TRICO BANCSHARES /
Form 10-Q
May 10, 2011

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

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

for the quarterly period ended: March 31, 2011

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

for the transition period from____________________ to ____________________.

Commission File Number: 000-10661
TriCo Bancshares
(Exact Name of Registrant as Specified in Its Charter)

CALIFORNIA	**94-2792841**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification Number)**

63 Constitution Drive
Chico, California 95973
(Address of Principal Executive Offices)(Zip Code)
(530) 898-0300
(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

þ Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

o Yes o No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

o Yes þ No

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

Common stock, no par value: 15,918,089 shares outstanding as of May 5, 2011

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FORWARD-LOOKING STATEMENTS

This report on Form 10-Q contains forward-looking statements about TriCo Bancshares (the Company) that are subject to the protection of the safe harbor provisions contained in the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on the current knowledge and belief of the Company s management (Management) and include information concerning the Company s possible or assumed future financial condition and results of operations. When you see any of the words believes , expects , anticipates , estimates , or similar expression it may mean the Company is making forward-looking statements. A number of factors, some of which are beyond the Company s ability to predict or control, could cause future results to differ materially from those contemplated. The reader is directed to the Company s annual report on Form 10-K for the year ended December 31, 2010, and Part II, Item 1A of this report for further discussion of factors which could affect the Company s business and cause actual results to differ materially from those suggested by any forward-looking statement made in this report. Such Form 10-K and this report should be read to put any forward-looking statements in context and to gain a more complete understanding of the risks and uncertainties involved in the Company s business. Any forward-looking statement may turn out to be wrong and cannot be guaranteed. The Company does not intend to update any forward-looking statement after the date of this report.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

	At March 31, 2011	At December 31, 2010
Assets:		
Cash and due from banks	$ 54,527	$ 57,254
Cash at Federal Reserve and other banks	351,767	313,812
Cash and cash equivalents	406,294	371,066
Securities available-for-sale	279,824	277,271
Restricted equity securities	9,133	9,133
Loans held for sale	2,834	4,988
Loans	1,387,660	1,419,571
Allowance for loan losses	(43,224)	(42,571)
Total loans, net	1,344,436	1,377,000
Foreclosed assets, net	8,983	9,913
Premises and equipment, net	18,552	19,120
Cash value of life insurance	50,991	50,541
Accrued interest receivable	6,941	7,131
Goodwill	15,519	15,519
Other intangible assets, net	495	580
Mortgage servicing rights	4,808	4,605
Indemnification asset	6,689	5,640
Other assets	40,239	37,282
Total assets	$2,195,738	$2,189,789
Liabilities and Shareholders Equity:		
Liabilities:		
Deposits:		
Noninterest-bearing demand	$ 427,116	$ 424,070
Interest-bearing	1,432,796	1,428,103
Total deposits	1,859,912	1,852,173
Accrued interest payable	2,044	2,151
Reserve for unfunded commitments	2,690	2,640
Other liabilities	30,262	29,170
Other borrowings	57,781	62,020
Junior subordinated debt	41,238	41,238
Total liabilities	1,993,927	1,989,392

Commitments and contingencies (Note 18)		
Shareholders equity:		
Common stock, no par value: 50,000,000 shares authorized; issued and outstanding:		
15,860,138 at March 31, 2011	81,819	
15,860,138 at December 31, 2010		81,554
Retained earnings	118,906	117,533
Accumulated other comprehensive income, net of tax	1,086	1,310
Total shareholders equity	201,811	200,397
Total liabilities and shareholders equity	$2,195,738	$2,189,789

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

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

	Three months ended March 31,	
	2011	2010
Interest and dividend income:		
Loans, including fees	$21,722	$22,813
Debt securities:		
Taxable	2,374	2,755
Tax exempt	140	208
Dividends	7	6
Interest bearing cash at Federal Reserve and other banks	191	154
Total interest and dividend income	24,434	25,936
Interest expense:		
Deposits	1,827	3,058
Other borrowings	593	594
Junior subordinated debt	310	306
Total interest expense	2,730	3,958
Net interest income	21,704	21,978
Provision for loan losses	7,001	8,500
Net interest income after provision for loan losses	14,703	13,478
Noninterest income:		
Service charges and fees	5,782	5,735
Gain on sale of loans	725	585
Commissions on sale of non-deposit investment products	360	267
Increase in cash value of life insurance	450	426
Other	2,033	534
Total noninterest income	9,350	7,547
Noninterest expense:		
Salaries and related benefits	10,793	10,150

Other	8,878	8,653
Total noninterest expense	19,671	18,803
Income before income taxes	4,382	2,222
Provision for income taxes	1,582	664
Net income	$ 2,800	$ 1,558
Earnings per share:		
Basic	$ 0.18	$ 0.10
Diluted	$ 0.17	$ 0.10

