TRICO BANCSHARES /
Form 10-Q
August 10, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
for the quarterly period ended: June 30, 2015

¨ **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. x Yes ¨ No

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

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x 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: 22,749,523 shares outstanding as of July 24, 2015

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TriCo Bancshares

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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, 2014 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 in their entirety 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.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

TRICO BANCSHARES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data; unaudited)

	At June 30, 2015	At December 31, 2014
	(in thousands, except share data)	
Assets:		
Cash and due from banks	$ 92,234	$ 93,150
Cash at Federal Reserve and other banks	77,269	517,578
Cash and cash equivalents	169,503	610,728
Investment securities:		
Available for sale	284,430	83,205
Held to maturity	776,283	676,426
Restricted equity securities	16,956	16,956
Loans held for sale	4,630	3,579
Loans	2,393,762	2,282,524
Allowance for loan losses	(35,455)	(36,585)
Total loans, net	2,358,307	2,245,939
Foreclosed assets, net	5,393	4,894
Premises and equipment, net	42,056	43,493
Cash value of life insurance	93,687	92,337
Accrued interest receivable	10,064	9,275
Goodwill	63,462	63,462
Other intangible assets, net	6,473	7,051
Mortgage servicing rights	7,814	7,378
Other assets	54,797	51,735
Total assets	$ 3,893,855	$ 3,916,458
Liabilities and Shareholders Equity:		
Liabilities:		
Deposits:		
Noninterest-bearing demand	$ 1,060,650	$ 1,083,900
Interest-bearing	2,281,032	2,296,523
Total deposits	3,341,682	3,380,423
Accrued interest payable	797	978

Reserve for unfunded commitments	2,125	2,145
Other liabilities	55,003	49,192
Other borrowings	6,735	9,276
Junior subordinated debt	56,369	56,272
Total liabilities	3,462,711	3,498,286
Commitments and contingencies (Note 18)		
Shareholders equity:		
Common stock, no par value: 50,000,000 shares authorized; issued and outstanding:		
22,749,523 at June 30, 2015	245,965	
22,714,964 at December 31, 2014		244,318
Retained earnings	189,905	176,057
Accumulated other comprehensive loss, net of tax	(4,726)	(2,203)
Total shareholders equity	431,144	418,172
Total liabilities and shareholders equity	$ 3,893,855	$ 3,916,458

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,	
	2015	2014	2015	2014
Interest and dividend income:				
Loans, including fees	$ 32,019	$ 24,433	$ 63,184	$ 48,171
Investment securities:				
Taxable	6,403	3,440	12,202	6,262
Tax exempt	324	117	485	253
Dividends	977	154	1,313	308
Interest bearing cash at				
Federal Reserve and other banks	144	274	408	583
Total interest and dividend income	39,867	28,418	77,592	55,577
Interest expense:				
Deposits	854	768	1,753	1,550
Other borrowings	1	1	2	2
Junior subordinated debt	491	306	973	610
Total interest expense	1,346	1,075	2,728	2,162
Net interest income	38,521	27,343	74,864	53,415
(Benefit from) provision for loan losses	(633)	1,708	(436)	353
Net interest income after provision for (benefit from) loan losses	39,154	25,635	75,300	53,062
Noninterest income:				
Service charges and fees	8,848	5,519	16,192	10,981
Gain on sale of loans	837	514	1,459	978
Commissions on sale of non-deposit investment products	784	843	1,749	1,614
Increase in cash value of life insurance	675	400	1,350	797
Other	936	601	1,510	1,802
Total noninterest income	12,080	7,877	22,260	16,172
Noninterest expense:				
Salaries and related benefits	17,242	13,317	35,342	26,620
Other	15,194	11,799	29,376	21,813
Total noninterest expense	32,436	25,116	64,718	48,433

Income before income taxes	18,798	8,396	32,842	20,801
Provision for income taxes	7,432	3,537	13,140	8,577
Net income	$ 11,366	$ 4,859	$ 19,702	$ 12,224
Earnings per share:				
Basic	$ 0.50	$ 0.30	$ 0.87	$ 0.76
Diluted	$ 0.49	$ 0.30	$ 0.86	$ 0.75

See accompanying notes to unaudited condensed consolidated financial statements.

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TRICO BANCSHARES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands; unaudited)

	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Net income	$ 11,366	$ 4,859	$ 19,702	$ 12,224
Other comprehensive (loss) income, net of tax:				
Unrealized (losses) gains on available for sale securities arising during the period	(2,754)	381	(2,745)	321
Change in minimum pension liability	111	5	222	10
Other comprehensive (loss) income	(2,643)	386	(2,523)	331
Comprehensive income	$ 8,723	$ 5,245	$ 17,179	$ 12,555

See accompanying notes to unaudited condensed consolidated financial statements.

TRICO BANCSHARES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

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

	Shares of Common Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total
Balance at December 31, 2013	16,076,662	$ 89,356	$ 159,733	$ 1,857	$ 250,946
Net income			12,224		12,224
Other comprehensive loss				331	331
Stock option vesting		534			534
Stock options exercised	160,020	2,786			2,786
Tax benefit of stock options exercised		220			220
Repurchase of common stock	(103,268)	(574)	(1,977)		(2,551)
Dividends paid ($0.22 per share)			(3,547)		(3,547)
Balance at June 30, 2014	16,133,414	$ 92,322	$ 166,433	$ 2,188	$ 260,943
Balance at December 31, 2014	22,714,964	$ 244,318	$ 176,057	$ (2,203)	$ 418,172

Net income			19,702		19,702
Other comprehensive income				(2,523)	(2,523)
Stock option vesting		419			419
RSU vesting		202			202
PSU vesting		77			77
Stock options exercised	64,000	1,236			1,236
Tax benefit of stock options exercised		30			30
Repurchase of common stock	(29,441)	(317)	(381)		(698)
Dividends paid ($0.24 per share)			(5,473)		(5,473)
Balance at June 30, 2015	22,749,523	$ 245,965	$ 189,905	$ (4,726)	$ 431,144

See accompanying notes to unaudited condensed consolidated financial statements.

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TRICO BANCSHARES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands; unaudited)

	For the six months ended June 30, 2015	2014
Operating activities:		
Net income	$ 19,702	$ 12,224
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of premises and equipment, and amortization	3,090	2,704
Amortization of intangible assets	578	104
(Benefit from) provision for loan losses	(436)	353
Amortization of investment securities premium, net	1,645	349
Originations of loans for resale	(55,669)	(31,032)
Proceeds from sale of loans originated for resale	55,656	32,333
Gain on sale of loans	(1,459)	(978)
Change in market value of mortgage servicing rights	(15)	532
Provision for losses on foreclosed assets	241	40
Gain on sale of foreclosed assets	(426)	(1,468)
Loss (gain) on disposal of fixed assets	83	(70)
Increase in cash value of life insurance	(1,350)	(797)
Equity compensation vesting expense	698	534
Stock option excess tax benefits	(30)	(220)
Change in:		
Reserve for unfunded commitments	(20)	(370)
Interest receivable	(789)	(492)
Interest payable	(181)	(89)
Other assets and liabilities, net	4,249	(2,256)
Net cash from operating activities	25,567	11,401
Investing activities:		
Proceeds from maturities of securities available for sale	13,941	13,464
Proceeds from maturities of securities held to maturity	45,078	9,548
Purchases of securities available for sale	(220,383)	
Purchases of securities held to maturity	(146,100)	(191,673)
Purchase of restricted equity securities		(2,419)
Loan origination and principal collections, net	(112,372)	(49,635)
Loans purchased		(19,690)
Improvement of foreclosed assets	(511)	(462)
Proceeds from sale of other real estate owned	1,033	6,483
Proceeds from sale of premises and equipment	2	120
Purchases of premises and equipment	(1,293)	(2,483)

Net cash used by investing activities		(420,605)		(236,747)
Financing activities:				
Net decrease in deposits		(38,741)		(25,287)
Net change in other borrowings		(2,541)		(260)
Stock option excess tax benefits		30		220
Repurchase of common stock		(31)		(292)
Dividends paid		(5,473)		(3,547)
Exercise of stock options		569		527
Net cash used by financing activities		(46,187)		(28,639)
Net change in cash and cash equivalents		(441,225)		(253,985)
Cash and cash equivalents and beginning of year		610,728		598,368
Cash and cash equivalents at end of period	$	169,503	$	344,383
Supplemental disclosure of noncash activities:				
Unrealized (loss) gain on securities available for sale	$	(4,737)	$	553
Loans transferred to foreclosed assets	$	1,649	$	4,116
Market value of shares tendered in-lieu of cash to pay for exercise of options and/or related taxes	$	667	$	2,259
Supplemental disclosure of cash flow activity:				
Cash paid for interest expense	$	2,909	$	2,251
Cash paid for income taxes	$	7,395	$	11,500

See accompanying notes to unaudited condensed consolidated financial statements.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies

Description of Business and Basis of Presentation

TriCo Bancshares (the Company) is a California corporation organized to act as a bank holding company for Tri Counties Bank (the Bank). The Company and the Bank are headquartered in Chico, California. The Bank is a California-chartered bank that is engaged in the general commercial banking business in 26 California counties. Tri Counties Bank currently operates from 57 traditional branches and 16 in-store branches. The Company has five capital subsidiary business trusts (collectively, the Capital Trusts) that issued trust preferred securities, including two organized by TriCo and three acquired with the acquisition of North Valley Bancorp. See Note 17 Junior Subordinated Debt.

The unaudited condensed financial statements of the Company have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. In the opinion of Management, all adjustments, consisting solely of normal recurring adjustments, considered necessary for a fair presentation of results for the interim periods presented have been included. These interim condensed consolidated financial statements should be read in conjunction with the financial statements and related notes contained in the Company s 2014 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 13, 2015. Operating results for the three and six months ended June 30, 2014 do not include the operating results of North Valley Bancorp, which the Company acquired on October 3, 2014.

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned financial subsidiary, Tri Counties Bank. All significant intercompany balances and transactions have been eliminated. The Capital Trusts are unconsolidated subsidiaries as the Company is not the primary beneficiary of the trusts and they are not considered variable interest entities. Operating results for the three and six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. Certain amounts in the consolidated financial statements for the year ended December 31, 2014 and for the three and six months ended June 30, 2014 may have been reclassified to conform to the presentation of the condensed consolidated financial statements in 2015.

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. The Company evaluates its estimates on an on-going basis. 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.

As described in Note 2, the Company acquired North Valley Bancorp on October 3, 2014. The acquired assets and assumed liabilities were measured at estimated fair value values under the acquisition method of accounting. The Company made significant estimates and exercised significant judgment in accounting for the acquisition. The

Company determined loan fair values based on loan file reviews, loan risk ratings, appraised collateral values, expected cash flows and historical loss factors. Foreclosed assets were primarily valued based on appraised values of the repossessed loan collateral. Land and building were valued based on appraised values. An identifiable intangible was also recorded representing the fair value of the core deposit customer base based on an evaluation of the cost of such deposits relative to alternative funding sources. The fair value of time deposits and borrowings were determined based on the present value of estimated future cash flows using current rates as of the acquisition date.

Significant Group Concentration of Credit Risk

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

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold. Net cash flows are reported for loan and deposit transactions and other borrowings.

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. These securities are carried at cost adjusted for amortization of premium and accretion of discount, computed by the effective interest method over their contractual lives. All other securities not included in trading or held to maturity are classified as available for sale. Available for sale securities are recorded at fair value. Unrealized gains and losses, net of the related tax effect, on available for sale securities are reported as a separate component of other accumulated comprehensive income in shareholders equity until realized. Premiums and discounts are amortized or accreted over the life of the related investment security as an adjustment to yield using the effective interest method. Dividend and interest income are recognized when earned. Realized gains and losses are derived from the amortized cost of the security sold. During the six months ended June 30, 2015, and the year ended December 31, 2014, the Company did not have any securities classified as trading.

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Note 1 Summary of Significant Accounting Policies (continued)

The Company assesses other-than-temporary impairment (OTTI) based on whether it intends to sell a security or if it is likely that the Company would be required to sell the security before recovery of the amortized cost basis of the investment, which may be maturity. For debt securities, if we intend to sell the security or it is likely that we will be required to sell the security before recovering its cost basis, the entire impairment loss would be recognized in earnings as an OTTI. If we do not intend to sell the security and it is not likely that we will be required to sell the security but we do not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Projected cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for potential OTTI. The remaining impairment related to all other factors, the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to other comprehensive income (OCI). Impairment losses related to all other factors are presented as separate categories within OCI. The accretion of the amount recorded in OCI increases the carrying value of the investment and does not affect earnings. If there is an indication of additional credit losses the security is re-evaluated according to the procedures described above. No OTTI losses were recognized during the six months ended June 30, 2015 or the year ended December 31, 2014.

Restricted Equity Securities

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

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

Loans Held for Sale

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

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

Loans and Allowance for Loan Losses

Loans originated by the Company, i.e., not purchased or acquired in a business combination, are referred to as originated loans. Originated loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal amount 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. The allowance is maintained at a level which, in Management s judgment, is adequate to absorb probable incurred credit losses inherent in the loan portfolio as of the balance sheet date. Originated loans and deposit related overdrafts are charged against the allowance for loan losses when Management believes that the collectability of the principal is unlikely or, with respect to consumer installment loans, according to an established delinquency schedule. The allowance is an amount that Management believes will be adequate to absorb probable incurred 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.

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Note 1 Summary of Significant Accounting Policies (continued)

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

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

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

The Company s method for assessing the appropriateness of the allowance for originated loan losses includes specific allowances for impaired originated loans, formula allowance factors for pools of credits, and allowances for changing environmental factors (e.g., interest rates, growth, economic conditions, etc.). Allowance factors for loan pools were based on historical loss experience by product type and prior risk rating.

During the three months ended March 31, 2014, the Company modified its methodology used to determine the allowance for changing environmental factors by adding a new environmental factor based on the California Home Affordability Index (CHAI). The CHAI measures the percentage of households in California that can afford to purchase the median priced home in California based on current home prices and mortgage interest rates. The use of the CHAI environmental factor consists of comparing the current CHAI to its historical baseline, and allows management to consider the adverse impact that a lower than historical CHAI may have on general economic activity and the performance of our borrowers. Based on an analysis of historical data, management believes this environmental factor gives a better estimate of current economic activity compared to other environmental factors that may lag current economic activity to some extent. This change in methodology resulted in no change to the allowance for loan losses as of March 31, 2014 compared to what it would have been without this change in methodology.

During the three months ended June 30, 2014, the Company refined the method it uses to evaluate historical losses for the purpose of estimating the pool allowance for unimpaired loans. In the third quarter of 2010, the Company moved from a six point grading system (Grades A-F) to a nine point risk rating system (Risk Ratings 1-9), primarily to allow for more distinction within the Pass risk rating. Initially, there was not sufficient loss experience within the nine point scale to complete a migration analysis for all nine risk ratings, all loans risk rated Pass or 2-5 were grouped together, a loss rate was calculated for that group, and that loss rate was established as the loss rate for risk rating 4. The reserve ratios for risk ratings 2, 3 and 5 were then interpolated from that figure. As of June 30, 2014, the Company was able to compile twelve quarters of historical loss information for all risk ratings and use that information to calculate the loss rates for each of the nine risk ratings without interpolation. This refinement led to an increase of $1,438,000 in the reserve requirement for unimpaired loans, driven primarily by home equity lines of credit with a risk rating of 5 or Pass-Watch.

Loans purchased or acquired in a business combination are referred to as acquired loans. Acquired loans are valued as of the acquisition date in accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Topic 805, *Business Combinations*. Loans acquired with evidence of credit deterioration since origination for which it is probable that all contractually required payments will not be collected are referred to as purchased credit impaired (PCI) loans. PCI loans are accounted for under FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. Under FASB ASC Topic 805 and FASB ASC Topic 310-30, PCI loans are recorded at fair value at acquisition date, factoring in credit losses expected to be incurred over the life of the loan. Accordingly, an allowance for loan losses is not carried over or recorded as of the acquisition date. Fair value is defined as the present value of the future estimated principal and interest payments of the loan, with the discount rate used in the present value calculation representing the estimated effective yield of the loan. Default rates, loss severity, and prepayment speed assumptions are periodically reassessed and our estimate of future payments is adjusted accordingly. The difference between contractual future payments and estimated future payments is referred to as the nonaccretable difference. The difference between estimated future payments and the present value of the estimated future payments is referred to as the accretable yield. The accretable yield represents the amount that is expected to be recorded as interest income over the remaining life of the loan. If after acquisition, the Company determines that the estimated future cash flows of a PCI loan are expected to be more than originally estimated, an increase in the discount rate (effective yield) would be made such that the newly increased accretable yield

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Note 1 Summary of Significant Accounting Policies (continued)

would be recognized, on a level yield basis, over the remaining estimated life of the loan. If, after acquisition, the Company determines that the estimated future cash flows of a PCI loan are expected to be less than previously estimated, the discount rate would first be reduced until the present value of the reduced cash flow estimate equals the previous present value however, the discount rate may not be lowered below its original level at acquisition. If the discount rate has been lowered to its original level and the present value has not been sufficiently lowered, an allowance for loan loss would be established through a provision for loan losses charged to expense to decrease the present value to the required level. If the estimated cash flows improve after an allowance has been established for a loan, the allowance may be partially or fully reversed depending on the improvement in the estimated cash flows. Only after the allowance has been fully reversed may the discount rate be increased. PCI loans are put on nonaccrual status when cash flows cannot be reasonably estimated. PCI loans on nonaccrual status are accounted for using the cost recovery method or cash basis method of income recognition. The Company refers to PCI loans on nonaccrual status that are accounted for using the cash basis method of income recognition as PCI cash basis loans; and the Company refers to all other PCI loans as PCI other loans PCI loans are charged off when evidence suggests cash flows are not recoverable. Foreclosed assets from PCI loans are recorded in foreclosed assets at fair value with the fair value at time of foreclosure representing cash flow from the loan. ASC 310-30 allows PCI loans with similar risk characteristics and acquisition time frame to be pooled and have their cash flows aggregated as if they were one loan. The Company elected to use the pooled method of ASC 310-30 for PCI other loans in the acquisition of certain assets and liabilities of Granite Community Bank, N.A. (Granite) during 2010 and Citizens Bank of Northern California (Citizens) during 2011.

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

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

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

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

Foreclosed Assets

Foreclosed assets include assets acquired through, or in lieu of, loan foreclosure. Foreclosed assets are held for sale and are initially recorded at fair value less estimated costs to sell at the date of foreclosure, establishing a new cost basis. Any write-downs based on the asset s fair value less costs to sell at the date of acquisition are charged to the allowance for loan and lease losses. Any recoveries based on the asset s fair value less estimated costs to sell in excess of the recorded value of the loan at the date of acquisition are recorded to the allowance for loan and lease losses. Subsequent to foreclosure, management periodically performs valuations and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other noninterest expense. Gain or loss on sale of foreclosed assets is included in noninterest income. Foreclosed assets that are not subject to a FDIC loss-share agreement are referred to as noncovered foreclosed assets.

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

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

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Note 1 Summary of Significant Accounting Policies (continued)

Premises and Equipment

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

Goodwill and Other Intangible Assets

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

The Company has an identifiable intangible asset consisting of core deposit intangibles (CDI). CDI are amortized over their respective estimated useful lives, and reviewed for impairment.

Impairment of Long-Lived Assets and Goodwill

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

As of December 31 of each year, goodwill is tested for impairment, and is tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset s fair value. This determination is made at the reporting unit level. The Company may choose to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, the Company determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then goodwill is deemed not to be impaired. However, if the Company concludes otherwise, or if the Company elected not to first assess qualitative factors, then the Company performs the first step of a two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. Second, if the carrying amount of the reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit s goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Currently, and historically, the Company is comprised of only one reporting unit that operates within the business segment it has identified as community banking . Goodwill was not impaired as of December 31, 2014 because the fair value of the reporting unit exceeded its carrying value.

Mortgage Servicing Rights

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

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

Indemnification Asset/Liability

The Company accounts for amounts receivable or payable under its loss-share agreements entered into with the FDIC in connection with its purchase and assumption of certain assets and liabilities of Granite 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 or pay to 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.

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Note 1 Summary of Significant Accounting Policies (continued)

Reserve for Unfunded Commitments

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

Income Taxes

The Company s accounting for income taxes is based on an asset and liability approach. The Company recognizes the amount of taxes payable or refundable for the current year, and deferred tax assets and liabilities for the future tax consequences that have been recognized in its financial statements or tax returns. The measurement of tax assets and liabilities is based on the provisions of enacted tax laws. A valuation allowance, if needed, reduces deferred tax assets to the expected amount most likely to be realized. Realization of deferred tax assets is dependent upon the generation of a sufficient level of future taxable income and recoverable taxes paid in prior years. Although realization is not assured, management believes it is more likely than not that all of the deferred tax assets will be realized. Interest and/or penalties related to income taxes are reported as a component of noninterest income.

Off-Balance Sheet Credit Related Financial Instruments

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

Geographical Descriptions

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

Reclassifications

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

Recent Accounting Pronouncements

FASB issued ASU No. 2014-04, *Receivables (Topic 310): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure.* ASU 2014-04 clarifies when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. ASU 2014-04 became effective for the Company on January 1, 2015, and did not have a significant impact on the Company s consolidated financial statements.

FASB issued ASU No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.* ASU 2014-08 improves the definition of discontinued operations by limiting discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on an entity s operations and financial results. ASU 2014-08 requires expanded disclosures for discontinued operations that provide users of financial statements with more information about the assets, liabilities, revenues, and expenses of discontinued operations. ASU 2014-08 also requires an entity to disclose the pretax profit or loss of an individually significant component of an entity that does not qualify for discontinued operations reporting, and provide users with information about the financial effects of significant disposals that do not qualify for discontinued operations reporting. The amendments in ASU 2014-08 include several changes to the Accounting Standards Codification to improve the organization and readability of Subtopic 205-20 and Subtopic 360-10, Property, Plant, and Equipment Overall. ASU 2014-08 is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. ASU 2014-08 became effective for the Company on January 1, 2015, and did not have a significant impact on the Company s consolidated financial statements.

FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606).* The core principle of the guidance under ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for a public entity for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. ASU 2014-09 is not expected to have a significant impact on the Company s consolidated financial statements.

FASB issued ASU No. 2014-11, *Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures.* ASU 2014-11 requires that repurchase-to-maturity transactions be accounted for as secured borrowings consistent with the accounting for other repurchase agreements. In addition, ASU 2014-11 requires separate accounting for repurchase financings, which entails the transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty. ASU 2014-11 requires entities to disclose certain information about transfers accounted for as sales in transactions that are economically similar to repurchase agreements. In addition, ASU 2014-11 requires disclosures related to collateral, remaining contractual tenor and of the potential risks associated with repurchase agreements, securities lending transactions and repurchase-to-maturity transactions. ASU 2014-11 became effective for the Company on January 1, 2015, and did not have a significant impact on the Company s consolidated financial statements.

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Note 1 Summary of Significant Accounting Policies (continued)

FASB issued ASU No. 2014-12, *Compensation Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved After the Requisite Service Period.* ASU 2014-12 requires that a performance target that affects the vesting of a share-based payment award and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718 as it relates to awards with performance conditions that affect vesting to account for such awards. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. The stated vesting period (which includes the period in which the performance target could be achieved) may differ from the requisite service period. Current U.S. GAAP does not contain explicit guidance on whether to treat a performance target that could be achieved after the requisite service period as a performance condition that affects vesting or as a nonvesting condition that affects the grant-date fair value of an award. ASU 2014-12 provides explicit guidance for those awards. For all entities, ASU 2014-12 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The Company has elected to not adopt ASU 2014-12 early.

