b>\$ 9,909</b>	<b>\$ 1,372,671</b>
> 90 Days and still accruing	\$ 190									\$ 190
<b>Nonaccrual loans</b>	<b>\$ 4,459</b>	<b>\$ 34,853</b>	<b>\$ 7,027</b>	<b>\$ 515</b>	<b>\$ 166</b>	<b>\$ 27</b>	<b>\$ 4,131</b>	<b>\$ 3,125</b>	<b>\$ 270</b>	<b>\$ 54,573</b>

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

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

(In thousands)	Analysis of Past Due and Nonaccrual PNCI Loans							As of March 31, 2013		
	RE Mortgage		Home Equity		Auto	Other	Construction			
PNCI loan balance:	Resid.	Comm.	Lines	Loans	Indirect	Consumer	C&I	Resid.	Comm.	Total
<b>Past due:</b>										
30-59 Days	\$ 1,709	\$ 526	\$ 857			\$ 1				\$ 3,093
60-89 Days	204	569								773
> 90 Days	43									43
<b>Total past due</b>	<b>1,956</b>	<b>1,095</b>	<b>857</b>			<b>1</b>				<b>3,909</b>
Current	3,119	68,887	15,484	347		2,263	779			90,879
<b>Total PNCI loans</b>	<b>\$ 5,075</b>	<b>\$ 69,982</b>	<b>\$ 16,341</b>	<b>\$ 347</b>		<b>\$ 2,264</b>	<b>\$ 779</b>			<b>\$ 94,788</b>
<b>&gt; 90 Days and still accruing</b>										
Nonaccrual loans	\$ 111	\$ 1,212	\$ 339			\$ 41				\$ 1,703

**Table of Contents****Note 5 Allowance for Loan Losses (Continued)**

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

(In thousands)	Analysis of Past Due and Nonaccrual Originated Loans									As of December 31, 2012
	RE Mortgage		Home Equity		Auto	Other	C&I	Construction		
Originated loan balance:	Resid.	Comm.	Lines	Loans	Indirect	Consumer	C&I	Resid.	Comm.	Total
Past due:										
30-59 Days	\$ 1,702	\$ 2,695	\$ 3,371	\$ 67	\$ 77	\$ 67	\$ 1,848	\$ 309		\$ 10,136
60-89 Days	278	1,578	819	33	40	40	138			2,926
> 90 Days	674	13,829	3,395	217	79	14	4,782	42	\$ 94	23,126
Total past due	2,654	18,102	7,585	317	196	121	6,768	351	94	36,188
Current	118,601	757,022	304,086	12,694	3,620	24,142	118,354	11,526	11,102	1,361,147
Total Originated loans	\$ 121,255	\$ 775,124	\$ 311,671	\$ 13,011	\$ 3,816	\$ 24,263	\$ 125,122	\$ 11,877	\$ 11,196	\$ 1,397,335

> 90 Days and still accruing

Nonaccrual loans	\$ 4,781	\$ 37,220	\$ 8,486	\$ 465	\$ 174	\$ 49	\$ 6,750	\$ 3,312	\$ 532	\$ 61,769
------------------	----------	-----------	----------	--------	--------	-------	----------	----------	--------	-----------

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

(In thousands)	Analysis of Past Due and Nonaccrual PNCI Loans									As of December 31, 2012
	RE Mortgage		Home Equity		Auto	Other	C&I	Construction		
PNCI loan balance:	Resid.	Comm.	Lines	Loans	Indirect	Consumer	C&I	Resid.	Comm.	Total
Past due:										
30-59 Days	\$ 1,024	\$ 500	\$ 124				\$ 31			\$ 1,679
60-89 Days			63							63
> 90 Days	43	148	157							348
Total past due	1,067	648	344				31			2,090
Current	4,346	71,442	16,444	\$ 342			2,387	\$ 869		95,830
Total PNCI loans	\$ 5,413	\$ 72,090	\$ 16,788	\$ 342			\$ 2,418	\$ 869		\$ 97,920

> 90 Days and still accruing

Nonaccrual loans	\$ 113	\$ 1,218	\$ 403				\$ 42			\$ 1,776
------------------	--------	----------	--------	--	--	--	-------	--	--	----------

Impaired Originated and PNCI 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.

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

(In thousands)	Impaired Originated Loans As of March 31, 2013									Total
	RE Mortgage		Home Equity		Auto	Other	Construction			
	Resid.	Comm.	Lines	Loans	Indirect	Consumer	C&I	Resid.	Comm.	
<b>With no related allowance recorded:</b>										
Recorded investment	\$ 4,017	\$ 57,206	\$ 5,138	\$ 460	\$ 151	\$ 23	\$ 4,240	\$ 696	\$ 195	\$ 72,126
Unpaid principal	\$ 6,192	\$ 62,263	\$ 8,437	\$ 1,110	\$ 292	\$ 40	\$ 5,392	\$ 1,442	\$ 426	\$ 85,594
Average recorded Investment	\$ 3,769	\$ 61,619	\$ 4,690	\$ 411	\$ 157	\$ 21	\$ 4,239	\$ 2,125	\$ 240	\$ 77,271
Interest income Recognized	\$ 7	\$ 362	\$ 5		\$ 1		\$ 11			\$ 386
<b>With an allowance recorded:</b>										
Recorded investment	\$ 2,025	\$ 5,816	\$ 3,244	\$ 116	\$ 25	\$ 4	\$ 1,626	\$ 2,713	\$ 149	\$ 15,718
Unpaid principal	\$ 2,252	\$ 6,095	\$ 4,086	\$ 166	\$ 32	\$ 4	\$ 1,680	\$ 6,680	\$ 181	\$ 21,176
Related allowance	\$ 447	\$ 1,296	\$ 1,576	\$ 50	\$ 7	\$ 4	\$ 823	\$ 219	\$ 42	\$ 4,464
Average recorded Investment	\$ 2,446	\$ 4,537	\$ 4,328	\$ 142	\$ 30	\$ 17	\$ 2,975	\$ 1,378	\$ 236	\$ 16,089
Interest income Recognized	\$ 15	\$ 47	\$ 16	\$ 1			\$ 19	\$ 5	\$ 1	\$ 104

**Table of Contents****Note 5 Allowance for Loan Losses (Continued)**

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)	RE Mortgage		Impaired PNCI Loans			As of March 31, 2013			Construction		Total
	Resid.	Comm.	Lines	Loans	Auto Indirect	Other Consumer	C&I	Resid.	Comm.		
<b>With no related allowance recorded:</b>											
Recorded investment		\$ 1,271	\$ 302			\$ 41				\$ 1,614	
Unpaid principal		\$ 3,300	\$ 343			\$ 46				\$ 3,689	
Average recorded Investment		\$ 1,370	\$ 334			\$ 21				\$ 1,725	
Interest income Recognized		\$ 4								\$ 4	
<b>With allowance recorded:</b>											
Recorded investment	\$ 197	\$ 519	\$ 37			\$ 29				\$ 782	
Unpaid principal	\$ 224	\$ 519	\$ 41			\$ 29				\$ 813	
Related allowance	\$ 32	\$ 508	\$ 37			\$ 4				\$ 581	
Average recorded Investment	\$ 198	\$ 420	\$ 38			\$ 51				\$ 707	
Interest income Recognized	\$ 1	\$ 7				\$ 1				\$ 9	

(In thousands)	RE Mortgage		Impaired Originated Loans			As of December 31, 2012			Construction		Total
	Resid.	Comm.	Lines	Loans	Auto Indirect	Other Consumer	C&I	Resid.	Comm.		
<b>With no related allowance recorded:</b>											
Recorded investment	\$ 3,520	\$ 66,031	\$ 4,241	\$ 361	\$ 163	\$ 19	\$ 4,238	\$ 3,554	\$ 284	\$ 82,411	
Unpaid principal	\$ 5,349	\$ 70,709	\$ 6,691	\$ 781	\$ 311	\$ 40	\$ 4,613	\$ 8,227	\$ 484	\$ 97,205	
Average recorded Investment	\$ 6,329	\$ 61,299	\$ 4,311	\$ 329	\$ 263	\$ 42	\$ 7,500	\$ 3,505	\$ 517	\$ 84,095	
Interest income Recognized	\$ 71	\$ 2,513	\$ 58	\$ 1	\$ 3		\$ 73	\$ 20	\$ 10	\$ 2,749	
<b>With allowance recorded:</b>											
Recorded investment	\$ 2,867	\$ 3,258	\$ 5,412	\$ 167	\$ 34	\$ 30	\$ 4,324	\$ 42	\$ 323	\$ 16,457	
Unpaid principal	\$ 3,432	\$ 3,556	\$ 7,103	\$ 396	\$ 51	\$ 32	\$ 4,992	\$ 42	\$ 523	\$ 20,127	
Related allowance	\$ 603	\$ 352	\$ 2,237	\$ 81	\$ 5	\$ 12	\$ 840	\$ 11	\$ 111	\$ 4,252	



Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Average recorded Investment	\$ 3,890	\$ 7,841	\$ 6,331	\$ 317	\$ 102	\$ 49	\$ 2,800	\$ 1,543	\$ 6,570	\$ 29,443
Interest income Recognized	\$ 67	\$ 129	\$ 103	\$ 16	\$ 1	\$ 1	\$ 100	\$ 6	\$ 5	\$ 428

**Table of Contents**

**Note 5 Allowance for Loan Losses (Continued)**

The following tables show the recorded investment (financial statement balance), unpaid principal balance, average recorded investment, and interest income recognized for impaired PNCI loans, segregated by those with no related allowance recorded and those with an allowance recorded for the periods indicated.

(In thousands)	RE Mortgage		Impaired PNCI Loans			As of December 31, 2012			Construction		Total
	Resid.	Comm.	Lines	Loans	Auto Indirect	Other Consumer	C&I	Resid.	Comm.		
<b>With no related allowance recorded:</b>											
Recorded investment		\$ 1,468	\$ 365							\$ 1,833	
Unpaid principal		\$ 3,452	\$ 586							\$ 4,038	
Average recorded Investment	\$ 16	\$ 2,097	\$ 308	\$ 11		\$ 31	\$ 11			\$ 2,474	
Interest income Recognized		\$ 133	\$ 5							\$ 138	
<b>With an allowance recorded:</b>											
Recorded investment	\$ 199	\$ 320	\$ 38			\$ 72				\$ 629	
Unpaid principal	\$ 225	\$ 331	\$ 41			\$ 76				\$ 673	
Related allowance	\$ 28	\$ 163	\$ 27			\$ 35				\$ 253	
Average recorded Investment	\$ 213	\$ 121	\$ 148			\$ 43				\$ 525	
Interest income Recognized	\$ 9	\$ 12	\$ 1			\$ 2				\$ 24	

(In thousands)	RE Mortgage		Impaired Originated Loans			As of March 31, 2012			Construction		Total
	Resid.	Comm.	Lines	Loans	Auto Indirect	Other Consumer	C&I	Resid.	Comm.		
<b>With no related allowance recorded:</b>											
Recorded investment	\$ 7,288	\$ 61,224	\$ 4,039	\$ 188	\$ 311	\$ 55	\$ 8,453	\$ 4,631	\$ 629	\$ 86,818	
Unpaid principal	\$ 9,377	\$ 72,273	\$ 6,755	\$ 488	\$ 568	\$ 80	\$ 9,110	\$ 9,642	\$ 953	\$ 109,246	
Average recorded Investment	\$ 8,079	\$ 52,833	\$ 5,053	\$ 479	\$ 467	\$ 44	\$ 6,597	\$ 5,315	\$ 3,570	\$ 82,437	
Interest income Recognized	\$ 22	\$ 375	\$ 4	\$ 1	\$ 1		\$ 33		\$ 3	\$ 439	
<b>With an allowance recorded:</b>											
Recorded investment	\$ 3,040	\$ 6,521	\$ 4,332	\$ 361	\$ 93	\$ 45	\$ 833	\$ 975	\$ 6,485	\$ 22,685	
Unpaid principal	\$ 3,524	\$ 7,010	\$ 5,389	\$ 720	\$ 117	\$ 47	\$ 873	\$ 2,071	\$ 6,523	\$ 26,274	
Related allowance	\$ 559	\$ 1,043	\$ 1,498	\$ 59	\$ 14	\$ 17	\$ 357	\$ 78	\$ 1,048	\$ 4,673	

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Average recorded Investment	\$ 3,399	\$ 10,714	\$ 3,690	\$ 188	\$ 297	\$ 46	\$ 704	\$ 815	\$ 3,725	\$ 23,578
Interest income Recognized	\$ 6	\$ 62	\$ 11				\$ 7	\$ 2	\$ 94	\$ 182

**Table of Contents****Note 5 Allowance for Loan Losses (Continued)**

The following tables show the recorded investment (financial statement balance), unpaid principal balance, average recorded investment, and interest income recognized for impaired PNCI loans, segregated by those with no related allowance recorded and those with an allowance recorded for the periods indicated.

