TRICO BANCSHARES /
Form 10-Q
August 09, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2011
for the quarterly period ended: June, 30 2011

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)

CALIFORNIA	**94-2792841**
(State or Other Jurisdiction of Incorporation or Organization)	**(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.
þ Yes o 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).
þ Yes o 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.

o Large accelerated filer	þ Accelerated filer	o Non-accelerated filer (Do not check if a smaller reporting company)	o Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
o Yes þ 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: 15,978,958 shares outstanding as of August 5, 2011

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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 expression 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, 2010, 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.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

TRICO BANCSHARES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data; unaudited)

	At June 30, 2011	At December 31, 2010
Assets:		
Cash and due from banks	$ 52,874	$ 57,254
Cash at Federal Reserve and other banks	338,180	313,812
Cash and cash equivalents	391,054	371,066
Securities available-for-sale	264,992	277,271
Restricted equity securities	9,199	9,133
Loans held for sale	4,379	4,988
Loans	1,396,062	1,419,571
Allowance for loan losses	(43,962)	(42,571)
Total loans, net	1,352,100	1,377,000
Foreclosed assets, net	9,337	9,913
Premises and equipment, net	20,142	19,120
Cash value of life insurance	51,441	50,541
Accrued interest receivable	6,549	7,131
Goodwill	15,519	15,519
Other intangible assets, net	475	580
Mortgage servicing rights	4,818	4,605
Indemnification asset	4,545	5,640
Other assets	41,634	37,282
Total assets	$ 2,176,184	$ 2,189,789
Liabilities and Shareholders Equity:		
Liabilities:		
Deposits:		
Noninterest-bearing demand	$ 419,391	$ 424,070
Interest-bearing	1,417,340	1,428,103
Total deposits	1,836,731	1,852,173
Accrued interest payable	1,865	2,151
Reserve for unfunded commitments	2,640	2,640
Other liabilities	29,561	29,170
Other borrowings	59,234	62,020
Junior subordinated debt	41,238	41,238
Total liabilities	1,971,269	1,989,392

Commitments and contingencies (Note 18)		
Shareholders equity:		
Common stock, no par value: 50,000,000 shares authorized; issued and outstanding:		
15,978,958 at June 30, 2011	83,863	
15,860,138 at December 31, 2010		81,554
Retained earnings	118,408	117,533
Accumulated other comprehensive income, net of tax	2,644	1,310
Total shareholders equity	204,915	200,397
Total liabilities and shareholders equity	$ 2,176,184	$ 2,189,789

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

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TRICO BANCSHARES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data; unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Interest and dividend income:				
Loans, including fees	$ 21,735	$ 22,701	$ 43,457	$ 45,514
Debt securities:				
Taxable	2,347	2,727	4,721	5,482
Tax exempt	136	188	276	396
Dividends	7	6	14	12
Interest bearing cash at Federal Reserve and other banks	242	154	433	308
Total interest and dividend income	24,467	25,776	48,901	51,712
Interest expense:				
Deposits	1,802	2,727	3,629	5,785
Other borrowings	600	602	1,193	1,196
Junior subordinated debt	312	313	622	619
Total interest expense	2,714	3,642	5,444	7,600
Net interest income	21,753	22,134	43,457	44,112
Provision for loan losses	5,561	10,000	12,562	18,500
Net interest income after provision for loan losses	16,192	12,134	30,895	25,612
Noninterest income:				
Service charges and fees	6,121	6,082	11,903	11,817
Gain on sale of loans	495	577	1,220	1,162
Commissions on sale of non-deposit investment products	648	362	1,008	629
Increase in cash value of life insurance	450	426	900	852
Other	537	657	2,570	1,191
Total noninterest income	8,251	8,104	17,601	15,651
Noninterest expense:				
Salaries and related benefits	10,715	9,985	21,508	20,135
Other	9,380	8,423	18,258	17,076
Total noninterest expense	20,095	18,408	39,766	37,211
Income before income taxes	4,348	1,830	8,730	4,052
Provision for income taxes	1,577	510	3,159	1,174

Net income	$ 2,771	$ 1,320	5,571	$ 2,878
Earnings per share:				
Basic	$ 0.17	$ 0.08	$ 0.35	$ 0.18
Diluted	$ 0.17	$ 0.08	$ 0.35	$ 0.18

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

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TRICO BANCSHARES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY
(In thousands, except share data; unaudited)

	Shares of Common Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2009	15,787,753	$ 79,508	$ 118,863	$ 2,278	$ 200,649
Comprehensive income:					
Net income			2,878		2,878
Change in net unrealized loss on securities available for sale, net				1,854	1,854
Total comprehensive income					4,732
Stock option vesting		275			275
Stock options exercised	146,403	1,229			1,229
Tax benefit of stock options exercised		390			390
Repurchase of common stock	(74,018)	(373)	(991)		(1,364)
Dividends paid ($0.22 per share)			(3,489)		(3,489)
Balance at June 30, 2010	15,860,138	$ 81,029	$ 117,261	$ 4,132	$ 202,422
Balance at December 31, 2010	15,860,138	$ 81,554	$ 117,533	$ 1,310	$ 200,397
Comprehensive income:					
Net income			5,571		5,571
Change in net unrealized gain on securities available for sale, net				1,334	1,334
Total comprehensive income					6,905
Stock option vesting		500			500
Stock options exercised	296,250	2,428			2,428
Tax benefit of stock options exercised		296			296
Repurchase of common stock	(177,430)	(915)	(1,830)		(2,745)
Dividends paid ($0.18 per share)			(2,866)		(2,866)
Balance at June 30, 2011	15,978,958	$ 83,863	$ 118,408	$ 2,644	$ 204,915

See accompanying notes to unaudited condensed consolidated financial statements.

TRICO BANCSHARES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands; unaudited)

	For the six months ended June 30,	
	2011	2010
Operating activities:		
Net income	$ 5,571	$ 2,878
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of premises and equipment, and amortization	1,612	1,810
Amortization of intangible assets	105	137
Provision for loan losses	12,562	18,500
Amortization of investment securities premium, net	685	432
Originations of loans for resale	(55,579)	(36,420)
Proceeds from sale of loans originated for resale	56,973	37,508
Gain on sale of loans	(1,220)	(1,162)
Change in market value of mortgage servicing rights	222	618
Provision for losses on foreclosed assets	1,087	55
Gain on sale of foreclosed assets	(385)	(350)
Loss on disposal of fixed assets	15	40
Increase in cash value of life insurance	(900)	(852)
Stock option vesting expense	500	275
Stock option excess tax benefits	(296)	(390)
Bargain purchase gain		(232)
Change in reserve for unfunded commitments		(800)
Change in:		
Interest receivable	582	291
Interest payable	(286)	(1,127)
Other assets and liabilities, net	(3,900)	1,266
Net cash from operating activities	17,348	22,477
Investing activities:		
Proceeds from maturities of securities available-for-sale	39,352	42,816
Purchases of securities available-for-sale	(25,456)	(101,255)
Redemption (purchase) of restricted equity securities, net	(66)	447
Loan principal (increases) decreases, net	8,084	40,097
Proceeds from sale of foreclosed assets	4,145	2,497
Improvements of foreclosed assets	(17)	
Proceeds from sale of premises and equipment	1	2
Purchases of premises and equipment	(2,288)	(1,691)
Cash received from acquisitions		18,764
Net cash from investing activities	23,755	1,677
Financing activities:		

Net decrease in deposits	(15,442)	(33,564)
Net change in short-term other borrowings	(2,786)	(11,301)
Stock option excess tax benefits	296	390
Repurchase of common stock	(753)	(338)
Dividends paid	(2,866)	(3,489)
Exercise of stock options	436	203
Net cash from financing activities	(21,115)	(48,099)
Net change in cash and cash equivalents	19,988	(23,945)
Cash and cash equivalents at beginning of period	371,066	346,589
Cash and cash equivalents at end of period	$ 391,054	$ 322,644
Supplemental disclosure of noncash activities:		
Loans transferred to other real estate owned	$ 4,254	$ 3,788
Unrealized net gain on securities available for sale	$ 2,302	$ 3,200
Market value of shares tendered by employees in-lieu of cash to pay for exercise options and/or related taxes	$ 1,992	$ 1,026
Supplemental disclosure of cash flow activity:		
Cash paid for interest expense	$ 5,730	$ 8,727
Cash paid for income taxes	$ 2,620	$ 2,625

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

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 General Summary of Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. The results of operations reflect interim adjustments, all of which are of a normal recurring nature and which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. The interim results are not necessarily indicative of the results expected for the full year. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes as well as other information included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

Principles of Consolidation

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

Use of Estimates in the Preparation of Financial Statements

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

Significant Group Concentration of Credit Risk

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

Cash and Cash Equivalents

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

Investment Securities

The Company classifies its debt and marketable equity securities into one of three categories: trading, available-for-sale or held-to-maturity. Trading securities are bought and held principally for the purpose of selling in the near term. Held-to-maturity securities are those securities which the Company has the ability and intent to hold until maturity. All other securities not included in trading or held-to-maturity are classified as available-for-sale. During the six months ended June 30, 2011 and the year ended December 31, 2010, the Company did not have any securities classified as either held-to-maturity or trading.

Available-for-sale securities are recorded at fair value. Unrealized gains and losses, net of the related tax effect, on available-for-sale securities are reported as a separate component of other accumulated comprehensive income (loss) in shareholders equity until realized.

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

The Company assesses an 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. For investment securities held to maturity, this amount is accreted over the remaining life of the debt security prospectively based on the amount and timing of future estimated cash flows. 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 in the six months ended June 30, 2011 or the year ended December 31, 2010.

Restricted Equity Securities

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

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

Loans Held for Sale

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

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

Loans and Allowance for Loan Losses

Loans originated by the Company, i.e., not purchased or acquired in a business combination, are reported at the principal amount outstanding, net of deferred loan fees and costs. Loan origination and commitment fees and certain direct loan origination costs are deferred, and the net amount is amortized as an adjustment of the related loan s yield over the actual life of the loan. Originated loans on which the accrual of interest has been discontinued are designated as nonaccrual loans.

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

An allowance for loan losses for originated loans is established through a provision for loan losses charged to expense. Originated loans and deposit related overdrafts are charged against the allowance for loan losses when Management believes that the collectability of the principal is unlikely or, with respect to consumer installment loans, according to an established delinquency schedule. The allowance is an amount that Management believes will be adequate to absorb probable losses inherent in existing loans and leases, based on evaluations of the collectability, impairment and prior loss experience of loans and leases. The evaluations take into consideration such factors as changes in the nature and size of the portfolio, overall portfolio quality, loan concentrations, specific problem loans, and current economic conditions that may affect the borrower s ability to pay. The Company defines an originated loan as impaired when it

is probable the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired originated loans are measured based on the present value of expected future cash flows discounted at the loan s original effective interest rate. As a practical expedient, impairment may be measured based on the loan s observable market price or the fair value of the collateral if the loan is collateral dependent. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through a valuation allowance.

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

nonaccrual status until the borrower demonstrates a sustained period of performance which the Company generally believes to be six consecutive months of payments, or equivalent. Otherwise, TDR loans are subject to the same nonaccrual and charge-off policies as noted above with respect to their restructured principal balance.

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

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

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

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

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.

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Foreclosed Assets

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

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

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

Premises and Equipment

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

Goodwill and Other Intangible Assets

Goodwill represents the excess of costs over fair value of net assets of businesses acquired. Goodwill and other intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment. The Company has identifiable intangible assets consisting of core deposit intangibles (CDI) and minimum pension liability. CDI are amortized using an accelerated method over a period of ten years. Intangible assets related to minimum pension liability are adjusted annually based upon actuarial estimates.

Impairment of Long-Lived Assets and Goodwill

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

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

Currently, and historically, the Company is comprised of only one reporting unit that operates within the business segment it has identified as community banking .

Mortgage Servicing Rights

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

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

Indemnification Asset

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

Reserve for Unfunded Commitments

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

Income Taxes

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

Off-Balance Sheet Credit Related Financial Instruments

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

Geographical Descriptions

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

Reclassifications

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

Recent Accounting Pronouncements

FASB issued Accounting Standards Update (ASU) No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.* This Update amends Topic 310 to improve the disclosures that an entity provides about the credit quality of its financing receivables and the related allowance for credit losses. As a result of these amendments, an entity is required to disaggregate by portfolio segment or class certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. The amendments in this Update apply to all entities, both public and nonpublic. The amendments in this Update affect all entities with financing receivables, excluding short-term trade accounts receivable or receivables measured at fair value or lower of cost or fair value. For public entities, the disclosures required by this Update as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. For nonpublic entities, the disclosures are effective for annual reporting periods ending on or after December 15, 2011. The amendments in this Update encourage, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative disclosures for those reporting periods ending after initial adoption. As this ASU is disclosure-related only, the adoption of this ASU did not impact the Bank s financial condition or results of operations.

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

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

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

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

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

Note 2 Business Combinations

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

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

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

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

Other borrowings		5,000
Other liabilities		49
Total liabilities assumed		100,050
Net assets acquired/bargain purchase gain	$	232

The acquired loan portfolio and foreclosed assets are referred to as covered loans and covered foreclosed assets , respectively, and these are recorded in Loans and Foreclosed assets, respectively, in the Company s consolidated balance sheet. Collectively these balances are referred to as covered assets .