FASB issued ASU No. 2014-14, *Receivables Troubled Debt Restructurings by Creditors (Topic 310): Classification of Certain Government Mortgage Loans upon Foreclosure.* ASU 2014-14 requires that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: 1) the loan has a government guarantee that is not separable from the loan before foreclosure, 2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim, and 3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. ASU 2014-14 became effective for the Company on January 1, 2015, and did not have a significant impact on the Company s consolidated financial statements.

Note 2 - Business Combinations

TriCo completed its acquisition of North Valley Bancorp on October 3, 2014. Based on a fixed exchange ratio of 0.9433 shares of TriCo common stock for each share of North Valley Bancorp common stock, North Valley Bancorp shareholders received an aggregate of 6,575,550 shares of TriCo common stock and $6,823 of cash in-lieu of fractional shares. The 6,575,550 shares of TriCo common stock issued to North Valley Bancorp shareholders represented, on a pro forma basis, approximately 28.9% of the 22,714,964 shares of the combined company outstanding on October 3, 2014. Based on TriCo s closing stock price of $23.01 on October 3, 2014, North Valley Bancorp shareholders received consideration valued at $151,310,000 or approximately $21.71 per share of North Valley common stock outstanding.

The acquisition of North Valley Bancorp expanded the Company s market presence in Northern California. The customer base and locations of North Valley Bancorp s branches had significant overlap with the Company s then existing Northern California customer base and branch locations creating potential cost savings and future growth potential. With the levels of excess capital at the time, the acquisitions fit well into the Company s growth strategy.

North Valley Bancorp, was headquartered in Redding, California, and was the parent of North Valley Bank that had approximately $935 million in assets and 22 commercial banking offices in Shasta, Humboldt, Del Norte, Mendocino, Yolo, Sonoma, Placer and Trinity Counties in Northern California at June 30, 2014. In connection with the acquisition, North Valley Bank was merged into Tri Counties Bank on October 3, 2014.

On October 25, 2014, North Valley Bank s electronic customer service and other data processing systems were converted into Tri Counties Bank s systems. Between January 7, 2015 and January 21, 2015, four Tri Counties Bank branches and four former North Valley Bank branches were consolidated into other Tri Counties Bank or other former North Valley Bank branches.

Beginning on October 4, 2014, the effect of revenue and expenses from the operations of North Valley Bancorp, and the issuance of TriCo common shares as consideration in the merger are included in the results of the Company.

The assets acquired and liabilities assumed from North Valley Bancorp were accounted for in accordance with ASC 805 Business Combinations, using the acquisition method of accounting and were recorded at their estimated fair values on the October 3, 2014 acquisition date, and its results of operations are included in the Company s consolidated statements of income since that date. These fair value estimates are considered provisional, as additional analysis will be performed on certain assets and liabilities in which fair values are primarily determined through the use of inputs that are not observable from market-based information. Management may further adjust the provisional fair values for a period of up to one year from the date of the acquisition. The excess of the fair value of consideration transferred over total identifiable net assets was recorded as goodwill. The goodwill arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of the Company and North Valley Bancorp. None of the goodwill is deductible for income tax purposes as the acquisition was accounted for as a tax-free exchange. The assets and liabilities that continue to be provisional include loans, intangible assets, OREO, deferred tax assets, accrued assets and liabilities, and the residual effects that the adjustments would have on goodwill.

Note 2 - Business Combinations (continued)

The following table discloses the calculation of the fair value of consideration transferred, the total identifiable net assets acquired and the resulting goodwill relating to the North Valley Bancorp acquisition:

(in thousands)	North Valley Bancorp October 3, 2014
Fair value of consideration transferred:	
Fair value of shares issued	$ 151,303
Cash consideration	7
Total fair value of consideration transferred	151,310
Asset acquired:	
Cash and cash equivalents	141,412
Securities available for sale	17,288
Securities held to maturity	189,950
Restricted equity securities	5,378
Loans	499,327
Foreclosed assets	695
Premises and equipment	11,936
Cash value of life insurance	38,075
Core deposit intangible	6,614
Other assets	20,064
Total assets acquired	930,739
Liabilities assumed:	
Deposits	801,956
Other liabilities	10,429
Junior subordinated debt	14,987
Total liabilities assumed	827,372
Total net assets acquired	103,367
Goodwill recognized	$ 47,943

A summary of the estimated fair value adjustments resulting in the goodwill recorded in the North Valley Bancorp acquisition are presented below:

(in thousands)

		North Valley Bancorp October 3, 2014
Value of stock consideration paid to		
North Valley Bancorp Shareholders	$	151,303
Cash payments to North		
Valley Bancorp Shareholders		7
Cost basis net assets acquired		(98,040)
Fair value adjustments:		
Loans		5,832
Premises and Equipment		(4,785)
Core deposit intangible		(6,283)
Deferred income taxes		6,293
Junior subordinated debt		(6,664)
Other		280
Goodwill	$	47,943

The Company recorded the loan portfolio of North Valley Bancorp at fair value at the date of acquisition. A valuation of North Valley Bancorp s loan portfolio was performed as of the acquisition date to assess the fair value of the loan portfolio. The North Valley Bancorp loan portfolio was segmented into two groups; loans with credit deterioration (PCI loans) and loans without credit deterioration (PNCI). For North Valley Bancorp PNCI loans, the present value of estimated future cash flows, based primarily on contractual cash flows, was used to determine fair value. For North Valley Bancorp PCI loans, the present value of estimated future cash flows, based primarily on liquidation value of collateral, was used to determine fair value.

The Company grouped the North Valley Bancorp PNCI loans into pools based on similar loan characteristics such as loan type, payment amortization method, and fixed or variable interest rates. A discounted cash flow schedule was prepared for each pool in which the present value of all estimated future cash flows was calculated using a specifically calculated discount rate for each pool. The discount rate used to estimate the fair value of each loan pool was composed of the sum of: an estimated cost of funds rate, an estimated capital charge reflecting the market participant required return on capital, estimated loan servicing costs, and a liquidity premium. All PNCI loan pools included some estimate regarding prepayment rates, and estimated principal default and loss rates, based primarily on North Valley Bancorp s historical loss experience. The difference between the sum of recorded balances of the North Valley Bancorp PNCI loans in each pool and the present value of each pool represented the total discount (if the recorded value exceeded the present value) or premium (if the present value exceeded the recorded value) for each pool. The total discount, or premium, for each pool was then allocated to the individual loans within each pool based on outstanding loan balance, individual loan risk rating as compared to the weighted average risk rating of the pool, and the contractual payments remaining for the individual loan as compared to the pool.

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Note 2 - Business Combinations (continued)

The Company valued the North Valley Bancorp PCI loans at fair value on an individual basis. A discounted cash flow schedule was prepared for each loan in which the present value of all future estimated cash flows was calculated using a specifically calculated discount rate, estimated liquidation value and estimated liquidation timing for each loan. The discount rate used in the calculation of the present value of North Valley Bancorp PCI loans was composed of the sum of: an estimated cost of funds rate, an estimated capital charge reflecting the market participant required return on capital, estimated loan servicing costs, and a liquidity premium. The difference between the recorded balance and the present value of each North Valley Bancorp PCI loan represented the discount for each PCI loan. All North Valley Bancorp PCI loans had recorded values in excess of their present value of estimated future cash flows.

The Company identified the North Valley Bancorp PCI loans as having cash flows that were not reasonably estimable and placed these loans in nonaccrual status under ASC 310-30 and included them in the category of loans the Company refers to as PCI other loans.

The following table presents the cost basis, fair value discount, and fair value of loans acquired from North Valley Bancorp on October 3, 2014:

	North Valley Bancorp Acquired Loans October 3, 2014		
(in thousands)	Cost Basis	Discount	Fair Value
PNCI	$ 502,637	$ (12,721)	$ 489,916
PCI other	11,488	(2,077)	9,411
Total	$ 514,125	$ (14,798)	$ 499,327

Although the discount on PNCI loans is completely accretable to interest income over the remaining life of such loans, the discount on PCI other loans from the North Valley Bancorp acquisition are not accretable into interest income until the loan principal balance has been reduced to the loan s fair value recorded at acquisition. This method of accounting for the PCI other loans from the North Valley Bancorp acquisition is often referred to as the cost recovery method of income recognition.

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

	North Valley Bancorp Loans		October 3, 2014
(in thousands)	PNCI	PCI - other	Total
Undiscounted contractual cash flows	$ 718,731	$ 15,706	$ 734,437
		(6,295)	(6,295)

Undiscounted cash flows not expected to be collected (nonaccretable difference)			
Undiscounted cash flows expected to be collected	718,731	9,411	728,142
Accretable yield at acquisition	(228,815)		(228,815)
Estimated fair value of loans acquired at acquisition	489,916	9,411	499,327
Purchase discount	12,721	2,077	14,798
Principal balance loans acquired	$ 502,637	$ 11,488	$ 514,125

As part of the acquisition of North Valley Bancorp, the Company performed a valuation of premises and equipment acquired. This valuation resulted in a $4,785,000 increase in the net book value of land and buildings acquired, and was based on current appraisals of such land and buildings.

The Company recognized a core deposit intangible of $6,614,000 related to the acquisition of North Valley Bancorp s core deposits. The recorded core deposit intangibles represented approximately 0.97% of core deposits for North Valley Bancorp and will be amortized over their useful lives of 7 years.

A valuation of time deposits for North Valley Bancorp was also performed as of the acquisition date. Time deposits were split into similar pools based on size, type of time deposits, and maturity. A discounted cash flow analysis was performed on the pools based on current market rates currently paid on similar time deposits. The valuation resulted in no material fair value discount or premium, and none was recorded.

The fair value of junior subordinated debentures assumed from North Valley Bancorp was estimated using a discounted cash flow method based on the current market rates for similar liabilities. As a result a discount of $6,664,000 was recorded on the junior subordinated debentures acquired from North Valley Bancorp. The discount on the subordinated debentures will be amortized using the effective yield method the remaining life to maturity of the debentures at acquisition which range from 18 years to 21 years.

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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, 2015			
	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	$ 239,762	$ 3,325	$ (2,535)	$ 240,552
Obligations of states and political subdivisions	40,467	23	(1,503)	38,987
Corporate debt securities	1,898	2		1,900
Marketable equity securities	3,000		(9)	2,991
Total securities available for sale	$ 285,127	$ 3,350	$ (4,047)	$ 284,430
Securities Held to Maturity				
Obligations of U.S. government corporations and agencies	$ 760,686	$ 6,966	$ (4,113)	$ 763,539
Obligations of states and political subdivisions	15,597	5	(444)	15,158
Total securities held to maturity	$ 776,283	$ 6,971	$ (4,557)	$ 778,697

	December 31, 2014			
	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	$ 71,144	$ 4,001	$ (25)	$ 75,120
Obligations of states and political subdivisions	3,130	45		3,175
Corporate debt securities	1,891	17		1,908
Marketable equity securities	3,000	2		3,002
Total securities available for sale	$ 79,165	$ 4,065	$ (25)	$ 83,205
Securities Held to Maturity				
Obligations of U.S. government corporations and agencies	$ 660,836	$ 13,055	$ (677)	$ 673,214
Obligations of states and political subdivisions	15,590	130	(155)	15,565

Total securities held to maturity	$ 676,426	$ 13,185	$ (832)	$ 688,779

No investment securities were sold during the six months ended June 30, 2015 or the six months ended June 30, 2014. Investment securities with an aggregate carrying value of $245,800,000 and $143,992,000 at June 30, 2015 and December 31, 2014, 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, 2015 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, 2015, obligations of U.S. government corporations and agencies with a cost basis totaling $1,000,448,000 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, 2015, the Company estimates the average remaining life of these mortgage-backed securities issued by U.S. government corporations and agencies to be approximately 6.0 years. Average remaining life is defined as the time span after which the principal balance has been reduced by half.

Investment Securities (In thousands)	Available for Sale		Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year	$ 1,898	$ 1,900		
Due after one year through five years	3,621	3,767		
Due after five years through ten years	28,202	29,476	$ 1,132	$ 1,134
Due after ten years	251,406	249,287	775,151	777,563
Totals	$ 285,127	$ 284,430	$ 776,283	$ 778,697

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Note 3 - Investment Securities (continued)

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

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
			(in thousands)			
June 30, 2015						
Securities Available for Sale:						
Obligations of U.S. government corporations and agencies	$ 181,914	$ (2,535)			$ 181,914	$ (2,535)
Obligations of states and political subdivisions	36,854	(1,503)			36,854	(1,503)
Corporate debt securities						
Marketable equity securities	2,991	(9)			2,991	(9)
Total securities available-for-sale	$ 221,759	$ (4,047)			$ 221,759	$ (4,047)
Securities Held to Maturity:						
Obligations of U.S. government corporations and agencies	$ 333,283	$ (4,113)			$ 333,283	$ (4,113)
Obligations of states and political subdivisions	11,903	(274)	$ 1,049	$ (170)	12,952	(444)
Corporate debt securities						
Total securities held-to-maturity	$ 345,186	$ (4,387)	$ 1,049	$ (170)	$ 346,235	$ (4,557)

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
			(in thousands)			
December 31, 2014						
Securities Available for Sale:						
Obligations of U.S. government corporations and agencies	$ 6,774	$ (25)			$ 6,774	$ (25)
Obligations of states and political subdivisions						
Corporate debt securities						
Marketable equity securities						

Total securities available-for-sale	$	6,774	$	(25)					$	6,774	$	(25)
Securities Held to Maturity:												
Obligations of U.S. government corporations and agencies	$	335	$	(1)	$	56,288	$	(676)	$	56,623	$	(677)
Obligations of states and political subdivisions		1,600		(26)		1,858		(129)		3,458		(155)
Corporate debt securities												
Total securities held-to-maturity	$	1,935	$	(27)	$	58,146	$	(805)	$	60,081	$	(832)

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, 2015, 36 debt securities representing obligations of U.S. government corporations and agencies had unrealized losses with aggregate depreciation of (1.27%) from the Company s amortized cost basis.

Obligations of states and political subdivisions: The unrealized losses on investments in obligations of states and political subdivisions were caused by increases in required yields by investors in these types of securities. It is expected that the securities would not be settled at a price less than the amortized cost of the investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell and more likely than not will not be required to sell, these investments are not considered other-than-temporarily impaired. At June 30, 2015, 48 debt securities representing obligations of states and political subdivisions had unrealized losses with aggregate depreciation of (3.76%) from the Company s amortized cost basis.

Corporate debt securities: At June 30, 2015, no corporate debt securities had unrealized losses.

Marketable equity securities: At June 30, 2015, there was one marketable equity security that had an unrealized loss with aggregate depreciation of (0.30%) from the Company s amortized cost basis.

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Note 4 Loans

A summary of loan balances follows (in thousands):

	June 30, 2015				
	Originated	PNCI	PCI - Cash basis	PCI - Other	Total
Mortgage loans on real estate:					
Residential 1-4 family	$ 173,623	$ 113,991		$ 3,874	$ 291,488
Commercial	1,019,050	348,508		27,521	1,395,079
Total mortgage loan on real estate	1,192,673	462,499		31,395	1,686,567
Consumer:					
Home equity lines of credit	301,696	34,227	5,269	2,923	344,115
Home equity loans	29,223	4,587	125	637	34,572
Auto Indirect					
Other	29,057	3,977		67	33,101
Total consumer loans	359,976	42,791	5,394	3,627	411,788
Commercial	157,283	33,407	4	5,097	195,791
Construction:					
Residential	26,283	14,952		723	41,958
Commercial	43,526	14,132			57,658
Total construction	69,809	29,084		723	99,616
Total loans, net of deferred loan fees and discounts	$ 1,779,741	$ 567,781	$ 5,398	$ 40,842	$ 2,393,762
Total principal balance of loans owed, net of charge-offs	$ 1,784,505	$ 583,746	$ 13,865	$ 47,806	$ 2,429,922
Unamortized net deferred loan fees	(4,764)				(4,764)
Discounts to principal balance of loans owed, net of charge-offs		(15,965)	(8,467)	(6,964)	(31,396)
Total loans, net of unamortized deferred loan fees and discounts	$ 1,779,741	$ 567,781	$ 5,398	$ 40,842	$ 2,393,762
Noncovered loans	$ 1,779,741	$ 567,781	$ 5,398	$ 35,324	$ 2,388,244
Covered loans				5,518	5,518
Total loans, net of unamortized deferred loan fees and discounts	$ 1,779,741	$ 567,781	$ 5,398	$ 40,842	$ 2,393,762
Allowance for loan losses	$ 29,470	$ 2,763	$ 312	$ 2,910	$ 35,455

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Note 4 Loans (continued)

A summary of loan balances follows (in thousands):

	December 31, 2014				
	Originated	PNCI	PCI - Cash basis	PCI - Other	Total
Mortgage loans on real estate:					
Residential 1-4 family	$ 154,594	$ 120,821		$ 4,005	$ 279,420
Commercial	928,797	376,225		30,917	1,335,939
Total mortgage loan on real estate	1,083,391	497,046		34,922	1,615,359
Consumer:					
Home equity lines of credit	305,166	38,397	$ 5,478	3,543	352,584
Home equity loans	23,559	6,985	125	645	31,314
Auto Indirect	112				112
Other	28,230	4,770		74	33,074
Total consumer loans	357,067	50,152	5,603	4,262	417,084
Commercial	126,611	40,899	8	7,427	174,945
Construction:					
Residential	21,135	16,808		675	38,618
Commercial	24,545	11,973			36,518
Total construction	45,680	28,781		675	75,136
Total loans, net of deferred loan fees and discounts	$ 1,612,749	$ 616,878	$ 5,611	$ 47,286	$ 2,282,524
Total principal balance of loans owed, net of charge-offs	$ 1,617,542	$ 634,490	$ 14,805	$ 56,016	$ 2,322,853
Unamortized net deferred loan fees	(4,793)				(4,793)
Discounts to principal balance of loans owed, net of charge-offs		(17,612)	(9,194)	(8,730)	(35,536)
Total loans, net of unamortized deferred loan fees and discounts	$ 1,612,749	$ 616,878	$ 5,611	$ 47,286	$ 2,282,524
Noncovered loans	$ 1,612,749	$ 616,878	$ 5,611	$ 25,018	$ 2,260,256
Covered loans				22,268	22,268
Total loans, net of unamortized deferred loan fees and discounts	$ 1,612,749	$ 616,878	$ 5,611	$ 47,286	$ 2,282,524

Allowance for loan losses	$ (29,860)	$ (3,296)	$ (348)	$ (3,081)	$ (36,585)

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Change in accretable yield:				
Balance at beginning of period	$ 13,402	$ 17,438	$ 14,159	$ 18,232
Accretion to interest income	(1,375)	(1,382)	(2,930)	(3,013)
Reclassification from nonaccretable difference	920	242	1,718	1,079
Balance at end of period	$ 12,947	$ 16,298	$ 12,947	$ 16,298

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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, 2015								
	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Beginning balance	$ 2,765	$ 10,451	$ 15,233	$ 1,980	$ 6	$ 644	$ 3,976	$ 750	$ 250	$ 36,055
Charge-offs	(128)		(84)	(117)	(4)	(176)	(5)			(514)
Recoveries		53	230	6	16	107	121		14	547
(Benefit) provision	198	(363)	(1,386)	259	(18)	130	310	92	145	(633)
Ending balance	$ 2,835	$ 10,141	$ 13,993	$ 2,128		$ 705	$ 4,402	$ 842	$ 409	$ 35,455

	Allowance for Loan Losses	Six Months Ended June 30, 2015								
	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Beginning balance	$ 3,086	$ 9,227	$ 15,676	$ 1,797	$ 9	$ 719	$ 4,226	$ 1,434	$ 411	$ 36,585
Charge-offs	(209)		(425)	(128)	(4)	(444)	(539)			(1,749)
Recoveries	1	149	349	9	36	259	208	11	33	1,055
(Benefit) provision	(43)	765	(1,607)	450	(41)	171	507	(603)	(35)	(436)
Ending balance	$ 2,835	$ 10,141	$ 13,993	$ 2,128		$ 705	$ 4,402	$ 842	$ 409	$ 35,455
Ending balance:										
Individ. evaluated for impairment	$ 857	$ 418	$ 1,779	$ 387		$ 128	$ 676			$ 4,245
Loans pooled for evaluation	$ 1,884	$ 8,390	$ 11,798	$ 1,741		$ 577	$ 2,536	$ 653	$ 409	$ 27,988
	$ 94	$ 1,333	$ 416				$ 1,190	$ 189		$ 3,222

Loans acquired with deteriorated credit quality										

Loans, net of unearned fees As of June 30, 2015										
	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Ending balance:										
Total loans	$ 291,488	$ 1,395,079	$ 344,115	$ 34,572		$ 33,101	$ 195,791	$ 41,958	$ 57,658	$ 2,393,762
Individ. evaluated for impairment	$ 7,467	$ 47,118	$ 6,135	$ 1,438		$ 403	$ 2,048	$ 328	$ 88	$ 65,025
Loans pooled for evaluation	$ 280,147	$ 1,320,440	$ 329,788	$ 32,372		$ 32,631	$ 188,642	$ 40,907	$ 57,570	$ 2,282,497
Loans acquired with deteriorated credit quality	$ 3,874	$ 27,521	$ 8,192	$ 762		$ 67	$ 5,101	$ 723		$ 46,240

Allowance for Loan Losses Year Ended December 31, 2014										
	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Beginning balance	$ 3,154	$ 9,700	$ 16,375	$ 1,208	$ 66	$ 589	$ 4,331	$ 1,559	$ 1,263	$ 38,245
Charge-offs	(171)	(110)	(1,094)	(29)	(3)	(599)	(479)	(4)	(69)	(2,558)
Recoveries	2	540	960	34	86	495	1,268	1,377	181	4,943
(Benefit) provision	101	(903)	(565)	584	(140)	234	(894)	(1,498)	(964)	(4,045)
Ending balance	$ 3,086	$ 9,227	$ 15,676	$ 1,797	$ 9	$ 719	$ 4,226	$ 1,434	$ 411	$ 36,585
Ending balance:										
Individ. evaluated	$ 974	$ 410	$ 1,974	$ 284		$ 142	$ 423	$ 60		$ 4,267

for impairment										
Loans pooled for evaluation	$ 1,915	$ 8,408	$ 13,251	$ 1,513	$ 9	$ 572	$ 2,569	$ 332	$ 322	$ 28,891
Loans acquired with deteriorated credit quality	$ 197	$ 409	$ 451			$ 5	$ 1,234	$ 1,042	$ 89	$ 3,427

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Note 5 Allowance for Loan Losses (continued)

	Loans, net of unearned fees		As of December 31, 2014							
	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Ending balance:										
Total loans	$ 279,420	$ 1,335,939	$ 352,584	$ 31,314	$ 112	$ 33,074	$ 174,945	$ 38,618	$ 35,518	$ 2,282,524
Individ. evaluated for impairment	$ 7,188	$ 41,932	$ 6,968	$ 1,278	$ 18	$ 323	$ 1,757	$ 2,683	$ 99	$ 62,246
Loans pooled for evaluation	$ 268,227	$ 1,263,090	$ 336,595	$ 29,266	$ 94	$ 32,677	$ 165,753	$ 35,260	$ 36,419	$ 2,167,381
Loans acquired with deteriorated credit quality	$ 4,005	$ 30,917	$ 9,021	$ 770		$ 74	$ 7,435	$ 675		$ 52,897

	Allowance for Loan Losses		Three Months Ended June 30, 2014							
	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Beginning balance	$ 2,980	$ 9,875	$ 16,366	$ 1,291	$ 45	$ 590	$ 4,136	$ 1,501	$ 1,538	$ 38,322
Charge-offs	(1)	(45)	(677)	(11)		(144)	(151)			(1,029)
Recoveries		299	180	25	39	119	188	97	20	967
(Benefit) provision	(147)	(298)	2,186	106	(56)	(9)	234	(87)	(221)	1,708
Ending balance	$ 2,832	$ 9,831	$ 18,055	$ 1,411	$ 28	$ 556	$ 4,407	$ 1,511	$ 1,337	$ 39,968