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

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

	Shares of Common Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2009	15,787,753	$ 79,508	$ 118,863	$ 2,278	$ 200,649
Comprehensive income:					
Net income			1,558		1,558
Change in net unrealized loss on Securities available for sale, net				(225)	(225)
Total comprehensive income					1,333
Stock option vesting		109			109
Stock options exercised	146,403	1,229			1,229
Tax benefit of stock options exercised		390			390
Repurchase of common stock	(74,018)	(373)	(991)		(1,364)
Dividends paid ($0.13 per share)			(2,062)		(2,062)
Balance at March 31, 2010	15,860,138	$ 80,863	$ 117,368	$ 2,053	$ 200,284
Balance at December 31, 2010	15,860,138	$ 81,554	$ 117,533	$ 1,310	$ 200,397
Comprehensive income:					
Net income			2,800		2,800
Change in net unrealized gain on Securities available for sale, net				(224)	(224)
Total comprehensive income					2,576
Stock option vesting		265			265
Dividends paid ($0.09 per share)			(1,427)		(1,427)
Balance at March 31, 2011	15,860,138	$ 81,819	$ 118,906	$ 1,086	$ 201,811

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 three months ended March 31,	
	2011	2010
Operating activities:		
Net income	$ 2,800	$ 1,558
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of premises and equipment, and amortization	830	927
Amortization of intangible assets	85	65
Provision for loan losses	7,001	8,500
Amortization of investment securities premium, net	377	170
Originations of loans for resale	(32,499)	(30,472)
Proceeds from sale of loans originated for resale	35,131	30,787
Gain on sale of loans	(725)	(585)
Change in market value of mortgage servicing rights	60	49
Provision for losses on foreclosed assets	449	
Gain on sale of foreclosed assets	(200)	(40)
Loss on disposal of fixed assets	9	25
Increase in cash value of life insurance	(450)	(426)
Stock option vesting expense	265	109
Stock option excess tax benefits		(390)
Change in reserve for unfunded commitments	50	
Change in:		
Interest receivable	190	48
Interest payable	(107)	(550)
Other assets and liabilities, net	(2,951)	1,709
Net cash from operating activities	10,315	11,484
Investing activities:		
Proceeds from maturities of securities available-for-sale	22,139	20,254
Purchases of securities available-for-sale	(25,456)	(101,255)
Loan principal (increases) decreases, net	24,056	35,342
Proceeds from sale of foreclosed assets	2,205	233
Improvements of foreclosed assets	(17)	
Proceeds from sale of premises and equipment	1	1
Purchases of premises and equipment	(88)	(1,161)
Net cash from investing activities	22,840	(46,586)
Financing activities:		
Net increase in deposits	7,739	4,785
Net change in short-term other borrowings	(4,239)	(5,801)
Stock option excess tax benefits		390

Repurchase of common stock		(338)
Dividends paid	(1,427)	(2,062)
Exercise of stock options		203
Net cash from financing activities	2,073	(2,823)
Net change in cash and cash equivalents	35,228	(37,925)
Cash and cash equivalents at beginning of period	371,066	346,589
Cash and cash equivalents at end of period	$ 406,294	$ 308,664
Supplemental disclosure of noncash activities:		
Loans transferred to other real estate owned	$ 1,523	$ 2,047
Unrealized net gain on securities available for sale	$ (387)	$ (388)
Market value of shares tendered by employees in-lieu of cash to pay for exercise options and/or related taxes		$ 1,026
Supplemental disclosure of cash flow activity:		
Cash paid for interest expense	$ 2,837	$ 4,508
Cash paid for income taxes	$ 2,620	

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

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 General Summary of Significant Accounting Policies

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

Principles of Consolidation

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

Use of Estimates in the Preparation of Financial Statements

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

Significant Group Concentration of Credit Risk

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

Cash and Cash Equivalents

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

Investment Securities

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

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

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

The Company assesses an other-than-temporary impairment (OTTI) based on whether it intends to sell a security or if it is likely that the Company would be required to sell the security before recovery of the amortized cost basis of the

investment, which may be maturity. For debt securities, if we intend to sell the security or it is likely that we will be required to sell the security before recovering its cost basis, the entire impairment loss would be recognized in earnings as an OTTI. If we do not intend to sell the security and it is not likely that we will be required to sell the security but we do not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Projected cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for potential OTTI. The remaining impairment related to all other factors, the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to other comprehensive income (OCI). Impairment losses related to all other factors are presented as separate categories within OCI. For investment securities held to maturity, this amount is accreted over the remaining life of the debt security prospectively based on the amount and timing of future estimated cash flows. The accretion of the amount recorded in OCI increases the

carrying value of the investment and does not affect earnings. If there is an indication of additional credit losses the security is re-evaluated according to the procedures described above. No OTTI losses were recognized in the three months ended March 31, 2011 or the year ended December 31, 2010.