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

The Bank did not immediately acquire all the real estate, banking facilities, furniture or equipment of Granite as part of the purchase and assumption agreement. However, the Bank had the option to purchase or lease the real estate and furniture and equipment from the FDIC. During the quarter ended September 30, 2010, the Bank elected to close the Roseville branch and assume the leases for the Granite Bay and Auburn branches. The Bank purchased the existing furniture and equipment in the Granite Bay and Auburn branches from the FDIC for approximately $100,000.

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

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

The following table reflects the estimated fair value of the acquired loans at the acquisition date:

(in thousands)	Granite May 28, 2010
Principal balance loans acquired	$ 77,991
Discount	(13,189)
Covered loans, net	$ 64,802

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

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

The following table presents a reconciliation of the undiscounted contractual cash flows, nonaccretable difference, accretable yield, and fair value of covered loans for each respective acquired loan portfolio at the acquisition dates:

(in thousands)	Granite May 28, 2010
Undiscounted contractual cash flows	$ 99,179
Undiscounted cash flows not expected to be collected (nonaccretable difference)	(11,226)
Undiscounted cash flows expected to be collected	87,953
Accretable yield at acquisition	(23,151)
Estimated fair value of Loans acquired at acquisition	$ 64,802

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Note 3 Investment Securities

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

	June 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Securities Available-for-Sale				
Obligations of U.S. government corporations and agencies	$ 242,914	$ 9,918		$ 252,832
Obligations of states and political subdivisions	11,840	395	(75)	12,160
Total securities available-for-sale	$ 254,754	$ 10,313	$ (75)	$ 264,992

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

No investment securities were sold during the six months ended June 30, 2011 or the year ended December 31, 2010. Investment securities with an aggregate carrying value of $121,308,000 and $140,100,000 at June 30, 2011 and December 31, 2010, respectively, were pledged as collateral for specific borrowings, lines of credit and local agency deposits.

The amortized cost and estimated fair value of debt securities at June 30, 2011 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. At June 30, 2011, obligations of U.S. government corporations and agencies with a cost basis totaling $242,914,000 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 June 30, 2011, the Company estimates the average remaining life of these mortgage-backed securities issued by U.S. government corporations and agencies to be approximately 3.3 years. Average remaining life is defined as the time span after which the principal balance has been reduced by half.

	Amortized Cost	Estimated Fair Value

	(in thousands)	
Investment Securities		
Due in one year	$ 22	$ 22
Due after one year through five years	25,176	26,336
Due after five years through ten years	75,073	76,535
Due after ten years	154,483	162,099
Totals	$ 254,754	$ 264,992

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

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
June 30, 2011			(in thousands)			
Securities Available-for-Sale:						
Obligations of U.S. government corporations and agencies	$ 11				$ 11	
Obligations of states and political subdivisions	1,649	(75)			1,649	(75)
Total securities available-for-sale	$ 1,660	$ (75)			$ 1,660	$ (75)

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

Obligations of U.S. government corporations and agencies: Unrealized losses on investments in obligations of U.S. government corporations and agencies are caused by interest rate increases. The contractual cash flows of these securities are guaranteed by U.S. Government Sponsored Entities (principally Fannie Mae and Freddie Mac). It is expected that the securities would not be settled at a price less than the amortized cost of the investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell and more likely than not will not be required to sell, these investments are not considered other-than-temporarily impaired. At June 30, 2011, one debt securities representing obligations of U.S. government corporations and agencies had an unrealized loss with aggregate depreciation of 0.03% from the Company s amortized cost basis.

Obligations of states and political subdivisions: The unrealized losses on investments in obligations of states and political subdivisions are caused by increases in required yields by investors in these types of securities. It is expected

that the securities would not be settled at a price less than the amortized cost of the investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell and more likely than not will not be required to sell, these investments are not considered other-than-temporarily impaired. At June 30, 2011, three debt securities representing obligations of states and political subdivisions had unrealized losses with aggregate depreciation of 4.35% from the Company s amortized cost basis.

Corporate debt securities: The unrealized losses on investments in corporate debt securities were caused by increases in required yields by investors in similar types of securities. It is expected that the securities would not be settled at a price less than the amortized cost of the investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell and more likely than not will not be required to sell, these investments are not considered other-than-temporarily impaired. At June 30, 2011, the Company had no corporate debt securities.

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Note 4 Loans

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

	June 30, 2011			December 31, 2010		
	Originated	PCI	Total	Originated	PCI	Total
Mortgage loans on real estate:						
Residential 1-4 family	$ 121,474	$ 6,398	$ 127,872	$ 123,623	$ 7,597	$ 131,220
Commercial	679,922	24,661	704,583	682,103	25,739	707,842
Total mortgage loan on real estate	801,396	31,059	832,455	805,726	33,336	839,062
Consumer:						
Home equity lines of credit	324,662	6,302	330,964	329,080	7,072	336,152
Home equity loans	14,830		14,830	17,588		17,588
Auto Indirect	16,741		16,732	24,577		24,577
Other	18,601		18,610	15,622		15,622
Total consumer loans	374,834	6,302	381,136	386,867	7,072	393,939
Commercial	132,487	8,037	140,524	133,032	10,364	143,396
Construction:						
Residential	18,042	4,445	22,435	19,459	4,463	23,922
Commercial	21,433		21,485	21,029		21,029
Total construction	39,475	4,445	43,920	40,488	4,463	44,951
Total loans	1,348,192	49,843	1,398,035	1,366,113	55,235	1,421,348
Net deferred loan (fees) costs	(1,973)		(1,973)	(1,777)		(1,777)
Total loans, net of deferred loan fees	$ 1,346,219	$ 49,843	$ 1,396,062	$ 1,364,336	$ 55,235	$ 1,419,571
Noncovered loans	$ 1,346,192		$ 1,346,219	$ 1,364,336		$ 1,364,336
Covered loans		49,843	49,843		55,235	55,235
Total loans	$ 1,346,192	$ 49,843	$ 1,396,062	$ 1,364,336	$ 55,235	$ 1,419,571
Allowance for loan loss	$ (41,592)	$ (2,370)	$ (43,962)	$ (40,963)	$ (1,608)	$ (42,571)

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

	Three months ended June 30,	Six months ended June 30,

	2011	2010	2011	2010
Change in accretable yield:				
Balance at beginning of period	$ 14,399		$ 17,717	
Acquisitions		$ 23,151		$ 23,151
Accretion to interest income	(994)	(369)	(2,028)	(369)
Reclassification (to) from Nonaccretable difference	52		(2,232)	
Balance at end of period	$ 13,457	$ 22,782	$ 13,457	$ 22,782

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

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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.

Allowance for Loan Losses Three months ended June 30, 2011

	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Beginning balance	$ 3,544	$ 12,027	$ 16,296	$ 911	$ 481	$ 704	$ 6,967	$ 1,395	$ 899	$ 43,224
Charge-offs	(321)	(1,621)	(1,928)	(264)	(100)	(304)	(202)	(395)	(95)	(5,230)
Recoveries		38	86		56	165	41	20	1	407
Provision	(702)	2,975	2,026	524	(53)	257	6	677	(149)	5,561
Ending balance	$ 2,521	$ 13,419	$ 16,480	$ 1,171	$ 384	$ 822	$ 6,812	$ 1,697	$ 656	$ 43,962

Allowance for Loan Losses Six months ended June 30, 2011

	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Beginning balance	$ 3,007	$ 12,700	$ 15,054	$ 795	$ 1,229	$ 701	$ 5,991	$ 1,824	$ 1,270	$ 42,571
Charge-offs	(1,446)	(1,989)	(5,529)	(264)	(235)	(533)	(1,758)	(430)	(95)	(12,279)
Recoveries	112	66	247	2	183	374	62	22	40	1,108
Provision	848	2,642	6,708	638	(793)	280	2,517	281	(559)	12,562
Ending balance	$ 2,521	$ 13,419	$ 16,480	$ 1,171	$ 384	$ 822	$ 6,812	$ 1,697	$ 656	$ 43,962
Ending balance: Individ. evaluated for impairment	$ 955	$ 2,181	$ 1,408	$ 129	$ 113	$ 22	$ 206	$ 286	$ 509	$ 5,809
Loans pooled for evaluation	$ 1,552	$ 11,224	$ 14,629	$ 1,042	$ 271	$ 800	$ 4,968	$ 1,150	$ 147	$ 35,783
Loans acquired with deteriorated credit quality	$ 14	$ 14	$ 443				$ 1,638	$ 261		$ 2,370

Loans, net of unearned fees As of June 30, 2011

	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total

Ending balance: Total loans	$ 127,083	$ 701,674	$ 332,532	$ 14,905	$ 16,767	$ 18,660	$ 140,531	$ 22,479	$ 21,431	$ 1,396,062
Individ. evaluated for impairment	$ 11,292	$ 65,734	$ 8,271	$ 492	$ 936	$ 93	$ 5,385	$ 6,250	$ 7,329	$ 105,782
Loans pooled for evaluation	$ 109,393	$ 611,279	$ 317,959	$ 14,413	$ 15,831	$ 18,567	$ 127,109	$ 11,784	$ 14,102	$ 1,240,437
Loans acquired with deteriorated credit quality	$ 6,398	$ 24,661	$ 6,302				$ 8,037	$ 4,445		$ 49,843

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Note 5 Allowance for Loan Losses (Continued)

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.

	Allowance for Loan Losses		Three months ended June 30, 2010							
	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Beginning balance	$ 2,131	$ 6,679	$ 14,428	$ 907	$ 1,645	$ 657	$ 7,067	$ 304	$ 2,522	$ 36,340
Charge-offs	(293)	(1,497)	(3,095)	(303)	(337)	(543)	(535)	(1,782)	(39)	(8,424)
Recoveries		28	24	7	167	182	103	3		514
Provision	1,002	4,153	2,551	1,305	(13)	302	(455)	1,748	(593)	10,000
Ending balance	$ 2,840	$ 9,363	$ 13,908	$ 1,916	$ 1,462	$ 598	$ 6,180	$ 273	$ 1,890	$ 38,430
Ending balance:										

	Allowance for Loan Losses		Six months ended June 30, 2010							
	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Beginning balance	$ 2,618	$ 5,071	$ 13,483	$ 940	$ 1,986	$ 616	$ 6,958	$ 2,067	$ 1,734	$ 35,473
Charge-offs	(748)	(4,064)	(5,337)	(711)	(863)	(883)	(1,061)	(2,819)	(39)	(16,525)
Recoveries		55	68	7	327	384	117	24		982
Provision	970	8,301	5,694	1,680	12	481	166	1,001	195	18,500
Ending balance	$ 2,840	$ 9,363	$ 13,908	$ 1,916	$ 1,462	$ 598	$ 6,180	$ 273	$ 1,890	$ 38,430
Ending balance: Individ. evaluated for impairment	$ 494	$ 857	$ 2,977	$ 368	$ 461	$ 67	$ 1,147	$ 46	$ 511	$ 6,928
Loans pooled for evaluation	$ 2,346	$ 8,506	$ 10,931	$ 1,548	$ 1,001	$ 531	$ 5,033	$ 227	$ 1,379	$ 31,502
Loans acquired with deteriorated credit quality										

	Loans, net of unearned fees		As of June 30, 2010							
	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total

Ending balance:										
Total loans	$ 121,638	$ 729,218	$ 346,795	$ 46,580	$ 34,189	$ 15,143	$ 162,503	$ 10,320	$ 34,554	$ 1,500,940
Individ. evaluated for impairment	$ 7,556	$ 57,485	$ 9,960	$ 1,026	$ 1,759	$ 190	$ 3,351	$ 1,252	$ 12,397	$ 94,976
Loans pooled for evaluation	$ 106,304	$ 641,933	$ 328,109	$ 45,554	$ 32,430	$ 14,953	$ 147,786	$ 4,330	$ 22,157	$ 1,343,556
Loans acquired with deteriorated credit quality	$ 7,778	$ 29,800	$ 8,726				$ 11,366	$ 4,738		$ 62,408

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

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

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

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

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

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

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

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

Credit Quality Indicators-As of June 30, 2011

	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Originated loans:										
Pass	$ 104,754	$ 543,687	$ 310,264	$ 14,176	$ 15,261	$ 18,409	$ 116,396	$ 8,353	$ 8,855	$ 1,140,155
Special mention	1,282	50,797	1,219		39	11	8,115	3,394	4,990	69,847
Substandard	14,649	82,529	14,747	729	1,467	240	7,983	6,287	7,586	136,217
Loss										
Total	$ 120,685	$ 677,013	$ 326,230	$ 14,905	$ 16,767	$ 18,660	$ 132,494	$ 18,034	$ 21,431	$ 1,346,219
PCI loans	$ 6,398	$ 24,661	$ 6,302				$ 8,037	$ 4,445		$ 49,843
Total loans	$ 127,083	$ 701,674	$ 332,532	$ 14,905	$ 16,767	$ 18,660	$ 140,531	$ 22,479	$ 21,431	$ 1,396,062

Credit Quality Indicators-As of December 31, 2010

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

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

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

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

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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 June 30, 2011:

Analysis of Past Due and Nonaccrual Originated Loans-As of June 30, 2011

	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Originated loans:										
Past due:										
30-59 Days	$ 359	$ 13,138	$ 3,479	$ 318	$ 464	$ 69	$ 1,463	$ 64	$ 5,180	$ 24,534
60-89 Days	122	963	2,233	80	184	16	442	337	400	4,777
> 90 Days	4,543	10,595	3,256	138	247		2,840	547	476	22,642
Total past due	5,024	24,696	8,968	536	895	85	4,745	948	6,056	51,953
Current	115,661	652,317	317,262	14,369	15,872	18,575	127,749	17,086	15,375	1,294,266
Total loans	$ 120,685	$ 677,013	$ 326,230	$ 14,905	$ 16,767	$ 18,660	$ 132,494	$ 18,034	$ 21,431	$ 1,346,219
> 90 Days and still accruing										
Nonaccrual loans	$ 10,623	$ 42,832	$ 7,363	$ 426	$ 864	$ 93	$ 4,180	$ 6,250	$ 1,089	$ 73,720

The following table shows the contractual ending balance of current, past due, and nonaccrual PCI loans by loan category as of June 30, 2011 (this table is prepared on an individual loan basis):

Analysis of Past Due and Nonaccrual PCI Loans-As of June 30, 2011

	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
PCI Loans:										
Past due:										
30-59 Days		$ 333						$ 528		$ 861
60-89 Days			110				796			906
> 90 Days		1,549	335				771	30		2,685
Total past due		1,882	445				1,567	558		4,452
Current	6,398	22,779	5,857				6,470	3,887		45,391
Total PCI loans	$ 6,398	$ 24,661	$ 6,302				$ 8,037	$ 4,445		$ 49,843

At June 30, 2011, the Company had no nonaccruing PCI loans.