	Allowance for Loan Losses		Six Months Ended June 30, 2014							
	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total

Beginning balance	$ 3,154	$ 9,700	$ 16,375	$ 1,208	$ 66	$ 589	$ 4,331	$ 1,559	$ 1,263	$ 38,245
Charge-offs	(136)	(58)	(855)	(11)		(271)	(390)	(4)	(69)	(1,794)
Recoveries		471	509	27	51	302	1,061	608	135	3,164
(Benefit) provision	(186)	(282)	2,026	187	(89)	(64)	(595)	(652)	8	353
Ending balance	$ 2,832	$ 9,831	$ 18,055	$ 1,411	$ 28	$ 556	$ 4,407	$ 1,511	$ 1,337	$ 39,968
Ending balance:										
Individ. evaluated for impairment	$ 780	$ 392	$ 2,088	$ 211		$ 3	$ 405	$ 61		$ 3,940
Loans pooled for evaluation	$ 1,869	$ 8,605	$ 15,466	$ 1,199	$ 27	$ 553	$ 2,534	$ 720	$ 779	$ 31,752
Loans acquired with deteriorated credit quality	$ 185	$ 835	$ 499				$ 1,469	$ 730	$ 558	$ 4,276

	Loans, net of unearned fees As of June 30, 2014									
	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Ending balance:										
Total loans	$ 212,920	$ 954,936	$ 330,187	$ 17,895	$ 385	$ 28,676	$ 137,341	$ 42,097	$ 14,149	$ 1,738,586
Individ. evaluated for impairment	$ 7,397	$ 52,570	$ 6,987	$ 871	$ 40	$ 77	$ 2,159	$ 2,751	$ 16	$ 72,868
Loans pooled for evaluation	$ 201,680	$ 872,399	$ 313,843	$ 16,412	$ 345	$ 28,529	$ 129,207	$ 37,844	$ 14,068	$ 1,614,327
Loans acquired with deteriorated credit	$ 3,843	$ 29,967	$ 9,357	$ 612		$ 70	$ 5,975	$ 1,502	$ 65	$ 51,391

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Note 5 Allowance for Loan Losses (continued)

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

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

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

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

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

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

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

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

Credit Quality Indicators As of June 30, 2015

	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Originated loans:										
Pass	$ 165,857	$ 977,037	$ 290,529	$ 26,015		$ 28,341	$ 155,985	$ 25,575	$ 42,852	$ 1,712,191
Special mention	1,311	10,479	3,046	1,160		461	854	661	585	18,557
Substandard	6,455	31,534	8,121	2,048		255	444	47	89	48,993
Total originated	$ 173,623	$ 1,019,050	$ 301,696	$ 29,223		$ 29,057	$ 157,283	$ 26,283	$ 43,526	$ 1,779,741
PNCI loans:										
Pass	$ 112,680	$ 327,833	$ 32,392	$ 4,344		$ 3,670	$ 32,100	$ 14,952	$ 14,132	$ 542,103
Special mention	346	13,337	452	101		88				14,324
Substandard	965	7,338	1,383	142		219	1,307			11,354
Total PNCI	$ 113,991	$ 348,508	$ 34,227	$ 4,587		$ 3,977	33,407	$ 14,952	$ 14,132	$ 567,781
PCI loans	$ 3,874	$ 27,521	$ 8,192	$ 762		$ 67	$ 5,101	$ 723		$ 46,240
Total loans	$ 291,488	$ 1,395,079	$ 344,115	$ 34,572		$ 33,101	$ 195,791	$ 41,958	$ 57,658	$ 2,393,762

Credit Quality Indicators As of December 31, 2014

	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Originated loans:										
Pass	$ 146,949	$ 883,102	$ 292,244	$ 20,976	$ 66	$ 27,396	$ 124,707	$ 18,112	$ 24,436	$ 1,537,988
Special mention	1,122	11,521	3,590	743	11	591	636	622		18,836
Substandard	6,523	34,174	9,332	1,840	35	243	1,268	2,401	109	55,925
Total originated	$ 154,594	$ 928,797	$ 305,166	$ 23,559	$ 112	$ 28,230	$ 126,611	$ 21,135	$ 24,545	$ 1,612,749
PNCI loans:										
Pass	$ 119,643	$ 359,537	$ 36,531	$ 6,813		$ 4,399	$ 40,628	$ 16,808	$ 11,973	$ 596,332
Special mention	547	12,979	936	147		230	268			15,107
Substandard	631	3,709	930	25		141	3			5,439
Total PNCI	$ 120,821	$ 376,225	$ 38,397	$ 6,985		$ 4,770	$ 40,899	$ 16,808	$ 11,973	$ 616,878
PCI loans	$ 4,005	$ 30,917	$ 9,021	$ 770		$ 74	$ 7,435	$ 675		$ 52,897

Total loans	$ 279,420	$ 1,335,939	$ 352,584	$ 31,314	$ 112	$ 33,074	$ 174,945	$ 38,618	$ 36,518	$ 2,282,524

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Note 5 Allowance for Loan Losses (continued)

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

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

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

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

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

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

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

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

Analysis of Past Due and Nonaccrual Originated Loans As of June 30, 2015

	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Originated loan balance:										
Past due:										
30-59 Days	$ 256	$ 589	$ 867	$ 514		$ 44	$ 589	$ 407		$ 3,266
60-89 Days	375	2,874	488	166		2				3,905
> 90 Days	653	711	466	348		57	76	14		2,325
Total past due	$ 1,284	$ 4,174	$ 1,821	$ 1,028		$ 103	$ 665	$ 421		$ 9,496
Current	172,339	1,014,876	299,875	28,195		28,954	156,618	25,862	$ 43,526	1,770,245
Total orig. loans	$ 173,623	$ 1,019,050	$ 301,696	$ 29,223		$ 29,057	$ 157,283	$ 26,283	$ 43,526	$ 1,779,741
> 90 Days and still accruing										
Nonaccrual loans	$ 3,914	$ 14,957	$ 3,246	$ 1,262		$ 60	$ 238	$ 47	$ 88	$ 23,812

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Note 5 Allowance for Loan Losses (continued)

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

Analysis of Past Due and Nonaccrual PNCI Loans As of June 30, 2015

	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
PNCI loan balance:										
Past due:										
30-59 Days		$ 883		$ 42		$ 9				$ 934
60-89 Days			$ 271			92				363
> 90 Days	$ 33	466	260			98				857
Total past due	$ 33	$ 1,349	$ 531	$ 42		$ 199				$ 2,154
Current	113,958	347,159	33,696	4,545		3,778	$ 33,407	$ 14,952	$ 14,132	565,627
Total PNCI loans	$ 113,991	$ 348,508	$ 34,227	$ 4,587		$ 3,977	$ 33,407	$ 14,952	$ 14,132	$ 567,781
> 90 Days and still accruing										
Nonaccrual loans	$ 622	$ 4,316	$ 733	$ 61		$ 131				$ 5,863

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

Analysis of Past Due and Nonaccrual Originated Loans As of December 31, 2014

	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Originated loan balance:										
Past due:										
30-59 Days	$ 1,296	$ 735	$ 2,066	$ 615	$ 4	$ 64	$ 739			$ 5,519

60-89 Days	919		296	192		24	99			1,530
> 90 Days	100	900	754	202	17	46	61			2,080
Total past due	$ 2,315	$ 1,635	$ 3,116	$ 1,009	$ 21	$ 134	$ 899			$ 9,129
Current	152,279	927,162	302,050	22,550	91	28,096	125,712	$ 21,135	$ 24,545	1,603,620
Total orig. loans	$ 154,594	$ 928,797	$ 305,166	$ 23,559	$ 112	$ 28,230	$ 126,611	$ 21,135	$ 24,545	$ 1,612,749
> 90 Days and still accruing										
Nonaccrual loans	$ 3,430	$ 20,736	$ 4,336	$ 1,197	$ 18	$ 66	$ 246	$ 2,401	$ 99	$ 32,529

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

Analysis of Past Due and Nonaccrual PNCI Loans As of December 31, 2014

	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
PNCI loan balance:										
Past due:										
30-59 Days	$ 2,041	$ 260	$ 275			$ 25	$ 67			$ 2,668
60-89 Days	24		118			3				145
> 90 Days	239		73	$ 25		76				413
Total past due	$ 2,304	$ 260	$ 466	$ 25		$ 104	$ 67			$ 3,226
Current	118,517	375,965	37,931	6,960		4,666	40,832	$ 16,808	$ 11,973	613,652
Total PNCI loans	$ 120,821	$ 376,225	$ 38,397	$ 6,985		$ 4,770	$ 40,899	$ 16,808	$ 11,973	$ 616,878
> 90 Days and still accruing										
Nonaccrual loans	$ 799	$ 366	$ 346	$ 25		$ 110				$ 1,646

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Note 5 Allowance for Loan Losses (continued)

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

	Impaired Originated Loans		As of, or for the Six Months Ended, June 30, 2015							
	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	$ 3,770	$ 40,294	$ 2,475	$ 779		$ 23	$ 338	$ 328	$ 88	$ 48,095
Unpaid principal	$ 5,901	$ 44,441	$ 5,340	$ 1,256		$ 46	$ 366	$ 376	$ 183	$ 57,909
Average recorded Investment	$ 3,528	$ 39,385	2,738	$ 764		$ 31	$ 375	$ 1,364	$ 94	$ 48,279
Interest income Recognized	$ 19	$ 795	$ 2				$ 11	$ 9		$ 836
With an allowance recorded:										
Recorded investment	$ 2,780	$ 2,365	$ 2,513	$ 598		$ 37	$ 1,706			$ 9,999
Unpaid principal	$ 2,958	$ 2,448	$ 2,973	$ 704		$ 47	$ 1,808			$ 10,938
Related allowance	$ 784	$ 216	$ 1,481	$ 346		$ 15	$ 676			$ 3,518
Average recorded Investment	$ 2,752	$ 2,654	$ 2,849	$ 551		$ 41	$ 1,522	$ 141		$ 10,510
Interest income Recognized	$ 40	$ 56	$ 25	$ 3			$ 42			$ 166

	Impaired PNCI Loans		As of, or for the Six Months Ended, June 30, 2015							
	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	$ 290	$ 3,633	$ 637	$ 20	$ 42	$ 4	$ 4,626
Unpaid principal	$ 316	$ 3,713	$ 696	$ 22	$ 62	$ 4	$ 4,813
Average recorded Investment	$ 317	$ 1,999	$ 492	$ 22	$ 40	$ 5	$ 2,875
Interest income Recognized	$ 3	$ 74	$ 1				$ 78
With an allowance recorded:							
Recorded investment	$ 627	$ 826	$ 511	$ 41	$ 301		$ 2,306
Unpaid principal	$ 643	$ 836	$ 512	$ 42	$ 301		$ 2,334
Related allowance	$ 72	$ 203	$ 298	$ 41	$ 113		$ 727
Average recorded Investment	$ 731	$ 486	$ 474	$ 20	$ 261		$ 1,972
Interest income Recognized	$ 4	$ 12	$ 9		$ 6		$ 31

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Note 5 Allowance for Loan Losses (continued)

	Impaired Originated Loans As of December 31, 2014									
	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	$ 3,287	$ 38,477	$ 3,001	$ 750	$ 14	$ 25	$ 412	$ 2,401	$ 99	$ 48,466
Unpaid principal	$ 5,138	$ 41,949	$ 6,094	$ 1,187	$ 49	$ 32	$ 433	$ 6,588	$ 190	$ 61,660
Average recorded Investment	$ 3,826	$ 45,915	$ 3,355	$ 651	$ 35	$ 21	$ 1,030	$ 2,437	$ 84	$ 57,354
Interest income Recognized	$ 38	$ 995	$ 26	$ 6		$ 1	$ 26		$ 3	$ 1,095
With an allowance recorded:										
Recorded investment	$ 2,724	$ 2,943	$ 3,185	$ 504	$ 4	$ 41	$ 1,338	$ 282		$ 11,021
Unpaid principal	$ 2,865	$ 3,101	$ 3,533	$ 597	$ 6	$ 41	$ 1,438	$ 282		$ 11,863
Related allowance	$ 797	$ 302	$ 1,769	$ 284		$ 11	$ 423	$ 60		$ 3,646
Average recorded Investment	$ 2,677	$ 4,119	$ 2,982	$ 365	$ 4	$ 25	$ 1,428	$ 283	$ 55	$ 11,938
Interest income Recognized	$ 91	$ 144	$ 71	$ 13			$ 71	$ 19		$ 409

	Impaired PNCI Loans As of December 31, 2014									
	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	$ 343	$ 366	$ 346	$ 25		$ 37	$ 7			$ 1,124

Unpaid principal	$ 353	$ 2,620	$ 374	$ 25		$ 54	$ 7			$ 3,433
Average recorded Investment	$ 246	$ 753	$ 287	$ 12		$ 36	$ 10			$ 1,344
Interest income Recognized	$ 14		$ (1)				$ 1			$ 14
With an allowance recorded:										
Recorded investment	$ 834	$ 146	$ 436			$ 220				$ 1,636
Unpaid principal	$ 852	$ 146	$ 436			$ 220				$ 1,654
Related allowance	$ 177	$ 108	$ 205			$ 131				$ 621
Average recorded Investment	$ 516	$ 148	$ 319			$ 124				$ 1,107
Interest income Recognized	$ 8	$ 8	$ 20			$ 12				$ 48

	Impaired Originated Loans				As of, or for the Six Months Ended, June 30, 2014					
	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	$ 4,002	$ 48,781	$ 2,641	$ 626	$ 33	$ 16	$ 1,151	$ 2,468	$ 16	$ 59,734
Unpaid principal	$ 6,227	$ 51,862	$ 5,592	$ 1,032	$ 70	$ 22	$ 1,174	$ 6,689	$ 99	$ 72,767
Average recorded Investment	$ 4,228	$ 54,387	$ 3,419	$ 540	$ 49	$ 21	$ 1,266	$ 1,904	$ 43	$ 65,857
Interest income Recognized	$ 23	$ 651	$ 5	$ 1			$ 31			$ 711
With an allowance recorded:										
Recorded investment	$ 2,821	$ 3,163	$ 3,559	$ 245	$ 7		$ 998	$ 283		$ 11,076
Unpaid principal	$ 2,893	$ 3,324	$ 4,231	$ 325	$ 10		$ 1,041	$ 283		$ 12,107

Related allowance	$ 625	$ 282	$ 1,810	$ 211			$ 405	$ 61		$ 3,394
Average recorded Investment	$ 2,594	$ 5,012	$ 3,196	$ 204	$ 5	$ 6	$ 1,524	$ 890	$ 73	$ 13,504
Interest income Recognized	$ 34	$ 76	$ 35	$ 2			$ 25	$ 9		$ 181

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Note 5 Allowance for Loan Losses (continued)

Impaired PNCI Loans	As of, or for the Six Months Ended, June 30, 2014									
	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	$ 144	$ 478	$ 320			$ 33	$ 10			$ 985
Unpaid principal	$ 144	$ 2,648	$ 337			$ 44	$ 10			$ 3,183
Average recorded Investment	$ 94	$ 822	$ 291			$ 35	$ 12			$ 1,254
Interest income Recognized	$ 6		$ (1)							$ 5
With an allowance recorded:										
Recorded investment	$ 430	$ 148	$ 467			$ 28				$ 1,073
Unpaid principal	$ 442	$ 148	$ 476			$ 28				$ 1,094
Related allowance	$ 155	$ 110	$ 278			$ 3				$ 546
Average recorded Investment	$ 352	$ 153	$ 260			$ 28				$ 793
Interest income Recognized	$ 4	$ 4	$ 8			$ 1				$ 17

At June 30, 2015, $43,047,000 of originated loans were TDR and classified as impaired. The Company had obligations to lend $62,000 of additional funds on these TDR as of June 30, 2015. At June 30, 2015, $1,091,000 of PNCI loans were TDR and classified as impaired. The Company had no obligations to lend additional funds on these TDR as of June 30, 2015.

At December 31, 2014, $45,676,000 of Originated loans were TDRs and classified as impaired. The Company had obligations to lend $54,000 of additional funds on these TDRs as of December 31, 2014. At December 31, 2014, $1,307,000 of PNCI loans were TDRs and classified as impaired. The Company had no obligations to lend additional funds on these TDRs as of December 31, 2014.

At June 30, 2014, $53,476,000 of originated loans were TDRs and classified as impaired. The Company had no obligations to lend additional funds on these TDRs as of June 30, 2014. At June 30, 2014, $1,227,000 of PNCI loans were TDRs and classified as impaired. The Company had no obligations to lend additional funds on these TDRs as of June 30, 2014.

Modifications classified as TDRs can include one or a combination of the following: rate modifications, term extensions, interest only modifications, either temporary or long-term, payment modifications, and collateral substitutions/additions. For all new TDRs, an impairment analysis is conducted. If the loan is determined to be collateral dependent, any additional amount of impairment will be calculated based on the difference between estimated collectible value and the current carrying balance of the loan. This difference could result in an increased provision and is typically charged off. If the asset is determined not to be collateral dependent, the impairment is measured on the net present value difference between the expected cash flows of the restructured loan and the cash flows which would have been received under the original terms. The effect of this could result in a requirement for additional provision to the reserve. The effect of these required provisions for the period are indicated above. Typically if a TDR defaults during the period, the loan is then considered collateral dependent and, if it was not already considered collateral dependent, an appropriate provision will be reserved or charge will be taken. The additional provisions required resulting from default of previously modified TDR s are noted above.

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

	TDR Information for the Three Months Ended June 30, 2015									
	RE Mortgage		Home Equity					Construction		
($ in thousands)	Resid.	Comm.	Lines	Loans	Auto Indirect	Other Consum.	C&I	Resid.	Comm.	Total
Number				1			2			3
Pre-mod outstanding principal balance				$ 69			$ 182			$ 251
Post-mod outstanding principal balance				$ 73			$ 182			$ 255
Financial impact due to TDR taken as additional provision							$ 86			$ 86
Number that defaulted during the period	1	1								2
Recorded investment of TDRs that defaulted during the period	$ 98	$ 37								$ 135
Financial impact due to the default of previous TDR taken as charge-offs or additional provisions										

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Note 5 Allowance for Loan Losses (continued)

The following tables show certain information regarding TDRs that occurred during the periods indicated:

TDR Information for the Six Months Ended June 30, 2015

	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Number	1	1		1		2	3			8
Pre-mod outstanding principal balance	$ 108	$ 124		$ 69		$ 89	$ 468			$ 858
Post-mod outstanding principal balance	$ 110	$ 124		$ 74		$ 89	$ 470			$ 867
Financial impact due to TDR taken as additional provision	$ 8	$ (5)				$ 5	$ 249			$ 257
Number that defaulted during the period	1	1	1							3
Recorded investment of TDRs that defaulted during the period	$ 98	$ 37	$ 46							$ 181
Financial impact due to the default of previous TDR taken as charge-offs or additional provisions										

TDR Information for the Three Months Ended June 30, 2014

	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Number	1	2	1	1			2			7
Pre-mod outstanding principal balance	$ 112	$ 568	$ 200	$ 32			$ 34			$ 946
Post-mod outstanding principal balance	$ 112	$ 571	$ 212	$ 33			$ 34			$ 962
Financial impact due to TDR taken as additional provision		$ 8					$ 4			$ 12
Number that defaulted during the period	1	1								2
Recorded investment of TDRs that defaulted during the period	$ 152	$ 163								$ 315
Financial impact due to the default of previous TDR taken as charge-offs or additional provisions										

	TDR Information for the Six Months Ended June 30, 2014									
	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Number	3	4	3	1			3	1	1	16
Pre-mod outstanding principal balance	$ 806	$ 824	$ 479	$ 32			$ 72	$ 102	$ 118	$ 2,433
Post-mod outstanding principal balance	$ 806	$ 830	$ 491	$ 33			$ 72	$ 85	$ 100	$ 2,417
Financial impact due to TDR taken as additional provision	$ 37	$ 18					$ 21			$ 76
Number that defaulted during the period	1	2					1			4
Recorded investment of TDRs that defaulted during the period	$ 152	$ 423					$ 116			$ 691
Financial impact due to the default of previous TDR taken as charge-offs or additional provisions										

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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, 2015			Six months ended June 30, 2014		
	Noncovered	Covered	Total	Noncovered	Covered	Total
Beginning balance, net	$ 4,449	$ 445	$ 4,894	$ 5,588	$ 674	$ 6,262
Additions/transfers from loans and covered	2,605	(445)	2,160	4,578		4,578
Dispositions/sales	(1,420)		(1,420)	(4,873)	(142)	(5,015)
Valuation adjustments	(241)		(241)	(29)	(11)	(40)
Ending balance, net	$ 5,393	$ 0	$ 5,393	$ 5,264	$ 521	$ 5,785
Ending valuation allowance	$ (438)	$ 0	$ (438)	$ (76)	$ (11)	$ (87)
Ending number of foreclosed assets	33		33	23	2	25
Proceeds from sale of foreclosed assets	$ 1,033	$ 0	$ 1,033	$ 6,315	$ 168	$ 6,483
Gain on sale of foreclosed assets	$ 426	$ 0	$ 426	$ 1,442	$ 26	$ 1,468

As of June 30, 2015, $2,059,000 of foreclosed residential real estate properties are included in foreclosed assets, all of which the Company has obtained physical possession. During the three months ended June 30, 2015, $445,000 of covered foreclosed assets were transferred to noncovered foreclosed assets as the indemnification portion of the agreement covering those foreclosed asset expired during May 2015. Included in the sales of foreclosed assets during the six months ended June 30, 2015 is the sale of one foreclosed asset during the three months ended June 30, 2015 with a cost basis of $813,000. The Company provided loans to the buyer of this foreclosed asset such that, in accordance with generally accepted accounting principles, the Company deferred the entire gain of $397,000 related to this foreclosed asset sale. This deferred gain will be recognized over time in proportion to the reduction in principal balance of the related loans until the buyer has reduced the outstanding principal balance of the loans to a level specified by generally accepted accounting principles at which time the remaining unrecognized gain may be recognized.

Note 7 - Premises and Equipment

Premises and equipment were comprised of:

	June 30, 2015	December 31, 2014
	($ in thousands)	
Land & land improvements	$ 8,883	$ 8,933
Buildings	39,090	39,638
Furniture and equipment	28,620	28,446

	76,593	77,017
Less: Accumulated depreciation	(34,559)	(33,570)
	42,034	43,447
Construction in progress	22	46
Total premises and equipment	$ 42,056	$ 43,493

Depreciation expense for premises and equipment amounted to $1,377,000 and $984,000 for the three months ended June 30, 2015 and 2014, respectively, and $2,645,000 and $2,165,000 for the six months ended June 30, 2015 and 2014, 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,	
	2015	2014
Beginning balance	$ 92,337	$ 52,309
Increase in cash value of life insurance	1,350	797
Ending balance	$ 93,687	$ 53,106
End of period death benefit	$ 165,728	$ 94,999
Number of policies owned	189	133
Insurance companies used	14	6
Current and former employees and directors covered	60	36

As of June 30, 2015, the Bank was the owner and beneficiary of 189 life insurance policies, issued by 14 life insurance companies, covering 60 current and former employees and directors. These life insurance policies are recorded on the Company s financial statements at their reported cash (surrender) values. As a result of current tax law and the nature of these policies, the Bank records any increase in cash value of these policies as nontaxable noninterest income. If the Bank decided to surrender any of the policies prior to the death of the insured, such surrender may result in a tax expense related to the life-to-date cumulative increase in cash value of the policy. If the Bank retains such policies until the death of the insured, the Bank would receive nontaxable proceeds from the insurance company equal to the death benefit of the policies. The Bank has entered into Joint Beneficiary Agreements (JBAs) with certain of the 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 condensed consolidated financial statements for additional information on JBAs.