(In thousands)	Impaired PNCI Loans As of March 31, 2012						Construction		Total	
	RE Mortgage		Home Equity	Auto	Other	C&I	Resid.	Comm.		
	Resid.	Comm.	Lines	Loans	Indirect	Consumer	C&I	Resid.	Comm.	
<b>With no related allowance recorded:</b>										
Recorded investment		\$ 2,072	\$ 326			\$ 77				\$ 2,475
Unpaid principal		\$ 2,075	\$ 363			\$ 78				\$ 2,516
Average recorded										
Investment		\$ 1,036	\$ 163			\$ 39				\$ 1,238
Interest income										
Recognized		\$ 26				\$ 1				\$ 27
<b>With an allowance recorded:</b>										
Recorded investment	\$ 162		\$ 80							\$ 242
Unpaid principal	\$ 162		\$ 84							\$ 246
Related allowance	\$ 23		\$ 80							\$ 103
Average recorded										
Investment	\$ 81		\$ 40							\$ 121
Interest income										
Recognized	\$ 3									\$ 3

At March 31, 2013, \$51,458,000 of Originated loans were TDR and classified as impaired. The Company had obligations to lend \$92,000 of additional funds on these TDR as of March 31, 2013. At March 31, 2013, \$954,000 of PNCI loans were TDR and classified as impaired. The Company had no obligations to lend additional funds on these TDR as of March 31, 2013.

At December 31, 2012, \$57,223,000 of Originated loans were TDR and classified as impaired. The Company had obligations to lend \$137,000 of additional funds on these TDR as of December 31, 2012. At December 31, 2012, \$950,000 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, 2012.

The following table shows certain information regarding Troubled Debt Restructurings (TDRs) that occurred during the period indicated:

(In thousands)	TDR Information for the Three Months Ended March 31, 2013									
	RE		Home Equity	Auto	Other	Construction		Total		
	Mortgage	Home Equity	Auto	Other	Construction	Construction				
Number	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	
Number			3							3
Pre-modification out-standing principal balance			\$ 257							\$ 257
Post-modification out-standing principal balance			\$ 260							\$ 260
Financial Impact due to troubled debt restructure taken as additional provision										
Number that defaulted during the period										
Recorded investment of TDRs that defaulted during the period										
Financial Impact due to the default of previous troubled debt restructure taken as charge-offs or additional provisions										

**Table of Contents****Note 5 Allowance for Loan Losses (Continued)**

The following table shows certain information regarding TDRs that occurred during the period indicated:

(In thousands)	TDR Information for the Three Months Ended March 31, 2012									Total
	RE Mortgage		Home Equity	Auto	Other	Construction		Comm.	Total	
Number	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I			Resid.
Number	2	7	2			1	1	2		15
Pre-modification out-standing principal balance	\$ 650	\$ 1,561	\$ 436			\$ 38	\$ 249	\$ 230		\$ 3,164
Post-modification out-standing principal balance	\$ 669	\$ 1,523	\$ 464			\$ 38	\$ 249	\$ 232		\$ 3,175
Financial Impact due to troubled debt restructure taken as additional provision			\$ 16							\$ 16
Number that defaulted during the period	1	4							1	6
Recorded investment of TDRs that defaulted during the period	\$ 112	\$ 2,632							\$ 39	\$ 2,783
Financial Impact due to the default of previous troubled debt restructure 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 estimated 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.

**Note 6 Foreclosed Assets**

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

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

	Three months ended March 31, 2013			Three months ended March 31, 2012		
	Non covered	Covered	Total	Non covered	Covered	Total
Beginning balance, net	\$ 5,957	\$ 1,541	\$ 7,498	\$ 13,268	\$ 3,064	\$ 16,332
Additions/transfers from loans	5,473	263	5,736	1,694	225	1,919
Dispositions/sales	(6,816)	(267)	(7,083)	(3,379)		(3,379)
Valuation adjustments	(27)		(27)	(83)		(83)
<b>Ending balance, net</b>	<b>\$ 4,587</b>	<b>\$ 1,537</b>	<b>\$ 6,124</b>	<b>\$ 11,500</b>	<b>\$ 3,289</b>	<b>\$ 14,789</b>
Ending valuation allowance	\$ 984	\$ 488	\$ 1,472	\$ (977)	\$ (776)	\$ (1,753)
Ending number of foreclosed assets	33	4	37	52	11	63
Proceeds from sale of foreclosed assets	\$ 7,354	\$ 280	\$ 7,635	\$ 3,021		\$ 3,021
Gain (loss) on sale of foreclosed assets	\$ 538	\$ 13	\$ 551	\$ (358)		\$ (358)

**Table of Contents****Note 7 Premises and Equipment**

Premises and equipment were comprised of:

	March 31, 2013	December 31, 2012
	(In thousands)	
Land & land improvements	\$ 5,905	\$ 5,929
Buildings	23,104	23,090
Furniture and equipment	25,778	25,877
	54,787	54,896
Less: Accumulated depreciation	(32,712)	(32,101)
	22,075	22,795
Construction in progress	7,393	4,190
Total premises and equipment	\$ 29,468	\$ 26,985

Depreciation expense for premises and equipment amounted to \$741,000 and \$782,000 for the three months ended March 31, 2013 and 2012, 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):

	Three months ended March 31,	
	2013	2012
Beginning balance	\$ 50,582	\$ 50,403
Increase in cash value of life insurance	426	450
Ending balance	\$ 51,008	\$ 50,853
End of period death benefit	\$ 94,234	\$ 95,593
Number of policies owned	133	139
Insurance companies used	6	6
Current and former employees and directors covered	36	38

As of March 31, 2013, the Bank was the owner and beneficiary of 133 life insurance policies, issued by six life insurance companies, covering 36 current and former employees and directors. These life insurance policies are recorded on the Company's 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 insureds 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.

**Note 9 Goodwill and Other Intangible Assets**

The following table summarizes the Company's goodwill intangible as of the dates indicated.

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

(In thousands)	March 31, 2013	Additions	Reductions	December 31, 2012
Goodwill	\$ 15,519			\$ 15,519

The following table summarizes the Company's core deposit intangibles as of the dates indicated.

(In thousands)	March 31, 2013	Additions	Reductions	December 31, 2012
Core deposit intangibles	\$ 1,460			\$ 1,460
Accumulated amortization	(420)		\$ (52)	(368)
Core deposit intangibles, net	\$ 1,040		\$ (52)	\$ 1,092

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

Years Ended	Estimated Core Deposit Intangible Amortization
2013	\$ 209
2014	209
2015	209
2016	209
2017	209
2018	\$ 47



**Table of Contents****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 (in thousands):

	Three months ended March 31,	
	2013	2012
<b>Mortgage servicing rights:</b>		
Balance at beginning of period	\$ 4,552	\$ 4,603
Additions	493	550
Change in fair value	(61)	(369)
<b>Balance at end of period</b>	<b>\$ 4,984</b>	<b>\$ 4,784</b>
Servicing, late and ancillary fees received	\$ 417	\$ 372
<b>Balance of loans serviced at:</b>		
Beginning of period	\$ 666,512	\$ 598,185
End of period	\$ 680,447	\$ 615,867
Weighted-average prepayment speed (CPR)	17.3%	18.4%
Discount rate	10.0%	9.0%

The changes in fair value of MSR that occurred during the three months ended March 31, 2013 and 2012 were mainly due to changes in principal balances and changes in the estimated life of the MSRs.

**Note 11 Indemnification Asset**

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

	Three months ended March 31,	
	2013	2012
Beginning balance	\$ 1,997	\$ 4,405
Effect of actual covered losses and change in estimated future covered losses	(35)	(418)
Reimbursable (revenue) expenses, net	(39)	58
Payments received	(116)	(640)
<b>Ending balance</b>	<b>\$ 1,807</b>	<b>\$ 3,405</b>

**Note 12 Other Assets**

Other assets were comprised of (in thousands):

	March 31, 2013	December 31, 2012
Deferred tax asset, net	\$ 28,098	\$ 28,935
Prepaid expense including FDIC assessment and taxes	4,507	3,455
Software	1,434	1,550
Life insurance proceeds receivable		706
Advanced compensation	1,408	1,440
TriCo Capital Trust I & II	1,238	1,238

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Miscellaneous other assets	1,799	1,283
Total other assets	\$ 38,484	\$ 38,607

**Note 13 Deposits**

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

	March 31, 2013	December 31, 2012
Noninterest-bearing demand	\$ 639,420	\$ 684,833
Interest-bearing demand	531,695	503,465
Savings	786,352	762,924
Time certificates, \$100,000 and over	175,288	180,195
Other time certificates	152,795	158,285
Total deposits	\$ 2,285,550	\$ 2,289,702

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 March 31, 2013 and December 31, 2012, 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 \$1,112,000 and \$1,408,000 were classified as consumer loans at March 31, 2013 and December 31, 2012, respectively.

**Table of Contents****Note 14 Reserve for Unfunded Commitments**

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

	Three months ended March 31,	
	2013	2012
Balance at beginning of period	\$ 3,615	\$ 2,740
Provision for losses unfunded commitments	(440)	(190)
Balance at end of period	\$ 3,175	\$ 2,550

**Note 15 Other Liabilities**

Other liabilities were comprised of (in thousands):

	March 31, 2013	December 31, 2012
Deferred compensation	\$ 7,894	\$ 7,738
Supplemental retirement	16,694	16,345
Joint beneficiary agreements	2,805	2,736
Accrued legal settlement	2,090	2,090
Miscellaneous other liabilities	7,857	6,213
Total other liabilities	\$ 37,340	\$ 35,122

**Note 16 Other Borrowings**

A summary of the balances of other borrowings follows:

(In thousands)	March 31, 2013	December 31, 2012
Other collateralized borrowings, fixed rate, as of March 31, 2013 of 0.05% payable on April 1, 2013	\$ 8,125	\$ 9,197
Total other borrowings	\$ 8,125	\$ 9,197

The Company had \$8,125,000 and \$9,197,000 of other collateralized borrowings at March 31, 2013 and December 31, 2012, respectively. Other collateralized borrowings are generally overnight maturity borrowings from non-financial institutions that are collateralized by securities owned by the Company. As of March 31, 2013, the Company has pledged as collateral and sold under agreements to repurchase investment securities with fair value of \$8,125,000 under these other collateralized borrowings.

The Company maintains a collateralized line of credit with the Federal Home Loan Bank of San Francisco. Based on the FHLB stock requirements at March 31, 2013, this line provided for maximum borrowings of \$511,625,000 of which none was outstanding, leaving \$511,625,000 available. As of March 31, 2013, the Company has designated loans totaling \$1,006,023,000 as potential collateral 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 March 31, 2013, this line provided for maximum borrowings of \$80,091,000 of which none was outstanding, leaving \$80,091,000 available. As of March 31, 2013, the Company has designated investment securities with fair value of \$54,000 and loans totaling \$102,267,000 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 March 31, 2013.

**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.

**Table of Contents**

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.

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). As of March 31, 2013, the interest rates on the junior subordinated debentures issued by TriCo Capital Trust I and II were 3.354% and 2.852%, respectively.

**Note 18 Commitments and Contingencies**

*Restricted Cash Balances* Reserves (in the form of deposits with the Federal Reserve Bank) of \$35,533,000 and \$31,594,000 were maintained to satisfy Federal regulatory requirements at March 31, 2013 and December 31, 2012, respectively. These reserves are included in cash and due from banks in the accompanying balance sheets.

*Lease Commitments* The Company leases 47 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.

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)
2013	\$ 2,772
2014	2,417
2015	1,536
2016	954
2017	617
Thereafter	1,312
<b>Future minimum lease payments</b>	<b>\$ 9,608</b>

Rent expense under operating leases was \$791,000 and \$832,000 during the three months ended March 31, 2013 and 2012, respectively

*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.

**Table of Contents**

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

(In thousands)	March 31, 2013	December 31, 2012
<b>Financial instruments whose amounts represent risk:</b>		
<b>Commitments to extend credit:</b>		
Commercial loans	\$ 133,953	\$ 123,517
Consumer loans	369,110	369,467
Real estate mortgage loans	27,388	27,959
Real estate construction loans	28,711	36,311
Standby letters of credit	2,004	2,905
Deposit account overdraft privilege	71,288	69,675

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.

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 0.4206 per Class A share. As of March 31, 2013, the value of the Class A shares was \$169.84 per share. Utilizing the conversion ratio, the value of unredeemed Class A equivalent shares owned by the Company was \$730,000 as of March 31, 2013, 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.