Restricted Equity Securities

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

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

Loans Held for Sale

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

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

Loans and Allowance for Loan Losses

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

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

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

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

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

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

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

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

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

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

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

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

Foreclosed Assets

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

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

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

Premises and Equipment

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

Goodwill and Other Intangible Assets

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

Impairment of Long-Lived Assets and Goodwill

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

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

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

Mortgage Servicing Rights

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

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

Indemnification Asset

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

Reserve for Unfunded Commitments

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

Income Taxes

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

Off-Balance Sheet Credit Related Financial Instruments

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

Geographical Descriptions

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

Reclassifications

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

Recent Accounting Pronouncements

The Financial Accounting Standards Board s (FASB) Accounting Standards Codification (ASC) Topic 805, Business Combinations. On January 1, 2009, new authoritative accounting guidance under ASC Topic 805, Business Combinations, became applicable to the Company s accounting for business combinations closing on or after January 1, 2009. ASC Topic 805 applies to all transactions and other events in which one entity obtains control over one or more other businesses. ASC Topic 805 requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities and any non-controlling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. This fair value approach replaces the cost-allocation process required under previous accounting guidance whereby the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. ASC Topic 805 requires acquirers to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed, as was previously the case under prior accounting guidance. Assets acquired and liabilities assumed in a business combination that arise from contingencies are to be recognized at fair value if fair value can be reasonably estimated. If fair value of such an asset or liability cannot be reasonably estimated, the asset or liability would generally be recognized in accordance with ASC Topic 450, Contingencies. Under ASC Topic 805, the requirements of

ASC Topic 420, Exit or Disposal Cost Obligations, would have to be met in order to accrue for a restructuring plan in purchase accounting. Pre-acquisition contingencies are to be recognized at fair value, unless it is a non-contractual contingency that is not likely to materialize, in which case, nothing should be recognized in purchase accounting and, instead, that contingency would be subject to the probable and estimable recognition criteria of ASC Topic 450, Contingencies.

Further new authoritative accounting guidance under ASC Topic 810 Consolidation amends prior guidance to change how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity s purpose and design and a company s ability to direct the activities of the entity that most significantly impact the entity s economic performance. The new authoritative accounting guidance requires additional disclosures about the reporting entity s involvement with variable-interest entities and any significant changes in risk exposure due to that involvement as well as its affect on the entity s financial statements. The new authoritative accounting guidance under ASC Topic 810 was effective January 1, 2010 and did not have a significant impact on the Company s financial statements.

Further new authoritative accounting guidance (Accounting Standards Update No. 2010-6) under ASC Topic 820 requires new disclosures for transfers in and out of Levels 1 and 2, including separate disclosure of significant amounts and a description of the reasons for the transfers and separate presentation of information about purchases, sales, issuances, and settlements (on a gross basis rather than net) in the reconciliation for fair value measurements using significant unobservable inputs (Level 3). The Update clarifies existing disclosure requirements for level of disaggregation, which provides measurement disclosures for each class of assets and liabilities. Emphasizing that judgment should be used in determining the appropriate classes of assets and liabilities, and inputs and valuation techniques for both recurring and nonrecurring Level 2 and Level 3 fair value measurements. This new authoritative accounting guidance also includes conforming amendments to the guidance on employer s disclosures about postretirement benefit plan assets changing the terminology of major categories of assets to classes of assets and providing a cross reference to the guidance in Subtopic 820-10 on how to determine appropriate classes to present fair value disclosures. The forgoing new authoritative accounting guidance under ASC Topic 820 became effective for the Company s financial statements beginning January 1, 2010 and had no significant impact on the Company s financial statements.

FASB ASC Topic 860, Transfers and Servicing. New authoritative accounting guidance under ASC Topic 860, Transfers and Servicing, amends prior accounting guidance to enhance reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. The new authoritative accounting guidance eliminates the concept of a qualifying special-purpose entity and changes the requirements for derecognizing financial assets. The new authoritative accounting guidance also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. The new authoritative accounting guidance under ASC Topic 860 became effective January 1, 2010 and did not have a significant impact on the Company s financial statements.

FASB issued Accounting Standards Update (ASU) No. 2011-01, *Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20.* The amendments in this Update temporarily delay the effective date of the disclosures about troubled debt restructurings in ASU No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* for public entities. The delay is intended to allow the Board time to complete its deliberations on what constitutes a troubled debt restructuring. The effective date of the new disclosures about troubled debt restructurings for public entities and the guidance for determining what constitutes a troubled debt restructuring will then be coordinated. Currently, the guidance is anticipated to be effective for interim and annual periods ending after June 15, 2011. The amendments in this Update apply to all public-entity creditors that modify financing receivables within the scope of the disclosure requirements about troubled debt restructurings in Update 2010-20. The amendments in this Update do not affect nonpublic entities. As this ASU is disclosure-related only, our adoption of this ASU in 2011 will not impact the Company s financial condition or results of operations.