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Note 9 - Goodwill and Other Intangible Assets

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

(in thousands)	June 30, 2015	Additions	Reductions	December 31, 2014
Goodwill	$ 63,462			$ 63,462

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

(in thousands)	June 30, 2015	Additions	Reductions/ Amortization	Fully Depreciated	December 31, 2014
Core deposit intangibles	$ 8,074				$ 8,074
Accumulated amortization	(1,601)		$ (578)		(1,023)
Core deposit intangibles, net	$ 6,473		$ (578)		$ 7,051

The Company recorded additions to its CDI of $6,614,000 in conjunction with the North Valley Bancorp acquisition on October 3, 2014, $898,000 in conjunction with the Citizens acquisition on September 23, 2011, and $562,000 in conjunction with the Granite acquisition on May 28, 2010. The following table summarizes the Company s estimated core deposit intangible amortization (dollars in thousands):

Years Ended	Estimated Core Deposit Intangible Amortization
2015	$ 1,157
2016	1,157
2017	1,109
2018	1,044
2019	948
Thereafter	$ 1,636

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 (MSRs) for the periods indicated (dollars in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Mortgage servicing rights:				
Balance at beginning of period	$ 7,057	$ 6,107	$ 7,378	$ 6,165
Additions	236	153	421	276

Change in fair value	521	(351)	15	(532)
Balance at end of period	$ 7,814	$ 5,909	$ 7,814	$ 5,909
Servicing, late and ancillary fees received	$ 528	$ 421	$ 1,062	$ 841
Balance of loans serviced at:				
Beginning of period	$ 832,143	$ 672,341	$ 840,288	$ 680,197
End of period	$ 827,333	$ 667,969	$ 827,333	$ 667,969
Weighted-average prepayment speed (CPR)			9.5%	11.0%
Discount rate			10.0%	10.0%

The changes in fair value of MSRs that occurred during the three and six months ended June 30, 2015 and 2014 were mainly due to changes in principal balances and changes in estimate life of the MSRs.

Note 11 - Indemnification Asset/Liability

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Beginning (payable) receivable balance	$ (433)	$ (220)	$ (349)	$ 206
Effect of actual covered losses and change in estimated future covered losses	(24)	(97)	(86)	(565)
Reimbursable expenses (revenue), net	(18)	14	(21)	73
Payments made (received)	9	266	(10)	249
Ending payable balance	$ (466)	$ (37)	$ (466)	$ (37)
Amount of indemnification asset (liability) recorded in other assets			$ 105	$ (37)
Amount of indemnification liability recorded in other liabilities			(571)	
Ending balance			$ (466)	$ (37)

During May 2015, the indemnification portion of the Company s agreement with the FDIC related to the Company s acquisition of certain nonresidential real estate loans of Granite Community Bank in May 2010 expired. The indemnification portion of the Company s agreement

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Note 11 - Indemnification Asset/Liability (continued)

with the FDIC related to the Company s acquisition of certain residential real estate loans of Granite Community Bank in May 2010 will expire in May 2018. The agreement specifies that recoveries of losses that are claimed by the Company and indemnified by the FDIC under the agreement that are recovered by the Company through May 2020 are to be shared with the FDIC in the same proportion as they were indemnified by the FDIC. In addition, the agreement specifies that at the end of the agreement in May 2020, to the extent that total claimed losses plus servicing expenses, net of recoveries, claimed under the agreement over the entire ten year period of the agreement do not meet a certain threshold, the Company will be required to pay to the FDIC a true up amount equal to fifty percent of the difference of the threshold and actual claimed losses plus servicing expenses, net of recoveries. The Company has continually been estimating, updating and recording this true up amount, at its estimated present value, since the inception of the agreement in May 2010. As of June 30, 2015, the present value of this true up amount is estimated to be $571,000, and is recorded in other liabilities.

Note 12 Other Assets

Other assets were comprised of (in thousands):

	June 30, 2015	December 31, 2014
Deferred tax asset, net	$ 38,901	$ 37,706
Prepaid expense	2,462	2,034
Software	1,220	1,327
Advanced compensation	743	908
Capital Trusts	1,693	1,690
Investment in low income housing tax credit funds	4,431	
Miscellaneous other assets	5,347	8,070
Total other assets	$ 54,797	$ 51,735

Note 13 - Deposits

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

	June 30 2015	December 31, 2014
Noninterest-bearing demand	$ 1,060,650	$ 1,083,900
Interest-bearing demand	780,647	782,385
Savings	1,179,836	1,156,126
Time certificates, $250,000 and over	32,716	38,217

Other time certificates	287,833	319,795
Total deposits	$ 3,341,682	$ 3,380,423

Certificate of deposit balances of $5,000,000 and $5,000,000 from the State of California were included in time certificates, $250,000 and over, at each of June 30, 2015 and December 31, 2014, 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 $1,263,000 and $1,216,000 were classified as consumer loans at June 30, 2015 and December 31, 2014, 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,	
	2015	2014	2015	2014
Balance at beginning of period	$ 2,015	$ 2,230	$ 2,145	$ 2,415
Provision (benefit) for losses unfunded commitments	110	(185)	(20)	(370)
Balance at end of period	$ 2,125	$ 2,045	$ 2,125	$ 2,045

Note 15 Other Liabilities

Other liabilities were comprised of (in thousands):

	June 30, 2015	December 31, 2014
Deferred compensation	$ 7,259	$ 7,408
Pension liability	27,114	26,798
Joint beneficiary agreements	2,843	2,728
Low income housing tax credit fund commitments	4,015	
Miscellaneous other liabilities	13,772	12,258
Total other liabilities	$ 55,003	$ 49,192

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Note 16 - Other Borrowings

A summary of the balances of other borrowings follows:

	June 30, 2015	December 31, 2014
	(in thousands)	
Other collateralized borrowings, fixed rate, as of June 30, 2015 of 0.05%, payable on July 1, 2015	$ 6,735	$ 9,276
Total other borrowings	$ 6,735	$ 9,276

The Company did not enter into any repurchase agreements during the six months ended June 30, 2015 or the year ended December 31, 2014.

The Company had $6,735,000 and $9,276,000 of other collateralized borrowings at June 30, 2015 and December 31, 2014, 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, 2015, the Company has pledged as collateral and sold under agreements to repurchase investment securities with fair value of $6,735,000 under these other collateralized borrowings.

The Company maintains a collateralized line of credit with the Federal Home Loan Bank of San Francisco (FHLB). Based on the FHLB stock requirements at June 30, 2015, this line provided for maximum borrowings of $1,086,339,000 of which none was outstanding, leaving $1,086,339,000 available. As of June 30, 2015, the Company has designated investment securities with fair value of $101,039,000 and loans totaling $1,582,611,000 as potential collateral under this collateralized line of credit with the FHLB.

The Company maintains a collateralized line of credit with the San Francisco Federal Reserve Bank. As of June 30, 2015, this line provided for maximum borrowings of $119,625,000 of which none was outstanding, leaving $119,625,000 available. As of June 30, 2015, the Company has designated investment securities with fair value of $425,000 and loans totaling $185,333,000 as potential collateral under this collateralized line of credit with the San Francisco Federal Reserve Bank.

The Company has available unused correspondent banking lines of credit from commercial banks totaling $15,000,000 for federal funds transactions at June 30, 2015.

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.

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.

As a result of the Company s acquisition of North Valley Bancorp on October 3, 2014, the Company assumed the junior subordinated debentures issued by North Valley Bancorp to North Valley Capital Trusts II, III & IV with face amounts of $6,186,000, $5,155,000 and $10,310,000, respectively. Also, as a result of the North Valley Bancorp acquisition, the Company acquired common stock interests in North Valley Capital Trusts II, III and IV with face valley of $186,000, $155,000, and $310,000, respectively. At the acquisition date of October 3, 2014, the junior subordinated debentures associated with North Valley Capital Trust II, III and IV were recorded on the Company s books at their fair values of $5,006,000, $3,918,000, and $6,063,000, respectively. The related fair value discounts to face value of these debentures will be amortized over the remaining time to maturity for each of these debentures using the effective interest method. Similar, and proportional, discounts were applied to the acquired common stock interest in North Valley Capital Trusts II, III and IV, and these discounts will be proportionally amortized over the remaining time to maturity for each related debenture.

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Note 17 Junior Subordinated Debt (continued)

TriCo Capital Trusts I and II, and North Valley Capital Trusts II, III and IV are collectively referred to as the Capital Trusts. The recorded book values of the junior subordinated debentures issued by the Capital Trusts are reflected as junior subordinated debt in the Company s consolidated balance sheets. The common stock issued by the Capital Trusts and owned by the Company is recorded in other assets in the Company s consolidated balance sheets. The recorded book value of the debentures issued by the Capital Trusts, less the recorded book value of the common stock of the Capital Trusts owned by the Company, continues to qualify as Tier 1 or Tier 2 capital under interim guidance issued by the Board of Governors of the Federal Reserve System.

The following table summarizes the terms and recorded balance of each subordinated debenture as of the date indicated (dollars in thousands):

Subordinated Debt Series	Maturity Date	Face Value	Coupon Rate (Variable) 3 mo. LIBOR +	As of June 30, 2015 Current Coupon Rate	Recorded Book Value
TriCo Cap Trust I	10/7/2033	$ 20,619	3.05%	3.33%	$ 20,619
TriCo Cap Trust II	7/23/2034	20,619	2.55%	2.83%	20,619
North Valley Trust II	4/24/2033	6,186	3.25%	3.53%	5,035
North Valley Trust III	4/24/2034	5,155	2.80%	3.08%	3,946
North Valley Trust IV	3/15/2036	10,310	1.33%	1.60%	6,150
		$ 62,889			$ 56,369

Note 18 - Commitments and Contingencies

Restricted Cash Balances Reserves (in the form of deposits with the San Francisco Federal Reserve Bank) of $66,145,000 and $57,616,000 were maintained to satisfy Federal regulatory requirements at June 30, 2015 and December 31, 2014. These reserves are included in cash and due from banks in the accompanying consolidated balance sheets.

Lease Commitments The Company leases 47 sites under non-cancelable operating leases. The leases contain various provisions for increases in rental rates, based either on changes in the published Consumer Price Index or a predetermined escalation schedule. Substantially all of the leases provide the Company with the option to extend the lease term one or more times following expiration of the initial term. The Company currently does not have any capital leases.

At December 31, 2014, future minimum commitments under non-cancelable operating leases with initial or remaining terms of one year or more are as follows:

	Operating Leases

		(in thousands)
2015	$	3,419
2016		2,510
2017		1,856
2018		1,323
2019		859
Thereafter		1,180
Future minimum lease payments	$	11,147

Rent expense under operating leases was $959,000 and $734,000 during the three months ended June 30, 2015 and 2014, respectively. Rent expense was offset by rent income of $48,000 and $54,000 during the three months ended June 30, 2015 and 2014, respectively. Rent expense under operating leases was $1,943,000 and $1,490,000 during the six months ended June 30, 2015 and 2014, respectively. Rent expense was offset by rent income of $104,000 and $109,000 during the six months ended June 30, 2015 and 2014, respectively.

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

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

Note 18 - Commitments and Contingencies (continued)

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

(in thousands)	June 30, 2015	December 31, 2014
Financial instruments whose amounts represent risk:		
Commitments to extend credit:		
Commercial loans	$ 185,842	$ 177,557
Consumer loans	393,218	392,705
Real estate mortgage loans	38,778	36,139
Real estate construction loans	38,295	49,774
Standby letters of credit	11,487	17,531
Deposit account overdraft privilege	$ 97,875	$ 101,060

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

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. Most standby letters of credit are issued for one year or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral requirements vary, but in general follow the requirements for other loan facilities.

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

Legal Proceedings The Bank owns 13,396 shares of Class B common stock of Visa Inc. which are convertible into Class A common stock at a conversion ratio of 1.648265 per Class B share. As of June 30, 2015, the value of the Class A shares was $67.15 per share. Utilizing the conversion ratio, the value of unredeemed Class A equivalent shares owned by the Bank was $1,483,000 as of June 30, 2015, and has not been reflected in the accompanying financial statements. The shares of Visa Class B common stock are restricted and may not be transferred. Visa Member Banks are required to fund an escrow account to cover settlements, resolution of pending litigation and related claims. If the funds in the escrow account are insufficient to settle all the covered litigation, Visa may sell additional Class A shares, use the proceeds to settle litigation, and further reduce the conversion ratio. If funds remain in the escrow account after all litigation is settled, the Class B conversion ratio will be increased to reflect that surplus.

On January 24, 2014, a putative shareholder class action lawsuit was filed against TriCo, North Valley Bancorp and certain other defendants in connection with TriCo entering into the merger agreement with North Valley Bancorp. The lawsuit, which was filed in the Shasta County, California Superior Court, alleges that the members of the North Valley Bancorp board of directors breached their fiduciary duties to North Valley Bancorp shareholders by approving the proposed merger for inadequate consideration; approving the transaction in order receive benefits not equally shared by other North Valley Bancorp shareholders; entering into the merger agreement containing preclusive deal protection devices; and failing to take steps to maximize the value to be paid to the North Valley Bancorp shareholders. The lawsuit alleges claims against TriCo for aiding and abetting these alleged breaches of fiduciary duties. The plaintiff seeks, among other things, declaratory and injunctive relief concerning the alleged breaches of fiduciary duties injunctive relief prohibiting consummation of the merger, rescission, attorneys of the merger agreement, fees and costs, and other and further relief. On July 31, 2014 the defendants entered into a memorandum of understanding with the plaintiffs regarding the settlement of this lawsuit. In connection with the settlement contemplated by the memorandum of understanding and in consideration for the full settlement and release of all claims, TriCo and North Valley Bancorp agreed to make certain additional disclosures related to the proposed merger, which are contained in a Current Report on Form 8-K filed by each of the companies. The memorandum of understanding contemplated that the parties would negotiate in good faith and use their reasonable best efforts to enter into a stipulation of settlement. The parties entered into a stipulation of settlement dated May 18, 2015 that is subject to customary conditions, including final court approval following notice to North Valley Bancorp s shareholders. In the stipulation of settlement, the plaintiff agreed that to seek no more than $375,000 in attorneys fees and costs. The court preliminarily approved the settlement by order dated June 22, 2015. The court will consider final approval of the settlement and the potential award of attorneys fees at a hearing that is scheduled for October 19, 2015. There can be no assurance that the court will approve the settlement. In such event, the proposed settlement as contemplated by the memorandum of understanding and stipulation of settlement may be terminated.

On September 15, 2014, a former Personal Banker at one of the Bank s in-store branches filed a Class Action Complaint against the Bank in Butte County Superior Court, alleging causes of action related to the observance of meal and rest periods and seeking to represent a class of current and former hourly-paid or non-exempt personal bankers, or employees with the same or similar job duties, employed by Defendants within the State of California during the preceding four years. On or about June 25, 2015, Plaintiff filed an Amended Complaint expanding the class definition to all current and formerly hourly-paid or non-exempt branch employees employed by Defendant s within the State of California at any time during the period from September 15, 2010 to final judgment. The Bank has not yet responded to the First Amended Complaint, but denies the charges, and the Bank intends to vigorously defend the lawsuit against class certification and liability.

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Note 18 - Commitments and Contingencies (continued)

On January 20, 2015, a current Personal Banker at one of the Bank s in-store branches filed a First Amended Complaint against Tri Counties Bank and TriCo Bancshares, dba Tri Counties Bank, in Sacramento County Superior Court, alleging causes of action related to wage statement violations. Plaintiff seeks to represent a class of current and former exempt and non-exempt employees who worked for the Bank during the time period beginning October 18, 2013 through the date of the filing of this action. The Company and the Bank have responded to the First Amended Complaint, deny the charges, and intend to vigorously defend the lawsuit against class certification and liability.

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

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 $5,713,000 and $4,100,000 during the six months ended June 30, 2015 and 2014 respectively. The Bank is regulated by the Federal Deposit Insurance Corporation (FDIC) and the State of California Department of Business Oversight. Absent approval from the Commissioner of the Department of Business Oversight, California banking laws generally limit the Bank s ability to pay dividends to the lesser of (1) retained earnings or (2) net income for the last three fiscal years, less cash distributions paid during such period. Under this law, at December 31, 2014, the Bank could pay dividends to the Company of up to $52,798,000.

Stock Repurchase Plan

On August 21, 2007, the Board of Directors adopted a plan to repurchase, as conditions warrant, up to 500,000 shares of the Company s common stock on the open market. The timing of purchases and the exact number of shares to be purchased will depend on market conditions. The 500,000 shares authorized for repurchase under this stock repurchase plan represented approximately 3.2% of the Company s 15,814,662 outstanding common shares as of August 21, 2007. This stock repurchase plan has no expiration date. As of March 31, 2015, the Company had repurchased 166,600 shares under this plan.

Stock Repurchased Under Equity Compensation Plans

During the six months ended June 30, 2015 and 2014, employees tendered 29,441 and 103,268 shares, respectively, of the Company s common stock with market value of $699,000, and $2,551,000, respectively, in lieu of cash to exercise options to purchase shares of the Company s stock and to pay income taxes related to such exercises as permitted by the Company s shareholder-approved equity compensation plans. The tendered shares were retired. The market value of tendered shares is the last market trade price at closing on the day an option is exercised. Stock repurchased under equity incentive plans are not included in the total of stock repurchased under the stock repurchase plan announced on August 21, 2007.

Note 20 - Stock Options and Other Equity-Based Incentive Instruments

In March 2009, the Company s Board of Directors adopted the TriCo Bancshares 2009 Equity Incentive Plan (2009 Plan) covering officers, employees, directors of, and consultants to, the Company. The 2009 Plan was approved by the Company s shareholders in May 2009. The 2009 Plan allows for the granting of the following types of stock awards (Awards): incentive stock options, nonstatutory stock options, performance awards, restricted stock, restricted stock unit (RSU) awards and stock appreciation rights. RSUs that vest based solely on the grantee remaining in the service of the Company for a certain amount of time, are referred to as service condition vesting RSUs . RSUs that vest based on the grantee remaining in the service of the Company for a certain amount of time and a market condition such as the total return of the Company s common stock versus the total return of an index of bank stocks, are referred to as market plus service condition vesting RSUs . In May 2013, the Company s shareholders approved an amendment to the 2009 Plan increasing the maximum aggregate number of shares of TriCo s common stock which may be issued pursuant to or subject to Awards from 650,000 to 1,650,000. The number of shares available for issuance under the 2009 Plan is reduced by: (i) one share for each share of common stock issued pursuant to a stock option or a Stock Appreciation Right and (ii) two shares for each share of common stock issued pursuant to a Performance Award, a Restricted Stock Award or a Restricted Stock Unit Award. When Awards made under the 2009 Plan expire or are forfeited or cancelled, the underlying shares will become available for future Awards under the 2009 Plan. To the extent that a 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, 2015, 694,000 options for the purchase of common shares, and 92,802 restricted stock units were outstanding, and 729,397 shares remain available for issuance, under the 2009 Plan.

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Note 20 - Stock Options and Other Equity-Based Incentive Instruments (continued)

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, 2015, 344,850 options for the purchase of common shares were outstanding under the 2001 Plan. As of May 2009, as a result of the shareholder approval of the 2009 Plan, no new options will be granted under the 2001 Plan.

Stock option activity during the six months ended June 30, 2015 is summarized in the following table:

	Number of Shares	Option Price per Share			Weighted Average Exercise Price	Weighted Average Fair Value on Date of Grant
Outstanding at December 31, 2014	1,102,850	$ 12.63	to	$ 25.91	$ 18.25	
Options granted			to			
Options exercised	(64,000)	$ 15.34	to	$ 20.58	$ 19.32	
Options forfeited			to			
Outstanding at June 30, 2015	1,038,850	$ 12.63	to	$ 25.91	$ 18.19	

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, 2015:

	Currently Exercisable	Currently Not Exercisable	Total Outstanding
Number of options	755,850	283,000	1,038,850
Weighted average exercise price	$ 18.56	$ 17.20	$ 18.19
Intrinsic value (in thousands)	$ 4,219	$ 1,939	$ 6,158
Weighted average remaining contractual term (yrs.)	4.3	7.1	5.0

The 283,000 options that are currently not exercisable as of June 30, 2015 are expected to vest, on a weighted-average basis, over the next 2.1 years, and the Company is expected to recognize $1,380,000 of pre-tax compensation costs related to these options as they vest. The Company did not modify any option grants during 2014 or the six months ended June 30, 2015.

Restricted stock unit (RSU) activity is summarized in the following table for the dates indicated:

	Service Condition Vesting RSUs		Market Plus Service Condition Vesting RSUs	
	Number of RSUs	Weighted Average Fair Value on Date of Grant	Number of RSUs	Weighted Average Fair Value on Date of Grant
Outstanding at December 31, 2014	30,920		15,366	
RSUs granted	30,348	$ 23.45	18,348	$ 21.01
RSUs added through dividend credits	459			
RSUs released				
RSUs forfeited/expired	(2,639)			
Outstanding at June 30, 2015	59,088		33,714	

The 59,088 of service condition vesting RSUs outstanding as of June 30, 2015 include a feature whereby each RSU outstanding is credited with a dividend amount equal to any common stock cash dividend declared and paid, and the credited amount is divided by the closing price of the Company s stock on the dividend payable date to arrive at an additional amount of RSUs outstanding under the original grant. The 59,088 of service condition vesting RSUs outstanding as of June 30, 2015 are expected to vest, and be released, on a weighted-average basis, over the next 2.7 years. The Company is expected to recognize $1,017,000 of pre-tax compensation costs related to these service condition vesting RSUs between June 30, 2015 and their vesting dates. During the six months ended June 30, 2015, the Company did not modify any service condition vesting RSUs. During the three months ended December 31, 2014, the Company modified 13,749 service condition vesting RSUs that were granted on August 11, 2014 such that their vesting schedule was changed from 100% vesting on August 11, 2018 to 25% vesting on each of August 11, 2015, 2016, 2017 and 2018. During the nine months ended September 30, 2014, the Company did not modify any service condition vesting RSUs.

The 33,714 of market plus service condition vesting RSUs that are currently outstanding as of June 30, 2015 are expected to vest, and be released, on a weighted-average basis, over the next 2.8 years. The Company is expected to recognize $595,000 of pre-tax compensation costs related to these RSUs between June 30, 2015 and their vesting dates. As of June 30, 2015, the number of market plus service condition vesting RSUs outstanding that will actually vest, and be released, may be reduced to zero or increased to 50,571 depending on the total return of the Company s common stock versus the total return of an index of bank stocks from the grant date to the vesting date. The Company did not modify any market plus service condition vesting RSUs during the six months ended June 30, 2015 or during the year ended December 31, 2014.