On September 27, 2012, the Company announced that the Bank entered into a tentative settlement with a former employee who filed a class action lawsuit against the Bank in the Superior Court of California, Kern County on behalf of herself and a putative class of current and former Bank employees serving as assistant branch managers seeking undisclosed damages, alleging that the Bank improperly classified its assistant branch managers as exempt employees under California laws. The lawsuit alleges claims for: failure to pay overtime compensation; failure to provide meal periods; failure to provide rest periods; failure to provide accurate wage statements; failure to provide suitable seating; declaratory relief; accounting; and unfair business practices in violation of California Business and Professions Code section 17200. On September 26, 2012, after efforts to mediate the claim, the Bank and the former employee agreed to settle the case in an amount ranging from \$2,039,500 to \$2,500,000, depending primarily on the number of class participants who file claims, and pending approval by the court, including determination of the method to allocate settlement payments among current and former employees who are members of the defined settlement class, and the portion of the total settlement allocable to attorney's fees and costs to plaintiff's counsel. On September 26, 2012, the Bank recorded a \$2,090,000 expense and accrued liability in anticipation of approval of this settlement by the court and estimated related payroll taxes.

The Company is a defendant in other 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.

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

*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.



---

**Table of Contents****Note 19 Shareholders Equity****Dividends Paid**

The Bank paid to the Company cash dividends in the aggregate amounts of \$1,700,000 and \$1,625,000 during the three months ended March 31, 2013 and 2012, respectively. The Bank is regulated by the 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.

**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. On July 8, 2011, the Company amended the Rights Plan to extend its maturity until July 10, 2021.

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.

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.

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 \$0.01 per right until an acquiring entity acquires a 15% position.

**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 March 31, 2013, the Company had repurchased 166,600 shares under this plan.

**Stock Repurchased Under Equity Compensation Plans**

During the three months ended March 31, 2013, 15,647 shares of the Company's common stock were tendered in lieu of cash to exercise options to purchase shares of the Company's stock. Such tendered shares are considered repurchased shares but are not counted against the repurchase plan noted above.

**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 granting of the following types of stock awards (Awards): incentive stock options, nonstatutory stock options, performance awards, restricted stock, restricted stock unit awards and stock appreciation rights. In May 2013, the Company's shareholders approved an amendment to the 2009 Plan increasing the maximum aggregate number of shares of TriCo's common stock which may be issued pursuant to or subject to Awards from 650,000 to 1,650,000. The number of shares available for issuance under the 2009 Plan is 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

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

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 March 31, 2013, 585,500 options for the purchase of common shares remain outstanding, and 1,064,500 remain available for grant, under the 2009 Plan (giving effect to the amendment described above).

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 March 31, 2013, 795,935 options for the purchase of common shares remain outstanding under the 2001 Plan. No new options may be granted under the 2001 Plan.

**Table of Contents**

Stock option activity is summarized in the following table for the time period indicated:

	Number of Shares	Option Price per Share		Weighted Average Exercise Price	Weighted Average Fair Value on Date of Grant
Outstanding at December 31, 2012	1,393,935	\$ 12.60	to \$ 25.91	\$ 17.07	
Options granted	7,500	\$ 16.59	to \$ 16.59	\$ 16.59	\$ 7.51
Options exercised	(20,000)	\$ 13.09	to \$ 13.09	\$ 13.09	
Options forfeited			to		
Outstanding at March 31, 2013	1,381,435	\$ 12.60	to \$ 25.91	\$ 17.13	

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 March 31, 2013:

	Currently Exercisable	Currently Not Exercisable	Total Outstanding
Number of options	1,047,546	333,889	1,381,435
Weighted average exercise price	\$ 17.65	\$ 15.49	\$ 17.13
Intrinsic value (in thousands)	\$ 1,379	\$ 568	\$ 1,947
Weighted average remaining contractual term (yrs.)	3.7	8.5	4.9

The 333,889 options that are currently not exercisable as of March 31, 2013 are expected to vest, on a weighted-average basis, over the next 3.3 years, and the Company is expected to recognize \$2,308,000 of pre-tax compensation costs related to these options as they vest. The Company did not modify any option grants during 2012 or the three months ended March 31, 2013.

**Note 21 Noninterest Income and Expenses**

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

	Three months ended March 31,	
	2013	2012
Service charges on deposit accounts	\$ 3,140	\$ 3,527
ATM and interchange fees	1,875	1,819
Other service fees	559	603
Mortgage banking service fees	416	372
Change in value of mortgage servicing rights	(61)	(369)
Total service charges and fees	5,929	5,952
Gain on sale of loans	2,294	1,650
Commissions on sale of non-deposit investment products	761	819
Increase in cash value of life insurance	426	450
Change in indemnification asset	(101)	(353)
Gain (loss) on sale of foreclosed assets	551	(358)
Sale of customer checks	91	73
Lease brokerage income	117	58
Loss on disposal of fixed assets	(16)	(235)
Commission rebates		(16)
Other	166	225
Total other noninterest income	4,289	2,313

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Total noninterest income	\$ 10,218	\$ 8,265
--------------------------	-----------	----------

Mortgage loan servicing fees, net of change in fair value of mortgage loan servicing rights, totaling \$355,000 and \$3,000 were recorded in service charges and fees noninterest income for the three months ended March 31, 2013 and 2012, respectively.

**Table of Contents****Note 21 Noninterest Income and Expenses (continued)**

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

	Three months ended March 31,	
	2013	2012
Base salaries, net of deferred loan origination costs	\$ 8,348	\$ 8,159
Incentive compensation	1,286	1,375
Benefits and other compensation costs	3,327	3,228
<b>Total salaries and benefits expense</b>	<b>12,961</b>	<b>12,762</b>
Occupancy	1,659	1,716
Equipment	1,034	1,117
Data processing and software	1,078	1,294
ATM network charges	496	567
Telecommunications	525	555
Postage	231	256
Courier service	167	189
Advertising	325	498
Assessments	606	606
Operational losses	117	116
Professional fees	486	423
Foreclosed assets expense	99	525
Provision for foreclosed asset losses	27	83
Change in reserve for unfunded commitments	(440)	(190)
Intangible amortization	52	53
Other	2,178	2,345
<b>Total other noninterest expense</b>	<b>8,640</b>	<b>10,153</b>
<b>Total noninterest income</b>	<b>\$ 21,601</b>	<b>\$ 22,915</b>

**Note 22 Income Taxes**

The provisions for income taxes applicable to income before taxes differ from amounts computed by applying the statutory Federal income tax rates to income before taxes. The effective tax rate and the statutory federal income tax rate are reconciled for the periods indicated as follows:

	Three months ended March 31,	
	2013	2012
Federal statutory income tax rate	35.0%	35.0%
State income taxes, net of federal tax benefit	6.8	6.3
Tax-exempt interest on municipal obligations	(0.2)	(0.6)
Increase in cash value of insurance policies	(1.0)	(2.5)
Other	0.1	0.3
<b>Effective Tax Rate</b>	<b>40.7%</b>	<b>38.5%</b>

**Note 23 Earnings Per Share**

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

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

(In thousands)	Three months ended March 31,	
	2013	2012
Net income	\$ 8,477	\$ 3,931
Average number of common shares outstanding	16,002	15,979
Effect of dilutive stock options	89	64
Average number of common shares outstanding used to calculate diluted earnings per share	16,091	16,043
Options excluded from diluted earnings per share because the effect of these options was antidilutive	856	869

**Table of Contents****Note 24 Comprehensive Income**

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

(In thousands)	Three months ended March 31,	
	2013	2012
Decrease in unrealized gains on available-for-sale securities arising during the period	\$ (1,073)	\$ (265)
Tax effect	452	112
<b>Other comprehensive income</b>	<b>\$ (621)</b>	<b>\$ (153)</b>

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

	March 31,	December 31,
	2013	2012
	(In thousands)	
Net unrealized gains on available-for-sale securities	\$ 7,361	\$ 8,434
Tax effect	(3,095)	(3,547)
<b>Unrealized gains on available-for-sale securities, net of tax</b>	<b>4,266</b>	<b>4,887</b>
Minimum pension liability	(3,806)	(3,806)
Tax effect	1,600	1,600
<b>Minimum pension liability, net of tax</b>	<b>(2,206)</b>	<b>(2,206)</b>
Joint beneficiary agreement liability	(522)	(522)
Tax effect		
<b>Joint beneficiary agreement liability, net of tax</b>	<b>(522)</b>	<b>(522)</b>
<b>Accumulated other comprehensive income (loss)</b>	<b>\$ 1,538</b>	<b>\$ 2,159</b>

**Note 25 Retirement Plans**

The Company has supplemental retirement plans for current and former directors and key executives. These plans are non-qualified defined benefit plans and are unsecured and unfunded. The Company has purchased insurance on the lives of the participants and intends (but is not required) to use the cash values of these policies to pay the retirement obligations. The following table sets forth the net periodic benefit cost recognized for the plans:

Three months ended March 31,	
2013	2012
(In thousands)	

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Net pension cost included the following components:		
Service cost-benefits earned during the period	\$ 185	\$ 170
Interest cost on projected benefit obligation	160	172
Amortization of net obligation at transition		
Amortization of prior service cost	38	38
Recognized net actuarial loss	72	72
<b>Net periodic pension cost</b>	<b>\$ 455</b>	<b>\$ 452</b>

During the three months ended March 31, 2013 and 2012, the Company contributed and paid out as benefits \$106,000 and \$106,000, respectively, to participants under the plans. For the year ending December 31, 2013, the Company expects to contribute and pay out as benefits \$472,000 to participants under the plans.



**Table of Contents****Note 26 Related Party Transactions**

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

The following table summarizes the activity in these loans for the periods indicated (in thousands):

Balance December 31, 2011	\$ 1,764
Advances/new loans	1,568
Removed/payments	(964)
Balance December 31, 2012	\$ 2,368
Advances/new loans	227
Removed/payments	(220)
Balance March 31, 2013	\$ 2,375

Director Chrysler is a principal owner and CEO of Modern Building Inc. Modern Building Inc. provided construction services to Tri Counties Bank related to new and existing Bank facilities for aggregate payments of \$1,601,000 during the three months ended March 31, 2013 and \$3,924,000 during the year ended December 31, 2012.

**Note 27 Fair Value Measurement**

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

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

- Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.
- Securities available-for-sale* Securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. The Company had no securities classified as Level 3 during any of the periods covered in these financial statements.

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

*Impaired originated and PNCI loans* Originated and PNCI loans are not recorded at fair value on a recurring basis. However, from time to time, an originated or PNCI loan is considered impaired and an allowance for loan losses is established. Originated and PNCI loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. The fair value of an impaired originated or PNCI loan is estimated using one of several methods, including collateral value, fair value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired originated and PNCI loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. Impaired originated and PNCI loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value which uses substantially observable data, the Company records the impaired originated or PNCI loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further

**Table of Contents**

impaired below the appraised value, or the appraised value contains a significant unobservable assumption, such as deviations from comparable sales, and there is no observable market price, the Company records the impaired originated or PNCI loan as nonrecurring Level 3.

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

*Mortgage servicing rights* Mortgage servicing rights are carried at fair value. A valuation model, which utilizes a discounted cash flow analysis using a discount rate and prepayment speed assumptions is used in the computation of the fair value measurement. While the prepayment speed assumption is currently quoted for comparable instruments, the discount rate assumption currently requires a significant degree of management judgment and is therefore considered an unobservable input. As such, the Company classifies mortgage servicing rights subjected to recurring fair value adjustments as Level 3. Additional information regarding mortgage servicing rights can be found in Note 10 in the consolidated financial statements at Item 1 of this report.

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

Fair value at March 31, 2013	Total	Level 1	Level 2	Level 3
<b>Securities available-for-sale:</b>				
Obligations of U.S. government corporations and agencies	\$ 133,964		\$ 133,964	
Obligations of states and political subdivisions	8,578		8,578	
Corporate debt securities	1,912		1,912	
Mortgage servicing rights	4,984			\$ 4,984
<b>Total assets measured at fair value</b>	<b>\$ 149,438</b>		<b>\$ 144,454</b>	<b>\$ 4,984</b>

Fair value at December 31, 2012	Total	Level 1	Level 2	Level 3
<b>Securities available-for-sale:</b>				
Obligations of U.S. government corporations and agencies	\$ 151,701		\$ 151,701	
Obligations of states and political subdivisions	9,421		9,421	
Corporate debt securities	1,905		1,905	
Mortgage servicing rights	4,552			\$ 4,552
<b>Total assets measured at fair value</b>	<b>\$ 167,579</b>		<b>\$ 163,027</b>	<b>\$ 4,552</b>

Transfers between levels of the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer, which generally corresponds with the Company's quarterly valuation process. There were no transfers between any levels during the three months ended March 31, 2013 or the year ended December 31, 2012.