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

Analysis of Past Due and Nonaccrual Originated Loans-As of December 31, 2010

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

The following table shows the contractual ending balance of current, past due, and nonaccrual PCI loans by loan category as of December 31, 2010 (this table is prepared on an individual loan basis):

Analysis of Past Due and Nonaccrual PCI Loans-As of December 31, 2010

	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
PCI Loans:										
Past due:										
30-59 Days		$ 1,749					$ 241			$ 1,990
60-89 Days		353	505				79			937
> 90 Days	562	300	34				2,299	358		3,553
Total past due	562	2,402	539				2,619	358		6,480
Current	7,689	28,197	8,331				8,797	4,855		57,869
Total PCI loans	$ 8,251	$ 30,599	$ 8,870				$ 11,416	$ 5,213		$ 64,349

At December 31, 2010, the Company had no nonaccruing PCI loans.

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

Impaired Originated Loans-As June 30, 2011

	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
With no related allowance recorded:										
Recorded investment	$ 7,613	$ 44,873	$ 4,311	$ 362	$ 548	$ 34	$ 4,791	$ 4,501	$ 6,472	$ 73,505
Unpaid principal	$ 10,165	$ 51,637	$ 7,009	$ 783	$ 1,005	$ 37	$ 5,815	$ 9,280	$ 6,666	$ 92,397
Average recorded Investment	$ 6,903	$ 45,180	$ 4,833	$ 527	$ 631	$ 42	$ 4,846	$ 5,288	$ 6,541	$ 74,791
Interest income Recognized	$ 13	$ 814	$ 4	$ 3	$ 6	$ 1	$ 57	$ 2	$ 189	$ 1,089
With an allowance recorded:										
Recorded investment	$ 3,679	$ 20,861	$ 3,960	$ 130	$ 388	$ 59	$ 594	$ 1,749	$ 857	$ 32,277
Unpaid principal	$ 4,069	$ 23,516	$ 4,603	$ 295	$ 476	$ 63	$ 743	$ 2,706	$ 906	$ 37,377
Related allowance	$ 955	$ 2,181	$ 1,408	$ 129	$ 113	$ 22	$ 206	$ 286	$ 509	$ 5,809
Average recorded Investment	$ 4,827	$ 15,105	$ 4,661	$ 105	$ 528	$ 47	$ 838	$ 1,300	$ 843	$ 28,254
Interest income Recognized	$ 17	$ 408	$ 24	$ 1	$ 2		$ 8	$ (18)	$ 6	$ 448

At June 30, 2011, $50,337,000 of originated loans were TDR and classified as impaired. The Company did not have any obligations to lend additional funds on these loans as of June 30, 2011.

Impaired Originated Loans-As of December 31, 2010

	RE Mortgage		Home Equity		Auto	Other		Construction		

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

At December 31, 2010, $36,423,000 of originated loans were TDR and classified as impaired. The Company had obligations to lend $415,000 of additional funds on these TDR as of December 31, 2010.

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Note 6 Foreclosed Assets

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

	Six months ended June 30, 2011			Six months ended June 30, 2010		
	Noncovered	Covered	Total	Noncovered	Covered	Total
Beginning balance, net	$ 5,000	$ 4,913	$ 9,913	$ 3,726		$ 3,726
Additions/transfers from loans	4,271		4,271	3,788	$ 4,629	8,417
Dispositions/sales	(2,914)	(846)	(3,760)	(1,838)	($305)	(2,143)
Valuation adjustments	(493)	(594)	(1,087)	(55)		(55)
Ending balance, net	$ 5,864	$ 3,473	$ 9,337	$ 5,621	$ 4,324	$ 9,945
Ending valuation allowance	($896)	($740)	($1,636)	($241)		($241)
Ending number of foreclosed assets	47	11	58	26	10	36
Proceeds from sale of foreclosed assets	$ 3,167	$ 978	$ 4,145	$ 2,192	$ 305	$ 2,497
Gain (loss) on sale of foreclosed assets	$ 253	$ 132	$ 385	$ 350		$ 350

Note 7 Premises and Equipment

Premises and equipment were comprised of:

	June 30, 2011	December 31, 2010
	(in thousands)	
Premises	$ 20,321	$ 19,902
Furniture and equipment	24,536	26,009
	44,857	45,911
Less: Accumulated depreciation	(28,452)	(30,556)
	16,405	15,355
Land and land improvements	3,737	3,765
	$ 20,142	$ 19,120

Depreciation expense for premises and equipment amounted to $604,000 and $707,000 for the three months ended June 30, 2011 and 2010, respectively. Depreciation expense for premises and equipment amounted to $1,250,000 and $1,407,000 for the six months ended June 30, 2011 and 2010, 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):

	Six months ended June 30,	
	2011	2010
Beginning balance	$ 50,541	$ 48,694
Increase in cash value of life insurance	900	852
Ending balance	$ 51,441	$ 49,546

The Bank is the owner and beneficiary of 140 life insurance policies, issued by 6 life insurance companies, covering 39 current and former employees and directors (Insured). 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 insured that for certain of the policies provide some level of sharing of the death benefit, less the cash surrender value, among the Bank and the beneficiaries of the insured upon the receipt of death benefits. See Note 15 of these 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.

(Dollar in Thousands)	December 31, 2010	Additions	Reductions	June 30, 2011
Goodwill	$ 15,519			$ 15,519

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

(Dollar in Thousands)	December 31, 2010	Additions	Reductions	June 30, 2011
Core deposit intangibles	$ 3,927			$ 3,927
Accumulated amortization	(3,347)		(105)	(3,452)
Core deposit intangibles, net	$ 580		$ (105)	$ 475

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

Years Ended	Estimated Core Deposit Intangible Amortization
2011	$ 145
2012	81
2013	81
2014	80
2015	80
Thereafter	113

Note 10 Mortgage Servicing Rights

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

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Mortgage servicing rights:				
Balance at beginning of period	$ 4,808	$ 4,310	$ 4,605	$ 4,089
Additions	172	292	435	562
Change in fair value	(162)	(569)	(222)	(618)
Balance at end of period	$ 4,818	$ 4,033	$ 4,818	$ 4,033
Servicing, late and ancillary fees received	$ 370	$ 315	$ 731	$ 622
Balance of loans serviced at:				
Beginning of period	$ 583,625	$ 518,803	$ 573,300	$ 505,947
End of period	$ 584,113	$ 527,436	$ 584,113	$ 527,436
Weighted-average prepayment speed (CPR)			14.5%	18.0%
Discount rate			9.0%	9.0%

The changes in fair value of MSRs that occurred during the three and six months ended June 30, 2011 and 2010 were mainly due to principal reductions and changes in 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 June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Beginning balance	$ 6,689		$ 5,640	
Effect of actual covered losses and change in estimated future covered losses	204	$ 7,515	1,885	$ 7,515
Reimbursable expenses (revenue), net	(19)		103	
Payments received	(2,329)		(3,083)	

Ending balance	$ 4,545	$ 7,515	$ 4,545	$ 7,515

Note 12 Other Assets

Other assets were comprised of (in thousands):

	June 30, 2011	December 31, 2010
Deferred tax asset, net	$ 26,786	$ 28,046
Software	1,044	1,127
Prepaid expenses & miscellaneous other assets	13,804	8,109
Total other assets	$ 41,634	$ 37,282

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

Note 13 Deposits

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

	June 30, 2011	December 31, 2010
Noninterest-bearing demand	$ 419,391	$ 424,070
Interest-bearing demand	401,040	395,413
Savings	618,413	585,850
Time certificates, $100,000 and over	207,843	235,992
Other time certificates	190,044	210,848
Total deposits	$ 1,836,731	$ 1,852,173

Certificate of deposit balances of $5,000,000 and $5,000,000 from the State of California were included in time certificates, $100,000 and over, at June 30, 2011 and December 31, 2010, respectively. The Bank participates in a deposit program offered by the State of California whereby the State may make deposits at the Bank s request subject to collateral and credit worthiness constraints. The negotiated rates on these State deposits are generally more favorable than other wholesale funding sources available to the Bank. Overdrawn deposit balances of $1,733,000 and $1,513,000 were classified as consumer loans at June 30, 2011 and December 31, 2010, respectively.

Note 14 Reserve for Unfunded Commitments

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

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Balance at beginning of period	$ 2,690	$ 3,640	$ 2,640	$ 3,640
Provision for losses unfunded commitments	(50)	(800)		(800)
Balance at end of period	$ 2,640	$ 2,840	$ 2,640	$ 2,840

Note 15 Other Liabilities

Other liabilities were comprised of (in thousands):

	June 30, 2011	December 31, 2010
Deferred compensation	$ 8,364	$ 8,289
Supplemental retirement	10,489	9,873
Additional minimum pension liability	5,770	5,770
Joint beneficiary agreements	1,964	1,851
Miscellaneous other liabilities	2,974	3,387
Total other liabilities	$ 29,561	$ 29,170

Note 16 Other Borrowings

A summary of the balances of other borrowings follows:

	June 30, 2011	December 31, 2010
	(in thousands)	
Borrowing under security repurchase agreement, rate is fixed at 4.72% and principal is callable in its entirety by lender on a quarterly basis until final maturity on August 30, 2012.	$ 50,000	$ 50,000
Other collateralized borrowings, fixed rate, as of June 30, 2011 of 0.15% payable on July 1, 2011	9,234	12,020
Total other borrowings	$ 59,234	$ 62,020

During August 2007, the Company entered into a security repurchase agreement with principal balance of $50,000,000 and terms as described above. As of June 30, 2011, the Company has pledged as collateral and sold under an agreement to repurchase investment securities with fair value of $58,895,000 under this security repurchase agreement. The Company did not enter into any other repurchase agreements during the three months ended June 30, 2011 or the year ended December 31, 2010. The average balance of repurchase agreements during the three months ended June 30, 2011 was $50,000,000, with an average rate of 4.72%.

The Company had $9,234,000 and $12,020,000 of other collateralized borrowings at June 30, 2011 and December 31, 2010, respectively. Other collateralized borrowings are generally overnight maturity borrowings from non-financial institutions that are collateralized by securities owned by the Company. As of June 30, 2011, the Company has pledged as collateral and sold under agreements to repurchase investment securities with fair value of $19,374,000 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 June 30, 2011, this line provided for maximum borrowings of $437,764,000 of which none was outstanding, leaving

$437,764,000 available. As of June 30, 2011, the Company has designated loans totaling $980,865,000 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 June 30, 2011, this line provided for maximum borrowings of $43,407,000 of which none was outstanding, leaving $43,407,000 available. As of June 30, 2011, the Company has designated investment securities with fair value of $750,000 and loans totaling $68,801,000 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 June 30, 2011.

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.

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).

Note 18 Commitments and Contingencies

Restricted Cash Balances Reserves (in the form of deposits with the Federal Reserve Bank) of $18,933,000 and $13,351,000 were maintained to satisfy Federal regulatory requirements at June 30, 2011 and December 31, 2010, respectively. These reserves are included in cash and due from banks in the accompanying balance sheets.

Lease Commitments The Company leases 45 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. The Company currently does not have any capital leases.