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Note 21 Noninterest Income and Expense

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

	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Service charges on deposit accounts	$ 3,637	$ 2,724	$ 7,237	$ 5,414
ATM and interchange fees	3,383	2,192	6,385	4,205
Other service fees	779	533	1,493	1,053
Mortgage banking service fees	528	421	1,062	841
Change in value of mortgage servicing rights	521	(351)	15	(532)
Total service charges and fees	8,848	5,519	16,192	10,981
Gain on sale of loans	837	514	1,459	978
Commissions on sale of non-deposit investment products	784	843	1,749	1,614
Increase in cash value of life insurance	675	400	1,350	797
Change in indemnification asset	(57)	(93)	(122)	(505)
Gain (loss) on sale of foreclosed assets	115	241	426	1,468
Sale of customer checks	121	98	249	199
Lease brokerage income	245	111	382	218
Gain (loss) on disposal of fixed assets	1	71	(83)	70
Other	511	173	658	352
Total other noninterest income	3,232	2,358	6,068	5,191
Total noninterest income	$ 12,080	$ 7,877	$ 22,260	$ 16,172
Mortgage loan servicing fees, net of change in fair value of mortgage loan servicing rights	$ 1,049	$ 70	$ 1,077	$ 309

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

	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Base salaries, net of deferred loan origination costs	$ 11,502	$ 9,008	$ 23,246	$ 17,874
Incentive compensation	1,390	1,205	2,986	2,328
Benefits and other compensation costs	4,350	3,104	9,110	6,418
Total salaries and benefits expense	17,242	13,317	35,342	26,620
Occupancy	2,541	1,802	4,958	3,764
Equipment	1,527	1,060	2,941	2,096
Data processing and software	1,834	1,350	3,786	2,528
ATM network charges	985	710	1,755	1,353

Telecommunications	785	713	1,671	1,293
Postage	330	221	642	448
Courier service	253	224	501	458
Advertising	1,002	341	1,810	683
Assessments	694	481	1,345	1,002
Operational losses	149	150	273	327
Professional fees	1,035	1,275	2,154	1,889
Foreclosed assets expense	102	151	200	309
Provision for foreclosed asset losses	174	4	241	40
Change in reserve for unfunded commitments	110	(185)	(20)	(370)
Intangible amortization	289	52	578	104
Merger expense		418	586	643
Other	3,384	3,032	5,955	5,246
Total other noninterest expense	15,194	11,799	29,376	21,813
Total noninterest expense	$ 32,436	$ 25,116	$ 64,718	$ 48,433
Merger expense:				
Data processing and software			$ 108	
Professional fees		$ 243	120	$ 468
Other		175	358	175
Total merger expense		$ 418	$ 586	$ 643

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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,	
	2015	2014	2015	2014
Federal statutory income tax rate	35.0%	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefit	6.7	7.1	6.8	7.0
Tax-exempt interest on municipal obligations	(0.6)	(0.5)	(0.5)	(0.4)
Increase in cash value of insurance policies	(1.3)	(1.7)	(1.4)	(1.3)
Nondeductible merger expenses		1.2		0.6
Other	(0.3)	1.0	0.1	0.3
Effective Tax Rate	39.5%	42.1%	40.0%	41.2%

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)	2015	2014	2015	2014
Net income	$ 11,366	$ 4,859	$ 19,702	$ 12,224
Average number of common shares outstanding	22,745	16,129	22,736	16,113
Effect of dilutive stock options	235	181	229	203
Average number of common shares outstanding used to calculate diluted earnings per share	22,980	16,310	22,965	16,316
Options excluded from diluted earnings per share because the effect of these options was antidilutive	23	101	23	101
Restricted stock excluded from diluted earnings per share because the effect of these restricted stock was antidilutive		n/a		n/a

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 accumulated other comprehensive income, included in shareholders equity, are as follows:

	June 30, 2015	December 31, 2014
	(in thousands)	
Net unrealized (losses) gains on available for sale securities	$ (697)	$ 4,040
Tax effect	293	(1,699)
Unrealized holding gains on available for sale securities, net of tax	(404)	2,341
Unfunded status of the supplemental retirement plans	(7,501)	(7,885)
Tax effect	3,153	3,315
Unfunded status of the supplemental retirement plans, net of tax	(4,348)	(4,570)
Joint beneficiary agreement liability	26	26
Tax effect		
Joint beneficiary agreement liability, net of tax	26	26
Accumulated other comprehensive loss	$ (4,726)	$ (2,203)

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Note 24 Comprehensive Income (continued)

The components of other comprehensive income and related tax effects are as follows:

(in thousands)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Unrealized holding (losses) gains on available for sale securities before reclassifications	$ (4,752)	$ 658	$ (4,737)	$ 553
Amounts reclassified out of accumulated other comprehensive income				
Unrealized holding (losses) gains on available for sale securities after reclassifications	(4,752)	658	(4,737)	553
Tax effect	1,998	(277)	1,992	(232)
Unrealized holding (losses) gains on available for sale securities, net of tax	(2,754)	381	(2,745)	321
Change in unfunded status of the supplemental retirement plans before reclassifications				
Amounts reclassified out of accumulated other comprehensive income:				
Amortization of prior service cost	(14)	5	(28)	10
Amortization of actuarial losses	206	4	412	8
Total amounts reclassified out of accumulated other comprehensive income	192	9	384	18
Change in unfunded status of the supplemental retirement plans after reclassifications	192	9	384	18
Tax effect	(81)	(4)	(162)	(8)
Change in unfunded status of the supplemental retirement plans, net of tax	111	5	222	10
Change in joint beneficiary agreement liability before reclassifications				
Amounts reclassified out of accumulated other comprehensive income				
Change in joint beneficiary agreement liability after reclassifications				
Tax effect				
Change in joint beneficiary agreement liability, net of tax				
Total other comprehensive income (loss)	$ (2,643)	$ 386	$ (2,523)	$ 331

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Note 25 - Retirement Plans

401(k) Plan

The Company sponsors a 401(k) Plan whereby substantially all employees age 21 and over with 90 days of service may participate. Participants may contribute a portion of their compensation subject to certain limits based on federal tax laws. Prior to July 1, 2015, the Company did not contribute to the 401(k) Plan. Effective July 1, 2015, the Company initiated a discretionary matching contribution equal to 50% of participant s elective deferrals each quarter, up to 4% of eligible compensation. The Company did not incur any material expenses attributable to the 401(k) Plan during 2014 or the six months ended June 30, 2015.

Employee Stock Ownership Plan

Substantially all employees with at least one year of service are covered by a discretionary employee stock ownership plan (ESOP). Contributions are made to the plan at the discretion of the Board of Directors. Contributions to the plan totaling $1,138,000 and $366,000 during the three months ended June 30, 2015 and 2014, respectively, are included in salary expense. Contributions to the plan totaling $1,506,000 and $561,000 during the six months ended June 30, 2015 and 2014, respectively, are included in salary expense. Company shares owned by the ESOP are paid dividends and included in the calculation of earnings per share exactly as other common shares outstanding.

Deferred Compensation Plans

The Company has deferred compensation plans for certain directors and key executives, which allow certain directors and key executives designated by the Board of Directors of the Company to defer a portion of their compensation. The Company has purchased insurance on the lives of the participants and intends to hold these policies until death as a cost recovery of the Company s deferred compensation obligations of $7,259,000 and $7,408,000 at June 30, 2015 and December 31, 2014, respectively. Earnings credits on deferred balances totaling $137,000 and $138,000 during the three months ended June 30, 2015 and 2014, respectively, are included in noninterest expense. Earnings credits on deferred balances totaling $286,000 and $290,000 during the six months ended June 30, 2015 and 2014, respectively, are included in noninterest expense.

Supplemental 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,		Six months ended June 30,	
	2015	2014	2015	2014
Net pension cost included the following components:				
Service cost-benefits earned during the period	$ 256	$ 163	$ 512	$ 326
Interest cost on projected benefit obligation	239	174	478	348
Amortization of net obligation at transition		1		1
Amortization of prior service cost	(14)	34	(28)	69

Recognized net actuarial loss	206	4	412	8
Net periodic pension cost	$ 687	$ 376	$ 1,374	$ 752
Company contributions to pension plans	$ 455	$ 376	$ 661	$ 752
Pension plan payouts to participants	$ 455	$ 376	$ 661	$ 752

For the year ending December 31, 2015, the Company expects to contribute and pay out as benefits $1,214,000 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.

The following table summarizes the activity in these loans for 2015 and 2014 (in thousands):

Balance December 31, 2013	$ 2,636
Advances/new loans	2,106
Removed/payments	(1,610)
Balance December 31, 2014	$ 3,132
Advances/new loans	745
Removed/payments	(582)
Balance June 30, 2015	$ 3,295

Director Chrysler is a principal owner and CEO of Modern Building Inc. Modern Building Inc. provided construction services to the Company related to new and existing Bank facilities for aggregate payments of $216,000 during the six months ended June 30, 2015 and $1,181,000 during the year ended December 31, 2014.

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Note 27 - Fair Value Measurement

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

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

Level 1 - Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 - Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 - Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Securities available for sale - Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security s credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. The Company had no securities classified as Level 3 during any of the periods covered in these financial statements.

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

Impaired originated and PNCI loans   Originated and PNCI loans are not recorded at fair value on a recurring basis. However, from time to time, an originated or PNCI loan is considered impaired and an allowance for loan losses is established. Originated and PNCI loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. The fair value of an impaired originated or PNCI loan is estimated using one of several methods, including collateral value, fair value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired originated and PNCI loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. Impaired originated and PNCI loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value which uses substantially observable data, the Company records the impaired originated or PNCI loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value, or the appraised value contains a significant unobservable assumption, such as deviations from comparable sales, and there is no observable market price, the Company records the impaired originated or PNCI loan as nonrecurring Level 3.

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

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

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Note 27 - Fair Value Measurement (continued)

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, 2015	Total	Level 1	Level 2	Level 3
Securities available for sale:				
Obligations of U.S. government corporations and agencies	$ 240,552		$ 240,552	
Obligations of states and political subdivisions	38,987		38,987	
Corporate debt securities	1,900		1,900	
Marketable equity services	2,991	$ 2,991		
Mortgage servicing rights	7,814			$ 7,814
Total assets measured at fair value	$ 292,244	$ 2,991	$ 281,439	$ 7,814

Fair value at December 31, 2014	Total	Level 1	Level 2	Level 3
Securities available for sale:				
Obligations of U.S. government corporations and agencies	$ 75,120		$ 75,120	
Obligations of states and political subdivisions	3,175		3,175	
Corporate debt securities	1,908		1,908	
Marketable equity securities	3,002	$ 3,002		
Mortgage servicing rights	7,378			$ 7,378
Total assets measured at fair value	$ 90,583	$ 3,002	$ 80,203	$ 7,378

Transfers between levels of the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer, which generally corresponds with the Company s quarterly valuation process. There were no transfers between any levels during the three months ended June 30, 2015 or the year ended December 31, 2014.

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 time periods indicated. Had there been any transfer into or out of Level 3 during the time periods indicated, the amount included in the Transfers into (out of) Level 3 column would represent the beginning balance of an item in the period (interim quarter) during which it was transferred (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Mortgage servicing rights:				
Balance at beginning of period	$ 7,057	$ 6,107	$ 7,378	$ 6,165

Issuances	235	153	421	276
Change included in earnings	522	(351)	15	(532)
Balance at end of period	$ 7,814	$ 5,909	$ 7,814	$ 5,909

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

The following table presents quantitative information about recurring Level 3 fair value measurements at June 30, 2015:

	Fair Value (in thousands)	Valuation Technique	Unobservable Inputs	Range, Weighted Average
Mortgage Servicing Rights	$ 7,814	Discounted cash flow	Constant prepayment rate	6.3%-22.7%, 9.5%
			Discount rate	10.0%-12.0%, 10.0%

The following table presents quantitative information about recurring Level 3 fair value measurements at December 31, 2014:

	Fair Value (in thousands)	Valuation Technique	Unobservable Inputs	Range, Weighted Average
Mortgage Servicing Rights	$ 7,378	Discounted cash flow	Constant prepayment rate	5.7%-23.4%, 12.0%
			Discount rate	10.0%-12.0%, 10.0%

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Note 27 - Fair Value Measurement (continued)

The table below presents the recorded amount of certain assets measured at fair value on a nonrecurring basis, as of the dates indicated. For these purposes, an asset is deemed to be measured at fair value if it had a write-down or an additional allowance provided during the periods indicated, and the recorded value of the asset at the end of the period is equal to the net value of the underlying collateral (in thousands):

Six months ended June 30, 2015	Total	Level 1	Level 2	Level 3	Total Gains/(Losses)
Fair value:					
Impaired Originated & PNCI loans	$ 3,377			$ 3,377	$ 151
Foreclosed assets	3,190			3,190	(239)
Total assets measured at fair value	$ 6,567			$ 6,567	$ (88)

Year ended December 31, 2014	Total	Level 1	Level 2	Level 3	Total (Losses)
Fair value:					
Impaired Originated & PNCI loans	$ 2,480			$ 2,480	$ (636)
Foreclosed assets	2,611			2,611	(137)
Total assets measured at fair value	$ 5,091			$ 5,091	$ (773)

Six months ended June 30, 2014	Total	Level 1	Level 2	Level 3	Total (Losses)
Fair value:					
Impaired Originated & PNCI loans	$ 3,842			$ 3,842	$ (509)
Foreclosed assets	566			566	(16)
Total assets measured at fair value	$ 4,408			$ 4,408	$ (525)

The table below presents the gains and losses from nonrecurring fair value adjustments that occurred in the periods indicated (in thousands):

	Three months ended June 30,	
(Gains)/losses from nonrecurring fair value adjustments:	2015	2014
Impaired Originated & PNCI loans	$ (22)	$ 298

Foreclosed assets		206		4
Total losses from nonrecurring fair value adjustments	$	184	$	302

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

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

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

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Note 27 - Fair Value Measurement (continued)

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a nonrecurring basis at June 30, 2015:

	Fair Value (in thousands)	Valuation Technique	Unobservable Inputs	Range, Weighted Average
Impaired Originated & PNCI loans	$ 3,377	Sales comparison approach	Adjustment for differences between comparable sales	(5.0)%-(42.0)%, (9.0)%
		Income approach	Capitalization rate	8.0%-9.1%, 8.1%
Foreclosed assets	$ 3,190	Sales comparison approach	Adjustment for differences between comparable sales	(0.0)%-(30.1)%, (3.7)%

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a nonrecurring basis at December 31, 2014:

	Fair Value (in thousands)	Valuation Technique	Unobservable Inputs	Range, Weighted Average
Impaired Originated & PNCI loans	$ 2,480	Sales comparison approach	Adjustment for differences between comparable sales	(5.0)%-(42.5)%, (10.1)%
		Income approach	Capitalization rate	9.09%-9.09 %, 9.09%
Foreclosed assets	$ 2,611	Sales comparison approach	Adjustment for differences between comparable sales	(5.0)%-(29.4)%, (8.2)%

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

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

Securities held to maturity The fair value of securities held to maturity 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. The Company had no securities held to maturity classified as Level 3 during any of the periods covered in these financial statements.

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

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

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

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.

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Note 27 - Fair Value Measurement (continued)

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

	June 30, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Level 1 inputs:				
Cash and due from banks	$ 92,234	$ 92,234	$ 93,150	$ 93,150
Cash at Federal Reserve and other banks	77,269	77,269	517,578	517,578
Level 2 inputs:				
Securities held to maturity	776,283	778,697	676,426	688,779
Restricted equity securities	16,956	N/A	16,956	N/A
Loans held for sale	4,630	4,630	3,579	3,579
Level 3 inputs:				
Loans, net	2,358,308	2,439,466	2,245,938	2,342,570
Indemnification (liability) asset	(466)	(466)	(349)	(349)
Financial liabilities:				
Level 2 inputs:				
Deposits	3,341,682	3,341,380	3,380,423	3,380,486
Other borrowings	6,735	6,735	9,276	9,276
Level 3 inputs:				
Junior subordinated debt	56,369	42,063	56,272	45,053
	Contract Amount	Fair Value	Contract Amount	Fair Value
Off-balance sheet:				

Level 3 inputs:								
Commitments	$	656,133	$	6,561	$	656,175	$	6,562
Standby letters of credit		11,487		115		17,531		175
Overdraft privilege commitments		97,875		979		101,060		1,011

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Note 28 - TriCo Bancshares Condensed Financial Statements (Parent Only)

Condensed Balance Sheets	June 30, 2015	December 31, 2014
	(In thousands)	
Assets		
Cash and Cash equivalents	$ 2,437	$ 2,229
Investment in Tri Counties Bank	483,796	470,797
Other assets	1,760	1,902
Total assets	$ 487,993	$ 474,928
Liabilities and shareholders equity		
Other liabilities	$ 480	$ 484
Junior subordinated debt	56,369	56,272
Total liabilities	56,849	56,756
Shareholders equity:		
Common stock, no par value: authorized 50,000,000 shares; issued and outstanding 22,749,523 and 22,714,964 shares, respectively	245,965	244,318
Retained earnings	189,905	176,057
Accumulated other comprehensive loss, net	(4,726)	(2,203)
Total shareholders equity	431,144	418,172
Total liabilities and shareholders equity	$ 487,993	$ 474,928

Condensed Statements of Income	Three months ended June 30,		Six months ended June 30,	
(In thousands)	2015	2014	2015	2014
Interest expense	$ (491)	$ (306)	$ (973)	$ (610)
Administration expense	(263)	(466)	(416)	(790)
Loss before equity in net income of Tri Counties Bank	(754)	(772)	(1,389)	(1,400)
Equity in net income of Tri Counties Bank:				
Distributed	3,593	2,050	5,713	4,100
(Over) under distributed	8,210	3,400	14,794	9,079
Income tax benefit	317	181	584	445
Net income	$ 11,366	$ 4,859	$ 19,702	$ 12,224

Condensed Statements of Comprehensive Income	Three months ended June 30,	Six months ended June 30,

(In thousands)	2015	2014	2015	2014
Net income	$ 11,366	$ 4,859	$ 19,702	$ 12,224
Other comprehensive income (loss), net of tax:				
Unrealized holding gains (losses) on available for sale securities arising during the period	(2,754)	381	(2,745)	321
Change in minimum pension liability	111	5	222	10
Other comprehensive income (loss)	(2,643)	386	(2,523)	331
Comprehensive income	$ 8,723	$ 5,245	$ 17,179	$ 12,555

Condensed Statements of Cash Flows	Six months ended June 30,	
(In thousands)	2015	2014
Operating activities:		
Net income	$ 19,702	$ 12,224
Adjustments to reconcile net income to net cash provided by operating activities:		
Over (under) distributed equity in earnings of Tri Counties Bank	(14,794)	(9,079)
Stock option vesting expense	698	534
Stock option excess tax benefits	(30)	(220)
Net change in other assets and liabilities	(463)	(474)
Net cash provided by operating activities	5,113	2,985
Investing activities: None		
Financing activities:		
Issuance of common stock through option exercise	30	220
Stock option excess tax benefits	569	527
Repurchase of common stock	(31)	(292)
Cash dividends paid common	(5,473)	(3,547)
Net cash used for financing activities	(4,905)	(3,092)
(Decrease) increase in cash and cash equivalents	208	(107)
Cash and cash equivalents at beginning of year	2,229	2,520
Cash and cash equivalents at end of year	$ 2,437	$ 2,413

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Note 29 - Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total, Tier 1, and common equity Tier 1capital to risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of June 30, 2015, that the Company meets all capital adequacy requirements to which it is subject.

The following table presents actual and required capital ratios as of June 30, 2015 for the Company and the Bank under Basel III Capital Rules. The minimum capital amounts presented include the minimum required capital levels as of June 30, 2015 based on the phased-in provisions of the Basel III Capital Rules and the minimum required capital levels as of January 1, 2019 when the Basel III Capital Rules have been fully phased-in. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

	Actual		Minimum Capital Required Basel III Phase-in Schedule		Minimum Capital Required Basel III Fully Phased In		Required to be Considered Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(dollars in thousands)							
As of June 30, 2015:								
Total Capital (to Risk Weighted Assets):								
Consolidated	$ 454,345	15.16%	$ 239,794	8.00%	$ 314,729	10.50%	$ 299,742	10.00%
Tri Counties Bank	$ 452,301	15.10%	$ 239,651	8.00%	$ 314,542	10.50%	$ 299,564	10.00%
Tier 1 Capital (to Risk Weighted Assets):								
Consolidated	$ 416,876	13.91%	$ 179,845	6.00%	$ 254,781	8.50%	$ 239,794	8.00%
Tri Counties Bank	$ 414,854	13.85%	$ 179,739	6.00%	$ 254,630	8.50%	$ 239,651	8.00%
Common equity Tier 1 Capital (to Risk Weighted Assets):								
Consolidated	$ 362,200	12.08%	$ 134,884	4.50%	$ 209,820	7.00%	$ 194,832	6.50%
Tri Counties Bank	$ 414,854	13.85%	$ 134,804	4.50%	$ 209,695	7.00%	$ 194,717	6.50%
Tier 1 Capital (to Average Assets):								
Consolidated	$ 416,876	10.91%	$ 152,821	4.00%	$ 152,821	4.00%	$ 190,026	5.00%
Tri Counties Bank	$ 414,854	10.86%	$ 152,747	4.00%	$ 152,747	4.00%	$ 190,934	5.00%

The following table presents actual and required capital ratios as of December 31, 2104 for the Company and the Bank under the regulatory capital rules then in effect.

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)			
As of December 31, 2014:						
Total Capital (to Risk Weighted Assets):						
Consolidated	$ 436,955	15.63%	$ 223,603	8.0%	N/A	N/A
Tri Counties Bank	$ 433,286	15.51%	$ 223,449	8.0%	$ 279,311	10.0%
Tier 1 Capital (to Risk Weighted Assets):						
Consolidated	$ 401,971	14.38%	$ 111,801	4.0%	N/A	N/A
Tri Counties Bank	$ 398,325	14.26%	$ 111,724	4.0%	$ 167,587	6.0%
Tier 1 Capital (to Average Assets):						
Consolidated	$ 401,971	10.80%	$ 148,819	4.0%	N/A	N/A
Tri Counties Bank	$ 398,325	10.71%	$ 148,734	4.0%	$ 185,918	5.0%

As of June 30, 2015, capital levels at the Company and the Bank exceed all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis. Based on the ratios presented above, capital levels as June 30, 2015 at the Company and the Bank exceed the minimum levels necessary to be considered well capitalized .

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Note 30 - Summary of Quarterly Results of Operations (unaudited)

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

	2015 Quarters Ended			
	December 31,	September 30,	June 30,	March 31,
	(dollars in thousands, except per share data)			
Interest and dividend income:				
Loans:				
Discount accretion PCI cash basis			$ 404	$ 172
Discount accretion PCI other			907	1,274
Discount accretion PNCI			822	1,348
All other loan interest income			29,886	28,371
Total loan interest income			32,019	31,165
Debt securities, dividends and interest bearing cash at Banks (not FTE)			7,848	6,560
Total interest income			39,867	37,725
Interest expense			1,346	1,382
Net interest income			38,521	36,343
(Benefit from) provision for loan losses			(633)	197
Net interest income after provision for loan losses			39,154	36,146
Noninterest income			12,080	10,180
Noninterest expense			32,436	32,282
Income before income taxes			18,798	14,044
Income tax expense			7,432	5,708
Net income			$ 11,366	$ 8,336
Per common share:				
Net income (diluted)			$ 0.49	$ 0.36
Dividends			$ 0.13	$ 0.11

	2014 Quarters Ended			
	December 31,	September 30,	June 30,	March 31,
	(dollars in thousands, except per share data)			
Interest and dividend income:				

Loans:				
Discount accretion PCI cash basis	$ 107	$ 290	$ 69	$ 203
Discount accretion PCI other	919	822	811	984
Discount accretion PNCI	796	402	624	379
All other loan interest income	28,914	23,466	22,929	22,172
Total loan interest income	30,736	24,980	24,433	23,738
Debt securities, dividends and interest bearing cash at Banks (not FTE)	5,671	4,151	3,985	3,421
Total interest income	36,407	29,131	28,418	27,159
Interest expense	1,437	1,082	1,075	1,087
Net interest income	34,970	28,049	27,343	26,072
(Benefit from) provision for loan losses	(1,421)	(2,977)	1,708	(1,355)
Net interest income after provision for loan losses	36,391	31,026	25,635	27,427
Noninterest income	9,755	8,589	7,877	8,295
Noninterest expense	36,566	25,380	25,116	23,317
Income before income taxes	9,580	14,235	8,396	12,405
Income tax expense	3,930	6,001	3,537	5,040
Net income	$ 5,650	$ 8,234	$ 4,859	$ 7,365
Per common share:				
Net income (diluted)	$ 0.25	$ 0.50	$ 0.30	$ 0.45
Dividends	$ 0.11	$ 0.11	$ 0.11	$ 0.11

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

General

TriCo Bancshares (referred to in this report as we , TriCo or the Company) conducts no material business operations independent of Tri Counties Bank (the Bank), and, therefore, 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, 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, and the presentation of these measures on a FTE basis is a common practice within the banking industry. Interest income and net interest income are shown on a non-FTE basis in the Part I Financial Information section of this Form 10-Q, and a reconciliation of the FTE and non-FTE presentations is provided below in the discussion of net interest income.