The following table provides a reconciliation of assets and liabilities measured at fair value using significant unobservable inputs (Level 3) on a recurring basis during the three months ended March 31, 2013 and 2012. Had there been any transfer into or out of Level 3 during 2012 or 2011, the amount included in the Transfers into (out of) Level 3 column would represent the beginning balance of an item in the period (interim quarter) during which it was transferred (in thousands):

Three months ended December 31,	Beginning Balance	Transfers into (out of)	Change Included	Issuances	Ending Balance
---------------------------------	-------------------	-------------------------	-----------------	-----------	----------------

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

	Level 3	in Earnings		
2013: Mortgage servicing rights	\$ 4,552	\$ (61)	\$ 493	\$ 4,984
2012: Mortgage servicing rights	\$ 4,603	\$ (369)	\$ 550	\$ 4,784

The Company's method for determining the fair value of mortgage servicing rights is described in Note 1. The key unobservable inputs used in determining the fair value of mortgage servicing rights are mortgage prepayment speeds and the discount rate used to discount cash projected cash flows. Generally, any significant increases in the mortgage prepayment speed and discount rate utilized in the fair value measurement of the mortgage servicing rights will result in a negative fair value adjustments (and decrease in the fair value measurement). Conversely, a decrease in the mortgage prepayment speed and discount rate will result in a positive fair value adjustment (and increase in the fair value measurement). Note 10 contains additional information regarding mortgage servicing rights.

**Table of Contents**

The following table presents quantitative information about recurring Level 3 fair value measurements at March 31, 2013:

	Fair Value (in thousands)	Valuation Technique	Unobservable Inputs	Range, Weighted Average
Mortgage Servicing Rights	\$ 4,984	Discounted cash flow	Constant prepayment rate Discount rate	7.5%-24.0%, 17.3% 10.0%-10.0%, 10.0%

The tables below present the recorded amount of assets and liabilities measured at fair value on a nonrecurring basis, as of the dates indicated, that had a write-down or an additional allowance provided during the periods indicated (in thousands):

Three months ended March 31, 2013	Total	Level 1	Level 2	Level 3	Total Gains (Losses)
<b>Fair value:</b>					
Impaired Originated & PNCI loans	\$ 23,989			\$ 23,989	\$ (1,948)
Foreclosed assets	352			352	(27)
<b>Total assets measured at fair value</b>	<b>\$ 24,341</b>			<b>\$ 24,341</b>	<b>\$ (1,975)</b>

Three months ended March 31, 2012	Total	Level 1	Level 2	Level 3	Total Gains (Losses)
<b>Fair value:</b>					
Impaired Originated & PNCI loans	\$ 21,110			\$ 21,110	\$ (334)
Foreclosed assets	680			680	(83)
<b>Total assets measured at fair value</b>	<b>\$ 21,790</b>			<b>\$ 21,790</b>	<b>\$ (417)</b>

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

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

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

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a nonrecurring basis at March 31, 2013:

	Fair Value (in thousands)	Valuation Technique	Unobservable Inputs	Range, Weighted Average
Impaired Originated & PNCI Loans	\$ 23,989	Sales comparison approach	Adjustment for differences between comparable sales Capitalization rate	0.0%-41.2%, 12.8%  6.7%-9.5%, 9.1%
Foreclosed assets	\$ 352	Sales comparison approach	Adjustment for differences between comparable sales	7.5%-7.5%, 7.5%

---

**Table of Contents**

In addition to the methods and assumptions used to estimate the fair value of each class of financial instrument noted above, the following methods and assumptions were used to estimate the fair value of other classes of financial instruments for which it is practical to estimate the fair value.

*Short-term Instruments* Cash and due from banks, fed funds purchased and sold, interest receivable and payable, and short-term borrowings are considered short-term instruments. For these short-term instruments their carrying amount approximates their fair value.

*Restricted Equity Securities* The carrying value of restricted equity securities approximates fair value as the shares can only be redeemed by the issuing institution at par.

*Originated and PNCI loans* - The fair value of variable rate originated and PNCI loans is the current carrying value. The interest rates on these originated and PNCI loans are regularly adjusted to market rates. The fair value of other types of fixed rate originated and PNCI loans is estimated by discounting the future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings for the same remaining maturities. The allowance for loan losses is a reasonable estimate of the valuation allowance needed to adjust computed fair values for credit quality of certain originated and PNCI loans in the portfolio.

*PCI Loans* PCI loans are measured at estimated fair value on the date of acquisition. Carrying value is calculated as the present value of expected cash flows and approximates fair value.

*FDIC Indemnification Asset* The fair value of the FDIC indemnification asset is based on the discounted value of expected future cash flows under the loss-share agreement.

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

*Other Borrowings* - The fair value of other borrowings is calculated based on the discounted value of the contractual cash flows using current rates at which such borrowings can currently be obtained.

*Junior Subordinated Debentures* The fair value of junior subordinated debentures is estimated using a discounted cash flow model. The future cash flows of these instruments are extended to the next available redemption date or maturity date as appropriate based upon the spreads of recent issuances or quotes from brokers for comparable bank holding companies compared to the contractual spread of each junior subordinated debenture measured at fair value.

*Commitments to Extend Credit and Standby Letters of Credit* The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit worthiness of the counter parties. For fixed rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligation with the counter parties at the reporting date.

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

**Table of Contents**

The estimated fair values of financial instruments that are reported at amortized cost in the Corporation's consolidated balance sheets, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value, were as follows (in thousands):

	March 31, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets:</b>				
<b>Level 1 inputs:</b>				
Cash and due from banks	\$ 70,023	\$ 70,023	\$ 81,086	\$ 81,086
Cash at Federal Reserve and other banks	732,248	732,248	667,813	667,813
<b>Level 2 inputs:</b>				
Restricted equity securities	9,647	9,647	9,647	9,647
Loans held for sale	7,931	7,931	12,053	12,053
Accrued interest receivable	7,201	7,201	6,636	6,636
<b>Level 3 inputs:</b>				
Loans, net	1,492,495	1,572,687	1,522,175	1,607,044
Indemnification asset	1,807	1,807	1,997	1,997
<b>Financial liabilities:</b>				
<b>Level 2 inputs:</b>				
Deposits	2,285,550	2,287,439	2,289,702	2,291,841
Accrued interest payable	975	975	1,036	1,036
Other borrowings	8,125	8,125	9,197	9,197
Junior subordinated debt	41,238	28,454	41,238	28,042
	Contract Amount	Fair Value	Contract Amount	Fair Value
<b>Off-balance sheet:</b>				
<b>Level 3 inputs:</b>				
Commitments	\$ 559,162	\$ 5,592	\$ 557,254	\$ 5,573
Standby letters of credit	2,004	20	2,905	29
Overdraft privilege commitments	71,288	713	69,675	697



**Table of Contents****Note 28 TriCo Bancshares Condensed Financial Statements (Parent Only)**

<b>Condensed Balance Sheets</b>	March 31,	December 31,
	2013	2012
	(In thousands)	
<b>Assets</b>		
Cash and Cash equivalents	\$ 2,497	\$ 2,511
Investment in Tri Counties Bank	273,794	267,118
Other assets	1,238	1,238
<b>Total assets</b>	<b>\$ 277,529</b>	<b>\$ 270,867</b>
<b>Liabilities and shareholders' equity</b>		
Other liabilities	\$ 261	\$ 270
Junior subordinated debt	41,238	41,238
<b>Total liabilities</b>	<b>41,499</b>	<b>41,508</b>
<b>Shareholders' equity:</b>		
Common stock, no par value: authorized 50,000,000 shares; issued and outstanding 16,005,191 and 16,000,838 shares, respectively	85,995	85,561
Retained earnings	148,497	141,639
Accumulated other comprehensive loss, net	1,538	2,159
<b>Total shareholders' equity</b>	<b>236,030</b>	<b>229,359</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 277,529</b>	<b>\$ 270,867</b>
<b>Condensed Statements of Income</b>	Three months ended March 31,	2012
	2013	(In thousands)
Interest expense	\$ 311	\$ 338
Administration expense	145	131
Loss before equity in net income of Tri Counties Bank	(456)	(469)
Equity in net income of Tri Counties Bank:		
Distributed	1,700	1,625
Under distributed	7,041	2,583
Income tax benefit	192	192
<b>Net income</b>	<b>\$ 8,477</b>	<b>\$ 3,931</b>
<b>Condensed Statements of Comprehensive Income</b>	Three months ended March 31,	2012
	2013	(In thousands)
Net income	\$ 8,477	\$ 3,931
Other comprehensive loss, net of tax:		
Decrease in unrealized gains on available-for-sale securities arising during the period	(621)	(153)
<b>Other comprehensive loss</b>	<b>(621)</b>	<b>(153)</b>
<b>Comprehensive income</b>	<b>\$ 7,856</b>	<b>\$ 3,778</b>

**Condensed Statements of Cash Flows**

Three months ended March 31,  
2013                      2012  
(In thousands)

<b>Operating activities:</b>		
Net income	\$ 8,477	\$ 3,931
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Under distributed equity in earnings of Tri Counties Bank	(7,041)	(2,583)
Stock option vesting expense	236	257
Stock option excess tax benefits	(20)	
Net change in other assets and liabilities	(245)	(246)
Net cash provided by operating activities	1,407	1,359
<b>Investing activities: None</b>		
<b>Financing activities:</b>		
Stock option excess tax benefits	20	
Cash dividends paid - common	(1,441)	(1,438)
Net cash used for financing activities	(1,421)	(1,438)
Net change in cash and cash equivalents	(14)	(79)
Cash and cash equivalents at beginning of year	2,511	706
Cash and cash equivalents at end of year	\$ 2,497	\$ 627

**Table of Contents****Note 29 Regulatory Matters**

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

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of March 31, 2013, that the Company meets all capital adequacy requirements to which it is subject.

As of March 31, 2013, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since that notification that Management believes have changed the institution's category. The Bank's actual capital amounts and ratios are also presented in the table.

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(dollars in thousands)						
<b>As of March 31, 2013:</b>						
<b>Total Capital (to Risk Weighted Assets):</b>						
Consolidated	\$ 280,792	15.19%	147,908	8.0%	N/A	N/A
Tri Counties Bank	\$ 278,540	15.08%	147,808	8.0%	\$ 184,661	10.0%
<b>Tier 1 Capital (to Risk Weighted Assets):</b>						
Consolidated	\$ 257,435	13.92%	73,954	4.0%	N/A	N/A
Tri Counties Bank	\$ 255,199	13.81%	73,904	4.0%	\$ 110,856	6.0%
<b>Tier 1 Capital (to Average Assets):</b>						
Consolidated	\$ 257,435	9.93%	103,710	4.0%	N/A	N/A
Tri Counties Bank	\$ 255,189	9.85%	103,658	4.0%	\$ 129,572	5.0%
<b>As of December 31, 2012:</b>						
<b>Total Capital (to Risk Weighted Assets):</b>						
Consolidated	\$ 273,979	14.53%	\$ 150,896	8.0%	N/A	N/A
Tri Counties Bank	\$ 271,723	14.42%	\$ 150,796	8.0%	\$ 188,495	10.0%
<b>Tier 1 Capital (to Risk Weighted Assets):</b>						
Consolidated	\$ 250,133	13.27%	\$ 75,448	4.0%	N/A	N/A
Tri Counties Bank	\$ 247,892	13.16%	\$ 75,398	4.0%	\$ 113,097	6.0%
<b>Tier 1 Capital (to Average Assets):</b>						
Consolidated	\$ 250,133	9.82%	\$ 101,918	4.0%	N/A	N/A
Tri Counties Bank	\$ 247,892	9.73%	\$ 101,866	4.0%	\$ 127,333	5.0%

**Table of Contents****Note 30 Summary of Quarterly Results of Operations (unaudited)**

The following table sets forth the results of operations for the quarters of 2012 and 2011, and is unaudited; however, in the opinion of Management, it reflects all adjustments (which include only normal recurring adjustments) necessary to present fairly the summarized results for such periods.

	December 31,	2013 Quarters Ended		March 31,
		September 30,	June 30,	
(In thousands, except per share data)				
Interest and dividend income:				
Loans:				
Discount accretion PCI cash basis				\$ 167
Discount accretion PCI other				597
Discount accretion PNCI				766
Regular interest Purchased loans				3,074
All other loan interest income				19,468
Total loan interest income				24,072
Debt securities, dividends and interest bearing cash at Banks (not FTE)				1,734
Total interest income				25,806
Interest expense				1,237
Net interest income				24,569
Reversal of provision for loan losses				(1,108)
Net interest income after provision for loan losses				25,677
Noninterest income				10,218
Noninterest expense				21,601
Income before income taxes				14,294
Income tax expense				5,817
Net income				\$ 8,477
Per common share:				
Net income (diluted)				\$ 0.53
Dividends				\$ 0.09

	December 31,	2012 Quarters Ended		March 31,
		September 30,	June 30,	
(In thousands, except per share data)				
Interest and dividend income:				
Loans:				
Discount accretion PCI cash basis	\$ 42	\$ 24	\$ 108	\$ 18
Discount accretion PCI other	979	1,192	886	776
Discount accretion PNCI	841	591	1,391	1,286
Regular interest Purchased loans	3,226	3,251	3,439	3,420
All other loan interest income	19,157	20,472	19,968	19,429

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Total loan interest income	24,245	25,530	25,792	24,929
Debt securities, dividends and interest bearing cash at Banks (not FTE)	1,898	1,935	2,152	2,235
Total interest income	26,143	27,465	27,944	27,164
Interest expense	1,372	1,834	2,010	2,128
Net interest income	24,771	25,631	25,934	25,036
Provision for loan losses	1,524	532	3,371	3,996
Net interest income after provision for loan losses	23,247	25,099	22,563	21,040
Noninterest income	10,011	9,127	10,577	8,265
Noninterest expense	25,126	25,590	24,367	22,915
Income before income taxes	8,132	8,636	8,773	6,390
Income tax expense	3,410	3,616	3,452	2,459
Net income	\$ 4,722	\$ 5,020	\$ 5,321	\$ 3,931
Per common share:				
Net income (diluted)	\$ 0.29	\$ 0.31	\$ 0.33	\$ 0.25
Dividends	\$ 0.09	\$ 0.09	\$ 0.09	\$ 0.09

---

**Table of Contents****Item 2. 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**

There have been no changes to the Company's critical accounting policies during the three months ended March 31, 2013.