FASB issued ASU No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.* This Update amends Topic 310 to improve the disclosures that an entity provides about the credit quality of its financing receivables and the related allowance for credit losses. As a result of these amendments, an entity is required to disaggregate by portfolio segment or class certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. The amendments in this Update apply to all entities, both public and nonpublic. The amendments in this Update affect all entities with financing receivables, excluding short-term trade accounts receivable or receivables measured at fair value or lower of cost or fair value. For public entities, the disclosures required by this Update as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. For nonpublic entities, the disclosures are effective for annual reporting periods ending on or after December 15, 2011. The amendments in this Update encourage, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative disclosures for those reporting periods ending after initial adoption. As this ASU is disclosure-related only, the adoption of this ASU did not impact the Bank s financial condition or results of operations.
FASB issued ASU No. 2010-18, *Receivables (Topic 310): Effect of a Loan Modification When the Loan is Part of a Pool That Is Accounted for as a Single Asset.* This Update clarifies that modifications of loans that are accounted for within a pool under Subtopic 310-30, which provides guidance on accounting for acquired loans that have evidence of credit deterioration upon acquisition, do not result in the removal of those loans from the pool even if the modification would otherwise be considered a troubled debt restructuring. An entity

will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. The amendments do not affect the accounting for loans under the scope of Subtopic 310-30 that are not accounted for within pools. Loans accounted for individually under Subtopic 310-30 continue to be subject to the troubled debt restructuring accounting provisions within Subtopic 310-40. The amendments in this Update affect any entity that acquires loans subject to Subtopic 310-30, that accounts for some or all of those loans within pools, and that subsequently modifies one or more of those loans after acquisition. The amendments in this Update are effective for modifications of loans accounted for within pools under Subtopic 310-30 occurring in the first interim or annual period ending on or after July 15, 2010. The amendments are to be applied prospectively. Early application is permitted. Upon initial adoption of the guidance in this Update, an entity may make a onetime election to terminate accounting for loans as a pool under Subtopic 310-30. This election may be applied on a pool-by-pool basis and does not preclude an entity from applying pool accounting to subsequent acquisitions of loans with credit deterioration. Adoption of this ASU did not have a significant impact on the Company s financial statements.

FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements.* This Update requires: (1) disclosure of the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurement categories and the reasons for the transfers; and (2) separate presentation of purchases, sales, issuances, and settlements in the reconciliation for fair value measurements using significant unobservable inputs (Level 3). In addition, this Update clarifies the requirements of the following existing disclosures set forth in the Codification

Subtopic 820-10: (1) For purposes of reporting fair value measurement for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities; and (2) a reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and non-recurring fair value measurements. This Update is effective for interim and annual reporting periods beginning January 1, 2010, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements, which are effective for fiscal years beginning January 1, 2011, and for interim periods within those fiscal years. As this ASU is disclosure-related only, the adoption of this ASU did not impact the Company s financial condition or results of operations.

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

FASB issued ASU No. 2010-29*, Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations.* This update provides clarification regarding the acquisition date that should be used for reporting the pro forma financial information disclosures required by Topic 805 when comparative financial statements are presented. This update also requires entities to provide a description of the nature and amount of material, nonrecurring pro forma adjustments that are directly attributable to the business combination. This update is effective for the Company prospectively for business combinations occurring after December 31, 2010.

Note 2 Business Combinations

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

5 years and 10 years, respectively, and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition date. With this agreement, the Bank added one traditional bank branch in each of Granite Bay, Roseville and Auburn, California. This acquisition is consistent with the Bank s community banking expansion strategy and provides further opportunity to fill in the Bank s market presence in the greater Sacramento, California market.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Note 3 Investment Securities

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

	March 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Securities Available-for-Sale				
Obligations of U.S. government corporations and agencies	$259,436	$7,956	$(543)	$266,849
Obligations of states and political subdivisions	11,839	148	(12)	11,975
Corporate debt securities	1,000			1,000
Total securities available-for-sale	$272,275	$8,104	$(555)	$279,824

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

No investment securities were sold during the three months ended March 31, 2011 or the year ended December 31, 2010. Investment securities with an aggregate carrying value of $131,063,000 and $140,100,000 at March 31, 2011 and December 31, 2010, respectively, were pledged as collateral for specific borrowings, lines of credit and local agency deposits.