Critical Accounting Policies and Estimates

There have been no changes to the Company s critical accounting policies during the six months ended June 30, 2015.

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

On October 3, 2014, TriCo completed the acquisition of North Valley Bancorp. As part of the acquisition, North Valley Bank, a wholly-owned subsidiary of North Valley Bancorp, merged with and into Tri Counties Bank. In the acquisition, each share of North Valley common stock was converted into the right to receive 0.9433 shares of TriCo common stock. TriCo issued an aggregate of approximately 6.58 million shares of TriCo common stock to North Valley Bancorp shareholders, which was valued at a total of approximately $151 million based on the closing trading price of TriCo common stock on October 3, 2014 of $21.73. TriCo also assumed North Valley Bancorp s obligations with respect to its outstanding trust preferred securities. Beginning on October 4, 2014, the effect of revenue and expenses from the operations of North Valley Bancorp, and the TriCo Bancshares common shares issued in consideration of the merger are included in the results of the Company.

North Valley Bank was a full-service commercial bank headquartered in Redding, California. North Valley conducted a commercial and retail banking services which included accepting demand, savings, and money market rate deposit accounts and time deposits, and making commercial, real estate and consumer loans. North Valley Bank had $935 million in assets and 22 commercial banking offices in Shasta, Humboldt, Del Norte, Mendocino, Yolo, Sonoma, Placer and Trinity Counties in Northern California at June 30, 2014.

On October 25, 2014, North Valley Bank s electronic customer service and other data processing systems were converted onto Tri Counties Bank s systems. Between January 7, 2015 and January 21, 2015, four Tri Counties Bank branches and four former North Valley Bank branches were consolidated into other Tri Counties Bank or other former North Valley Bank branches. See Note 2 in Item 1 of Part I of this report for a discussion about this transaction.

On September 23, 2011, the California Department of Financial Institutions closed Citizens Bank of Northern California (Citizens), Nevada City, California and appointed the FDIC as receiver. That same date, the Bank assumed the banking operations of Citizens from the FDIC under a whole bank purchase and assumption agreement without loss sharing.

On May 28, 2010, the Office of the Comptroller of the Currency closed Granite Community Bank, N.A. (Granite), Granite Bay, California and appointed the FDIC as receiver. That same date, the Bank assumed the banking operations of Granite from the FDIC under a whole bank purchase and assumption agreement with loss sharing. Under the terms of the loss sharing agreement, the FDIC will cover a substantial portion of any future losses on loans, related unfunded loan commitments, other real estate owned (OREO)/foreclosed assets and accrued interest on loans for up to 90 days. The FDIC will absorb 80% of losses and share in 80% of loss recoveries on the covered assets acquired from Granite. The loss sharing arrangements for non-single family residential and single family residential loans are in effect for 5 years and 10 years, respectively, and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition date.

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

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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.

TRICO BANCSHARES

Financial Summary

(In thousands, except per share amounts; unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Net Interest Income (FTE)	$ 38,715	$ 27,413	$ 75,155	$ 53,567
Benefit from (provision for) loan losses	633	(1,708)	436	(353)
Noninterest income	12,080	7,877	22,260	16,172
Noninterest expense	(32,436)	(25,116)	(64,718)	(48,433)
Provision for income taxes (FTE)	(7,626)	(3,607)	(13,431)	(8,729)
Net income	$ 11,366	$ 4,859	$ 19,702	$ 12,224
Earnings per share:				
Basic	$ 0.50	$ 0.30	$ 0.87	$ 0.76
Diluted	$ 0.49	$ 0.30	$ 0.86	$ 0.75
Per share:				
Dividends paid	$ 0.13	$ 0.11	$ 0.24	$ 0.22
Book value at period end	$ 18.95	$ 16.17		
Average common shares outstanding	22,745	16,129	22,736	16,113
Average diluted common shares outstanding	22,980	16,310	22,965	16,316
Shares outstanding at period end	22,750	16,133		
At period end:				
Loans, net	$ 2,358,307	$ 1,698,618		
Total assets	$ 3,893,855	$ 2,724,481		
Total deposits	$ 3,341,682	$ 2,385,196		
Other borrowings	$ 6,735	$ 6,075		
Junior subordinated debt	$ 56,369	$ 41,238		
Shareholders equity	$ 431,144	$ 260,943		
Financial Ratios:				
During the period (annualized):				
Return on assets	1.17%	0.71%	1.01%	0.89%
Return on equity	10.56%	7.45%	9.21%	9.48%
Net interest margin[1]	4.35%	4.28%	4.22%	4.19%
Efficiency ratio[1]	63.9%	71.7%	66.4%	69.5%

Average equity to average assets	11.06%	9.53%	10.98%	9.42%
At period end:				
Equity to assets	11.07%	9.58%		
Total capital to risk-adjusted assets	15.16%	14.64%		

1 Fully taxable equivalent (FTE)

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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 FTE net income for the periods indicated (dollars in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Net Interest Income (FTE)	$ 38,715	$ 27,413	$ 75,155	$ 53,567
Benefit from (provision for) loan losses	633	(1,708)	436	(353)
Noninterest income	12,080	7,877	22,260	16,172
Noninterest expense	(32,436)	(25,116)	(64,718)	(48,433)
Provision for income taxes (FTE)	(7,626)	(3,607)	(13,431)	(8,729)
Net income	$ 11,366	$ 4,859	$ 19,702	$ 12,224

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,	
	2015	2014	2015	2014
Interest income	$ 39,867	$ 28,418	$ 77,592	$ 55,577
Interest expense	(1,346)	(1,075)	(2,728)	(2,162)
FTE adjustment	194	70	291	152
Net interest income (FTE)	$ 38,715	$ 27,413	$ 75,155	$ 53,567
Net interest margin (FTE)	4.35%	4.28%	4.22%	4.19%
Purchased loan discount accretion	$ 2,133	$ 1,566	$ 4,664	$ 3,070
Effect of purchased loan discount accretion on net interest margin (FTE)	0.24%	0.25%	0.26%	0.24%

Net interest income (FTE) during the three months ended June 30, 2015 increased $11,302,000 (41.2%) from the same period in 2014 to $38,715,000. The increase in net interest income (FTE) was due primarily to a $641,803,000

(37.4%) increase in the average balance of loans to $2,355,864,000, and a $569,136,000 (115%) increase in the average balance of investments to $1,064,142,000 that were partially offset by a 26 basis point decrease in the average yield on loans from 5.70% during the three months ended June 30, 2014 to 5.44% during the three months ended June 30, 2015, and an eight basis point decrease in the average yield on investments from 3.06% during the three months ended June 30, 2014 to 2.97% during the three months ended June 30, 2015. The $641,803,000 increase in average loan balances from the year ago quarter was primarily due to the addition of $499,327,000 of loans through the acquisition of North Valley Bancorp on October 4, 2014, and moderate to strong loan demand during the quarter and six months ended June 30, 2015. The $569,136,000 increase in average investment balances from the year-ago quarter was primarily due to the use of cash at the Federal Reserve and other banks to purchase investments and the addition of $212,616,000 of investments through the acquisition of North Valley Bancorp on October 4, 2014. The decrease in average loan yields is due primarily to declines in market yields on new and renewed loans compared to yields on repricing, maturing, and paid off loans. The decrease in average investment yields is due primarily to declines in market yields on new investments compared to yields on existing investments. The increases in average loan and investment balances added $9,146,000 and $4,381,000, respectively, to net interest income (FTE) while the decreases in average loan and investment yields reduced net interest income (FTE) by $1,560,000 and $264,000, respectively, when compared to the year-ago quarter. Included in interest income during the three months ended June 30, 2015 was a special cash dividend of $626,000 from the Company s investment in Federal Home Loan Bank stock, and $2,133,000 of discount accretion from purchased loans compared to $1,504,000 of discount accretion from purchased loans during the three months ended June 30, 2014. For more information related to loan interest income, including loan purchase discount accretion, see the *Summary of Average Balances, Yields/Rates and Interest Differential* and Note 30 to the consolidated financial statements at Part I, Item 1 of this report.

Net interest income (FTE) during the six months ended June 30, 2015 increased $21,588,000 (40.3%) from the same period in 2014 to $75,155,000. The increase in net interest income (FTE) was due primarily to a $627,097,000 (37.0%) increase in the average balance of loans to $2,319,743,000, and a $544,583,000 (121%) increase in the average balance of investments to $996,010,000 that were partially offset by a 24 basis point decrease in the average yield on loans from 5.69% during the six months ended June 30, 2014 to 5.45% during the six months ended June 30, 2015, and a 22 basis point decrease in the average yield on investments from 3.09% during the six months ended June 30, 2014 to 2.87% during the six months ended June 30, 2015. The $627,097,000 increase in average loan balances from the year ago period was primarily due to the addition of $499,327,000 of loans through the acquisition of North Valley Bancorp on October 4, 2014, and moderate to strong loan demand during the six months ended June 30, 2015. The $544,583,000 increase in average investment balances from the year-ago period was primarily due to the use of cash at the Federal Reserve and other banks to purchase investments and the addition of

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$212,616,000 of investments through the acquisition of North Valley Bancorp on October 4, 2014. The decrease in average loan yields is due primarily to declines in market yields on new and renewed loans compared to yields on repricing, maturing, and paid off loans. The decrease in average investment yields is due primarily to declines in market yields on new investments compared to yields on existing investments. The increases in average loan and investment balances added $17,841,000 and $8,362,000, respectively, to net interest income (FTE) while the decreases in average loan and investment yields reduced net interest income (FTE) by $2,828,000 and $1,046,000, respectively, when compared to the year-ago quarter. Included in interest income during the six months ended June 30, 2015 was a special cash dividend of $626,000 from the Company s investment in Federal Home Loan Bank stock, and $4,664,000 of discount accretion from purchased loans compared to $3,070,000 of discount accretion from purchased loans during the six months ended June 30, 2014. For more information related to loan interest income, including loan purchase discount accretion, see the *Summary of Average Balances, Yields/Rates and Interest Differential* and Note 30 to the consolidated financial statements at Part I, Item 1 of this report.

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, 2015			June 30, 2014		
	Average Balance	Interest Income/ Expense	Rates Earned /Paid	Average Balance	Interest Income/ Expense	Rates Earned /Paid
Assets:						
Loans	$ 2,355,864	$ 32,019	5.44%	$ 1,714,061	$ 24,433	5.70%
Investment securities - taxable	1,020,806	7,380	2.89%	478,904	3,594	3.00%
Investment securities - nontaxable	43,336	518	4.78%	16,102	187	4.65%
Cash at Federal Reserve and other banks	143,919	144	0.40%	350,229	274	0.31%
Total interest-earning assets	3,563,925	40,061	4.50%	2,559,296	28,488	4.45%
Other assets	330,271			178,338		
Total assets	$ 3,894,196			$ 2,737,634		
Liabilities and shareholders equity:						
Interest-bearing demand deposits	$ 796,958	116	0.06%	$ 550,372	115	0.08%
Savings deposits	1,165,530	362	0.12%	853,643	263	0.12%
Time deposits	336,212	376	0.45%	268,352	390	0.58%
Other borrowings	7,894	1	0.06%	6,217	1	0.06%
Junior subordinated debt	56,344	491	3.49%	41,238	306	2.97%

Total interest-bearing liabilities	2,362,938	1,346	0.23%	1,719,822	1,075	0.25%
Noninterest-bearing deposits	1,049,174			722,779		
Other liabilities	51,483			34,216		
Shareholders equity	430,601			260,817		
Total liabilities and shareholders equity	3,894,196			$ 2,737,634		
Net interest spread(1)			4.27%			4.20%
Net interest income and interest margin(2)		$ 38,715	4.35%		$ 27,413	4.28%

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

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 six months ended					
	June 30, 2015			June 30, 2014		
	Average Balance	Interest Income/ Expense	Rates Earned /Paid	Average Balance	Interest Income/ Expense	Rates Earned /Paid
Assets:						
Loans	$ 2,319,743	$ 63,184	5.45%	$ 1,692,646	$ 48,171	5.69%
Investment securities - taxable	963,586	13,515	2.81%	434,567	6,570	3.02%
Investment securities - nontaxable	32,424	776	4.79%	16,860	405	4.80%
Cash at Federal Reserve and other banks	244,761	408	0.33%	412,031	583	0.28%
Total interest-earning assets	3,560,514	77,883	4.37%	2,556,104	55,729	4.36%
Other assets	332,822			181,595		
Total assets	$ 3,893,336			$ 2,737,699		
Liabilities and shareholders equity:						
Interest-bearing demand deposits	794,581	241	0.06%	$ 548,685	236	0.09%
Savings deposits	1,161,120	719	0.12%	846,932	520	0.12%
Time deposits	344,914	793	0.46%	274,660	794	0.58%
Other borrowings	8,754	2	0.05%	6,339	2	0.06%
Junior subordinated debt	56,320	973	3.46%	41,238	610	2.96%
Total interest-bearing liabilities	2,365,689	2,728	0.23%	1,717,854	2,162	0.25%
Noninterest-bearing deposits	1,048,507			727,255		
Other liabilities	51,489			34,739		
Shareholders equity	427,651			257,851		
Total liabilities and shareholders equity	$ 3,893,336			$ 2,737,699		
Net interest spread[1]			4.14%			4.11%
Net interest income and interest margin[2]		$ 75,155	4.22%		$ 53,567	4.19%

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

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

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

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

	Three months ended June 30, 2015 compared with three months ended June 30, 2014		
	Volume	Rate	Total
Increase (decrease) in interest income:			
Loans	$ 9,146	$ (1,560)	$ 7,586
Investment securities	4,381	(264)	4,117
Cash at Federal Reserve and other banks	(160)	30	(130)
Total interest-earning assets	13,367	(1,794)	11,573
Increase (decrease) in interest expense:			
Interest-bearing demand deposits	49	(48)	1
Savings deposits	94	5	99
Time deposits	98	(112)	(14)
Other borrowings			
Junior subordinated debt	112	73	185
Total interest-bearing liabilities	353	(82)	271
Increase (decrease) in Net Interest Income	$ 13,014	$ (1,712)	$ 11,302

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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 (continued)

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).

	Six months ended June 30, 2015 compared with six months ended June 30, 2014		
	Volume	Rate	Total
Increase (decrease) in interest income:			
Loans	$ 17,841	$ (2,828)	$ 15,013
Investment securities	8,362	(1,046)	7,316
Cash at Federal Reserve and other banks	(234)	59	(175)
Total interest-earning assets	25,969	(3,815)	22,154
Increase (decrease) in interest expense:			
Interest-bearing demand deposits	111	(106)	5
Savings deposits	189	10	199
Time deposits	204	(205)	(1)
Other borrowings	1	(1)	
Junior subordinated debt	223	140	363
Total interest-bearing liabilities	728	(162)	566
Increase (decrease) in Net Interest Income	$ 25,241	$ (3,653)	$ 21,588

Provision for Loan Losses

The provision for loan losses during any period is the sum of the allowance for loan losses required at the end of the period and any loan charge offs during the period, less the allowance for loan losses required at the beginning of the period, and less any loan recoveries during the period. See the Tables labeled *Allowance for loan losses three and six months ended June 30, 2015 and 2014* at Note 5 in Item 1 of Part I of this report for the components that make up the provision for loan losses for the three and six months ended June 30, 2015 and 2014.

The Company recorded a reversal of provision for loan losses of $633,000 during the three months ended June 30, 2015 compared to a provision for loan losses of $1,708,000 during the three months ended June 30, 2014. As shown in the Table labeled *Allowance for Loan Losses - three months ended June 30, 2015* at Note 5 in Item 1 of Part I of this report, commercial real estate mortgage loans, home equity lines, and auto indirect loans experienced a reversal of provision for loan losses during the three months ended June 30, 2015. All other categories of loans experienced a provision for loan losses during the three months ended June 30, 2015. The level of provision, or reversal of provision, for loan losses of each loan category during the three months ended June 30, 2015 was due to the increase or decrease in the required allowance for loan losses as of June 30, 2015 compared to the required allowance for loan losses as of March 31, 2015 plus or minus net charge-offs or net recoveries during the three months ended June 30, 2015. All categories of loans except commercial real estate mortgage loans, home equity lines, and auto indirect loans experienced an increase in the required allowance for loan losses during the three months ended June 30, 2015. The increases in required allowance for loan losses for certain loan categories were primarily due to increased loan balances in those categories. The decreases in required allowance for loan losses for certain loan categories were primarily due to reduced impaired loans, improvements in estimated cash flows and collateral values for the remaining and newly impaired loans, and reductions in historical loss factors for those categories that, in part, determine the required loan loss allowance for performing loans in accordance with the Company s allowance for loan losses methodology as described under the heading *Loans and Allowance for Loan Losses* at Note 1 in Item 1 of Part I of this report. These same factors were also present, to some extent, for the loan categories other than commercial real estate mortgage loans, home equity lines, and auto indirect, but were more than offset by the effect of increased loan balances or changes in credit quality within the pass category of these loan categories resulting in net provisions for loan losses in these categories during the three months ended June 30, 2015. For details of the change in nonperforming loans during the three months ended June 30, 2015 see the Tables, and associated narratives, labeled *Changes in nonperforming assets during the three months ended June 30, 2015* under the heading *Asset Quality and Non-Performing Assets* below.

The Company recorded a reversal of provision for loan losses of $436,000 during the six months ended June 30, 2015 compared to a provision for loan losses of $353,000 during the six months ended June 30, 2014. As shown in the Table labeled *Allowance for Loan Losses - six months ended June 30, 2015* at Note 5 in Item 1 of Part I of this report, residential real estate mortgage loans, home equity lines, auto indirect loans, residential construction loans, and commercial construction loans experienced a reversal of provision for loan losses during the six months ended June 30, 2015. All other categories of loans experienced a provision for loan losses during the six months ended June 30, 2015. The level of provision, or reversal of provision, for loan losses of each loan category during the six months ended June 30, 2015 was due to the increase or decrease in the required allowance for loan losses as of June 30, 2015 compared to the required allowance for loan losses as of December 31, 2014 plus or minus net charge-offs or net recoveries during the six months ended June 30, 2015. All categories of loans except commercial real estate mortgage loans, home equity loans, and C&I loans experienced a decrease in the required allowance for loan losses during the six months ended June 30, 2015. The increases in required allowance for loan losses for certain loan categories were primarily due to increased loan balances in those categories. The decreases in required allowance for loan losses for certain loan categories were primarily due to reduced impaired loans, improvements in estimated cash flows and collateral values for the remaining and newly impaired loans, and reductions in historical loss factors for those categories that, in part, determine the required loan loss allowance for performing loans in accordance with the Company s allowance for loan losses methodology as described under the heading *Loans and Allowance for Loan Losses* at Note 1 in Item 1 of Part I of this report. These same factors were also present, to some extent, for the

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commercial real estate mortgage loans, home equity loans, other consumer loans, and C&I loans, but were more than offset by the effect of increased loan balances or changes in credit quality within the pass category of these loan categories resulting in net provisions for loan losses in these categories during the six months ended June 30, 2015. For details of the change in nonperforming loans during the six months ended June 30, 2015 see the Tables, and associated narratives, labeled *Changes in nonperforming assets during the three months ended June 30, 2015 and the three months ended March 31, 2015* under the heading *Asset Quality and Non-Performing Assets* below.

The provision for loan losses related to originated and PNCI loans is based on management s evaluation of inherent risks in these loan portfolios and a corresponding analysis of the allowance for loan losses. The provision for loan losses related to PCI loan portfolio is based on changes in estimated cash flows expected to be collected on PCI loans. Additional discussion on loan quality, our procedures to measure loan impairment, and the allowance for loan losses is provided under the heading *Asset Quality and Non-Performing Assets* below.

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

Noninterest Income

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Service charges on deposit accounts	$ 3,637	$ 2,724	$ 7,237	$ 5,414
ATM and interchange fees	3,383	2,192	6,385	4,205
Other service fees	779	533	1,493	1,053
Mortgage banking service fees	528	421	1,062	841
Change in value of mortgage servicing rights	521	(351)	15	(532)
Total service charges and fees	8,848	5,519	16,192	10,981
Gain on sale of loans	837	514	1,459	978
Commissions on sale of non-deposit investment products	784	843	1,749	1,614
Increase in cash value of life insurance	675	400	1,350	797
Change in indemnification asset	(57)	(93)	(122)	(505)
Gain (loss) on sale of foreclosed assets	115	241	426	1,468
Sale of customer checks	121	98	249	199
Lease brokerage income	245	111	382	218
Gain (loss) on disposal of fixed assets	1	71	(83)	70
Other	511	173	658	352
Total other noninterest income	3,232	2,358	6,068	5,191

Total noninterest income	$ 12,080	$ 7,877	$ 22,260	$ 16,172
Mortgage loan servicing fees, net of change in fair value of mortgage loan servicing rights	$ 1,049	$ 70	$ 1,077	$ 309

Noninterest income increased $4,203,000 (53.4%) to $12,080,000 during the three months ended June 30, 2015 when compared to the three months ended June 30, 2014. The increase in noninterest income was due primarily to an increase in service charges on deposit accounts of $913,000 (33.5%) to $3,637,000, an increase in ATM fees and interchange revenue of 1,191,000 (54.3%) to $3,383,000, an increase in change in value of mortgage servicing rights (MSRs) of 872,000 to a positive $521,000 from a negative $351,000, and an increase in other noninterest income of $338,000 (195%) to $511,000 compared to the year-ago quarter. These increases, and the increases in other categories of noninterest income noted in the table above, are primarily the result of the acquisition of North Valley Bancorp on October 4, 2014. An increase in interest rates during the three months ended June 30, 2015 resulted in a decrease in estimated prepayment speeds of serviced loans, that in turn resulted in increased expected servicing cash flows, and thus, a higher value of such servicing rights.

Noninterest income increased $6,088,000 (37.6%) to $22,260,000 during the six months ended June 30, 2015 when compared to the six months ended June 30, 2014. The increase in noninterest income was due primarily to an increase in service charges on deposit accounts of $1,823,000 (33.7%) to $7,237,000, an increase in ATM fees and interchange revenue of 2,180,000 (51.8%) to $6,385,000, an increase in change in value of mortgage servicing rights (MSRs) of 547,000 to a positive $15,000 from a negative $532,000, and an increase in change in cash value of life insurance of $553,000 (69.4%) to $1,350,000 compared to the year-ago period. These increases and the increases in other categories of noninterest income noted in the table above are primarily the result of the acquisition of North Valley Bancorp on October 4, 2014. Partially offsetting these increases was a decrease of $1,042,000 in gain on sale of foreclosed assets to $426,000. An increase in interest rates during the six months ended June 30, 2015 resulted in a decrease in estimated prepayment speeds of serviced loans, that in turn resulted in increased expected servicing cash flows, and thus, a higher value of such servicing rights. The decrease in gain on sale foreclosed assets is due to decreased foreclosed asset sales during the six months ended June 30, 2015, and the uniqueness of individual foreclosed asset sales when compared to the year-ago period.