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

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

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

(in thousands)	June 30, 2011	December 31, 2010
Financial instruments whose amounts represent risk:		
Commitments to extend credit:		
Commercial loans	$ 124,090	$ 116,785
Consumer loans	378,328	380,269
Real estate mortgage loans	17,151	14,366
Real estate construction loans	5,043	7,174
Standby letters of credit	5,017	5,022
Deposit account overdraft privilege	55,993	38,600

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

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.

The Deposit account overdraft privilege amount represents the unused overdraft privilege available on Demand Deposit accounts covered by the Company s Overdraft Privilege service. The Company has established a per account overdraft privilege coverage amount for its Demand Deposit accounts which meet the qualification requirements. The overdraft privilege service allows qualifying depositors to overdraft their Demand Deposit account up to an amount that has been established in advance.

Legal Proceedings During 2007, Visa Inc. (Visa) announced that it completed restructuring transactions in preparation for an initial public offering of its Class A stock, and, as part of those transactions, the Bank s membership interest was exchanged for 16,653 shares of Class B common stock in Visa. In March 2008, Visa completed its initial public offering. Following the initial public offering, the Company received $275,400 proceeds as a mandatory partial redemption of 6,439 shares, reducing the Company s holdings from 16,653 shares to 10,214 shares of Class B common stock. A conversion ratio of 0.71429 was established for the conversion rate of Class B shares into Class A shares. Using the proceeds from this offering, Visa also established a $3.0 billion escrow account to cover settlements, resolution of pending litigation and related claims (covered litigation).

In October 2008, Visa announced that it had reached a settlement with Discover Card related to an antitrust lawsuit. The Bank and other Visa member banks were obligated to fund the settlement and share in losses resulting from this litigation that were not already provided for in the escrow account. In December 2008, Visa deposited additional funds into the escrow account to cover the remaining amount of the settlement. The deposit of funds into the escrow account further reduced the conversion ratio applicable to Class B common stock outstanding from 0.71429 per Class A share to 0.6296 per Class A share.

In July 2009, Visa deposited an additional $700 million into the litigation escrow account. While the outcome of the remaining litigation cases remains unknown, this addition to the escrow account provides additional reserves to cover potential losses. As a result of the deposit, the conversion ratio applicable to Class B common stock outstanding decreased further from 0.6296 per Class A share to 0.5824 per Class A share. In May 2010, Visa deposited an additional $500 million into the litigation escrow account. As a result of the deposit, the conversion ratio applicable to Class B common stock outstanding decreased further from 0.5824 per Class A share to 0.5550 per Class A share. In October 2010, Visa deposited an additional $800 million into the litigation escrow account. As a result of the deposit, the conversion ratio applicable to Class B common stock outstanding decreased further from 0.5550 per Class A share to 0.5102 per Class A share.

The remaining unredeemed shares of Visa Class B common stock are restricted and may not be transferred until the later of (1) three years from the date of the initial public offering or (2) the period of time necessary to resolve the covered litigation. 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. As of December 31, 2010, the value of the Class A shares was $70.38 per share. Utilizing the new conversion ratio effective in July 2009, the value of unredeemed Class A equivalent shares owned by the Company was $367,000 as of December 31, 2010, and has not been reflected in the accompanying financial statements.

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

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

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

Note 19 Shareholders Equity

Dividends Paid

The Bank paid to the Company cash dividends in the aggregate amounts of $4,035,000 during the six months ended June 30, 2011. 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.

The Company adopted this Rights Plan to protect stockholders 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. On July 8, 2011, the Company amended the Rights Plan to extend its maturity until July 10, 2021.

Stock Repurchase Plan

On August 21, 2007, the Board of Directors adopted a plan to repurchase, as conditions warrant, up to 500,000 shares of the Company s common stock on the open market. The timing of purchases and the exact number of shares to be purchased will depend on market conditions. The 500,000 shares authorized for repurchase under this stock repurchase plan represented approximately 3.2% of the Company s 15,814,662 outstanding common shares as of August 21, 2007. This stock repurchase plan has no expiration date. As of June 30, 2011, the Company had repurchased 166,600 shares under this plan.

Stock Repurchased Under Equity Compensation Plans

During the six months ended June 30, 2011 employees tendered 177,430 shares of the Company s common stock in lieu of cash to exercise options to purchase shares of the Company s stock or to pay income taxes related to such exercises as permitted by the Company s shareholder-approved equity compensation plans. 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. Subject to certain adjustments, the maximum aggregate number of shares of TriCo s common stock which may be issued pursuant to or subject to Awards is 650,000. The number of shares available for issuance under the 2009 Plan shall be reduced by: (i) one share for each share of common stock issued pursuant to a stock option or a Stock Appreciation Right and (ii) two shares for each share of common stock issued pursuant to a Performance Award, a Restricted Stock Award or a Restricted Stock Unit Award. When Awards made under the 2009 Plan expire or are forfeited or cancelled, the underlying shares will become available for future Awards under the 2009 Plan. To the extent that a share of common stock pursuant to an Award that counted as two shares against the number of shares again becomes available for issuance under the 2009 Plan, the number of shares of common stock available for issuance under the 2009 Plan shall increase by two shares. Shares awarded and delivered under the 2009 Plan may be authorized but unissued, or reacquired shares. As of June 30, 2011, 215,000 options for the purchase of common shares remain outstanding, and 435,000 remain available for grant, under the 2009 Plan.

In May 2001, the Company adopted the TriCo Bancshares 2001 Stock Option Plan (2001 Plan) covering officers, employees, directors of, and consultants to, the Company. Under the 2001 Plan, the option exercise price cannot be less than the fair market value of the Common Stock at the date of grant except in the case of substitute options. Options for the 2001 Plan expire on the tenth anniversary of the grant date. Vesting schedules under the 2001 Plan are determined individually for each grant. As of June 30, 2011, 913,935 options for the purchase of common shares remain outstanding under the 2001 Plan. No new options may be granted under the 2001 Plan.

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, 2010	1,425,185	$ 8.05	to	$25.91	$ 15.78	
Options granted			to			
Options exercised	(296,250)	$ 8.05	to	$ 8.20	$ 8.20	
Options forfeited			to			
Outstanding at June 30, 2011	1,128,935	$11.72	to	$25.91	$ 17.77	

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 June 30, 2011:

(dollars in thousands except exercise price)	Currently Exercisable	Currently Not Exercisable	Total Outstanding
Number of options	918,845	210,090	1,128,935
Weighted average exercise price	$ 17.68	$ 18.16	$ 17.77
Intrinsic value (thousands)	$ 563	$ 24	$ 587
Weighted average remaining contractual term (yrs.)	3.82	7.96	4.59

The 210,090 options that are not currently exercisable as of June 30, 2011 are expected to vest, on a weighted-average basis, over the next 2.96 years, and the Company is expected to recognize $1,701,000 of pre-tax compensation costs related to these options as they vest.

Note 21 Noninterest Income and Expenses

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

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Service charges on deposit accounts	$ 3,700	$ 4,443	$ 7,130	$ 8,221
ATM and interchange fees	1,776	1,531	3,421	2,899
Other service fees	437	362	843	692
Mortgage banking service fees	370	315	731	623
Change in value of mortgage servicing rights	(162)	(569)	(222)	(618)
Total service charges and fees	6,121	6,082	11,903	11,817
Gain on sale of loans	495	577	1,220	1,162
Commissions on sale of non-deposit investment products	648	362	1,008	629
Increase in cash value of life insurance	450	426	900	852
Change in indemnification asset	144		1,836	
Gain on sale of foreclosed assets	185	310	385	350
Legal settlement				400
Sale of customer checks	67	54	126	102
Lease brokerage income	95	21	128	58
Gain (loss) on disposal of fixed assets	(6)	(15)	(15)	(40)
Commission rebates	(16)	(17)	(33)	(33)
Bargain purchase gain on acquisition		232		232
Other	68	72	143	122
Total other noninterest income	2,130	2,022	5,698	3,834
Total noninterest income	$ 8,251	$ 8,104	$ 17,601	$ 15,651

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

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Base salaries, net of deferred loan origination costs	$ 7,198	$ 6,990	$ 14,202	$ 13,964
Incentive compensation	783	526	1,699	1,072
Benefits and other compensation costs	2,734	2,469	5,607	5,099
Total salaries and benefits expense	10,715	9,985	21,508	20,135
Occupancy	1,402	1,407	2,862	2,736
Equipment	880	1,060	1,801	2,034

Data processing and software	956	661	1,808	1,336
ATM network charges	507	446	989	904
Telecommunications	520	461	926	874
Postage	219	311	435	558
Courier service	221	201	429	398
Advertising	739	627	1,171	1,148
Assessments	518	812	1,385	1,596
Operational losses	118	120	227	187
Professional fees	573	704	860	1,420
Foreclosed assets expense	115	66	282	263
Provision for foreclosed asset losses	638	55	1,087	55
Change in reserve for unfunded commitments	(50)	(800)		(800)
Intangible amortization	20	72	105	137
Other	2,004	2,220	3,891	4,230
Total other noninterest expense	9,380	8,423	18,258	17,076
Total noninterest income	$ 20,095	$ 18,408	$ 39,766	$ 37,211

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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 June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Federal statutory income tax rate	35.0%	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefit	5.7	3.8	5.7	4.1
Tax-exempt interest on municipal obligations	(1.1)	(3.5)	(1.1)	(3.3)
Increase in cash value of insurance policies	(3.6)	(8.1)	(3.6)	(7.4)
Other	0.2	0.7	0.2	0.5
Effective Tax Rate	36.2%	27.9%	36.2%	29.0%

Note 23 Earnings Per Share

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:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2011	2010	2011	2010
Net income	$ 2,771	$ 1,320	$ 5,571	$ 2,878
Average number of common shares outstanding	15,922	15,860	15,891	15,841
Effect of dilutive stock options	32	248	98	250
Average number of common shares outstanding used to calculate diluted earnings per share	15,954	16,108	15,989	16,091
Options excluded from diluted earnings per share because the effect of these optioins was antidilutive	826	341	795	362

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:

	Three months ended June 30,		Six months ended June, 30	
	2011	2010	2011	2010

(in thousands)				
Unrealized holding gains (losses) on available-for-sale securities	$ 2,689	$ 3,588	$ 2,302	$ 3,200
Tax effect	(1,131)	(1,183)	(968)	(1,346)
Unrealized holding gains (losses) on available-for-sale securities, net of tax	$ 1,558	$ 2,405	$ 1,334	$ 1,854

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

	June 30, 2011	December 31, 2010
	(in thousands)	
Net unrealized gains (losses) on available-for-sale securities	$ 10,238	$ 7,936
Tax effect	(4,305)	(3,337)
Unrealized holding gains (losses) on available-for-sale securities, net of tax	5,933	4,599
Minimum pension liability	(5,770)	(5,770)
Tax effect	2,426	2,426
Minimum pension liability, net of tax	(3,344)	(3,344)
Joint beneficiary agreement liability	96	96
Tax effect	(41)	(41)
Joint beneficiary agreement liability, net of tax	55	55
Accumulated other comprehensive income (loss)	$ 2,644	$ 1,310

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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:

(in thousands)	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Net pension cost included the following components:				
Service cost-benefits earned during the period	$ 165	$ 131	$ 329	$ 262
Interest cost on projected benefit obligation	210	191	420	382
Amortization of net obligation at transition			1	1
Amortization of prior service cost	38	38	76	76
Recognized net actuarial loss	97	55	193	109
Net periodic pension cost	$ 510	$ 415	$ 1,019	$ 830
Company contributions to pension plans	$ 226	$ 189	$ 403	$ 379
Pension plan payouts to participants	$ 226	$ 189	$ 403	$ 379

For the year ending December 31, 2011, the Company currently expects to contribute and pay out as benefits $758,000 to participants under the plans.

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, 2009	$ 5,245
Advances/new loans	1,999
Removed/payments	(4,673)
Balance December 31, 2010	$ 2,571
Advances/new loans	200
Removed/payments	(629)
Balance June 30, 2011	$ 2,142

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. 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.

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 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. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Loans held for sale Loans held for sale are carried at the lower of cost or market 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 loans originated loans are not recorded at fair value on a recurring basis. However, from time to time, an originated loan is considered impaired and an allowance for loan losses is established. Originated 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 loan is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired originated 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 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 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, and there is no observable market price, the Company records the impaired originated 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. The fair value of foreclosed assets is established using current real estate appraisals. Revenue and expenses from operations and changes in the valuation allowance are included in other noninterest expense. The Company records foreclosed assets as nonrecurring Level 3.

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. As such, the Company classifies mortgage servicing rights subjected to recurring fair value adjustments as Level 3.