The amortized cost and estimated fair value of debt securities at March 31, 2011 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. At March 31, 2011, obligations of U.S. government corporations and agencies with a cost basis totaling $259,436,000 consist almost entirely of mortgage-backed securities whose contractual maturity, or principal repayment, will follow the repayment of the underlying mortgages. For purposes of the following table, the entire outstanding balance of these mortgage-backed securities issued by U.S. government corporations and agencies is categorized based on final maturity date. At March 31, 2011, the Company estimates the average remaining life of these mortgage-backed securities issued by U.S. government corporations and agencies to be approximately 3.4 years. Average remaining life is defined as the time span after which the principal balance has been reduced by half.

	Amortized Cost	Estimated Fair Value
	(in thousands)	

Investment Securities		
Due in one year		
Due after one year through five years	$ 28,892	$ 29,877
Due after five years through ten years	77,422	77,956
Due after ten years	165,961	171,991
Totals	$272,275	$279,824

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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
March 31, 2011			(in thousands)			
Securities Available-for-Sale:						
Obligations of U.S. government corporations and agencies	$53,071	$(543)			$53,071	$(543)
Obligations of states and political subdivisions	1,803	(1)	531	(11)	2,334	(12)
Total securities available-for-sale	$54,874	$(544)	$531	$(11)	$55,405	$(555)

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

Obligations of U.S. government corporations and agencies: Unrealized losses on investments in obligations of U.S. government corporations and agencies are caused by interest rate increases. The contractual cash flows of these securities are guaranteed by U.S. Government Sponsored Entities (principally Fannie Mae and Freddie Mac). It is expected that the securities would not be settled at a price less than the amortized cost of the investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell and more likely than not will not be required to sell, these investments are not considered other-than-temporarily impaired. At March 31, 2011, four debt securities representing obligations of U.S. government corporations and agencies had an unrealized loss with aggregate depreciation of 1.01% 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 March 31, 2011, three debt securities representing obligations of states and political subdivisions had unrealized losses with aggregate depreciation of 0.49% from the Company s amortized cost basis.

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

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Note 4 Loans

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

	March 31, 2011			December 31, 2010		
	Originated	PCI	Total	Originated	PCI	Total
Mortgage loans on real estate:						
Residential 1-4 family	$ 122,817	$ 6,401	$ 129,218	$ 123,623	$ 7,597	$ 131,220
Commercial	673,021	24,967	697,988	682,103	25,739	707,842
Total mortgage loan on real estate	795,838	31,368	827,206	805,726	33,336	839,062
Consumer:						
Home equity lines of credit	326,932	7,120	334,052	329,080	7,072	336,152
Home equity loans	15,954		15,954	17,588		17,588
Auto Indirect	20,246		20,246	24,577		24,577
Other	15,952		15,952	15,622		15,622
Total consumer loans	379,264	7,120	386,384	386,867	7,072	393,939
Commercial	122,218	9,016	131,234	133,032	10,364	143,396
Construction:						
Residential	19,316	4,481	23,797	19,459	4,463	23,922
Commercial	20,955		20,955	21,029		21,029
Total construction	40,271	4,481	44,752	40,488	4,463	44,951
Total loans	1,337,591	51,985	1,389,576	1,366,113	55,235	1,421,348
Net deferred loan (fees) costs	(1,916)		(1,916)	(1,777)		(1,777)
Total loans, net of deferred loan fees	$1,335,675	$51,985	$1,387,660	$1,364,336	$55,235	$1,419,571
Noncovered loans	$1,335,675		$1,335,675	$1,364,336		$1,364,336
Covered loans		51,985	51,985		55,235	55,235
Total loans	$1,335,675	$51,985	$1,387,660	$1,364,336	$55,235	$1,419,571
Allowance for loan loss	$ (40,315)	$ (2,909)	$ (43,224)	$ (40,963)	$ (1,608)	$ (42,571)

	Three months ended March 31, 2011			Three months ended March 31, 2010		
	Originated	PCI	Total	Originated	PCI	Total

Change in accretable yield:		
Balance at beginning of period	$17,717	$ 17,717
Acquisitions-		
Accretion to interest income	(1,034)	(1,034)
Reclassification (to) from Nonaccretable difference	(2,284)	(2,284)
Balance at end of period	$14,399	$ 14,399

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

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Note 5 Allowance for Loan Losses