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Noninterest Expense

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

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Base salaries, net of deferred loan origination costs	$ 11,502	$ 9,008	$ 23,246	$ 17,874
Incentive compensation	1,390	1,205	2,986	2,328
Benefits and other compensation costs	4,350	3,104	9,110	6,418
Total salaries and benefits expense	17,242	13,317	35,342	26,620
Occupancy	2,541	1,802	4,958	3,764
Equipment	1,527	1,060	2,941	2,096
Data processing and software	1,834	1,350	3,786	2,528
ATM network charges	985	710	1,755	1,353
Telecommunications	785	713	1,671	1,293
Postage	330	221	642	448
Courier service	253	224	501	458
Advertising	1,002	341	1,810	683
Assessments	694	481	1,345	1,002
Operational losses	149	150	273	327
Professional fees	1,035	1,275	2,154	1,889
Foreclosed assets expense	102	151	200	309
Provision for foreclosed asset losses	174	4	241	40
Change in reserve for unfunded commitments	110	(185)	(20)	(370)
Intangible amortization	289	52	578	104
Merger expense		418	586	643
Other	3,384	3,032	5,955	5,246
Total other noninterest expense	15,194	11,799	29,376	21,813
Total noninterest expense	$ 32,436	$ 25,116	$ 64,718	$ 48,433
Merger expense:				
Data processing and software			$ 108	
Professional fees		$ 243	120	$ 468
Other		175	358	175
Total merger expense		$ 418	$ 586	$ 643
Average full time equivalent staff	944	726	955	729
Noninterest expense to revenue (FTE)	63.9%	71.7%	66.4%	69.5%

Salary and benefit expenses increased $3,925,000 (29.5%) to $17,242,000 during the three months ended June 30, 2015 compared to the three months ended June 30, 2014. Base salaries, incentive compensation and benefits & other compensation expense increased $2,494,000 (27.7%), 185,000 (15.4%), and 1,246,000 (40.1%), respectively, to $11,502,000, $1,390,000 and $4,350,000, respectively, during the three months ended June 30, 2015. The increases in these categories of salary and benefits expense are primarily due to the Company s acquisition of North Valley Bancorp on October 4, 2014. The average number of full-time equivalent staff increased 218 (30.0%) from 726 during the three months ended June 30, 2014 to 944 for the three months ended June 30, 2015.

Salary and benefit expenses increased $8,722,000 (32.8%) to $35,342,000 during the six months ended June 30, 2015 compared to the six months ended June 30, 2014. Base salaries, incentive compensation and benefits & other compensation expense increased $5,372,000 (30.1%), 658,000 (28.3%), and 2,692,000 (41.9%), respectively, to $23,246,000, $2,986,000 and $9,110,000, respectively, during the six months ended June 30, 2015. The increases in these categories of salary and benefits expense are primarily due to the Company s acquisition of North Valley Bancorp on October 4, 2014. The average number of full-time equivalent staff increased 226 (31.0%) from 729 during the six months ended June 30, 2014 to 955 for the six months ended June 30, 2015.

Other noninterest expense increased $3,395,000 (28.8%) to $15,194,000 during the three months ended June 30, 2015 compared to the three months ended June 30, 2014. The increase in other noninterest expense was primarily due to the Company s acquisition of North Valley Bancorp on October 4, 2014. Nonrecurring merger expenses related to the North Valley Bancorp acquisition totaling $0 and $418,000 are included in other noninterest expense for the three months ended June 30, 2015 and 2014, respectively. As of March 31, 2015, the Company had substantially completed all of its previously planned facility consolidations related to the North Valley Bancorp acquisition. Subsequent to March 31, 2015, following a thorough analysis of profitability and market opportunity, the Bank identified five additional branches for closure. Two of those branches are former North Valley Bank branches. As of June 30, 2015 one of the five additional branches slated for closure has been closed. The Bank expects the four remaining branches will be closed by September 30, 2015.

Other noninterest expense increased $7,563,000 (34.7%) to $29,376,000 during the six months ended June 30, 2015 compared to the six months ended June 30, 2014. The increase in other noninterest expense was primarily due to the Company s acquisition of North Valley Bancorp on October 4, 2014. Nonrecurring merger expenses related to the North Valley Bancorp acquisition totaling $586 and $643,000 are included in other noninterest expense for the six months ended June 30, 2015 and 2014, respectively.

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Income Taxes

The effective combined Federal and State income tax rate on income was 39.5% and 42.1% for the three months ended June 30, 2015 and 2014, respectively. The effective combined Federal and State income tax rate was greater than the Federal statutory tax rate of 35.0% due to State income tax expense of $1,947,000 and $923,000, respectively, in these periods. Tax-exempt income of $324,000 and $117,000, respectively, from investment securities, and $675,000 and $401,000, respectively, from increase in cash value of life insurance in these periods helped to reduce the effective combined Federal and State income tax rate from the combined Federal and State statutory income tax rate of approximately 42.0%, Also helping to reduce the effective combined Federal and State income tax rate were tax credit of $43,000 and $0 during the three months ended June 30, 2015 and 2014, respectively. Partially offsetting the effect of these tax rate reducing items during the three months ended June 30, 2015, respectively, were nondeductible merger expenses of $0 and $291,000, respectively, and other nondeductible expenses of $58,000 and $215,000, respectively.

The effective combined Federal and State income tax rate on income was 40.0% and 41.2% for the six months ended June 30, 2015 and 2014, respectively. The effective combined Federal and State income tax rate was greater than the Federal statutory tax rate of 35.0% due to State income tax expense of $3,433,000 and $2,234,000, respectively, in these periods. Tax-exempt income of $485,000 and $253,000, respectively, from investment securities, and $1,350,000 and $798,000, respectively, from increase in cash value of life insurance in these periods helped to reduce the effective combined Federal and State income tax rate from the combined Federal and State statutory income tax rate of approximately 42.0%, Also helping to reduce the effective combined Federal and State income tax rate were tax credit of $43,000 and $0 during the six months ended June 30, 2015 and 2014, respectively. Partially offsetting the effect of these tax rate reducing items during the six months ended June 30, 2015, respectively, were nondeductible merger expenses of $0 and $341,000, respectively, and other nondeductible expenses of $159,000 and $265,000, respectively.

Financial Condition

Investment Securities

Investment securities available for sale increased $201,225,000 to $284,430,000 as of June 30, 2015, compared to December 31, 2014. This increase is attributable to purchases of $220,383,000, maturities and principal repayments of $13,941,000, a decrease in fair value of investments securities available for sale of $4,737,000 and amortization of net purchase price premiums of $480,000.

The following table presents the available for sale investment securities portfolio by major type as of June 30, 2015 and December 31, 2014:

(In thousands)	June 30, 2015		December 31, 2014	
Securities available for sale:	Fair Value	%	Fair Value	%
Obligations of U.S. government corporations and agencies	$ 240,552	84.5%	$ 75,120	90.3%
Obligations of states and political subdivisions	38,987	13.7%	3,175	3.8%
Corporate bonds	1,900	0.7%	1,908	2.3%

Marketable equity securities	2,991	1.1%	3,002	3.6%
Total securities available for sale	$ 284,430	100.0%	$ 83,205	100.0%

Investment securities held to maturity increased $99,857,000 to $776,283,000 as of June 30, 2015, compared to December 31, 2014. This increase is attributable to purchases of $146,100,000, less principal repayments of $45,078,000, and amortization of net purchase price premiums of $1,165,000.

The following table presents the held to maturity investment securities portfolio by major type as of June 30, 2015 and December 31, 2014:

(In thousands)	June 30, 2015		December 31, 2014	
Securities held to maturity:	Cost Basis	%	Cost Basis	%
Obligations of U.S. government corporations and agencies	$ 760,686	98.1%	$ 660,836	97.7%
Obligations of states and political subdivisions	15,597	1.9%	15,590	2.3%
Total securities held to maturity	$ 776,283	100.0%	$ 676,426	100.0%

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

Restricted Equity Securities

Restricted equity securities were $16,956,000 at June 30, 2015 and $16,956,000 at December 31, 2014. The entire balance of restricted equity securities at June 30, 2015 and December 31, 2014 represent the Bank s investment in the Federal Home Loan Bank of San Francisco (FHLB).

Additional information about the restricted equity securities is provided in Note 1 of the Notes to Unaudited Condensed Consolidated Financial Statements at Item 1 of Part I of this report.

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Loans

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

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

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

(In thousands)	June 30, 2015	December 31, 2014
Real estate mortgage	$ 1,686,567	$ 1,615,359
Consumer	411,788	417,084
Commercial	195,791	174,945
Real estate construction	99,616	75,136
Total loans	$ 2,393,762	$ 2,282,524

At June 30, 2015 loans, including net deferred loan costs, totaled $2,393,762,000 which was a $111,238,000 (4.87%) increase over the balances at December 31, 2014. Demand for all categories of loans was moderate during the six months ended June 30, 2015.

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, 2015	December 31, 2014
Real estate mortgage	70.4%	70.7%
Consumer	17.2%	18.3%
Commercial	8.2%	7.7%
Real estate construction	4.2%	3.3%
Total loans	100.0%	100.0%

Assets Quality and Nonperforming Assets

Nonperforming Assets

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

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

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

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

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

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

The Company s method for assessing the appropriateness of the allowance for originated loan losses includes specific allowances for impaired originated loans and leases, formula allowance factors for pools of credits, and allowances for changing environmental factors (e.g., interest rates, growth, economic conditions, etc.). Allowance factors for loan pools were based on historical loss experience by product type and prior risk rating.

During the three months ended March 31, 2014, the Company modified its methodology used to determine the allowance for changing environmental factors by adding a new environmental factor based on the California Home Affordability Index (CHAI). The CHAI measures the percentage of households in California that can afford to purchase the median priced home in California based on current home prices and mortgage interest rates. The use of the CHAI environmental factor consists of comparing the current CHAI to its historical baseline, and allows management to consider the adverse impact that a lower than historical CHAI may have on general economic activity and the performance of our borrowers. Based on an analysis of historical data, management believes this environmental factor gives a better estimate of current economic activity compared to other environmental factors that may lag current economic activity to some extent. This change in methodology resulted in no change to the allowance for loan losses as of March 31, 2014 compared to what it would have been without this change in methodology.

During the three months ended June 30, 2014, the Company refined the method it uses to evaluate historical losses for the purpose of estimating the pool allowance for unimpaired loans. In the third quarter of 2010, the Company moved from a six point grading system (Grades A-F) to a nine point risk rating system (Risk Ratings 1-9), primarily to allow for more distinction within the Pass risk rating. Initially, there was not sufficient loss experience within the nine point scale to complete a migration analysis for all nine risk ratings, all loans risk rated Pass or 2-5 were grouped together, a loss rate was calculated for that group, and that loss rate was established as the loss rate for risk rating 4. The reserve ratios for risk ratings 2, 3 and 5 were then interpolated from that figure. As of June 30, 2014, the Company was able to compile twelve quarters of historical loss information for all risk ratings and use that information to calculate the loss rates for each of the nine risk ratings without interpolation. This refinement led to an increase of $1,438,000 in the reserve requirement for unimpaired loans, driven primarily by home equity lines of credit with a risk rating of 5 or Pass-Watch.

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

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

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

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

Originated loans and PNCI loans are reviewed on an individual basis for reclassification to nonaccrual status when any one of the following occurs: the loan becomes 90 days past due as to interest or principal, the full and timely collection of additional interest or principal becomes uncertain, the loan is classified as doubtful by internal credit review or bank regulatory agencies, a portion of the principal balance has been charged off, or the Company takes possession of the collateral. Loans that are placed on nonaccrual even though the borrowers continue to repay the loans as scheduled are classified as performing nonaccrual and are included in total nonperforming loans. The reclassification of loans as nonaccrual does not necessarily reflect Management s judgment as to whether they are collectible.

Interest income on originated nonaccrual loans that would have been recognized during the three months ended June 30, 2015 and 2014, if all such loans had been current in accordance with their original terms, totaled $266,000 and $572,000, respectively. Interest income actually recognized on these originated loans during the three months ended June 30, 2015 and 2014 was $11,000 and $18,000, respectively. Interest income on PNCI nonaccrual loans that would have been recognized during the three months ended June 30, 2015 and 2014, if all such loans had been current in accordance with their original terms, totaled $144,000 and $50,000, respectively. Interest income actually recognized on these PNCI loans during the three months ended June 30, 2015 and 2014 was $76,000 and $(5,000).

Interest income on originated nonaccrual loans that would have been recognized during the six months ended June 30, 2015 and 2014, if all such loans had been current in accordance with their original terms, totaled $964,000 and $1,458,000, respectively. Interest income actually recognized on these originated loans during the six months ended June 30, 2015 and 2014 was $59,000 and $24,000, respectively. Interest income on PNCI nonaccrual loans that would have been recognized during the six months ended June 30, 2015 and 2014, if all such loans had been current in accordance with their original terms, totaled $224,000 and $118,000. Interest income actually recognized on these PNCI loans during the six months ended June 30, 2015 and 2014 was $85,000 and $(4,000).

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

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The following table sets forth the amount of the Bank s nonperforming assets as of the dates indicated. For purposes of the following table, PCI other loans that are 90 days past due and still accruing are not considered nonperforming loans. Performing nonaccrual loans are loans that may be current for both principal and interest payments, or are less than 90 days past due, but for which payment in full of both principal and interest is not expected, and are not well secured and in the process of collection:

(In thousands)	June 30, 2015	December 31, 2014
Performing nonaccrual loans	$ 36,498	$ 45,072
Nonperforming nonaccrual loans	3,382	2,517
Total nonaccrual loans	39,880	47,589
Originated and PNCI loans 90 days past due and still accruing		
Total nonperforming loans	39,880	47,589
Noncovered foreclosed assets	5,393	4,449
Covered foreclosed assets		445
Total nonperforming assets	$ 45,273	$ 52,483
U.S. government, including its agencies and its government-sponsored agencies, guaranteed portion of nonperforming loans	$ 160	$ 123
Indemnified portion of covered foreclosed assets		$ 356
Nonperforming assets to total assets	1.62%	1.88%
Nonperforming loans to total loans	1.67%	2.08%
Allowance for loan losses to nonperforming loans	89%	77%
Allowance for loan losses, unamortized loan fees, and discounts to loan principal balances owed	2.95%	3.31%

The following table sets forth the amount of the Bank s nonperforming assets as of the dates indicated. For purposes of the following table, PCI other loans that are 90 days past due and still accruing are not considered nonperforming loans. Performing nonaccrual loans are loans that may be current for both principal and interest payments, or are less than 90 days past due, but for which payment in full of both principal and interest is not expected, and are not well secured and in the process of collection:

	June 30, 2015				
(dollars in thousands)	Originated	PNCI	PCI cash basis	PCI - other	Total
Performing nonaccrual loans	$ 21,485	$ 4,983	$ 5,337	$ 4,693	$ 36,498
Nonperforming nonaccrual loans	2,327	880	62	113	3,382
Total nonaccrual loans	23,812	5,863	5,399	4,806	39,880
Originated and PNCI loans 90 days past due and still accruing					
Total nonperforming loans	23,812	5,863	5,399	4,806	39,880

Noncovered foreclosed assets	3,972			1,421	5,393
Covered foreclosed assets					
Total nonperforming assets	$ 27,784	$ 5,863	$ 5,399	$ 6,226	$ 45,273
U.S. government, including its agencies and its government-sponsored agencies, guaranteed portion of nonperforming loans	$ 97			$ 63	$ 160
Indemnified portion of covered foreclosed assets					
Nonperforming assets to total assets	0.99%	0.21%	0.19%	0.22%	1.62%
Nonperforming loans to total loans	1.34%	1.03%	100.00%	11.77%	1.67%
Allowance for loan losses to nonperforming loans	124%	47%	6%	61%	89%
Allowance for loan losses, unamortized loan fees, and discounts to loan principal balances owed	1.92%	3.21%	63.32%	20.65%	2.95%

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The following table sets forth the amount of the Bank s nonperforming assets as of the dates indicated. For purposes of the following table, PCI other loans that are 90 days past due and still accruing are not considered nonperforming loans. Performing nonaccrual loans are loans that may be current for both principal and interest payments, or are less than 90 days past due, but for which payment in full of both principal and interest is not expected, and are not well secured and in the process of collection:

	December 31, 2014				
(dollars in thousands)	Originated	PNCI	PCI cash basis	PCI - other	Total
Performing nonaccrual loans	$ 30,449	$ 1,233	$ 5,587	$ 7,803	$ 45,072
Nonperforming nonaccrual loans	2,080	413	24		2,517
Total nonaccrual loans	32,529	1,646	5,611	7,803	47,589
Originated and PNCI loans 90 days past due and still accruing					
Total nonperforming loans	32,529	1,646	5,611	7,803	47,589
Noncovered foreclosed assets	3,316			1,133	4,449
Covered foreclosed assets				445	445
Total nonperforming assets	$ 35,845	$ 1,646	$ 5,611	$ 9,381	$ 52,483
U.S. government, including its agencies and its government-sponsored agencies, guaranteed portion of nonperforming loans	$ 123				$ 123
Indemnified portion of covered foreclosed assets				$ 356	$ 356
Nonperforming assets to total assets	1.28%	0.06%	0.20%	0.34%	1.88%
Nonperforming loans to total loans	2.02%	0.27%	99.98%	16.50%	2.08%
Allowance for loan losses to nonperforming loans	92%	200%	6%	39%	77%
Allowance for loan losses, unamortized loan fees, and discounts to loan principal balances owed	2.14%	3.30%	64.45%	21.09%	3.31%

Changes in nonperforming assets during the three months ended June 30, 2015

(In thousands):	Balance at June 30, 2015	New NPA	Advances/ Capitalized Costs	Pay-downs /Sales /Upgrades	Charge-offs/ Write-downs	Transfers to Foreclosed Assets	Category Changes	Balance at March 31, 2015
Real estate mortgage:								
Residential	$ 4,922	$ 78		$ (179)	$ (128)	$ (82)		$ 5,233
Commercial	23,482	3,991		(8,686)				28,177

Consumer								
Home equity lines	9,461	465	11	(490)	(84)	(227)		9,786
Home equity loans	1,441	275	1	(59)	(117)	(22)		1,363
Auto indirect		1		(11)	(4)			14
Other consumer	197	96			(34)			135
Commercial	242	64		(1,859)	(5)			2,042
Construction:								
Residential	47	8		(2,259)		(75)		2,373
Commercial	88			(6)				94
Total nonperforming loans	39,880	4,978	12	(13,549)	(372)	(406)		49,217
Noncovered foreclosed assets	5,393		195	(925)	(175)	406	445	5,447
Covered foreclosed assets							(445)	445
Total nonperforming assets	$ 45,273	$ 4,978	$ 207	$ (14,474)	$ (547)			$ 55,109

Nonperforming assets decreased during the second quarter of 2015 by $9,836,000 (17.9%) to $45,273,000 at June 30, 2015 compared to $55,109,000 at March 31, 2015. The decrease in nonperforming assets during the second quarter of 2015 was primarily the result of new nonperforming loans of $4,978,000, advances on existing nonperforming loans and capitalized costs on foreclosed assets of $207,000, less pay-downs, sales or upgrades of nonperforming loans to performing status totaling $13,549,000, less dispositions of foreclosed assets totaling $925,000, less loan charge-offs of $372,000, and less write-downs of foreclosed assets of $175,000.

The $4,978,000 in new nonperforming loans during the second quarter of 2015 was comprised of increases of $78,000 on three residential real estate loans, $3,991,000 on eight commercial real estate loans, $740,000 on 12 home equity lines and loans, $1,000 on two indirect auto loans, $96,000 on 15 consumer loans, $64,000 on three C&I loans, and $8,000 on a single residential real estate loan.

The $3,991,000 in new nonperforming commercial real estate loans was primarily made up of one loan in the amount of $2,038,000 secured by a commercial retail property in central California, one loan in the amount of $836,000 secured by a multi-family property in northern California, three loans totaling $588,000 secured by a commercial warehouse in central California, and one loan in the amount of $466,000 secured by a single family residence in central California. Related charge-offs are discussed below.

The $13,549,000 in pay-downs, sales or upgrades of loans in the second quarter of 2015 was comprised of decreases of $179,000 on 37 residential real estate loans, $8,686,000 on 44 commercial real estate loans, $549,000 on 135 home equity lines and loans, $11,000 on eight auto indirect loans, $1,859,000 on 11 C&I loans, $2,259,000 on three residential construction loans and $6,000 on two commercial construction loans.

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The $8,686,000 reduction in nonperforming commercial real estate loans was primarily made up of one upgrade in the amount of $328,000 on a loan secured by commercial office property in northern California, and upgrades on four loans secured by commercial office and warehouse properties in central California in the amount of $7,375,000.

The $1,859,000 in reduction in nonperforming C&I loans was primarily made up of pay-downs in the amount of $1,844,000 on three loans in northern California secured by general business assets.

The $2,259,000 in reduction in nonperforming residential construction loans was primarily made up of a pay-down in the amount of $2,250,000 on a loan secured by residential development land in central California.

Loan charge-offs during the three months ended June 30, 2015

In the second quarter of 2015, the Company recorded $372,000 in loan charge-offs and $142,000 in deposit overdraft charge-offs less $448,000 in loan recoveries and $99,000 in deposit overdraft recoveries resulting in $32,000 of net recoveries. Primary causes of the loan charges taken in the second quarter of 2015 were gross charge-offs of $128,000 on three residential real estate loans, $201,000 on nine home equity lines and loans, $4,000 on two indirect auto loans, $34,000 on 13 other consumer loans, and $5,000 on three C&I loans. During the second quarter of 2015, there were no individual charges greater than $250,000.

Changes in nonperforming assets during the three months ended March 31, 2015

(In thousands):	Balance at March 31, 2015	New NPA	Advances/ Capitalized Costs	Pay-downs /Sales /Upgrades	Charge-offs/ Write-downs	Transfers to Foreclosed Assets	Category Changes	Balance at December 31, 2014
Real estate mortgage:								
Residential	$ 5,233	$ 617		$ (141)	$ (81)	$ (55)	$ 280	$ 4,613
Commercial	28,177	4,042	63	(1,300)		(971)		26,343
Consumer								
Home equity lines	9,786	786	52	(683)	(341)	(217)	(187)	10,376
Home equity loans	1,363	137		(37)	(11)		(93)	1,367
Auto indirect	14			(4)				18
Other consumer	135	68	6	(12)	(113)			186
Commercial	2,042	534		(144)	(534)			2,186
Construction:								
Residential	2,373			(28)				2,401
Commercial	94			(5)				99
Total nonperforming loans	49,217	6,184	121	(2,354)	(1,080)	(1,243)		47,589
Noncovered foreclosed assets	5,447		316	(495)	(66)	1,243		4,449
Covered foreclosed assets	445							445

Total nonperforming assets	$ 55,109	$ 6,184	$ 437	$ (2,849)	$ (1,146)	$ 52,483

Nonperforming assets increased during the first quarter of 2015 by $2,626,000 (5.0%) to $55,109,000 at March 31, 2015 compared to $52,483,000 at December 31, 2014. The increase in nonperforming assets during the first quarter of 2015 was primarily the result of new nonperforming loans of $6,184,000, advances on existing nonperforming loans and capitalized costs on foreclosed assets of $121,000, less pay-downs, sales or upgrades of nonperforming loans to performing status totaling $2,038,000, less dispositions of foreclosed assets totaling $495,000, less loan charge-offs of $1,080,000, and less write-downs of foreclosed assets of $66,000.

The $6,184,000 in new nonperforming loans during the first quarter of 2015 was comprised of increases of $617,000 on two residential real estate loans, $4,042,000 on four commercial real estate loans, $923,000 on 13 home equity lines and loans, $68,000 on 26 consumer loans, and $534,000 on nine C&I loans.

The $617,000 in new nonperforming residential real estate loans was primarily comprised of a single loan in the amount of $594,000 secured by a single family residence in northern California.

The $4,042,000 in new nonperforming commercial real estate loans was primarily made up of one loan in the amount of $2,904,000 secured by a commercial retail property in northern California, one loan in the amount of $690,000 secured by hospitality real estate in northern California, and one loan in the amount of $328,000 secured by a commercial office property in northern California.

The $534,000 in new nonperforming commercial and industrial loan was primarily comprised of a single lending relationship in the amount of $479,000 secured by various non-real estate business assets in central California. Related charge-offs are discussed below.