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

Fair value at June 30, 2011	Total	Level 1	Level 2	Level 3
Securities available-for-sale:				
Obligations of U.S. government corporations and agencies	$ 252,832		$ 252,832	
Obligations of states and political subdivisions	12,160		12,160	
Mortgage servicing rights	4,818			4,818
Total assets measured at fair value	$ 269,810		$ 264,992	$ 4,818

Fair value at December 31, 2010	Total	Level 1	Level 2	Level 3

Securities available-for-sale:			
Obligations of U.S. government corporations and agencies	$ 264,181	$ 264,181	
Obligations of states and political subdivisions	12,541	12,541	
Corporate debt securities	549	549	
Mortgage servicing rights	4,605		4,605
Total assets measured at fair value	$ 281,876	$ 277,271	$ 4,605

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 and six months ended June 30, 2011 and 2010. The amount included in the Transfer into Level 3 column represents the beginning balance of an item in the period (interim quarter) for which it was designated as a Level 3 fair value measure (in thousands):

Three months ended June 30,	Beginning Balance	Transfers into Level 3	Change Included in Earnings	Issuances	Ending Balance
2011: Mortgage servicing rights	$ 4,808		$ (162)	$ 172	$ 4,818
2010: Mortgage servicing rights	$ 4,310		$ (569)	$ 292	$ 4,033

Six months ended June 30,	Beginning Balance	Transfers into Level 3	Change Included in Earnings	Issuances	Ending Balance
2011: Mortgage servicing rights	$ 4,605		$ (222)	$ 435	$ 4,818
2010: Mortgage servicing rights	$ 4,089		$ (618)	$ 562	$ 4,033

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):

As of June 30, 2011	Total	Level 1	Level 2	Level 3
Fair value:				
Impaired originated loans	$ 37,189			$ 37,189
Noncovered foreclosed assets	5,864			5,864
Covered foreclosed assets	3,473			3,473
Total assets measured at fair value	$ 46,526			$ 46,526

As of June 30, 2010	Total	Level 1	Level 2	Level 3
Fair value:				
Impaired originated loans	$ 24,992			$ 24,992
Noncovered foreclosed assets	5,621			5,621
Covered foreclosed assets	4,324			4,324
Total assets measured at fair value	$34,937			$ 34,937

The following table presents the losses resulting from nonrecurring fair value adjustments that occurred in the periods indicated:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2011	2010	2011	2010
Impaired originated loan	$ 5,551	$ 4,686	$ 7,676	$ 6,821

Non-covered foreclosed assets	425	55	493	55
Covered foreclosed assets	213		594	
Total loss from nonrecurring fair value adjustments	$ 6,189	$ 4,741	$ 8,763	$ 6,876

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, accrued 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.

Securities - For all securities, fair values are based on quoted market prices or dealer quotes.

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 loans - The fair value of variable rate originated loans is the current carrying value. The interest rates on these originated loans are regularly adjusted to market rates. The fair value of other types of fixed rate originated 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 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.

Cash Value of Life Insurance - The fair values of insurance policies owned are based on the insurance contract s cash surrender value.
FDIC Indemnification Asset The FDIC indemnification asset is recorded at fair value, 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.
The estimated fair values of the Company s financial instruments are as follows:

	June 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)		(in thousands)	
Financial assets:				
Cash and due from banks	$ 52,874	$ 52,784	$ 57,254	$ 57,254
Cash at Federal Reserve and other banks	338,180	338,180	313,812	313,812
Securities available-for-sale	264,992	264,992	277,271	277,271
Restricted equity securities	9,199	9,199	9,133	9,133
Loans held for sale	4,379	4,379	4,988	4,988
Loans, net	1,396,062	1,461,021	1,377,000	1,451,151
Cash value of life insurance	51,441	51,441	50,541	50,541
Mortgage servicing rights	4,818	4,818	4,605	4,605
Indemnification asset	4,545	4,545	5,640	5,640
Financial liabilities:				
Deposits	1,836,731	1,839,626	1,852,173	1,854,763
Other borrowings	59,234	61,716	62,020	65,716
Junior subordinated debt	41,238	23,093	41,238	21,444

	Contract Amount	Fair Value	Contract Amount	Fair Value

Off-balance sheet:				
Commitments	$524,612	$5,246	$518,595	$5,186
Standby letters of credit	5,017	50	5,022	50
Overdraft privilege commitments	55,993	560	38,600	386

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TRICO BANCSHARES

Financial Summary
(dollars in thousands, except per share amounts; unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Net Interest Income (FTE)	$ 21,833	$ 22,245	$ 43,620	$ 44,346
Provision for loan losses	(5,561)	(10,000)	(12,562)	(18,500)
Noninterest income	8,251	8,104	17,601	15,651
Noninterest expense	(20,095)	(18,408)	39,766	(37,211)
Provision for income taxes (FTE)	(1,657)	(621)	(3,322)	(1,408)
Net income	$ 2,771	$ 1,320	$ 5,571	$ 2,878
Earnings per share:				
Basic	$ 0.17	$ 0.08	$ 0.35	$ 0.18
Diluted	$ 0.17	$ 0.08	$ 0.35	$ 0.18
Per share:				
Dividends paid	$ 0.09	$ 0.09	$ 0.18	$ 0.22
Book value at period end	$ 12.82	$ 12.76		
Tangible book value at period end	$ 11.82	$ 11.74		
Average common shares outstanding	15,922	15,860	15,891	15,841
Average diluted common shares outstanding	15,953	16,108	15,988	16,091
Shares outstanding at period end	15,979	15,860		
At period end:				
Loans, net	$1,352,100	$1,466,669		
Total assets	2,176,184	2,224,645		
Total deposits	1,836,731	1,889,949		
Other borrowings	59,234	60,452		
Junior subordinated debt	41,238	41,238		
Shareholders equity	$ 204,915	$ 202,422		
Financial Ratios:				
During the period (annualized):				
Return on assets	0.51%	0.24%	0.51%	0.26%
Return on equity	5.39%	2.61%	5.44%	2.82%
Net interest margin[1]	4.31%	4.41%	4.31%	4.40%
Net loan charge-offs to average loans	1.38%	2.16%	1.60%	2.12%
Efficiency ratio[1]	66.8%	60.7%	65.0%	62.0%
Average equity to average assets	9.38%	9.29%	9.34%	9.35%
At period end:				
Equity to assets	9.42%	8.43%		
Total capital to risk-adjusted assets	14.55%	13.55%		

[1] Fully taxable equivalent (FTE)

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

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 to the Company s unaudited condensed consolidated financial statements and the related notes included as Item 1 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 May 28, 2010, the Office of the Comptroller of the Currency closed Granite Community Bank (Granite), Granite Bay, California and appointed the FDIC as receiver. That same date, the Bank assumed the banking operations of Granite from the FDIC under a whole bank purchase and assumption agreement with loss sharing. Under the terms of the loss sharing agreement, the FDIC will cover a substantial portion of any future losses on loans, related unfunded loan commitments, other real estate owned (OREO)/foreclosed assets and accrued interest on loans for up to 90 days. The FDIC will absorb 80% of losses and share in 80% of loss recoveries on the covered assets acquired from Granite. The loss sharing arrangements for non-single family residential and single family residential loans are in effect for 5 years and 10 years, respectively, and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition date. With this agreement, the Bank added one traditional bank branch in each of Granite Bay and Auburn, California. This acquisition is consistent with the Bank s community banking expansion strategy and provides further opportunity to fill in the Bank s market presence in the greater Sacramento, California market. The Company refers to loans and foreclosed assets that are covered by loss share 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. As of June30, 2011, the Company has no loans that it classifies as PNCI loans.

Geographical Descriptions

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

Results of Operations

Overview

The following discussion and analysis is designed to provide a better understanding of the significant changes and trends related to the Company and the Bank s financial condition, operating results, asset and liability management, liquidity and capital resources and should be read in conjunction with the 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 (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Net Interest Income (FTE)	$ 21,833	$ 22,245	$ 43,620	$ 44,346
Provision for loan losses	(5,561)	(10,000)	(12,562)	(18,500)
Noninterest income	8,251	8,104	17,601	15,651
Noninterest expense	(20,095)	(18,408)	(39,766)	(37,211)
Provision for income taxes (FTE)	(1,657)	(621)	(3,322)	(1,408)
Net income	$ 2,771	$ 1,320	$ 5,571	$ 2,878

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 June 30,		Six month ended June 30,	
	2011	2010	2011	2010
Interest income	$ 24,467	$ 25,776	$ 48,901	$ 51,712
Interest expense	(2,714)	(3,642)	(5,444)	(7,600)
FTE adjustment	80	111	163	234
Net interest income (FTE)	$ 21,833	$ 22,245	$ 43,620	$ 44,346
Net interest margin (FTE)	4.31%	4.41%	4.31%	4.40%

Net interest income (FTE) during the second quarter of 2011 decreased $412,000 (1.9%) from the same period in 2010 to $21,833,000. The decrease in net interest income (FTE) was due to a 0.10% (ten basis points) decrease in net interest margin (FTE) to 4.31% and a $69,486,000 (4.7%) decrease in average balance of loans. Much of the ten basis point decrease in net interest margin was due to the fact that despite historically low deposit rates, the ability to deploy 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 yields that have been unattractive given their interest rate risk profile.

Net interest income (FTE) during the six months ended June 30, 2011 decreased $726,000 (1.6%) from the same period in 2010 to $43,620,000. The decrease in net interest income (FTE) was due to a 0.09% (nine basis points) decrease in net interest margin (FTE) to 4.31% and a $71,420,000 (4.9%) decrease in average balance of loans. Much of the nine basis point decrease in net interest margin was due to the fact that despite historically low deposit rates, the ability to deploy 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 yields that have been unattractive given their interest rate risk profile.

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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					
	June 30, 2011			June 30, 2010		
	Average Balance	Interest Income/ Expense	Rates Earned /Paid	Average Balance	Interest Income/ Expense	Rates Earned /Paid
Assets:						
Loans	$ 1,393,989	$ 21,735	6.24%	$ 1,463,475	$ 22,701	6.20%
Investment securities taxable	271,089	2,354	3.47%	278,799	2,733	3.92%
Investment securities nontaxable	11,839	216	7.31%	15,502	299	7.71%
Cash at Federal Reserve and other banks	351,512	242	0.28%	261,910	154	0.24%
Total interest-earning assets	2,028,429	24,547	4.84%	2,019,686	25,887	5.13%
Other assets	164,222			171,974		
Total assets	$ 2,192,651			$ 2,191,660		
Liabilities and shareholders equity:						
Interest-bearing demand deposits	408,109	358	0.35%	386,788	586	0.61%
Savings deposits	613,924	372	0.24%	541,710	613	0.45%
Time deposits	406,436	1,072	1.06%	544,320	1,528	1.12%
Other borrowings	59,139	600	4.06%	61,629	602	3.91%
Junior subordinated debt	41,238	312	3.03%	41,238	313	3.04%
Total interest-bearing liabilities	1,528,846	2,714	0.71%	1,575,685	3,642	0.92%
Noninterest-bearing deposits	424,331			376,300		
Other liabilities	33,711			36,147		
Shareholders equity	205,763			203,528		
Total liabilities and shareholders equity	$ 2,192,651			$ 2,191,660		
Net interest spread[1]			4.13%			4.21%
Net interest income and interest margin[2]		$ 21,833	4.31%		$ 22,245	4.41%

(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.

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Summary of Average Balances, Yields/Rates and Interest Differential (continued)

	For the six months ended					
	June 30, 2011			June 30, 2010		
	Average Balance	Interest Income/ Expense	Rates Earned /Paid	Average Balance	Interest Income/ Expense	Rates Earned /Paid
Assets:						
Loans	$ 1,395,160	$ 43,457	6.23%	$ 1,466,580	$ 45,514	6.21%
Investment securities taxable	273,793	4,735	3.46%	271,988	5,494	4.04%
Investment securities nontaxable	11,951	439	7.34%	16,406	630	7.68%
Cash at Federal Reserve and other banks	345,453	433	0.25%	259,317	308	0.24%
Total interest-earning assets	2,026,357	49,064	4.84%	2,014,291	51,946	5.16%
Other assets	164,650			166,108		
Total assets	$ 2,191,007			$ 2,180,399		
Liabilities and shareholders equity:						
Interest-bearing demand deposits	405,188	707	0.35%	377,724	1,201	0.64%
Savings deposits	603,004	739	0.25%	531,978	1,255	0.47%
Time deposits	419,301	2,183	1.04%	552,293	3,329	1.21%
Other borrowings	59,181	1,193	4.03%	61,736	1,196	3.87%
Junior subordinated debt	41,238	622	3.02%	41,238	619	3.00%
Total interest-bearing liabilities	1,527,912	5,444	0.71%	1,564,969	7,600	0.97%
Noninterest-bearing deposits	424,710			375,159		
Other liabilities	33,736			36,407		
Shareholders equity	204,649			203,864		
Total liabilities and shareholders equity	$ 2,191,007			$ 2,180,399		
Net interest spread[1]			4.13%			4.19%
Net interest income and interest margin[2]		$ 43,620	4.31%		$ 44,346	4.40%

(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.

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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).