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

	Allowance for Loan Losses	Three months ended March 31, 2011								
	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Beginning balance	$ 3,007	$12,700	$15,054	$795	$1,229	$ 701	$ 5,991	$1,824	$1,270	$42,571
Charge-offs	(1,125)	(368)	(3,601)		(135)	(229)	(1,556)	(35)		(7,049)
Recoveries	112	28	161	2	127	209	21	2	39	701
Provision	1,550	(333)	4,682	114	(740)	23	2,511	(396)	(410)	7,001
Ending balance	$ 3,544	$12,027	$16,296	$911	$ 481	$ 704	$ 6,967	$1,395	$ 899	$43,224
Ending balance: Individ. evaluated for impairment	$ 1,055	$ 917	$ 1,772	$ 14	$ 161	$ 16	$ 166	$ 136	$ 595	$ 4,832
Loans pooled for evaluation	$ 2,471	$10,953	$13,972	$897	$ 319	$ 689	$ 4,781	$1,258	$ 143	$35,483
Loans acquired with deteriorated credit quality	$ 18	$ 157	$ 553				$ 2,020		$ 161	$ 2,909

	Loans, net of unearned fees	As of March 31, 2011								
	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Ending balance: Total loans	$128,474	$695,089	$335,682	$16,035	$20,240	$16,185	$131,242	$23,772	$20,941	$1,387,660
Individ. evaluated for impairment	$ 12,735	$ 55,867	$ 9,091	$ 779	$ 1,125	$ 77	$ 5,158	$ 6,756	$ 7,471	$ 99,059
Loans pooled for evaluation	$109,338	$614,255	$319,471	$15,256	$19,115	$16,108	$117,068	$12,535	$13,470	$1,236,616
Loans acquired with deteriorated	$ 6,401	$ 24,967	$ 7,120				$ 9,016	$ 4,481		$ 51,985

credit quality

Allowance for Loan Losses Three months ended March 31, 2010										
	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Beginning balance	$2,618	$ 5,071	$13,483	$ 940	$1,986	$ 616	$6,958	$ 2,067	$1,734	$35,473
Charge-offs	(455)	(2,567)	(2,242)	(408)	(526)	(340)	(526)	(1,037)		(8,101)
Recoveries		27	44		160	202	14	21		468
Provision	(32)	4,148	3,143	375	25	179	621	(747)	788	8,500
Ending balance	$2,131	$ 6,679	$14,428	$ 907	$1,645	$ 657	$7,067	$ 304	$2,522	$36,340
Ending balance: Individ. evaluated for impairment	$ 330	$ 494	$ 3,573	$ 225	$ 493	$ 88	$1,245	$ 304	$ 108	$ 6,860
Loans pooled for evaluation	$1,802	$ 6,185	$10,855	$ 682	$1,152	$ 569	$5,822		2,413	$29,480
Loans acquired with deteriorated credit quality										

Loans, net of unearned fees As of March 31, 2010										
	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Ending balance: Total loans	$141,260	$701,015	$341,772	$21,486	$39,804	$13,777	$148,745	$33,610	$13,720	$1,455,189
Individ. evaluated for impairment	$ 5,866	$ 38,686	$ 10,415	$ 523	$ 1,804	$ 211	$ 3,325	$13,876	$ 1,755	$ 76,461
Loans pooled for evaluation	$135,394	$662,329	$331,357	$20,963	$38,000	$13,566	$145,420	$19,734	$11,965	$1,378,728
Loans acquired with deteriorated credit quality										

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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 March 31, 2011

	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Originated loans:										
Pass	$105,379	$541,680	$312,098	$15,050	$18,473	$15,972	$102,260	$ 8,992	$ 8,236	$1,128,140
Special mention	895	57,226	969	20	42	10	11,790	3,395	4,786	79,133
Substandard	15,799	71,216	15,492	965	1,725	203	8,176	6,904	7,919	128,399
Loss			3							3
Total	$122,073	$670,122	$328,562	$16,035	$20,240	$16,185	$122,226	$19,291	$20,941	$1,335,675
PCI loans	$ 6,401	$ 24,967	$ 7,120				$ 9,016	$ 4,481		$ 51,985
Total loans	$128,474	$695,089	$335,682	$16,035	$20,240	$16,185	$131,242	$23,772	$20,941	$1,387,660

Credit Quality Indicators As of December 31, 2010

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

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

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

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

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

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

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

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

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

Analysis of Past Due and Nonaccrual Originated Loans As of March 31, 2011

	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Originated loans:										
Past due:										
30-59 Days	$ 2,532	$ 13,836	$ 2,721	$ 166	$ 529	$ 31	$ 2,685	$ 470	$ 1,013	$ 23,983
60-89 Days	672	1,614	2,299		198	2	2,028	226		7,039
> 90 Days	7,140	18,608	5,075	712	354		1,555	585	479	34,508
Total past due	10,344	34,058	10,095	878	1,081	33	6,268	1,281	1,492	65,530
Current	111,729	636,064	318,467	15,157	19,159	16,152	115,958	18,010	19,449	1,270,145
Total loans	$122,073	$670,122	$328,562	$16,035	$20,240	$16,185	$122,226	$19,291	$20,941	$1,335,675
> 90 Days and still accruing							$ 144			$ 144
Nonaccrual loans	$ 12,148	$ 35,834	$ 9,033	$ 717	$ 1,058	$ 78	$ 4,186	$ 6,653	$ 1,202	$ 70,909