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.

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.

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**

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

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.

**Table of Contents****TRICO BANCSHARES**

## Financial Summary

(In thousands, except per share amounts; unaudited)

	Three months ended March 31,	
	2012	2011
Net Interest Income (FTE)	\$ 24,630	\$ 25,101
Benefit (provision) for loan losses	1,108	(3,996)
Noninterest income	10,218	8,265
Noninterest expense	(21,601)	(22,915)
Provision for income taxes (FTE)	(5,878)	(2,524)
Net income	\$ 8,477	\$ 3,931
Earnings per share:		
Basic	\$ 0.53	\$ 0.25
Diluted	\$ 0.53	\$ 0.25
Per share:		
Dividends paid	\$ 0.09	\$ 0.09
Book value at period end	\$ 14.75	\$ 13.71
Tangible book value at period end	\$ 13.71	\$ 12.66
Average common shares outstanding	16,002	15,979
Average diluted common shares outstanding	16,091	16,043
Shares outstanding at period end	16,005	15,979
At period end:		
Loans, net	\$ 1,492,495	\$ 1,465,633
Total assets	2,612,433	2,532,908
Total deposits	2,285,550	2,169,746
Other borrowings	8,125	69,074
Junior subordinated debt	41,238	41,238
Shareholders' equity	\$ 236,030	\$ 219,038
Financial Ratios:		
During the period (annualized):		
Return on assets	1.30%	0.63%
Return on equity	14.51%	7.14%
Net interest margin <sup>1</sup>	4.05%	4.30%
Net loan charge-offs to average loans	0.43%	1.17%
Efficiency ratio <sup>1</sup>	62.0%	68.7%
Average equity to average assets	8.95%	8.76%
At period end:		
Equity to assets	9.03%	8.65%
Total capital to risk-adjusted assets	15.19%	14.28%
Allowance for losses to loans <sup>2</sup>	2.81%	3.01%

<sup>1</sup> Fully taxable equivalent (FTE)<sup>2</sup> Allowance for losses includes allowance for loan losses and reserve for unfunded commitments.



**Table of Contents****Results of Operations****Overview**

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

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

	Three months ended March 31,	
	2013	2012
Net Interest Income (FTE)	\$ 24,630	\$ 25,101
Benefit from (provision for) loan losses	1,108	(3,996)
Noninterest income	10,218	8,265
Noninterest expense	(21,601)	(22,915)
Provision for income taxes (FTE)	(5,878)	(2,524)
Net income	\$ 8,477	\$ 3,931

**Net Interest Income**

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

	Three months ended March 31,	
	2013	2012
Interest income	\$ 25,806	\$ 27,164
Interest expense	(1,237)	(2,128)
FTE adjustment	61	65
Net interest income (FTE)	\$ 24,630	\$ 25,101
Net interest margin (FTE)	4.05%	4.30%

Net interest income (FTE) during the first quarter of 2013 decreased \$471,000 (1.9%) from the same period in 2012 to \$24,630,000. The decrease in net interest income (FTE) was due primarily to a 31 basis point decrease in average yield on loans, and a \$69,357,000 decrease in average balance of investments, that were partially offset by a \$21,019,000 increase in the average balance of loans, and a \$61,916,000 decrease in the average balance of other borrowings. The 31 basis point decrease in average loan yields reduced net interest income by \$1,200,000 while the decrease in average investment balances reduced net interest income by \$549,000 from the year ago period. The increase in average loan balances added \$343,000 to net interest income, and the decrease in average other borrowings added \$536,000 to net interest income when compared to the year ago period. Accretion of loan purchase discounts totaling \$1,530,000 and \$2,080,000 are included in net interest income for the three months ended March 31, 2013 and 2012, respectively. For more information related to the loan interest income and loan purchase discount accretion, see Note 30 to the consolidated financial statements at Part I, Item 1 of this report. The Company's ability to deploy excess deposits into some interest-earning asset other than short-term low-yield interest-earning cash at the Federal Reserve Bank has been limited. This limitation is the result of weak loan demand and investment and loan yields that have been relatively low given their credit and interest rate risk profiles.

**Table of Contents****Summary of Average Balances, Yields/Rates and Interest Differential**

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

	For the three months ended					
	March 31, 2013			March 31, 2012		
	Average Balance	Interest Income/Expense	Rates Earned /Paid	Average Balance	Interest Income/Expense	Rates Earned /Paid
<b>Assets:</b>						
Loans	\$ 1,548,565	\$ 24,072	6.22%	\$ 1,527,536	\$ 24,929	6.53%
Investment securities - taxable	156,057	1,187	3.04%	224,737	1,759	3.13%
Investment securities - nontaxable	8,884	162	7.29%	9,561	173	7.24%
Cash at Federal Reserve and other banks	721,424	446	0.25%	573,008	368	0.26%
<b>Total interest-earning assets</b>	<b>2,434,930</b>	<b>25,867</b>	<b>4.25%</b>	<b>2,334,842</b>	<b>27,229</b>	<b>4.66%</b>
Other assets	174,864			179,699		
<b>Total assets</b>	<b>\$ 2,609,794</b>			<b>\$ 2,514,541</b>		
<b>Liabilities and shareholders' equity:</b>						
Interest-bearing demand deposits	\$ 520,507	141	0.11%	\$ 439,786	217	0.20%
Savings deposits	782,173	271	0.14%	790,590	297	0.15%
Time deposits	333,556	513	0.62%	402,985	670	0.67%
Other borrowings	8,188	1	0.05%	70,104	606	3.46%
Junior subordinated debt	41,238	311	3.02%	41,238	338	3.28%
<b>Total interest-bearing liabilities</b>	<b>1,685,662</b>	<b>1,237</b>	<b>0.29%</b>	<b>1,744,703</b>	<b>2,128</b>	<b>0.49%</b>
Noninterest-bearing deposits	651,303			515,851		
Other liabilities	39,150			33,621		
Shareholders' equity	233,679			220,366		
<b>Total liabilities and shareholders' equity</b>	<b>\$ 2,609,794</b>			<b>2,514,541</b>		
Net interest spread <sup>(1)</sup>			3.96%			4.17%
Net interest income and interest margin <sup>(2)</sup>		\$ 24,630	4.05%		\$ 25,101	4.30%

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

(2) Net interest margin is computed by calculating the difference between interest income and interest expense, divided by the average balance of interest-earning assets.

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

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

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

	Three months ended March 31, 2013 compared with three months ended March 31, 2012		
	Volume	Rate	Total
<b>Increase (decrease) in interest income:</b>			
Loans	\$ 343	\$ (1,200)	\$ (857)
Investment securities	(549)	(34)	(583)
Cash at Federal Reserve and other banks	96	(18)	78
<b>Total interest-earning assets</b>	<b>(110)</b>	<b>(1,252)</b>	<b>(1,362)</b>
<b>Increase (decrease) in interest expense:</b>			
Interest-bearing demand deposits	40	(116)	(76)
Savings deposits	(3)	(23)	(26)
Time deposits	(116)	(41)	(157)
Other borrowings	(536)	(69)	(605)
Junior subordinated debt		(27)	(27)
<b>Total interest-bearing liabilities</b>	<b>(615)</b>	<b>(276)</b>	<b>(891)</b>
<b>Increase (decrease) in Net Interest Income</b>	<b>\$ 505</b>	<b>\$ (976)</b>	<b>\$ (471)</b>

**Table of Contents****Provision for Loan Losses**

The provision for loan losses during any period is simply the sum of the allowance for loan losses required at the end of the period and any loan charge offs during the period, less the allowance for loan losses required at the beginning of the period, and less any loan recoveries during the period. See the Tables labeled *Allowance for loan losses As of and three months ended March 31, 2013 and 2012* at Note 5 of Item 1 of this report for the components that make up the provision for loan losses for the three months ended March 31, 2013 and 2012.

The Company benefited from a \$1,108,000 reversal of provision for loan losses in the first quarter of 2013 versus a \$1,524,000 provision for loan losses in the fourth quarter of 2012, and a \$3,996,000 provision for loan losses in the first quarter of 2012. As shown in the Table labeled *Allowance for loan losses As of and three months ended March 31, 2013* at Note 5 of Item 1 of this report, all categories of loans except commercial real estate mortgage and C&I experienced a reversal of provision for loan losses during the three months ended March 31, 2013. These reversals of provision for loan losses during the first quarter of 2013 were due primarily to a decrease in the required allowance for loan losses as of March 31, 2013 when compared to the required allowance for loan losses as of December 31, 2012. The decrease in the required allowance for loan losses during the quarter ended March 31, 2013 was due primarily to reduced impaired loans, improvements in estimated cash flows and collateral values for the remaining and new impaired loans, and reductions in historical loss factors that, in part, determine the required loan loss allowance for performing loans in accordance with the Company's allowance for loan losses methodology as described under the heading *Loans and Allowance for Loan Losses* at Note 1 of Item 1 of this report. These same factors were also present, to some extent, for commercial real estate mortgage and C&I loans, but were not sufficient to overcome the impact of the required additional reserves for new impaired loans in these categories during the three months ended March 31, 2013. For details of the change in nonperforming loans during the three months ended March 31, 2013 see the Table labeled *Changes in nonperforming assets during the three months ended March 31, 2013* under the heading *Asset Quality and Non-Performing Assets* below.

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 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.

Management re-evaluates the loss ratios and other assumptions used in its calculation of the allowance for loan losses for 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 used in its accounting for its PCI loan portfolio, including any required allowance for loan losses, on a quarterly basis 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.

**Noninterest Income**

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

	Three months ended	
	March 31,	
	2013	2012
Service charges on deposit accounts	\$ 3,140	\$ 3,527
ATM fees and interchange	1,875	1,819
Other service fees	559	603
Mortgage banking service fees	416	372
Change in value of mortgage servicing rights	(61)	(369)
Total service charges and fees	5,929	5,952
Gain on sale of loans	2,294	1,650
Commissions on sale of nondeposit investment products	761	819
Increase in cash value of life insurance	426	450
Change in indemnification asset	(101)	(353)
(Loss) gain on disposition of fore closed assets	551	(358)
Other noninterest income	358	105

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Total noninterest income	\$ 10,218	\$ 8,265
--------------------------	-----------	----------

Noninterest income increased \$1,953,000 (23.6%) to \$10,218,000 in the three months ended March 31, 2013 when compared to the three months ended March 31, 2012. The increase in noninterest income was due primarily to a \$909,000 increase in gain/loss on sale of foreclosed assets to \$551,000, and a \$644,000 increase in gain on sale of loans. The increase in gain on sale of foreclosed assets was due to a general increase in property values and sales activity from their lows during the financial crisis that started in 2008. The increase in gain on sale of loans was due to increased residential real estate loan refinance activity and our focus to service that activity.

**Table of Contents****Noninterest Expense**

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

	Three months ended March 31,	
	2013	2012
<b>Salaries and related benefits:</b>		
Base salaries, net of deferred loan origination costs	\$ 8,348	\$ 8,159
Incentive compensation	1,286	1,375
Benefits and other compensation costs	3,327	3,228
<b>Total salaries and related benefits</b>	<b>12,961</b>	<b>12,762</b>
<b>Other noninterest expense:</b>		
Occupancy	1,659	1,716
Equipment	1,034	1,117
Data processing and software	1,078	1,429
ATM network charges	496	567
Telecommunications	525	555
Postage	231	256
Courier service	167	189
Advertising and marketing	325	498
Assessments	606	606
Operational losses	117	116
Professional fees	486	423
Foreclosed asset expense	99	525
Provision for foreclosed asset losses	27	83
Change in reserve for unfunded commitments	(440)	(190)
Intangible amortization	52	53
Other	2,178	2,210
<b>Total other noninterest expenses</b>	<b>8,640</b>	<b>10,153</b>
<b>Total noninterest expense</b>	<b>\$ 21,601</b>	<b>\$ 22,915</b>
<b>Average full time equivalent staff</b>	<b>743</b>	<b>731</b>
<b>Noninterest expense to revenue (FTE)</b>	<b>62.0%</b>	<b>68.7%</b>

Salary and benefit expenses increased \$199,000 (1.6%) to \$12,961,000 during the three months ended March 31, 2013 compared to the three months ended March 31, 2012. Base salaries increased \$189,000 (2.3%) to \$8,348,000 during the three months ended March 31, 2013 versus the year ago period due mainly to a 1.7% increase in average full time equivalent staff to 743 and annual merit increases, that were substantially offset by a March 2012 reduction in temporary employee expense related to the Citizens acquisition in September 2011. Incentive and commission related salary expenses decreased \$89,000 (6.5%) to \$1,286,000 during three months ended March 31, 2013 due primarily to decreases in production related incentives. Benefits expense, including retirement, medical and workers' compensation insurance, and taxes, increased \$99,000 (3.1%) to \$3,327,000 during the three months ended March 31, 2013 due primarily to the increase in average full time equivalent staff noted above.