	Three months ended June 30, 2011 compared with three months ended June 30, 2010		
	Volume	Rate	Total
Increase (decrease) in interest income:			
Loans	$ (1,077)	$ 111	$ (966)
Investment securities	(117)	(345)	(462)
Cash at Federal Reserve and other banks	54	34	88
Total interest-earning assets	(1,140)	(200)	(1,340)
Increase (decrease) in interest expense:			
Interest-bearing demand deposits	33	(261)	(228)
Savings deposits	81	(322)	(241)
Time deposits	(386)	(70)	(456)
Other borrowings	(24)	22	(2)
Junior subordinated debt		(1)	(1)
Total interest-bearing liabilities	(296)	(632)	(928)
Increase (decrease) in Net Interest Income	$ (844)	$ 432	$ (412)

	Six months ended June 30, 2011 compared with six months ended June 30, 2010		
	Volume	Rate	Total
Increase (decrease) in interest income:			
Loans	$ (2,218)	$ 161	$ (2,057)
Investment securities	(56)	(894)	(950)
Cash at Federal Reserve and other banks	103	22	125
Total interest-earning assets	(2,171)	(711)	(2,882)
Increase (decrease) in interest expense:			
Interest-bearing demand deposits	88	(582)	(494)
Savings deposits	167	(683)	(516)
Time deposits	(805)	(341)	(1,146)
Other borrowings	(49)	46	(3)
Junior subordinated debt		3	3

Total interest-bearing liabilities	(599)	(1,557)	(2,156)
Increase (decrease) in Net Interest Income	$ (1,572)	$ 846	$ (726)

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Provision for Loan Losses

The Company provided $5,561,000 for loan losses during the three months ended June 30, 2011 versus $10,000,000 during the three months ended June 30, 2010. The allowance for loan losses increased $738,000 from $43,224,000 at March 31, 2011 to $43,962,000 at June 30, 2011. The provision for loan losses and increase in the allowance for loan and lease losses during the three months ended June 30, 2011 were primarily the result of changes in the make-up of the loan portfolio and the Bank s loss factors in reaction to losses in the construction, commercial real estate, commercial & industrial (C&I), home equity and auto indirect loan portfolios.

The Company provided $7,001,000 for loan losses during the three months ended March 31, 2011 versus $8,500,000 during the three months ended March 31, 2010. The allowance for loan losses increased $653,000 from $42,571,000 at December 31, 2010 to $43,224,000 at March 31, 2011. The provision for loan losses and increase in the allowance for loan and lease losses during the three months ended March 31, 2011 were primarily the result of changes in the make-up of the loan portfolio and the Bank s loss factors in reaction to increased losses in the construction, commercial real estate, commercial & industrial (C&I), home equity and auto indirect loan portfolios.

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

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

Noninterest Income

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

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Service charges on deposit accounts	$ 3,700	$ 4,443	$ 7,130	$ 8,221
ATM and interchange fees	1,776	1,531	3,421	2,899
Other service fees	437	362	843	692
Mortgage banking service fees	370	315	731	623
Change in value of mortgage servicing rights	(162)	(569)	(222)	(618)
Total service charges and fees	6,121	6,082	11,903	11,817
Gain on sale of loans	495	577	1,220	1,162
Commissions on sale of non-deposit investment products	648	362	1,008	629
Increase in cash value of life insurance	450	426	900	852
Change in indemnification asset	144		1,836	
Gain on sale of foreclosed assets	185	310	385	350
Legal settlement				400
Sale of customer checks	67	54	126	102
Lease brokerage income	95	21	128	58
Gain (loss) on disposal of fixed assets	(6)	(15)	(15)	(40)
Commission rebates	(16)	(17)	(33)	(33)

Bargain purchase gain on acquisition		232		232
Other	68	72	143	122
Total other noninterest income	2,130	2,022	5,698	3,834
Total noninterest income	$ 8,251	$ 8,104	$ 17,601	$ 15,651

Noninterest income increased $147,000 (1.8%) to $8,251,000 during the three months ended June 30, 2011 when compared to the three months ended June 30, 2010. Service charges on deposit accounts were down $743,000 (16.7%) due to new overdraft regulations that became effective on July 1, 2010 and caused a decrease in non-sufficient funds fees. ATM fees and interchange income was up $245,000 (16.0%) due to increased customer point-of-sale transactions that are the result of

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incentives for such usage. Overall, mortgage banking activities, which includes mortgage banking servicing fees, change in value of mortgage servicing rights, and gain on sale of loans, accounted for $703,000 of noninterest income during the three months ended June 30, 2011 compared to $323,000 during the three months ended June 30, 2010. Commissions on sale of nondeposit investment products increased $286,000 (79.0%) during the three months ended June 30, 2011. The change in indemnification asset of $144,000 recorded during the three months ended June 30, 2011 is primarily due to an increase in estimated loan losses from the loan portfolio and foreclosed assets acquired in the Granite acquisition on May 28, 2010, and the fact that such losses are generally covered at the rate of 80% by the FDIC. The actual increase in estimated losses is reflected in decreased interest income, increased provision for loan losses and/or increased provision for foreclosed asset losses. The Company recorded a bargain purchase gain of $232,000 related to the Granite acquisition during the three months ended June 30, 2010.

Noninterest income increased $1,950,000 (12.5%) to $17,601,000 during the six months ended June 30, 2011 when compared to the six months ended June 30, 2010. Service charges on deposit accounts were down $1,091,000 (13.3%) due to new overdraft regulations that became effective on July 1, 2010 and caused a decrease in non-sufficient funds fees. ATM fees and interchange income was up $522,000 (18.0%) due to increased customer point-of-sale transactions that are the result of incentives for such usage. Overall, mortgage banking activities, which includes mortgage banking servicing fees, change in value of mortgage servicing rights, and gain on sale of loans, accounted for $1,729,000 of noninterest income during the six months ended June 30, 2011 compared to $1,167,000 during the six months ended June 30, 2010. Commissions on sale of nondeposit investment products increased $379,000 (60.3%) during the six months ended June 30, 2011. The change in indemnification asset of $1,836,000 recorded during the six months ended June 30, 2011 is primarily due to an increase in estimated loan losses from the loan portfolio and foreclosed assets acquired in the Granite acquisition on May 28, 2010, and the fact that such losses are generally covered at the rate of 80% by the FDIC. The actual increase in estimated losses is reflected in decreased interest income, increased provision for loan losses and/or increased provision for foreclosed asset losses. The Company recorded a bargain purchase gain of $232,000 related to the Granite acquisition and income of $400,000 related to a legal settlement during the six months ended June 30, 2010.

Noninterest Expense

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

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Base salaries, net of deferred loan origination costs	$ 7,198	$ 6,990	$ 14,202	$ 13,964
Incentive compensation	783	526	1,699	1,072
Benefits and other compensation costs	2,734	2,469	5,607	5,099
Total salaries and benefits expense	10,715	9,985	21,508	20,135
Occupancy	1,402	1,407	2,862	2,736
Equipment	880	1,060	1,801	2,034
Data processing and software	956	661	1,808	1,336
ATM network charges	507	446	989	904
Telecommunications	520	461	926	874
Postage	219	311	435	558
Courier service	221	201	429	398
Advertising	739	627	1,171	1,148
Assessments	518	812	1,385	1,596

Operational losses	118	120	227	187
Professional fees	573	704	860	1,420
Foreclosed assets expense	115	66	282	263
Provision for foreclosed asset losses	638	55	1,087	55
Change in reserve for unfunded commitments	(50)	(800)		(800)
Intangible amortization	20	72	105	137
Other	2,004	2,220	3,891	4,230
Total other noninterest expense	9,380	8,423	18,258	17,076
Total noninterest income	$ 20,095	$ 18,408	$ 39,766	$ 37,211
Average full time equivalent staff	672	655	671	653
Noninterest expense to revenue (FTE)	66.8%	60.7%	65.0%	62.0%

Salary and benefit expenses increased $730,000 (7.3%) to $10,715,000 during the three months ended June 30, 2011 compared to the three months ended June 30, 2010. Base salaries increased $208,000 (3.0%) to $7,198,000 during the three months ended June 30, 2011. The increase in base salaries was mainly due to a 2.6% increase in average full time equivalent staff to 672. Incentive and commission related salary expenses increased $257,000 (48.9%) to $783,000 during three months ended June 30, 2011 due primarily to increases in production related incentives and incentives tied to net income. Benefits expense, including retirement, medical and workers compensation insurance, and taxes, increased $265,000 (10.7%) to $2,734,000 during the three months ended June 30, 2011 primarily due to increases in stock option vesting, supplemental retirement plan expenses, and employer taxes related to option exercises.

Other noninterest expenses increased $957,000 (11.4%) to $9,380,000 during the three months ended June 30, 2011 when compared to the three months ended June 30, 2010. Changes in the various categories of other noninterest expense are reflected in the table above. The changes are indicative of the economic environment which has led to increases, or fluctuations, in professional loan collection expenses, provision for foreclosed asset losses, and foreclosed asset expenses.

Salary and benefit expenses increased $1,373,000 (6.8%) to $21,508,000 during the six months ended June 30, 2011 compared to the six months ended June 30, 2010. Base salaries increased $238,000 (1.7%) to $14,202,000 during the six months ended June, 2011. The increase in base salaries was mainly due to a 2.8% increase in average full time equivalent staff to 671. Incentive and commission related salary expenses increased $627,000 (58.5%) to $1,699,000 during six months ended June 30, 2011 due primarily to increases in production related incentives and incentives tied to net income. Benefits expense, including retirement, medical and workers compensation insurance, and taxes, increased $508,000 (10.0%) to $5,607,000 during the six months ended June 30, 2011 primarily due to increases in stock option vesting, supplemental retirement plan expenses, and employer taxes related to option exercises.

Other noninterest expenses increased $1,182,000 (6.9%) to $18,258,000 during the six months ended June 30, 2011 when compared to the six months ended June 30, 2010. Changes in the various categories of other noninterest expense are reflected in the table above. The changes are indicative of the economic environment which has led to increases, or fluctuations, in professional loan collection expenses, provision for foreclosed asset losses, and foreclosed asset expenses.

Income Taxes

The effective tax rate on income was 36.3% and 27.9% for the three months ended June 30, 2011 and 2010, respectively. The effective tax rate was greater than the federal statutory tax rate due to state tax expense of $384,000 and $108,000, respectively, in these periods. Tax-exempt income of $136,000 and $188,000, respectively, from investment securities, and $450,000 and $426,000, respectively, from increase in cash value of life insurance in these periods, along with relatively low levels of net income before taxes, helped to reduce the effective tax rate.

The effective tax rate on income was 36.2% and 29.0% for the six months ended June 30, 2011 and 2010, respectively. The effective tax rate was greater than the federal statutory tax rate due to state tax expense of $765,000 and $259,000, respectively, in these periods. Tax-exempt income of $276,000 and $396,000, respectively, from investment securities, and $900,000 and $852,000, respectively, from increase in cash value of life insurance in these periods, along with relatively low levels of net income before taxes, helped to reduce the effective tax rate.

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Financial Condition

Investment Securities

Investment securities available for sale decreased $12,279,000 to $264,992,000 as of June 30, 2011, as compared to $277,271,000 at December 31, 2010. This decrease is attributable to purchases of $25,456,000 of investment securities available for sale offset by proceeds from maturities of $39,352,000 of investment securities available for sale, an increase in fair value of investments securities available for sale of $2,302,000, and amortization of net purchase price premiums of $685,000.

The following table presents the available for sale investment securities portfolio by major type as of June 30, 2011 and December 31, 2010:

	June 30, 2011		December 31, 2010	
(dollars in thousands)	Fair Value	%	Fair Value	%
Securities Available-for-Sale:				
Obligations of U.S. government corporations and agencies	$ 252,832	95.4%	$ 264,181	95.3%
Obligations of states and political subdivisions	12,160	4.6%	12,541	4.5%
Corporate debt securities			549	0.2%
Total securities available-for-sale	$ 264,992	100.0%	$ 277,271	100.0%

Additional information about the investment portfolio is provided in Note 3 of the Notes to Unaudited Condensed *Consolidated Financial Statements.*

Restricted Equity Securities

Restricted equity securities were $9,199,000 at June 30, 2011 and $9,133,000 at December 31, 2010. The entire balance of restricted equity securities at June 30, 2011 and December 31, 2010 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 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

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.

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

(in thousands)	June 30, 2011	December 31, 2010
Real estate mortgage	$ 828,757	$ 835,471
Consumer	382,864	395,771
Commercial	140,531	143,413
Real estate construction	43,910	44,916
Total loans	$ 1,396,062	$ 1,419,571

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

	June 30, 2011	December 31, 2010
Real estate mortgage	59.4%	58.8%
Consumer	27.4%	27.9%
Commercial	10.1%	10.1%
Real estate construction	3.1%	3.2%
Total loans	100.0%	100.0%

At June 30, 2011 loans, including net deferred loan costs, totaled $1,396,062,000 which was a 1.7% ($23,509,000) decrease over the balances at December 31, 2010. During the three months ended June 30, 2011, loans, including net deferred loan costs, increased $8,402,000 and, excluding the Granite acquisition, represented the first quarterly increase in loan balances since the quarter ended December 31, 2008.