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The following table shows the contractual ending balance of current, past due, and nonaccrual PCI loans by loan category as of March 31, 2011 (this table is prepared on an individual loan basis):

Analysis of Past Due and Nonaccrual PCI Loans As of March 31, 2011

	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
PCI Loans:										
Past due:										
30-59 Days		$ 390	$ 277				$ 692	$ 329		$ 1,688
60-89 Days							707			707
> 90 Days		2,511					651	30		3,192
Total past due		2,901	277				2,050	359		5,587
Current	6,950	26,627	8,633				6,813	3,991		53,014
Total PCI loans	$6,950	$29,528	$8,910				$8,863	$4,350		$58,601

At March 31, 2011, the Company had no nonaccruing PCI loans.

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

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

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

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

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

RE Mortgage		Home Equity		Auto	Other		Construction		

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

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

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

	Impaired Originated Loans As of March 31, 2011									
	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
With no related allowance recorded:										
Recorded investment	$ 8,870	$44,442	$6,067	$ 769	$ 623	$32	$4,740	$ 5,999	$6,510	$78,052
Unpaid principal	$11,234	$52,148	$9,260	$1,088	$1,155	$36	$5,824	$11,276	$6,699	$98,720
Average recorded Investment	$ 6,484	$35,963	$5,386	$ 511	$ 584	$55	$3,031	$ 9,517	$3,905	$65,436
Interest income Recognized	$ 6	$ 261	$ 2	$ 1	$ 3		$ 19	$ 1	$ 94	$ 387
With an allowance recorded:										
Recorded investment	$ 3,757	$14,907	$3,048	$ 14	$ 501	$46	$ 575	$ 654	$ 964	$24,466
Unpaid principal	$ 4,149	$15,085	$3,599	$ 14	$ 602	$49	$ 618	$ 708	$1,006	$25,830
Related allowance	$ 1,054	$ 917	$1,772	$ 14	$ 161	$16	$ 166	$ 136	$ 596	$ 4,832
Average recorded Investment	$ 2,763	$10,849	$4,379	$ 142	$ 881	$90	$1,069	$ 748	$ 710	$21,631
Interest income Recognized	$ 3	$ 190	$ 1		$ 1		$ 3		$ 5	$ 203

At March 31, 2011, $46,326,000 of originated loans were TDR and classified as impaired. The Company had obligations to lend $378,000 of additional funds on these TDR as of March 31, 2011.

Impaired Originated Loans As of December 31, 2010

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

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

Note 6 Foreclosed Assets

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

	Three months ended March 31, 2011			Three months ended March 31, 2010		
	Noncovered	Covered	Total	Noncovered	Covered	Total
Beginning balance, net	$ 5,000	$4,913	$ 9,913	$3,726		$3,726
Additions/transfers from loans	1,523		1,523	2,047		2,047
Dispositions/sales	(1,983)	(21)	(2,004)	(194)		(194)
Valuation adjustments	(68)	(381)	(449)			
Ending balance, net	$ 4,472	$4,511	$ 8,983	$5,579		$5,579
Ending valuation allowance	$ (505)	$ (996)	$(1,501)	$ (190)		$ (190)
Ending number of foreclosed assets	32	13	45	27		27
Proceeds from sale of foreclosed assets	$ 2,175	$ 30	$ 2,205	$ 233		$ 233
Gain (loss) on sale of foreclosed assets	$ 191	$ 9	$ 200	$ 40		$ 40

Note 7 Premises and Equipment

Premises and equipment were comprised of:

	March 31, 2011	December 31, 2010
	(in thousands)	
Premises	$ 19,841	$ 19,902
Furniture and equipment	25,869	26,009
	45,710	45,911
Less: Accumulated depreciation	(30,909)	(30,556)
	14,801	15,355
Land and land improvements	3,751	3,765
	$ 18,552	$ 19,120

Depreciation expense for premises and equipment amounted to $646,000 and $700,000 for the three months ended March 31, 2011 and 2010, respectively.