Other noninterest expenses decreased \$1,513,000 (14.9%) to \$8,640,000 during the three months ended March 31, 2013 when compared to the three months ended March 31, 2012. The decrease in other noninterest expense was due primarily a \$482,000 (79.3%) decrease in the provision for, and expenses related to, foreclosed assets, a \$250,000 increase in reversal of provision for loan losses related to unfunded commitments from \$190,000 to \$440,000, a \$216,000 (16.7%) decrease in data processing and software expense, and a \$173,000 (34.7%) decrease in advertising and marketing expense. The decrease in foreclosed asset provision and expenses was due to increased property values and a reduction in foreclosed assets from \$14,789,000 at March 31, 2012 to \$6,124,000 at March 31, 2013. The increase in reversal of provision for loan losses related to unfunded commitments was due to a decrease in expected losses related to those commitments and the relative change in the amount unfunded commitment from year the previous year end. The decrease in data processing and software expense was due primarily to

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

the absence of expenses associated with the system conversion in March 2012 from the Citizens acquisition in September 2011, and cost savings efforts in this area. The decrease in advertising and marketing expense from the year ago period was due to cost savings efforts in this area.

### **Income Taxes**

The effective combined Federal and State income tax rate on income was 40.7% and 38.5% for the three months ended March 31, 2013 and 2012, respectively. The effective combined Federal and State income tax rate was greater than the Federal statutory tax rate of 35.0% due to State income tax expense of \$1,488,000 and \$623,000, respectively, in these periods. Tax-exempt income of \$101,000 and \$108,000, respectively, from investment securities, and \$427,000 and \$450,000, respectively, from increase in cash value of life insurance in these periods helped to reduce the effective combined Federal and State income tax rate from the combined Federal and State statutory income tax rate of approximately 42.0%. When comparing the three months ended March 31, 2013 to the three months ended March 31, 2012, increased net income before tax lessened the impact of tax exempt income in reducing the effective combined Federal and State income tax rate.

**Table of Contents****Financial Condition****Investment Securities**

Investment securities available for sale decreased \$18,573,000 to \$144,454,000 as of March 31, 2013, as compared to December 31, 2012. This decrease is attributable to maturities of \$17,286,000, a decrease in fair value of investments securities available for sale of \$1,073,000, and amortization of net purchase price premiums of \$214,000.

The following table presents the available for sale investment securities portfolio by major type as of March 31, 2013 and December 31, 2012:

(In thousands)	March 31, 2013		December 31, 2012	
	Fair Value	%	Fair Value	%
<b>Securities Available-for-Sale:</b>				
Obligations of U.S. government corporations and agencies	\$ 133,964	92.8%	\$ 151,701	93.1%
Obligations of states and political subdivisions	8,578	5.9%	9,421	5.8%
Corporate debt securities	1,912	1.3%	1,905	1.1%
<b>Total securities available-for-sale</b>	<b>\$ 144,454</b>	<b>100.0%</b>	<b>\$ 163,027</b>	<b>100.0%</b>

Additional information about the investment portfolio is provided in Note 3 of the Notes to Unaudited Condensed Consolidated Financial Statements at Item 1 of this report.

**Restricted Equity Securities**

Restricted equity securities were \$9,647,000 at March 31, 2013 and \$9,647,000 at December 31, 2012. The entire balance of restricted equity securities at March 31, 2013 and December 31, 2012 represent the Bank's investment in the Federal Home Loan Bank of San Francisco ( FHLB ).

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.

As a member of the FHLB system, the Bank 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 Bank 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**

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.

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



Edgar Filing: TRICO BANCSHARES / - Form 10-Q

(In thousands)	March 31, 2013	December 31, 2012
Real estate mortgage	\$ 1,010,249	\$ 1,010,130
Consumer	376,063	386,111
Commercial	115,483	135,528
Real estate construction	30,567	33,054
<b>Total loans</b>	<b>\$ 1,532,362</b>	<b>\$ 1,564,823</b>

At March 31, 2013 loans, including net deferred loan costs, totaled \$1,532,362,000 which was a \$32,461,000 (2.1%) decrease over the balances at December 31, 2012. Demand for all categories of loans was weak during the three months ended March 31, 2013, and competition for that limited demand causes loan yields to decrease.

**Table of Contents**

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

	March 31, 2013	December 31, 2012
Real estate mortgage	65.9%	64.5%
Consumer	24.6%	24.7%
Commercial	7.5%	8.7%
Real estate construction	2.0%	2.1%
<b>Total loans</b>	<b>100.0%</b>	<b>100.0%</b>

**Asset Quality and Nonperforming Assets****Nonperforming Assets**

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 result in the loan being classified as a TDR, 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

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

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

## Table of Contents

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 were based on historical loss experience by product type and prior risk rating. During the three months ended March 31, 2012, management changed some of the assumptions utilized in the Allowance for Loan Losses estimate calculation. These changes were intended to more accurately reflect the current risk in the loan portfolio and to better estimate the losses inherent but not yet quantifiable. These changes included the conversion to a historical loss migration analysis intended to determine the appropriate formula reserve ratio by loan category and risk rating, the addition of an environmental factor related to the delinquency rate of loans not classified as impaired by loan category, the elimination of an unspecified reserve allocation previously intended to account for imprecision inherent in the overall calculation, and the reclassification of risk rating of certain consumer loans based on current credit score in an attempt to better identify the risk in the portfolio. The financial effect of these changes resulted in a net reduction in the calculated Allowance for Loan Losses of \$1,388,000 during the three months ended March 31, 2012. 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 the acquisition of certain assets and liabilities of Granite Community Bank ( Granite ) and Citizens Bank of Northern California ( Citizens ).

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 consolidated 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.

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 months ended March 31, 2013 and 2012, if all such loans had been current in accordance with their original terms, totaled \$1,129,000 and \$1,587,000, respectively. Interest income actually recognized on these originated loans during the three months ended March 31, 2013 and 2012 was \$30,000 and \$30,000, respectively. Interest income on PNCI nonaccrual loans that would have been recognized during the three months ended March 31, 2013 and 2012, if all such loans had been current in accordance with their original terms, totaled \$67,000 and \$65,000, respectively. Interest income actually recognized on these PNCI loans during the three months ended March 31, 2013 and 2012 was \$4,000 and \$34,000.

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.

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. Performing nonaccrual loans are loans that may be current for both principal and interest payments, or are less than 90 days past due, but for which payment in full of both principal and interest is not expected, and are not well secured and in the process of collection:

	March 31, 2013	December 31, 2012
(In thousands)		
Performing nonaccrual loans	\$ 50,192	\$ 49,045
Nonperforming nonaccrual loans	13,581	23,471
<b>Total nonaccrual loans</b>	<b>63,773</b>	<b>72,516</b>
Originated and PNCI loans 90 days past due and still accruing	190	
<b>Total nonperforming loans</b>	<b>63,963</b>	<b>72,516</b>
Noncovered foreclosed assets	4,587	5,957
Covered foreclosed assets	1,537	1,541
<b>Total nonperforming assets</b>	<b>\$ 70,087</b>	<b>\$ 80,014</b>
U.S. government, including its agencies and its government-sponsored agencies, guaranteed portion of nonperforming loans	\$ 108	\$ 131
Indemnified portion of covered foreclosed assets	\$ 1,230	\$ 1,233
Nonperforming assets to total assets	2.68%	3.07%
Nonperforming loans to total loans	4.17%	4.63%
Allowance for loan losses to nonperforming loans	62%	59%
Allowance for loan losses, unamortized loan fees, and discounts to loan principal balances owed	5.12%	5.30%



**Table of Contents**

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

(In thousands)	Originated	PNCI	March 31, 2013 PCI cash basis	PCI -other	Total
Performing nonaccrual loans	\$ 41,075	\$ 1,660	\$ 7,457		\$ 50,192
Nonperforming nonaccrual loans	13,498	43	40		13,581
<b>Total nonaccrual loans</b>	<b>54,573</b>	<b>1,703</b>	<b>7,497</b>		<b>63,773</b>
Originated and PNCI loans 90 days past due and still accruing	190				190
<b>Total nonperforming loans</b>	<b>54,763</b>	<b>1,703</b>	<b>7,497</b>		<b>63,963</b>
Non covered foreclosed assets	3,565			1,022	4,587
Covered foreclosed assets				1,537	1,537
<b>Total nonperforming assets</b>	<b>\$ 58,328</b>	<b>\$ 1,703</b>	<b>\$ 7,497</b>	<b>\$ 2,559</b>	<b>\$ 70,087</b>
U.S. government, including its agencies and its government-sponsored agencies, guaranteed portion of nonperforming loans	\$ 108				\$ 108
Indemnified portion of covered foreclosed assets				\$ 1,230	\$ 1,230
Nonperforming assets to total assets					2.68%
Nonperforming loans to total loans	3.99%	1.80%	100%	0.00%	4.17%
Allowance for loan losses to nonperforming loans	60%	168%	14%	n/m	62%
Allowance for loan losses, unamortized loan fees, and discounts to loan principal balances owed	2.59%	14.31%	65.62%	24.20%	5.12%
			December 31, 2012		
(In thousands)	Originated	PNCI	PCI cash basis	PCI -other	Total
Performing nonaccrual loans	\$ 38,646	\$ 1,428	\$ 8,971		\$ 49,045
Nonperforming nonaccrual loans	23,123	348			23,471
<b>Total nonaccrual loans</b>	<b>61,769</b>	<b>1,776</b>	<b>8,971</b>		<b>72,516</b>
Originated and PNCI loans 90 days past due and still accruing					
<b>Total nonperforming loans</b>	<b>61,769</b>	<b>1,776</b>	<b>8,971</b>		<b>72,516</b>
Non covered foreclosed assets	5,172			785	5,957
Covered foreclosed assets				1,541	1,541
<b>Total nonperforming assets</b>	<b>\$ 66,941</b>	<b>\$ 1,776</b>	<b>\$ 8,971</b>	<b>\$ 2,326</b>	<b>\$ 80,014</b>
U.S. government, including its agencies and its government-sponsored agencies, guaranteed portion of nonperforming loans	\$ 131				\$ 131
Indemnified portion of covered foreclosed assets				\$ 1,233	\$ 1,233
Nonperforming assets to total assets					3.07%
Nonperforming loans to total loans	4.42%	1.81%	100.00%		4.63%
Allowance for loan losses to nonperforming loans	58%	111%	12%	n/m	59%
Allowance for loan losses, unamortized loan fees, and discounts to loan principal balances owed	2.76%	13.78%	61.60%	24.63%	5.30%
n/m not meaningful					





**Table of Contents**

The following table and narrative describe the activity in the balance of nonperforming assets during the three-month period ended March 31, 2013:

**Changes in nonperforming assets during the three months ended March 31, 2013**

(In thousands):	Balance at March 31, 2013	New NPA	Advances/ Capitalized Costs	Pay- downs / Sales	Charge-offs/ Write-downs	Transfers to Foreclosed Assets	Category Changes	Balance at December 31, 2012
<b>Real estate mortgage:</b>								
Residential	\$ 4,570	\$ 9	\$ 5	(\$ 97)	(\$ 7)	(\$ 234)		\$ 4,894
Commercial	36,064	2,724		(2,740)	(803)	(2,844)		39,727
<b>Consumer</b>								
Home equity lines	14,968	739	27	(962)	(766)	(510)	(60)	16,500
Home equity loans	563	26		(11)	(26)		60	514
Auto indirect	167	48	1	(31)	(25)			174
Other consumer	68	84		(19)	(89)			92
Commercial	4,167	613		(396)	(790)	(2,115)	84	6,771
<b>Construction:</b>								
Residential	3,126	9		(141)	(20)	(34)		3,312
Commercial	270	47		(164)	(61)		(84)	532
<b>Total nonperforming loans</b>	<b>63,963</b>	<b>4,299</b>	<b>33</b>	<b>(4,561)</b>	<b>(2,587)</b>	<b>(5,737)</b>		<b>72,516</b>
Noncovered foreclosed assets	4,587			(6,816)	(27)	5,473		5,957
Covered foreclosed assets	1,537			(268)		264		1,541
<b>Total nonperforming assets</b>	<b>\$ 70,087</b>	<b>\$ 4,299</b>	<b>\$ 33</b>	<b>(\$ 11,645)</b>	<b>(\$ 2,614)</b>			<b>\$ 80,014</b>

Nonperforming assets decreased during the first quarter of 2013 by \$9,927,000 (12.4%) to \$70,087,000 at March 31, 2013 compared to \$80,014,000 at December 31, 2012. The decrease in nonperforming assets during the first quarter of 2013 was primarily the result of new nonperforming loans of \$4,299,000, advances on existing nonperforming loans and capitalized costs on foreclosed assets of \$33,000, less pay-downs or upgrades of nonperforming loans to performing status totaling \$4,561,000, less dispositions of foreclosed assets totaling \$7,084,000, less loan charge-offs of \$2,587,000, and less write-downs of foreclosed assets of \$27,000.