In connection with the FDIC-assisted acquisition of certain of the assets and liabilities of Granite on May 28, 2010, the Bank entered into a loss-sharing agreement with the FDIC that covered approximately $85 million of Granite s assets. The Bank shares in the losses on the asset pools (loans, and foreclosed loan collateral) covered under the loss-sharing agreement. Pursuant to the terms of the loss sharing agreement, the FDIC is obligated to reimburse the Bank for 80% of losses with respect to covered assets. The Bank will reimburse the FDIC for 80% of recoveries with respect to losses for which the FDIC paid the Bank under the loss sharing agreement. We refer to the loans covered by the loss sharing agreement as covered loans. We referred to our loans that are not covered by the loss-sharing agreement as noncovered loans. In addition, we refer 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. As of June 30, 2011, the Company has no loans that it classifies as PNCI loans.

Asset Quality and Nonperforming Assets

Nonperforming Assets

Loans originated by the Company, i.e., not purchased or acquired in a business combination, are reported at the principal amount outstanding, net of deferred loan fees and costs. Loan origination and commitment fees and certain direct loan origination costs are deferred, and the net amount is amortized as an adjustment of the related loan s yield over the actual life of the loan. Originated loans on which the accrual of interest has been discontinued are designated as nonaccrual loans.

Originated loans are placed in nonaccrual status when reasonable doubt exists as to the full, timely collection of interest or principal, or a loan becomes contractually past due by 90 days or more with respect to interest or principal and is not well secured and in the process of collection. When an originated loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed. Income on such loans is then recognized only to the extent

that cash is received and where the future collection of principal is probable. Interest accruals are resumed on such loans only when they are brought fully current with respect to interest and principal and when, in the judgment of Management, the loan is estimated to be fully collectible as to both principal and interest.

An allowance for loan losses for originated loans is established through a provision for loan losses charged to expense. Originated loans and deposit related overdrafts are charged against the allowance for loan losses when Management believes that the collectability of the principal is unlikely or, with respect to consumer installment loans, according to an established delinquency schedule. The allowance is an amount that Management believes will be adequate to absorb probable losses

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

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

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

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

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

Acquired loans are valued as of acquisition date in accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Topic 805, *Business Combinations*. Loans purchased with evidence of credit deterioration since origination for which it is probable that all contractually required payments will not be

collected are referred to as purchased credit impaired (PCI) loans. PCI loans are accounted for under FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. In addition, because of the significant credit discounts associated with the loans acquired in the Granite acquisition, the Company elected to account for all loans acquired in the Granite acquisition under FASB ASC Topic 310-30, and classify them all as PCI loans. Under FASB ASC Topic 805 and FASB ASC Topic 310-30, PCI loans are recorded at fair value at acquisition date, factoring in credit losses expected to be

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

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 Federal Deposit Insurance Corporation (FDIC) loss sharing agreement.

Originated 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 three months ended June 30, 2011 and 2010, if all such loans had been current in accordance with their original terms, totaled $1,703,000 and $1,715,000, respectively. Interest income actually recognized on these originated loans during the three months ended June 30, 2011 and 2010 was $448,000 and $300,000, respectively.

Interest income on originated nonaccrual loans that would have been recognized during the six months ended June 30, 2011 and 2010, if all such loans had been current in accordance with their original terms, totaled $3,304,000 and $3,541,000, respectively. Interest income actually recognized on these originated loans during the six months ended June 30, 2011 and 2010 was $556,000 and $617,000, respectively.

The Company s policy is to place originated 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.

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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 loans that are ninety days past and still accruing are not considered nonperforming loans:

(dollars in thousands)	June 30, 2011	December 31, 2010
Performing nonaccrual loans	$ 51,078	$ 36,518
Nonperforming nonaccrual loans	22,642	39,224
Total nonaccrual loans	73,720	75,742
Originated loans 90 days past due and still accruing		245
Total nonperforming loans	73,720	75,987
Noncovered foreclosed assets	5,864	5,000
Covered foreclosed assets	3,473	4,913
Total nonperforming assets	$ 83,057	$ 85,900
U.S. government, including its agencies and its government-sponsored agencies, guaranteed portion of nonperforming loans	$ 3,496	$ 3,937
Indemnified portion of covered foreclosed assets	$ 2,778	$ 3,930
PCI loans 90 days past due and still accruing	$ 2,685	$ 3,553
Nonperforming assets to total assets	3.82%	3.92%
Nonperforming loans to total loans	5.28%	5.35%
Allowance for loan losses to nonperforming loans	60%	56%

The following tables and narrative describe the activity in the balance of nonperforming assets for the periods indicated:

(dollars in thousands):	Balance at March 31, 2011	New NPA	Advances/ Capitalized Costs	Pay-downs /Sales	Charge-offs/ Write-downs	Transfers to Foreclosed Assets	Category Changes	Balance at June 30, 2011
Real estate mortgage:								
Residential	$ 12,148	$ 416	$ 9	$ (831)	$ (321)	$ (797)		$ 10,624
Commercial	35,834	10,659	1	(1,680)	(1,621)	(361)		42,832
Consumer								
Home equity lines	9,033	1,627	466	(486)	(1,928)	(1,337)		7,363
Home equity loans	717	29	57	(41)	(264)	(84)		426
Auto indirect	1,058	133		(228)	(100)			863
Other consumer	78	78	1	(12)	(21)			93
Commercial	4,330	909		(857)	(202)			4,180
Construction:								
Residential	6,653	205	29	(73)	(395)	(169)		6,250
Commercial	1,202			(18)	(95)			1,089

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

The $14,025,000 in new nonperforming loans during the second quarter of 2011 was comprised of increases of $413,000 on three residential real estate loans, $10,644,000 on 11 commercial real estate loans, $1,655,000 on 13 home equity lines and

loans, $133,000 on 32 indirect auto loans, $47,000 on 16 consumer loans, $909,000 on 10 C&I loans, and $205,000 on a single residential construction loan.

The $10,644,000 in new nonperforming commercial real estate loans was primarily made up of two loans in the amount of $664,000 secured by a commercial warehouse in northern California, two loans in the amount of $1,541,000 secured by commercial retail buildings in northern California, one loan in the amount of $1,859,000 secured by a commercial manufacturing facility in northern California, one loan in the amount of $3,145,000 secured by mixed use commercial property in northern California, a single loan in the amount of $2,665,000 secured by multi-family residential property in central California, and two loans in the amount of $716,000 secured by a commercial manufacturing facility in central California. Related charge-offs are discussed below.

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

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

In the second quarter of 2011, the Company recorded $4,946,000 in loan charge-offs and $283,000 in deposit overdraft charge-offs less $407,000 in recoveries resulting in $4,823,000 of net charge-offs. Primary causes of the loan charges taken in the first quarter of 2011 were gross charge-offs of $321,000 on 11 residential real estate loans, $1,621,000 on five commercial real estate loans, $2,191,000 on 51 home equity lines and loans, $100,000 on 43 indirect auto loans, $21,000 on other consumer loans, $202,000 on six C&I loans, $395,000 on two residential construction loans and $95,000 on a single commercial construction loan.

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

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

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

Activity in the balance of nonperforming assets for the periods indicated (continued):

(dollars in thousands):	Balance at December 31, 2010	New NPA	Advances/ Capitalized Costs	Pay-downs /Sales	Charge-offs/ Write-downs	Transfers to Foreclosed Assets	Category Changes	Balance at March 31, 2011
Real estate mortgage:								
Residential	$ 11,771	$ 1,816	$ 62	$ (376)	$ (1,125)			$ 12,148
Commercial	38,925	443		(2,275)	(368)	(911)	20	35,834
Consumer								
Home equity lines	10,604	2,654	581	(623)	(3,601)	(582)		9,033
Home equity loans	701	23		(7)				717
Auto indirect	1,296	173	1	(277)	(135)			1,058
Other consumer	83	237		(13)	(229)			78
Commercial	4,618	1,802		(514)	(1,556)		(20)	4,330
Construction:								
Residential	7,117		12	(124)	(35)	(30)	(287)	6,653
Commercial	872	479		(436)			287	1,202

Total nonperforming loans	75,987	7,627	656	(4,645)	(7,049)	(1,523)	71,053
Noncovered foreclosed assets	5,000			(1,983)	(68)	1,523	4,472
Covered foreclosed assets	4,913			(21)	(381)		4,511
Total nonperforming assets	$ 85,900	$ 7,627	656	$ (6,649)	$ (7,498)		$ 80,036

Nonperforming assets decreased during the first quarter of 2011 by $5,864,000 (6.8%) to $80,036,000 at March 31, 2011 compared to $85,900,000 at December 31, 2010. The decrease in nonperforming assets during the first quarter of 2011 was

primarily the result of new nonperforming loans of $7,627,000, advances on existing nonperforming loans and capitalized costs on foreclosed assets of $656,000, less pay-downs or upgrades of nonperforming loans to performing status totaling $4,645,000, less dispositions of foreclosed assets totaling $2,004,000, less loan charge-offs of $7,049,000, and less write-downs of foreclosed assets of $449,000.

The primary causes of the $7,432,000 in new nonperforming loans during the first quarter of 2011 were increases of $1,816,000 on seven residential real estate loans, $443,000 on five commercial real estate loans, $2,677,000 on 42 home equity lines and loans, $173,000 on 36 indirect auto loans, $42,000 on 18 consumer loans, $1,802,000 on 35 C&I loans, and $479,000 on a single commercial construction loan.

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

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

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

In the first quarter of 2011, the Company recorded $7,049,000 in loan charge-offs less $701,000 in recoveries resulting in $6,348,000 of net loan charge-offs. Primary causes of the charges taken in the first quarter of 2011 were gross charge-offs of $1,125,000 on 19 residential real estate loans, $368,000 on six commercial real estate loans, $3,601,000 on 75 home equity lines and loans, $135,000 on 42 auto indirect loans, $229,000 on other consumer loans and overdrafts, $1,556,000 on 42 C&I loans, and $35,000 on two residential construction loans.

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

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

Allowance for Loan Losses

The Company s allowance for loan losses is comprised of an allowance for originated loan losses and an allowance for PCI loan losses. Both the allowance for originated loan losses and the allowance for PCI loan losses are established through a provision for loan losses charged to expense.

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

In situations related to originated loans where, for economic or legal reasons related to a borrower s financial difficulties, the Company grants a concession for other than an insignificant period of time to the borrower that the Company would not otherwise consider, the related loan is classified as a troubled debt restructuring (TDR). The Company strives to identify borrowers in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where the Company grants the borrower new terms that provide for a

reduction of either interest or principal, the Company measures any impairment on the restructuring as noted above for impaired loans. TDR loans are classified as impaired until they are

fully paid off or charged off. Loans that are in nonaccrual status at the time they become TDR loans, remain in nonaccrual status until the borrower demonstrates a sustained period of performance which the Company generally believes to be six consecutive months of payments, or equivalent. Otherwise, TDR loans are subject to the same nonaccrual and charge-off policies as noted above with respect to their restructured principal balance.

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

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

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

As noted above, the allowance for originated loan losses consists of a specific allowance, a formula allowance, and an allowance for environmental factors. The first component, the specific allowance, results from the analysis of identified credits that meet management s criteria for specific evaluation. These loans are reviewed individually to determine if such loans are considered impaired. Impaired loans are those where management has concluded that it is probable that the borrower will be unable to pay all amounts due under the contractual terms. Impaired loans are specifically reviewed and evaluated individually by management for loss potential by evaluating sources of repayment, including collateral as applicable, and a specified allowance for loan losses is established where necessary. The second component of the allowance for originated 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 loan portfolio. This analysis is based on loan grades by pool and the loss history of these pools. This analysis covers the Company s entire originated loan portfolio including unused commitments but excludes any loans, that were analyzed individually and assigned a specific allowance as discussed above. The total amount allocated for this component is determined by applying loss estimation factors to outstanding loans and loan commitments. The loss factors are based primarily on the Company s historical loss experience tracked over a five-year period and adjusted as appropriate for the input of current trends and events. Because historical loss experience varies for the different categories of originated loans, the loss factors applied to each category also differ. In addition, there is a greater chance that the Company has suffered a loss from a loan that was graded less than satisfactory than if the loan was last graded satisfactory. Therefore, for any given category, a larger loss estimation factor is applied to less than satisfactory loans than to those that the Company last graded as satisfactory. The resulting formula allowance is the sum of the allocations determined in this manner. The third component of the allowance for originated 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 loan portfolio, 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 loans makes it impractical to re-grade every loan every quarter. Therefore, it is possible that some currently performing originated 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.