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Loan charge-offs during the three months ended March 31, 2015

In the first quarter of 2015, the Company recorded $1,080,000 in loan charge-offs and $155,000 in deposit overdraft charge-offs less $390,000 in loan recoveries and $118,000 in deposit overdraft recoveries resulting in $727,000 of net charge-offs. Primary causes of the loan charges taken in the first quarter of 2015 were gross charge-offs of $81,000 on two residential real estate loans, $352,000 on 10 home equity lines and loans, $113,000 on 29 other consumer loans, and $534,000 on eight C&I loans.

The $534,000 in charge-offs the Bank incurred in its commercial and industrial portfolio was primarily the result of $479,000 in charge-offs incurred on a single relationship secured by various non-real estate business assets in central California. The remaining $55,000 was spread over four loans spread throughout the Company s footprint.

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

Allowance for Loan Losses

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

with respect to loans that have not yet been identified as impaired, management considered the volume and severity of past due loans.

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

During the three months ended March 31, 2014, the Company modified its methodology used to determine the allowance for changing environmental factors by adding a new environmental factor based on the California Home Affordability Index (CHAI). The CHAI measures the percentage of households in California that can afford to purchase the median priced home in California based on current home prices and mortgage interest rates. The use of the CHAI environmental factor consists of comparing the current CHAI to its historical baseline, and allows management to consider the adverse impact that a lower than historical CHAI may have on general economic activity and the performance of our borrowers. Based on an analysis of historical data, management believes this environmental factor gives a better estimate of current economic activity compared to other environmental factors that may lag current economic activity to some extent. This change in methodology resulted in no change to the allowance for loan losses as of March 31, 2014 compared to what it would have been without this change in methodology.

Acquired loans are valued as of acquisition date in accordance with 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

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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 allowance for loan losses as of the dates indicated:

(In thousands)	June 30, 2015	December 31, 2014
Allowance for originated and PNCI loan losses:		
Specific allowance	$ 4,245	$ 4,267
Formula allowance	19,850	22,076
Environmental factors allowance	8,138	6,815
Allowance for originated and PNCI loan losses	32,233	33,158
Allowance for PCI loan losses	3,222	3,427
Allowance for loan losses	$ 35,455	$ 36,585
Allowance for loan losses to loans	1.48%	1.60%

For additional information regarding the allowance for loan losses, including changes in specific, formula, and environmental factors allowance categories, see *Provision for Loan Losses* at *Results of Operations* and *Allowance for Loan Losses* above. Based on the current conditions of the loan portfolio, management believes that the $35,455,000 allowance for loan losses at June 30, 2015 is adequate to absorb probable losses inherent in the Bank s loan portfolio. No assurance can be given, however, that adverse economic conditions or other circumstances will not result in increased losses in the portfolio.

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

(In thousands)	June 30, 2015	December 31, 2014
Real estate mortgage	$ 12,976	$ 12,313
Consumer	16,826	18,201
Commercial	4,402	4,226
Real estate construction	1,251	1,845
Total allowance for loan losses	$ 35,455	$ 36,585

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

(In thousands)	June 30, 2015	December 31, 2014
Real estate mortgage	36.6%	33.7%
Consumer	47.5%	49.7%
Commercial	12.4%	11.6%
Real estate construction	3.5%	5.0%
Total allowance for loan losses	100.0%	100.0%

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

(In thousands)	June 30, 2015	December 31, 2014
Real estate mortgage	0.77%	0.76%
Consumer	4.09%	4.36%
Commercial	2.25%	2.42%
Real estate construction	1.26%	2.46%
Total allowance for loan losses	1.48%	1.60%

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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 (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Allowance for loan losses:				
Balance at beginning of period	$ 36,055	$ 38,322	$ 36,585	$ 38,245
Provision for loan losses	(633)	1,708	(436)	353
Loans charged off:				
Real estate mortgage:				
Residential	(128)	(1)	(209)	(136)
Commercial		(45)		(58)
Consumer:				
Home equity lines	(84)	(677)	(425)	(855)
Home equity loans	(117)	(11)	(128)	(11)
Auto indirect	(4)		(4)	
Other consumer	(176)	(144)	(444)	(271)
Commercial	(5)	(151)	(539)	(390)
Construction:				
Residential				(4)
Commercial				(69)
Total loans charged off	(514)	(1,029)	(1,749)	(1,794)
Recoveries of previously charged-off loans:				
Real estate mortgage:				
Residential			1	
Commercial	53	299	149	471
Consumer:				
Home equity lines	230	180	349	509
Home equity loans	6	25	9	27
Auto indirect	16	39	36	51
Other consumer	107	119	259	302
Commercial	121	188	208	1,061
Construction:				
Residential		97	11	608
Commercial	14	20	33	135
Total recoveries of previously charged off loans	547	967	1,055	3,164
Net recoveries (charge-offs)	33	(62)	(694)	1,370
Balance at end of period	$ 35,455	$ 39,968	$ 35,455	$ 39,968

	Three months ended June 30, 2015	2014	Six months ended June 30, 2015	2014
Reserve for unfunded commitments:				
Balance at beginning of period	$ 2,015	$ 2,230	$ 2,145	$ 2,415
Provision for losses unfunded commitments	110	(185)	(20)	(370)
Balance at end of period	$ 2,125	$ 2,045	$ 2,125	$ 2,045
Balance at end of period:				
Allowance for loan losses			$ 35,455	$ 39,968
Reserve for unfunded commitments			2,125	2,045
Allowance for loan losses and Reserve for unfunded commitments			$ 37,580	$ 42,013
As a percentage of total loans at end of period:				
Allowance for loan losses			1.48%	2.30%
Reserve for unfunded commitments			0.09%	0.12%
Allowance for loan losses and Reserve for unfunded commitments			1.57%	2.42%
Average total loans	$ 2,355,864	$ 1,714,061	$ 2,319,743	$ 1,692,646
Ratios (annualized):				
Net charge-offs during period to average loans outstanding during period	(0.01)%	0.01%	0.06%	(0.16)%
(Benefit from) provision for loan losses to average loans outstanding	(0.11)%	0.40%	(0.04)%	0.04%

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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 June 30, 2015	New NPA	Advances/ Capitalized Costs	Sales	Valuation Adjustments	Transfers from Loans	Category Changes	Balance at March 31, 2015
Noncovered:								
Land & Construction	$ 2,334			$ (61)		$ 7	$ 445	$ 1,943
Residential real estate	2,059		$ 195	(51)	$ (175)	399		1,691
Commercial real estate	1,000			(813)				1,813
Total noncovered	5,393		195	(925)	(175)	406	445	5,447
Covered:								
Land & Construction							(445)	445
Residential real estate								
Commercial real estate								
Total covered							(445)	445
Total foreclosed assets	$ 5,393		$ 195	$ (925)	$ (175)	$ 406		$ 5,892

(dollars in thousands):	Balance at March 31, 2015	New NPA	Advances/ Capitalized Costs	Sales	Valuation Adjustments	Transfers from Loans	Category Changes	Balance at December 31, 2014
Noncovered:								
Land & Construction	$ 1,943				$ (31)			$ 1,974
Residential real estate	1,691		$ 316	$ (495)	(24)	$ 272		1,622
Commercial real estate	1,813				(11)	971		853
Total noncovered	5,447		316	(495)	(66)	1,243		4,449
Covered:								
Land & Construction	445							445
Residential real estate								
Commercial real estate								
Total covered	445							445

Total foreclosed assets	$ 5,892	$ 316	$ (495)	$ (66)	$ 1,243	$ 4,894

Premises and Equipment

Premises and equipment were comprised of:

(In thousands)	June 30, 2015	December 31, 2014
Land & land improvements	$ 8,883	$ 8,933
Buildings	39,090	39,638
Furniture and equipment	28,620	28,446
	76,593	77,017
Less: Accumulated depreciation	(34,559)	(33,570)
	42,034	43,447
Construction in progress	22	46
Total premises and equipment	$ 42,056	$ 43,493

During the six months ended June 30, 2015, premises and equipment decreased $1,437,000 due to purchases of $1,293,000, that were more than offset by depreciation of $2,645,000 and disposals of premises and equipment with net book value of $85,000. Included in the depreciation expense during the six months ended June 30, 2015 was $131,000 of accelerated depreciation of leasehold improvements taken on one branch that was closed during the quarter ended March 31, 2015.

Intangible Assets

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

(In thousands)	June 30, 2015	December 31, 2014
Core-deposit intangible	$ 6,473	$ 7,051
Goodwill	63,462	63,462
Total intangible assets	$ 69,935	$ 70,513

The core-deposit intangible assets resulted from the Bank s acquisition of North Valley Bancorp in 2014, Citizens in 2011, and Granite in 2010. The goodwill intangible asset includes $47,943,000 from the North Valley Bancorp acquisition in 2014, and $15,519,000 from the North State National Bank acquisition in 2003. Amortization of core deposit intangible assets amounting to $289,000 and $52,000 were recorded during the three months ended June 30, 2015 and 2014, respectively. Amortization of core deposit intangible assets amounting to $578,000 and $104,000 were recorded during the six months ended June 30, 2015 and 2014, respectively.

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Deposits

See Note 13 to the condensed consolidated financial statements at Item 1 of Part I of this report for information about the Company s deposits.

Long-Term Debt

See Note 16 to the condensed consolidated financial statements at Item 1 of Part I of this report for information about the Company s other borrowings, including long-term debt.

Junior Subordinated Debt

See Note 17 to the condensed consolidated financial statements at Item 1 of Part I of this report for information about the Company s junior subordinated debt.

Off-Balance Sheet Arrangements

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

Capital Resources

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

The Company adopted and announced a stock repurchase plan on August 21, 2007 for the repurchase of up to 500,000 shares of the Company s common stock from time to time as market conditions allow. The 500,000 shares authorized for repurchase under this plan represented approximately 3.2% of the Company s approximately 15,815,000 common shares outstanding as of August 21, 2007. The Company did not repurchase any shares under this repurchase plan during the six months ended June 30, 2015. This plan has no stated expiration date for the repurchases. As of June 30, 2015, 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 $431,144,000 at June 30, 2015. This amount represents an increase of $12,972,000,000 (3.1%) from December 31, 2014, the net result of comprehensive income for the period of $17,179,000, and the effect of equity compensation vesting and tax benefits of $728,000, and the exercise of stock options of $1,236,000, that were partially offset by dividends paid of $5,473,000, and the repurchase of common stock as it was tendered in lieu of cash to exercise stock options and pay related taxes of $698,000. The Company s ratio of equity to total assets was 11.1% and 10.7% as of June 30, 2015 and December 31, 2014, respectively.

In July, 2013, the federal banking agencies approved final rules that substantially amend the regulatory risk-based capital rules applicable to TriCo and the Bank. The final rules implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. Basel III refers to two consultative documents released by the Basel Committee on Banking Supervision in December 2009, the rules text released in December 2010, and loss absorbency rules issued in January 2011, which include significant changes to bank capital, leverage and liquidity requirements.

The rules include new risk-based capital and leverage ratios, which will be phased in from 2015 to 2019, and will refine the definition of what constitutes capital for purposes of calculating those ratios. The new minimum capital level requirements applicable to TriCo and the Bank as of January 1, 2015 under the final rules are: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from previous rules); and (iv) a Tier 1 leverage ratio of 4% for all institutions. The final rules also establish a capital conservation buffer above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital. The capital conservation buffer will be phased-in over four years beginning on January 1, 2016, as follows: the maximum buffer will be 0.625% of risk-weighted assets for 2016, 1.25% for 2017, 1.875% for 2018, and 2.5% for 2019 and thereafter. This will result in the following minimum ratios beginning in 2019: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. Under the final rules, institutions are subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

Basel III provided discretion for regulators to impose an additional buffer, the countercyclical buffer, of up to 2.5% of common equity Tier 1 capital to take into account the macro-financial environment and periods of excessive credit growth. However, the final rules permit the countercyclical buffer to be applied only to advanced approach banks (i.e., banks with $250 billion or more in total assets or $10 billion or more in total foreign exposures), which currently excludes TriCo and the Bank. The final rules also implement revisions and clarifications consistent with Basel III regarding the various components of Tier 1 capital, including common equity, unrealized gains and losses, as well as certain instruments that will no longer qualify as Tier 1 capital, some of which will be phased out over time. However, the final rules provide that small depository institution holding companies with less than $15 billion in total assets as of December 31, 2009 (such as TriCo) will be able to permanently include non-qualifying instruments that were issued and included in Tier 1 or Tier 2 capital prior to May 19, 2010 in additional Tier 1 or Tier 2 capital until they redeem such instruments or until the instruments mature. The final rules also allow banks other than advanced approach banks to make a one-time election to permanently exclude or include unrealized gains and losses on available for sale securities in accumulated other comprehensive income from Tier 1 capital. The Company has elected to exclude unrealized gains and losses on available for sale securities in accumulated other comprehensive income from Tier 1 capital.

The final rules also contain revisions to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions, including the Bank, if their capital levels begin to show signs of weakness. These revisions became effective on January 1, 2015.

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Under the prompt corrective action requirements, which are designed to complement the capital conservation buffer, insured depository institutions will be required to meet the following increased capital level requirements in order to qualify as well capitalized: (i) a new common equity Tier 1 capital ratio of 6.5%; (ii) a Tier 1 capital ratio of 8% (increased from 6%); (iii) a total capital ratio of 10% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 5% (increased from 4%).

The final rules also set forth certain changes for the calculation of risk-weighted assets, which will be phased in beginning January 1, 2015. The standardized approach final rule utilizes an increased number of credit risk exposure categories and risk weights, and also addresses: (i) an alternative standard of creditworthiness consistent with Section 939A of the Dodd-Frank Act; (ii) revisions to recognition of credit risk mitigation; (iii) rules for risk weighting of equity exposures and past due loans; (iv) revised capital treatment for derivatives and repo-style transactions; and (v) disclosure requirements for top-tier banking organizations with $50 billion or more in total assets that are not subject to the advance approach rules that apply to banks with greater than $250 billion in consolidated assets. We believe that we were in compliance with the requirements applicable to us as set forth in the final rules as of January 1, 2015 and June 30, 2015.

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

	June 30, 2015		December 31, 2014	
	Ratio	Minimum Regulatory Requirement	Ratio	Minimum Regulatory Requirement
Total capital	15.16%	8.00%	15.63%	8.00%
Tier I capital	13.91%	6.00%	14.38%	4.00%
Common equity Tier 1 capital	12.08%	4.50%	n/a	n/a
Leverage	10.91%	4.00%	10.80%	4.00%

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

Liquidity

The Bank s principal source of asset liquidity is cash at Federal Reserve and other banks and marketable investment securities available for sale. At June 30, 2015, cash at Federal Reserve and other banks in excess of reserve requirements and investment securities available for sale totaled $387,788,000, or 10.0% of total assets, representing a decrease of $248,529,000 (39.1%) from 636,317,000, or 16.2% of total assets at December 31, 2014. This decrease in cash and securities available for sale is due mainly to increases in investments held to maturity and loans during the six months ended June 30, 2015. In addition, the Company generates additional liquidity from its operating activities. The Company s profitability during the first six months of 2015 generated cash flows from operations of $25,370,000 compared to $11,401,000 during the first six months of 2014. Maturities of investment securities produced cash inflows of $59,019,000 during the six months ended June 30, 2015 compared to $23,012,000 for the six months ended June, 2014. During the six months ended June 30, 2015, the Company invested in securities totaling $366,483,000 and loans totaling $113,385,000 net of loan principal reductions, compared to $194,092,000 invested in securities and $69,325,000 invested in loans, net of loan principal decreases, respectively, during the first six months of 2014. Proceeds from the sale of foreclosed assets accounted for $2,243,000 and $6,483,000 of investing sources of funds during the six months ended June 30, 2015 and 2014, respectively. These changes in investment and loan balances, and proceeds from sale of foreclosed assets, contributed to net cash used by investing activities of $420,408,000 during the six months ended June 30, 2015, compared to net cash used by investing activities of $236,747,000 during the six months ended June 30, 2014. Financing activities used net cash of $46,187,000 during the six months ended June 30, 2015, compared to net cash used by financing activities of $28,639,000 during the six months ended June 30, 2014. Deposit balance decreases accounted for $38,741,000 and $25,287,000 of financing uses of funds during the six months ended June 30, 2015 and 2014, respectively. Dividends paid used $5,473,000 and $3,547,000 of cash during the six months ended June 30, 2015 and 2014, respectively. 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

The Company s assessment of market risk as of June 30, 2015 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, 2014.

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, 2015. 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, 2015.

During the six months ended June 30, 2015, there were no changes in our internal controls or in other factors that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

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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 to the condensed consolidated financial statements at Item 1 of Part I of this report, for a discussion of the Company s involvement in litigation.

Item 1A Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed under Part I Item 1A Risk Factors in our Form 10-K for the year ended December 31, 2014 which are incorporated by reference herein. These factors could materially adversely affect our business, financial condition, liquidity, results of operations and capital position, and could cause our actual results to differ materially from our historical results or the results contemplated by the forward-looking statements contained in this report.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

The following table shows the repurchases made by the Company or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Exchange Act) during the three months ended March 31, 2015:

Period	(a) Total number of shares purchased[(1)]	(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[(2)]
Apr. 1-30, 2015				333,400
May 1-31, 2015	10,675	$ 23.77		333,400
Jun. 1-30, 2015				333,400
Total	10,675	$ 23.77		333,400

(1) Includes shares purchased by the Company s Employee Stock Ownership Plan and pursuant to various other equity incentive plans. See Note 19 to the condensed consolidated financial statements at Item 1 of Part I of this report, for a discussion of the Company s stock repurchased under equity compensation plans.
(2) Does not include shares that may be purchased by the Company s Employee Stock Ownership Plan and pursuant to various other equity incentive plans.

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Item 6 Exhibits

Exhibit No.	Exhibit
2.1	Purchase and Assumption Agreement Whole Bank All Deposits, among the Federal Deposit Insurance Corporation, receiver of Granite Community Bank, N.A., Granite Bay, California, the Federal Deposit Insurance Corporation and Tri Counties Bank, dated as of May 28, 2010, and related addendum (incorporated by reference to Exhibit 2.1 to TriCo s Current Report on Form 8-K filed June 3, 2010).
2.2	Purchase and Assumption Agreement Whole Bank All Deposits, among the Federal Deposit Insurance Corporation, receiver of Citizens Bank of Northern California, Nevada City, California, the Federal Deposit Insurance Corporation and Tri Counties Bank, dated as of September 23, 2011, and related addendum (incorporated by reference to Exhibit 2.1 to TriCo s Current Report on Form 8-K filed September 27, 2011).
2.3	Agreement and Plan of Merger and Reorganization by and between TriCo and North Valley Bancorp dated January 21, 2014 (incorporated by reference to Exhibit 2.1 to TriCo s Current Report on Form 8-K filed January 21, 2014).
3.1	Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to TriCo s Current Report on Form 8-K filed on March 17, 2009).
3.2	Bylaws of TriCo, as amended (incorporated by reference to Exhibit 3.1 to TriCo s Current Report on Form 8-K filed February 17, 2011).
4.1	Instruments defining the rights of holders of the long-term debt securities of the TriCo and its subsidiaries are omitted pursuant to section (b)(4)(iii)(A) of Item 601 of Regulation S-K. TriCo hereby agrees to furnish copies of these instruments to the Securities and Exchange Commission upon request.
10.1*	Form of Change of Control Agreement dated as of July 17, 2013, among TriCo, Tri Counties Bank and each of Dan Bailey, Craig Carney, Richard O Sullivan, Thomas Reddish, and Ray Rios (incorporated by reference to Exhibit 10.2 to TriCo s Current Report on Form 8-K filed on July 23, 2013).
10.2*	TriCo s 1995 Incentive Stock Option Plan (incorporated by reference to Exhibit 4.1 to TriCo s Form S-8 Registration Statement dated August 23, 1995 (No. 33-62063)).
10.3*	TriCo s 2001 Stock Option Plan, as amended (incorporated by reference to Exhibit 10.7 to TriCo s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005).
10.4*	TriCo s 2009 Equity Incentive Plan, as amended (incorporated by reference to Exhibit 10.2 to TriCo s Current Report on Form 8-K filed April 3, 2013).
10.5*	Amended Employment Agreement between TriCo and Richard Smith dated as of March 28, 2013 (incorporated by reference to Exhibit 10.1 to TriCo s Current Report on Form 8-K filed April 3, 2013).
10.6*	Transaction Bonus Agreement between TriCo Bancshares and Richard P. Smith dated as of August 7, 2014 (incorporated by reference to Exhibit 10.4 to TriCo s Form 8-K filed on August 13, 2014).
10.7*	

	Tri Counties Bank Executive Deferred Compensation Plan restated April 1, 1992, and January 1, 2005 (incorporated by reference to Exhibit 10.9 to TriCo s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005).
10.8*	Tri Counties Bank Deferred Compensation Plan for Directors effective January 1, 2005 (incorporated by reference to Exhibit 10.10 to TriCo s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005).
10.9*	2005 Tri Counties Bank Deferred Compensation Plan for Executives and Directors effective January 1, 2005 (incorporated by reference to Exhibit 10.11 to TriCo s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005).
10.10*	Tri Counties Bank Supplemental Retirement Plan for Directors dated September 1, 1987, as restated January 1, 2001, and amended and restated January 1, 2004 (incorporated by reference to Exhibit 10.12 to TriCo s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004).
10.11*	2004 TriCo Bancshares Supplemental Retirement Plan for Directors effective January 1, 2004 (incorporated by reference to Exhibit 10.13 to TriCo s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004).
10.12*	Tri Counties Bank Supplemental Executive Retirement Plan effective September 1, 1987, as amended and restated January 1, 2004 (incorporated by reference to Exhibit 10.14 to TriCo s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004).
10.13*	2004 TriCo Bancshares Supplemental Executive Retirement Plan effective January 1, 2004 (incorporated by reference to Exhibit 10.15 to TriCo s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004).
10.14*	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 (incorporated by reference to Exhibit 10.14 to TriCo s Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).
10.15*	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 (incorporated by reference to Exhibit 10.15 to TriCo s Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).
10.16*	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 (incorporated by reference to Exhibit 10.16 to TriCo s Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).
10.17*	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 (incorporated by reference to Exhibit 10.17 to TriCo s Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).
10.18*	Form of Indemnification Agreement between TriCo and its directors and executive officers (incorporated by reference to Exhibit 10.1 to TriCo s Current Report on Form 8-K filed September 10, 2013).

Item 6 Exhibits (continued)

Exhibit No.	Exhibit
10.19*	Form of Indemnification Agreement between Tri Counties Bank its directors and executive officers (incorporated by reference to Exhibit 10.2 to TriCo s Current Report on Form 8-K filed September 10, 2013).
10.20*	Form of Stock Option Agreement and Grant Notice pursuant to TriCo s 2009 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to TriCo s Current Report on Form 8-K filed May 25, 2010).
10.21*	Form of Restricted Stock Unit Agreement and Grant Notice for Non-Employee Executives pursuant to TriCo s 2009 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to TriCo s Current Report on Form 8-K filed November 14, 2014).
10.22*	Form of Restricted Stock Unit Agreement and Grant Notice for Directors pursuant to TriCo s 2009 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to TriCo s Current Report on Form 8-K filed November 14, 2014).
10.23*	Form of 2014 Performance Award Agreement and Grant Notice pursuant to TriCo s 2009 Equity Incentive Plan (incorporated by reference to Exhibit 10.3 to TriCo s Current Report on Form 8-K filed August 13, 2014).
31.1	Rule 13a-14(a)/15d-14(a) Certification of CEO
31.2	Rule 13a-14(a)/15d-14(a) Certification of CFO
32.1	Section 1350 Certification of CEO
32.2	Section 1350 Certification of CFO
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

* Management contract or compensatory plan or arrangement

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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 10, 2015

/s/ Thomas J. Reddish
Thomas J. Reddish
Executive Vice President and Chief Financial Officer
(Principal accounting and financial officer)