The primary causes of the \$4,299,000 in new nonperforming loans during the first quarter of 2013 were increases of \$9,000 on one residential real estate loan, \$2,724,000 on six commercial real estate loans, \$766,000 on 20 home equity lines and loans, \$48,000 on eight indirect auto loans, \$84,000 on 21 consumer loans, \$613,000 on 14 C&I loans, \$9,000 on one residential construction loan, and \$47,000 on one commercial construction loan.

The \$2,724,000 in new nonperforming commercial real estate loans was primarily comprised of one loan totaling \$2,133,000 secured by a commercial retail building in northern California, and a \$354,000 loan secured by a commercial office building in northern California.

**Loan charge-offs during the three months ended March 31, 2013**

In the first quarter of 2013, the Company recorded \$2,587,000 in loan charge-offs and \$184,000 in deposit overdraft charge-offs less \$900,000 in loan recoveries and \$198,000 in deposit overdraft recoveries resulting in \$1,673,000 of net charge-offs. Primary causes of the charges taken in the first quarter of 2013 were gross charge-offs of \$7,000 on one residential real estate loan, \$803,000 on five commercial real estate loans, \$792,000 on 22 home equity lines and loans, \$25,000 on eight auto indirect loans, \$89,000 on 24 other consumer loans, \$613,000 on 15 C&I loans, \$20,000 on two residential construction loans, and \$61,000 on two commercial construction loans.

The \$803,000 in charge-offs the bank took in its commercial real estate portfolio was primarily the result of a \$734,000 charge on a loan secured by a commercial warehouse in central California. The remaining \$69,000 was spread over four 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, 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.

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 and prior risk rating. 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

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

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.

During the three months ended March 31, 2013, the Company changed the method it uses to estimate net sale proceeds from real estate collateral sales when calculating the allowance for loan losses associated with impaired real estate collateral dependent loans. Previously, the Company used the greater of fifteen percent or actual estimated selling costs. Currently, the Company uses the actual estimated selling costs, and an adjustment to appraised value based on the age of the appraisal. These changes are intended to more accurately reflect the estimated net sale proceeds from the sale of impaired collateral dependent real estate loans. This change in methodology resulted in the allowance for loan losses as of March 31, 2013 being \$494,000 more than it would have been without this change in methodology.

## Table of Contents

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 were previously 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 differed. In addition, there is a greater chance that the Company would suffer a loss from a loan that was risk rated less than satisfactory than if the loan was last graded satisfactory. Therefore, for any given category, a larger loss estimation factor was applied to less than satisfactory loans than to those that the Company last graded as satisfactory. The resulting formula allowance was the sum of the allocations determined in this manner.

During the three month period ended March 31, 2012, the Company converted to a loss migration analysis to determine the formula allowance. Under this method, the Company reviewed the loss experience of each quarter over the previous three years and determined an annualized loss rate by loan category as well as risk rating at the beginning of each period reviewed. A weighted average was then applied to arrive at the average annualized loss rate for each loan category and risk rating, which was then applied against the net recorded investment for all loans by category and risk rating not classified as impaired. The effect of this change in methodology resulted in a net reduction in formula allowance required of \$3,296,000. This loss migration approach was promoted by regulatory agencies and implemented by the Company during the three month period ended March 31, 2012 as this was the first period in which sufficient historical data could be compiled to support the analysis.

In addition to updating the method by which the estimated formula allowance required is calculated, management also improved the monitoring and risk recognition within its consumer portfolio. Previously, consumer loans with no identified credit weakness had a risk rating of "Pass" assigned, and this would generally only change if the loan went 90 days past due, at which time the risk rating was systematically downgraded to "Substandard" and the loan was placed in nonaccrual. For the period ended March 31, 2012, management has chosen to monitor consumer loans based on current credit score and assign a risk rating of "Special Mention" for those scores below a certain threshold. This change is primarily intended to more effectively monitor and manage the risk in the Company's portfolio of consumer loans and lines of credit secured by junior liens on 1-4 family residential properties. We believe that the current credit score allows us to better account for increasing default risk in these types of loans. It is also the only reasonably available tool that can be used to attempt to monitor the performance of the senior lien on the associated properties, as the Company does not generally service both the 1<sup>st</sup> and 2<sup>nd</sup> loans in these instances. The result of this change in methodology resulted in an additional required formula allowance of \$1,874,000. \$1,596,000 of this additional requirement is specifically related to loans and lines of credit secured by junior liens on 1-4 family residential properties.

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.

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.

---

**Table of Contents**

Specifically, in assessing how much environmental factor allowance needed to be provided, 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, and

with respect to the potential imprecision in the total Allowance for Loan Losses calculation, management previously included an unspecified reserve equal to 1.00% of the total allowance and reserve for unfunded commitments calculated. For the period ended March 31, 2012, this unspecified reserve was eliminated resulting in a reduction in allowances required of \$425,000, and

with respect to loans that have not yet been identified as impaired, management considered the volume and severity of past due loans. This environmental consideration was added to the Company's Allowance for Loan Losses methodology for the period ended March 31, 2012 and resulted in additional allowances required of \$459,000.

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.

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 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

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

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 (in thousands):

	March 31, 2013	December 31, 2012
<b>Allowance for originated and PNCI loan losses:</b>		
Specific allowance	\$ 5,045	\$ 4,505
Formula allowance	27,001	29,314
Environmental factors allowance	3,519	3,919
<b>Allowance for originated and PNCI loan losses</b>	<b>35,565</b>	<b>37,738</b>
Allowance for PCI loan losses	4,302	4,910
<b>Allowance for loan losses</b>	<b>\$ 39,867</b>	<b>\$ 42,648</b>

Allowance for loan losses to loans	2.60%	2.73%
------------------------------------	-------	-------

Based on the current conditions of the loan portfolio, management believes that the \$39,867,000 allowance for loan losses at March 31, 2013 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 as of the dates indicated:

(In thousands)	March 31, 2013	December 31, 2012
Real estate mortgage	\$ 12,753	\$ 12,305
Consumer	21,171	23,461
Commercial	4,235	4,703
Real estate construction	1,708	2,179
<b>Total allowance for loan losses</b>	<b>\$ 39,867</b>	<b>\$ 42,648</b>

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 as of the dates indicated:

(In thousands)	March 31, 2013	December 31, 2012
Real estate mortgage	32.0%	28.9%
Consumer	53.1%	55.0%
Commercial	10.6%	11.0%
Real estate construction	4.3%	5.1%
<b>Total allowance for loan losses</b>	<b>100.0%</b>	<b>100.0%</b>

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

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

(In thousands)	March 31, 2013	December 31, 2012
Real estate mortgage	1.26%	1.22%
Consumer	5.63%	6.08%
Commercial	3.67%	3.47%
Real estate construction	5.59%	6.59%
Total allowance for loan losses	2.60%	2.73%

**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 periods indicated (in thousands):

	Three months ended March 31,	
	2013	2012
<b>Allowance for loan losses:</b>		
Balance at beginning of period	\$ 42,648	\$ 45,914
Provision for loan losses	(1,108)	3,996
<b>Loans charged off:</b>		
<b>Real estate mortgage:</b>		
Residential	(7)	(223)
Commercial	(803)	(1,305)
<b>Consumer:</b>		
Home equity lines	(766)	(2,625)
Home equity loans	(26)	(41)
Auto indirect	(25)	(40)
Other consumer	(273)	(339)
Commercial	(790)	(281)
<b>Construction:</b>		
Residential	(20)	(68)
Commercial	(61)	
<b>Total loans charged off</b>	<b>(2,771)</b>	<b>(4,922)</b>
<b>Recoveries of previously charged-off loans:</b>		
<b>Real estate mortgage:</b>		
Residential		
Commercial	353	36
<b>Consumer:</b>		
Home equity lines	290	63
Home equity loans	9	3
Auto indirect	85	57
Other consumer	224	255
Commercial	70	50
<b>Construction:</b>		
Residential	61	
Commercial	6	
<b>Total recoveries of previously charged off loans</b>	<b>1,098</b>	<b>464</b>
<b>Net charge-offs</b>	<b>(1,673)</b>	<b>(4,458)</b>
<b>Balance at end of period</b>	<b>\$ 39,867</b>	<b>\$ 45,452</b>
	Three months ended March 31,	
	2013	2012
<b>Reserve for unfunded commitments:</b>		
Balance at beginning of period	\$ 3,615	\$ 2,740
Provision for losses unfunded commitments	(440)	(190)
<b>Balance at end of period</b>	<b>\$ 3,175</b>	<b>\$ 2,550</b>
<b>Balance at end of period:</b>		
Allowance for loan losses	\$ 39,867	\$ 45,452

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Reserve for unfunded commitments	3,175	2,550
Allowance for loan losses and Reserve for unfunded commitments	\$ 43,042	\$ 48,002
As a percentage of total loans at end of period:		
Allowance for loan losses	2.60%	3.01%
Reserve for unfunded commitments	0.21%	0.17%
Allowance for loan losses and Reserve for unfunded commitments	2.81%	3.18%
Average total loans	\$ 1,548,555	\$ 1,527,536
Ratios (annualized):		
Net charge-offs during period to average loans outstanding during period	0.43%	1.17%
(Benefit from) provision for loan losses to average loans outstanding	(0.29%)	1.05%

**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 (in thousands):

	Balance at March 31, 2013	New NPA	Advances/ Capitalized Costs	Sales	Valuation Adjustments	Transfers from Loans	Category Changes	Balance at December, 2012
(In thousands):								
<b>Noncovered:</b>								
Land & Construction	\$ 1,549			(158)	\$ (3)	\$ 34		\$ 1,676
Residential real estate	1,805			(657)	(24)	744		1,742
Commercial real estate	1,233			(6,001)		4,695		2,539
<b>Total noncovered</b>	<b>4,587</b>			<b>(6,816)</b>	<b>(27)</b>	<b>5,473</b>		<b>5,957</b>
<b>Covered:</b>								
Land & Construction	445			(267)				712
Residential real estate								
Commercial real estate	1,092					263		829
<b>Total covered</b>	<b>1,537</b>			<b>(267)</b>		<b>263</b>		<b>1,541</b>
<b>Total foreclosed assets</b>	<b>\$ 6,124</b>			<b>\$ (7,083)</b>	<b>\$ (27)</b>	<b>\$ 5,736</b>		<b>\$ 7,498</b>

**Premises and Equipment**

Premises and equipment were comprised of:

	March 31, 2013	December 31, 2012
(In thousands)		
Land & land improvements	\$ 5,905	\$ 5,929
Buildings	23,104	23,090
Furniture and equipment	25,778	25,877
	54,787	54,896
Less: Accumulated depreciation	(32,712)	(32,101)
	22,075	22,795
Construction in progress	7,393	4,190
<b>Total premises and equipment</b>	<b>\$ 29,468</b>	<b>\$ 26,985</b>

During the three months ended March 31, 2013, premises and equipment increased \$2,483,000 due to purchases of \$3,241,000, that were partially offset by depreciation of \$741,000 and disposals of premises and equipment with net book value of \$17,000. Included in the \$3,241,000 of purchases during the three months ended March 31, 2013 is \$3,049,000 related to the Company's new campus and operations center in Chico, CA. As of March 31, 2013 the campus and operations center had a cost basis as follows: land & land improvements \$427,000, building \$6,860,000, and furniture and equipment \$1,404,000. Upon its estimated completion in the second quarter of 2013, the campus and operations center is expected to have an approximate cost basis as follows: land & land improvements \$427,000, building \$8,373,000, and furniture and equipment \$2,493,000.

**Intangible Assets**

Intangible assets were comprised of the following as of the dates indicated:

(In thousands)	March 31, 2013	December 31, 2012
Core-deposit intangible	\$ 1,040	\$ 1,092
Goodwill	15,519	15,519
<b>Total intangible assets</b>	<b>\$ 16,559</b>	<b>\$ 16,820</b>

The core-deposit intangible assets resulted from the Bank's acquisitions of Citizens in 2011 and Granite in 2010. The goodwill intangible asset resulted from the North State National Bank acquisition in 2003. Amortization of core deposit intangible assets amounting to \$52,000 and \$53,000 were recorded during the three months ended March 31, 2013 and 2012, respectively.