Specifically, in assessing how much environmental factor allowance needed to be provided at June 30, 2011, management considered the following:

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

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

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

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

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

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

Acquired loans are valued as of acquisition date in accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Topic 805, *Business Combinations*. Loans purchased with evidence of credit deterioration since origination for which it is probable that all contractually required payments will not be collected are referred to as purchased credit impaired (PCI) loans. PCI loans are accounted for under FASB ASC

Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. In addition, because of the significant credit discounts associated with the loans acquired in the Granite acquisition, the Company elected to account for all loans acquired in the Granite acquisition under FASB ASC Topic 310-30, and classify them all as PCI loans. Under FASB ASC Topic 805 and FASB ASC Topic 310-30, PCI loans are recorded at fair value at acquisition date, factoring in credit losses expected to be incurred over the life of the loan. Accordingly, an allowance for loan losses is not carried over or recorded as of the acquisition date. Fair value is defined as the present value of the future estimated principal and interest payments of the loan, with the discount rate used in the present value calculation representing the estimated effective yield of the loan. The difference between contractual future payments and estimated future payments is referred to as the nonaccretable difference. The difference between estimated future payments and the present value of the estimated future payments is referred to as the

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

The Components of the Allowance for Loan Losses

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

	June 30, 2011	December 31, 2010
Allowance for originated loan losses:		
Specific allowance	$ 5,809	$ 6,945
Formula allowance	32,352	31,070
Environmental factors allowance	3,431	2,948
Allowance for originated loan losses	41,592	40,963
Allowance for PCI loan losses	2,370	1,608
Allowance for loan losses	$ 43,962	$ 42,571
Allowance for loan losses to loans	3.15%	3.00%

Based on the current conditions of the loan portfolio, management believes that the $43,962,000 allowance for loan losses at June 30, 2011 is adequate to absorb probable losses inherent in the Bank s loan portfolio. No assurance can be given, however, that adverse economic conditions or other circumstances will not result in increased losses in the portfolio.

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

(dollars in thousands)	June 30, 2011	December 31, 2010
Real estate mortgage	$ 15,940	$ 15,707
Consumer	18,857	17,779
Commercial	6,812	5,991

Real estate construction	2,353	3,094
Total allowance for loan losses	$ 43,962	$ 42,571

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:

(dollars in thousands)	June 30, 2011	December 31, 2010
Real estate mortgage	36.3%	36.9%
Consumer	42.9%	41.8%
Commercial	15.5%	14.1%
Real estate construction	5.3%	7.2%
Total allowance for loan losses	100.0%	100.0%

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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 (dollars in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Allowance for loan losses:				
Balance at beginning of period	$ 43,224	$ 36,340	$ 42,571	$ 35,473
Provision for loan losses	5,561	10,000	12,562	18,500
Loans charged off:				
Real estate mortgage:				
Residential	(321)	(293)	(1,446)	(748)
Commercial	(1,621)	(1,497)	(1,989)	(4,064)
Consumer:				
Home equity lines	(1,928)	(3,095)	(5,529)	(5,337)
Home equity loans	(264)	(303)	(264)	(711)
Auto indirect	(100)	(337)	(235)	(863)
Other consumer	(304)	(543)	(533)	(883)
Commercial	(202)	(535)	(1,758)	(1,061)
Construction:				
Residential	(395)	(1,782)	(430)	(2,819)
Commercial	(95)	(39)	(95)	(39)
Total loans charged off	(5,230)	(8,424)	(12,279)	(16,525)
Recoveries of previously charged-off loans:				
Real estate mortgage:				
Residential			112	
Commercial	38	28	66	55
Consumer:				
Home equity lines	86	24	247	68
Home equity loans		7	2	7
Auto indirect	56	167	183	327
Other consumer	165	182	374	384
Commercial	41	103	62	117
Construction:				
Residential	20	3	22	24
Commercial	1		40	
Total recoveries of previously charged off loans	407	514	1,108	982
Net charge-offs	(4,823)	(7,910)	(11,171)	(15,543)
Balance at end of period	$ 43,962	$ 38,430	$ 43,962	$ 38,430
Reserve for unfunded commitments:				
Balance at beginning of period	$ 2,690	$ 3,640	$ 2,640	$ 3,640
Provision for losses unfunded commitments	(50)	(800)		(800)

Balance at end of period	$ 2,640	$ 2,840	$ 2,640	$ 2,840

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	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Balance at end of period:				
Allowance for loan losses	$ 43,962	$ 38,430	$ 43,962	$ 38,430
Reserve for unfunded commitments	2,640	2,840	2,640	2,840
Allowance for loan losses and Reserve for unfunded commitments	$ 46,602	$ 41,270	$ 46,602	$ 41,270
As a percentage of total loans at end of period:				
Allowance for loan losses	3.15%	2.55%	3.15%	2.55%
Reserve for unfunded commitments	0.19%	0.19%	0.19%	0.19%
Allowance for loan losses and Reserve for unfunded commitments	3.34%	2.74%	3.34%	2.74%
Average total loans	$ 1,393,989	$ 1,463,475	$ 1,395,160	$ 1,466,580
Ratios (annualized):				
Net charge-offs during period to average loans outstanding during period	1.38%	2.16%	1.60%	2.12%
Provision for loan losses to average loans outstanding	1.60%	2.73%	1.80%	2.52%

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 periods indicated (dollars in thousands):

(dollars in thousands):	Balance at March 31, 2011	New NPA	Advances/ Capitalized Costs	Sales	Valuation Adjustments	Transfers from Loans	Category Changes	Balance at June 30, 2011
Noncovered:								
Land & Construction	$ 1,978				$ (403)	$ 169		$ 1,744
Residential real estate	1,366			(700)	(22)	2,219		2,863
Commercial real estate	1,128			(231)		360		1,257
Total noncovered	4,472			(931)	(425)	2,748		5,864
Covered:								
Land & Construction	2,957			(605)	(144)			2,208
Residential real estate	186				(6)			180
Commercial real estate	1,368			(220)	(63)			1,085

Total covered	4,511			(825)	(213)			3,473
Total foreclosed assets	$ 8,983			$ (1,756)	$ (638)	$ 2,748		$ 9,337

(dollars in thousands):	Balance at December 31, 2010	New NPA	Advances/ Capitalized Costs	Sales	Valuation Adjustments	Transfers from Loans	Category Changes	Balance at March 31, 2011
Noncovered:								
Land & Construction	$ 2,211			$ (263)		$ 30		$ 1,978
Residential real estate	2,449			(1,613)	(51)	581		1,366
Commercial real estate	340			(107)	(17)	912		1,128
Total noncovered	5,000			(1,983)	(68)	1,523		4,472
Covered:								
Land & Construction	3,016				(59)			2,957
Residential real estate	186							186
Commercial real estate	1,711			(21)	(322)			1,368
Total covered	4,913			(21)	(381)			4,511
Total foreclosed assets	$ 9,913			$ (2,004)	$ (449)	$ 1,523		$ 8,983

Intangible Assets

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

(dollars in thousands)	June 30, 2011	December 31, 2010
Core-deposit intangible	$ 475	$ 580
Goodwill	15,519	15,519
Total intangible assets	$ 15,994	$ 16,099

The core-deposit intangible assets resulted from the Bank s 2010 acquisition of Granite and the 2003 acquisition of North State National Bank. The goodwill intangible asset resulted from the North State National Bank acquisition. Amortization of core deposit intangible assets amounting to $20,000 and $65,000 was recorded in noninterest expense during the three months ended June 30, 2011 and 2010, respectively. Amortization of core deposit intangible assets amounting to $105,000 and $130,000 was recorded in noninterest expense during the six months ended June 30, 2011 and 2010, respectively.

Deposits

Deposits at June 30, 2011 decreased $15,442,000 (0.8%) over 2010 year-end balances to $1,836,731,000. Included in the June 30, 2011 and December 31, 2010 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.

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. During the six months ended June 30, 2011, the Company did not repurchase any shares under this plan. This plan has no stated expiration date for the repurchases. As of June 30, 2011, 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 $204,915,000 at June 30, 2011. This amount represents an increase of $4,518,000 from December 31, 2010, the net result of comprehensive income for the period of $6,905,000, the effect of stock option vesting of $500,000, the effect of stock options exercised of

$2,428,000 and the related tax benefit of $296,000 that were partially offset by dividends paid of $2,866,000 and the repurchase of shares tendered to exercise options and pay related taxes of $2,745,000. The Company s ratio of equity to total assets was 9.43% and 9.15% as of June 30, 2011 and December 31, 2010, respectively.

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

	As of June 30, 2011	As December 31, 2010	Minimum Regulatory Requirement
Tier I Capital	13.28%	12.93%	4.00%
Total Capital	14.55%	14.20%	8.00%
Leverage ratio	10.38%	10.03%	4.00%

See Note 19 to the consolidated financial statements at Item 1 of this report for 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 June 30, 2011, cash at Federal Reserve and other banks and investment securities available for sale totaled $603,172,000, representing an increase of $12,089,000 (2.0%) from December 31, 2010. In addition, the Company generates additional liquidity from its operating activities. The Company s profitability during the first six months of 2011 generated cash flows from operations of $17,348,000 compared to $22,477,000 during the first six months of 2010. Additional cash flows may be provided by financing activities, primarily the acceptance of deposits and borrowings from banks. Maturities of investment securities produced cash inflows of $39,352,000 during the six months ended June 30, 2011 compared to $42,816,000 for the six months ended June 30, 2010. During the six months ended June 30, 2011, the Company invested $25,456,000 in securities and received $8,084,000 of net loan principal reductions, compared to $101,255,000 invested in securities and $40,097,000 of net loan principal reductions, respectively, during the first six months of 2010. These changes in investment and loan balances contributed to net cash provided by investing activities of $23,755,000 during the six months ended June 30, 2011, compared to net cash provided by investing activities of $1,677,000 during the six months ended June 30, 2010. Financing activities used net cash of $21,115,000 during the six months ended June 30, 2011, compared to net cash used by financing activities of $48,099,000 during the six months ended June 30, 2010. Deposit balance decreases accounted for $15,442,000 of financing uses of funds during the six months ended June 30, 2011, compared to $33,564,000 of financing uses of funds during the six months ended June 30, 2010. A net decrease in short-term other borrowings accounted for $2,786,000 of financing uses of funds during the six months ended June 30, 2011, compared to $11,301,000 of funds used to decrease short-term other borrowings during the six months ended June 30, 2010. Dividends paid used $2,866,000 and $3,489,000 of cash during the six months ended June 30, 2011 and 2010, respectively. Also, the Company s liquidity is dependent on dividends received from the Bank. Dividends from the Bank are subject to certain regulatory restrictions.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our assessment of market risk as of June 30, 2011 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, 2010.

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 June 30, 2011. 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 June 30, 2011.

There have been no changes in our internal controls or in other factors that have materially affected or are likely to materially affect our internal controls over financial reporting subsequent to the date of the evaluation.

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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 pertaining to Visa, Inc.

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, 2010, as supplemented and updated by the discussion below. 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.

Risks related to Tri Counties Bank s assumption of the banking operations of Granite Community Bank from the FDIC under Whole Bank Purchase and Assumption Agreement with Loss-Share.

Our decisions regarding the fair value of assets acquired, including the FDIC loss sharing assets, could be inaccurate which could materially and adversely affect our business, financial condition, results of operations, and future prospects. Management makes various assumptions and judgments about the collectability of the acquired loans, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of secured loans. In FDIC-assisted acquisitions that include loss sharing agreements, we may record a loss sharing asset that we consider adequate to absorb future losses which may occur in the acquired loan portfolio. In determining the size of the loss sharing asset, we analyze the loan portfolio based on historical loss experience, volume and classification of loans, volume and trends in delinquencies and nonaccruals, local economic conditions, and other pertinent information.

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

Our ability to obtain reimbursement under the loss sharing agreements on covered assets depends on our compliance with the terms of the loss sharing agreements. Management must certify to the FDIC on a quarterly basis our compliance with the terms of the FDIC loss sharing agreements as a prerequisite to obtaining reimbursement from the FDIC for realized losses on covered assets. The required terms of the agreements are extensive and failure to comply with any of the guidelines could result in a specific asset or group of assets permanently losing their loss sharing coverage. Additionally, Management may decide to forgo loss share coverage on certain assets to allow greater flexibility over the management of certain assets. As of June 30, 2011, $53,316,000, or 2.5%, of the Company s assets were covered by the aforementioned FDIC loss sharing agreements.

Under the terms of the FDIC loss sharing agreements, the assignment or transfer of a loss sharing agreement to another entity generally requires the written consent of the FDIC. In addition, the Bank may not assign or otherwise transfer a loss sharing agreement during its term without the prior written consent of the FDIC. No assurances can be given that we will manage the covered assets in such a way as to always maintain loss share coverage on all such assets.

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 first quarter of 2011 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
Apr. 1-30, 2011				333,400
May 1-31, 2011				333,400
Jun. 1-31, 2011				333,400
Total				333,400

Item 6 Exhibits

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 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.

10.1 Rights Agreement dated June 25, 2001, between TriCo and Mellon Investor Services LLC filed as Exhibit 1 to TriCo s Form 8-A dated July 25, 2001 and amended on July 8, 2011 as described in TriCo s Form 8-A/A dated 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, Gary Coelho, Rick Miller, 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, included as Appendix A to TriCo s definitive proxy statement filed on April 4, 2009.

10.8*	Amended Employment Agreement between TriCo and Richard Smith dated as of August 23, 2005 filed as Exhibit 10.8 to TriCo s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.
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.

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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 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, Rick Miller, 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.
10.23	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.
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
101.1	The following materials from the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 are formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Income, (iii) the Condensed Consolidated Statement of Changes in Shareholders' Equity, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements.(****)

* Management contract or compensatory plan or arrangement

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Pursuant to Rule 406T of Regulation S-T, the XBRL files on Exhibit 101.1 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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: August 9, 2011

/s/ Thomas J. Reddish
Thomas J. Reddish
Executive Vice President and Chief
Financial Officer (Duly authorized officer
and principal financial officer)