**Deposits**

Deposits at March 31, 2013 decreased \$4,152,000 (0.2%) from 2012 year-end balances to \$2,285,550,000. Included in the March 31, 2013 and December 31, 2012 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 favorable to other wholesale funding sources available to the Bank. Information on average deposit balances and average rates paid is included under the *Net Interest Income* section of this report. See Note 13 to the consolidated financial statements at Item 1 of this report for information about the Company's deposits.

**Table of Contents****Long-Term Debt**

See Note 16 to the consolidated financial statements at Item 1 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 1 of this report for information about the Company's junior subordinated debt.

**Off-Balance Sheet Arrangements**

See Note 18 to the consolidated financial statements at Item 1 of this report for information about the Company's commitments and contingencies including off-balance-sheet arrangements.

**Capital Resources**

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

The Company adopted and announced a stock repurchase plan on August 21, 2007 for the repurchase of up to 500,000 shares of the Company's common stock from time to time as market conditions allow. The 500,000 shares authorized for repurchase under this plan represented approximately 3.2% of the Company's approximately 15,815,000 common shares outstanding as of August 21, 2007. The Company did not repurchase any shares during the three months ended March 31, 2013. This plan has no stated expiration date for the repurchases. As of March 31, 2013, the Company had repurchased 166,600 shares under this plan, which left 333,400 shares available for repurchase under the plan. Shares that are repurchased in accordance with the provisions of a Company stock option plan or equity compensation plan are not counted against the number of shares repurchased under the repurchase plan adopted on August 21, 2007.

The Company's primary capital resource is shareholders' equity, which was \$236,030,000 at March 31, 2013. This amount represents an increase of \$6,671,000 from December 31, 2012, the net result of comprehensive income for the period of \$7,856,000, and the effect of stock option vesting and tax benefits of \$256,000, and the exercise of stock options of \$262,000, that were partially offset by dividends paid of \$1,441,000, and the repurchase of common stock as it was tendered in lieu of cash to exercise stock options of \$262,000. The Company's ratio of equity to total assets was 9.03% and 8.79% as of March 31, 2013 and December 31, 2012, respectively.

The following summarizes the Company's ratios of capital to risk-adjusted assets as of the dates indicated:

	As of March 31, 2013	As December 31, 2012	Minimum Regulatory Requirement
Total Capital	15.19%	14.53%	8.00%
Tier I Capital	13.92%	13.27%	4.00%
Leverage ratio	9.93%	9.82%	4.00%

See Note 19 and Note 29 to the consolidated financial statements at Item 1 of this report for additional information about the Company's capital resources.

**Liquidity**

The Bank's principal source of asset liquidity is cash at Federal Reserve and other banks and marketable investment securities available for sale. At March 31, 2013, cash at Federal Reserve and other banks in excess of reserve requirements and investment securities available for sale totaled \$911,192,000, representing an increase of \$30,860,000 (3.5%) from December 31, 2012. In addition, the Company generates additional liquidity from its operating activities. The Company's profitability during the first three months of 2013 generated cash flows from operations of \$13,285,000 compared to \$17,953,000 during the first three months of 2012. Maturities of investment securities produced cash inflows of \$17,286,000 during the three months ended March 31, 2013 compared to \$20,060,000 for the three months ended March 31, 2012. During the three months ended March 31, 2013, the Company did not invest in any securities and received \$25,051,000 of net loan principal reductions,

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

compared to \$3,588,000 invested in securities and \$33,795,000 of net loan principal reductions, respectively, during the first three months of 2012. Proceeds from the sale of foreclosed assets accounted for \$7,635,000 and \$3,021,000 of investing sources of funds during the three months ended March 31, 2013 and 2012, respectively. These changes in investment and loan balances, and proceeds from sale of foreclosed assets, contributed to net cash provided by investing activities of \$46,732,000 during the three months ended March 31, 2013, compared to net cash provided by investing activities of \$52,227,000 during the three months ended March 31, 2012. Financing activities used net cash of \$6,645,000 during the three months ended March 31, 2013, compared to net cash used by financing activities of \$25,695,000 during the three months ended March 31, 2012. Deposit balance decreases accounted for \$4,152,000 of financing uses of funds during the three months ended March 31, 2013, compared to \$20,790,000 of financing uses of funds during the three months ended March 31, 2012. Net decreases in short-term other borrowings accounted for \$1,072,000 and \$3,467,000 of financing uses of funds during the three months ended March 31, 2013 and 2012, respectively. Dividends paid used \$1,441,000 and \$1,438,000 of cash during the three months ended March 31, 2013 and 2012, respectively. The Company's liquidity is dependent on dividends received from the Bank. Dividends from the Bank are subject to certain regulatory restrictions.



**Table of Contents****Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Our assessment of market risk as of March 31, 2013 indicates there are no material changes in the quantitative and qualitative disclosures from those in our Annual Report on Form 10-K for the year ended December 31, 2012.

**Item 4. Controls and Procedures**

The Company's management, including its Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company's disclosure controls and procedures as of March 31, 2013. Disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), are controls and procedures designed to reasonably assure that information required to be disclosed in the Company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported on a timely basis. Disclosure controls are also designed to reasonably assure that such information is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based upon their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of March 31, 2013.

During the quarter ended March 31, 2013, there were no changes in our internal controls or in other factors that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

**PART II OTHER INFORMATION****Item 1 Legal Proceedings**

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

See Note 18, Commitments and Contingencies, for a discussion of the Company's involvement in litigation.

**Item 1A Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed under Part I Item 1A Risk Factors in our Form 10-K for the year ended December 31, 2012 which are incorporated by reference herein. These factors could materially adversely affect our business, financial condition, liquidity, results of operations and capital position, and could cause our actual results to differ materially from our historical results or the results contemplated by the forward-looking statements contained in this report.

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

The following table shows information concerning the common stock repurchased by the Company during the three months ended March 31, 2013 pursuant to the Company's stock repurchase plan adopted on August 21, 2007, which is discussed in more detail under Capital Resources in this report and is incorporated herein by reference:

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
Jan. 1-31, 2013				333,400
Feb. 1-28, 2013				333,400
Mar. 1-31, 2013				333,400

- 2.1 Purchase and Assumption Agreement Whole Bank All Deposits, among the Federal Deposit Insurance Corporation, receiver of Granite Community Bank, N.A., Granite Bay, California, the Federal Deposit Insurance Corporation and Tri Counties Bank, dated as of May 28, 2010, and related addendum filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed June 3, 2010.
- 2.2 Purchase and Assumption Agreement Whole Bank All Deposits, among the Federal Deposit Insurance Corporation, receiver of Citizens Bank of Northern California, Nevada City, California, the Federal Deposit Insurance Corporation and Tri Counties Bank, dated as of September 23, 2011, and related addendum, filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed September 27, 2011.
- 3.1 Restated Articles of Incorporation, filed as Exhibit 3.1 to TriCo's Current Report on Form 8-K filed on March 16, 2009.
- 3.2 Bylaws of TriCo Bancshares, as amended, filed as Exhibit 3.1 to TriCo's Current Report on Form 8-K filed February 17, 2011.
- 4.1 Certificate of Determination of Preferences of Series AA Junior Participating Preferred Stock filed as Exhibit 3.3 to TriCo's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001.
- 4.2 Rights Agreement dated as of June 25, 2001 between TriCo Bancshares and Mellon Investor Services LLC (incorporated by reference to Exhibit 1 to Registration Statement on Form 8-A filed on July 5, 2001).

**Table of Contents****Item 6 Exhibits (continued)**

- 4.3 Amendment to Rights Agreement dated as of July 8, 2011 between TriCo Bancshares and BNY Mellon Investor Services LLC (incorporated by reference to Exhibit 4.1 to the Company's Form 8-K filed on July 8, 2011).
- 4.4 Amended and Restated Form of Right Certificate (incorporated by reference to Exhibit 4.2 to the Company's Form 8-K filed on July 8, 2011).
- 10.2\* Form of Change of Control Agreement dated as of August 23, 2005, between TriCo, Tri Counties Bank and each of Dan Bailey, Bruce Belton, Craig Carney, Richard O. Sullivan, Thomas Reddish, and Ray Rios filed as Exhibit 10.2 to TriCo's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.
- 10.5\* TriCo's 1995 Incentive Stock Option Plan filed as Exhibit 4.1 to TriCo's Form S-8 Registration Statement dated August 23, 1995 (No. 33-62063).
- 10.6\* TriCo's 2001 Stock Option Plan, as amended, filed as Exhibit 10.7 to TriCo's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.
- 10.7\* TriCo's 2009 Equity Incentive plan, as amended, filed as Exhibit 10.2 to TriCo's Form 8-K filed April 3, 2013.
- 10.8\* Amended Employment Agreement between TriCo and Richard Smith dated as of March 28, 2013 filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed April 3, 2013.
- 10.9\* Tri Counties Bank Executive Deferred Compensation Plan restated April 1, 1992, and January 1, 2005 filed as Exhibit 10.9 to TriCo's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.
- 10.10\* Tri Counties Bank Deferred Compensation Plan for Directors effective January 1, 2005 filed as Exhibit 10.10 to TriCo's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.
- 10.11\* 2005 Tri Counties Bank Deferred Compensation Plan for Executives and Directors effective January 1, 2005 filed as Exhibit 10.11 to TriCo's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.
- 10.13\* Tri Counties Bank Supplemental Retirement Plan for Directors dated September 1, 1987, as restated January 1, 2001, and amended and restated January 1, 2004 filed as Exhibit 10.12 to TriCo's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.
- 10.14\* 2004 TriCo Bancshares Supplemental Retirement Plan for Directors effective January 1, 2004 filed as Exhibit 10.13 to TriCo's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.
- 10.15\* Tri Counties Bank Supplemental Executive Retirement Plan effective September 1, 1987, as amended and restated January 1, 2004 filed as Exhibit 10.14 to TriCo's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.
- 10.16\* 2004 TriCo Bancshares Supplemental Executive Retirement Plan effective January 1, 2004 filed as Exhibit 10.15 to TriCo's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.
- 10.17\* Form of Joint Beneficiary Agreement effective March 31, 2003 between Tri Counties Bank and each of George Barstow, Dan Bay, Ron Bee, Craig Carney, Robert Elmore, Greg Gill, Richard Miller, Richard O. Sullivan, Thomas Reddish, Jerald Sax, and Richard Smith, filed as Exhibit 10.14 to TriCo's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.
- 10.18\* Form of Joint Beneficiary Agreement effective March 31, 2003 between Tri Counties Bank and each of Don Amaral, William Casey, Craig Compton, John Hasbrook, Michael Koehnen, Donald Murphy, Carroll Taresh, and Alex Vereschagin, filed as Exhibit 10.15 to TriCo's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.
- 10.19\* Form of Tri-Counties Bank Executive Long Term Care Agreement effective June 10, 2003 between Tri Counties Bank and each of Craig Carney, Richard Miller, Richard O. Sullivan, and Thomas Reddish, filed as Exhibit 10.16 to TriCo's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.
- 10.20\* Form of Tri-Counties Bank Director Long Term Care Agreement effective June 10, 2003 between Tri Counties Bank and each of Don Amaral, William Casey, Craig Compton, John Hasbrook, Michael Koehnen, Donald Murphy, Carroll Taresh, and Alex Vereschagin, filed as Exhibit 10.17 to TriCo's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.
- 10.21\* Form of Indemnification Agreement between TriCo Bancshares/Tri Counties Bank and each of the directors of TriCo Bancshares/Tri Counties Bank effective on the date that each director is first elected, filed as Exhibit 10.18 to TriCo's Annual

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Report on Form 10-K for the year ended December 31, 2003.

10.22*	Form of Indemnification Agreement between TriCo Bancshares/Tri Counties Bank and each of Dan Bailey, Craig Carney, Richard O Sullivan, Thomas Reddish, Ray Rios, and Richard Smith filed as Exhibit 10.21 to TriCo s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.
21.1	Tri Counties Bank, a California banking corporation, TriCo Capital Trust I, a Delaware business trust, and TriCo Capital Trust II, a Delaware business trust, are the only subsidiaries of Registrant.
31.1	Rule 13a-14(a)/15d-14(a) Certification of CEO
31.2	Rule 13a-14(a)/15d-14(a) Certification of CFO
32.1	Section 1350 Certification of CEO
32.2	Section 1350 Certification of CFO
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

\* Management contract or compensatory plan or arrangement

**Table of Contents**

**SIGNATURES**

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

**TRICO BANCSHARES**

(Registrant)

Date: May 10, 2013

/s/ Thomas J. Reddish  
Thomas J. Reddish  
Executive Vice President and Chief Financial Officer

(Duly authorized officer and principal financial officer)