Note 8 Cash Value of Life Insurance

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

	Three months ended March 31, 2011	2010
Beginning balance	$50,541	$48,694
Increase in cash value of life insurance	450	426

Ending balance	$50,991	$49,120

The Bank is the owner and beneficiary of 140 life insurance policies, issued by 6 life insurance companies, covering 39 current and former employees and directors (Insured). These life insurance policies are recorded on the Company s financial statements at their reported cash (surrender) values. As a result of current tax law, and the nature of these policies, the Bank records any increase in cash value of these policies as nontaxable noninterest income. If the Bank decided to surrender any of the policies prior to the death of the insured, such surrender may result in a tax expense related to the life-to-date cumulative increase in cash value of the policy. If the Bank retains such policies until the death of the insured, the Bank would receive nontaxable proceeds from the insurance company equal to the death benefit of the policies. The Bank has entered into Joint Beneficiary Agreements (JBAs) with certain of the insured that for certain of the policies provide some level of sharing of the death benefit, less the cash surrender value, among the Bank and the beneficiaries of the insured upon the receipt of death benefits. See Note 15 of these financial statements for additional information on of JBAs.

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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.

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

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

(Dollar in Thousands)	December 31, 2010	Additions	Reductions	March 31, 2011
Core deposit intangibles	$ 3,927			$ 3,927
Accumulated amortization	(3,347)		$ (85)	(3,432)
Core deposit intangibles, net	$ 580		$ (85)	$ 495

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

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

Note 10 Mortgage Servicing Rights

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

	Three months ended March 31, 2011	2010
Mortgage servicing rights:		
Balance at beginning of period	$ 4,605	$ 4,089
Additions	263	270
Change in fair value	(60)	(49)
Balance at end of period	$ 4,808	$ 4,310
Servicing, late and ancillary fees received	$ 361	$ 307

Balance of loans serviced at:		
Beginning of period	$573,300	$505,947
End of period	$583,625	$518,803
Weighted-average prepayment speed (CPR)	14.8%	15.5%
Discount rate	9.0%	9.0%

The changes in fair value of MSRs that occurred during the three months ended March 31, 2011 and 2010 were mainly due to principal reductions and changes in estimated life of the MSRs.

Note 11 Indemnification Asset

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

	Three months ended March 31,	
	2011	2010
Beginning balance	$ 5,640	
Effect of actual covered losses and change in estimated future covered losses	1,681	
Reimbursable expenses incurred	122	
Payments received	(754)	
Ending balance	$ 6,689	

Note 12 Other Assets

Other assets were comprised of (in thousands):

	March 31, 2011	December 31, 2010
Deferred tax asset, net	$27,916	$28,046
Software	1,065	1,127
Prepaid expenses & miscellaneous other assets	11,258	8,109
Total other assets	$40,239	$37,282

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

Note 13 Deposits

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

	March 31, 2011	December 31, 2010
Noninterest-bearing demand	$ 427,116	$ 424,070
Interest-bearing demand	406,060	395,413
Savings	608,502	585,850
Time certificates, $100,000 and over	219,125	235,992
Other time certificates	199,109	210,848
Total deposits	$1,859,912	$1,852,173

Certificate of deposit balances of $5,000,000 and $5,000,000 from the State of California were included in time certificates, $100,000 and over, at March 31, 2011 and December 31, 2010, respectively. The Bank participates in a deposit program offered by the State of California whereby the State may make deposits at the Bank s request subject to collateral and credit worthiness constraints. The negotiated rates on these State deposits are generally more favorable than other wholesale funding sources available to the Bank. Overdrawn deposit balances of $1,573,000 and $1,513,000 were classified as consumer loans at March 31, 2011 and December 31, 2010, respectively.

Note 14 Reserve for Unfunded Commitments

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

	Three months ended March 31,	
	2011	2010
Balance at beginning of period	$2,640	$3,640
Provision for losses unfunded commitments	50	
Balance at end of period	$2,690	$3,640

Note 15 Other Liabilities

Other liabilities were comprised of (in thousands):

	March 31, 2011	December 31, 2010
Deferred compensation	$ 8,346	$ 8,289
Supplemental retirement	10,205	9,873
Additional minimum pension liability	5,770	5,770
Joint beneficiary agreements	1,908	1,851
Miscellaneous other liabilities	4,033	3,387
Total other liabilities	$30,262	$29,170

Note 16 Other Borrowings

A summary of the balances of other borrowings follows:

	March 31, 2011	December 31, 2010
	(in thousands)	
Borrowing under security repurchase agreement, rate is fixed at 4.72% and principal is callable in its entirety by lender on a quarterly basis until final maturity on August 30, 2012	$50,000	$50,000
Other collateralized borrowings, fixed rate, as of March 31, 2011 of 0.15% payable on April 1, 2011	7,781	12,020
Total other borrowings	$57,781	$62,020

During August 2007, the Company entered into a security repurchase agreement with principal balance of $50,000,000 and terms as described above. As of March 31, 2011, the Company has pledged as collateral and sold under an agreement to repurchase investment securities with fair value of $62,070,000 under this security repurchase agreement. The Company did not enter into any other repurchase agreements during the three months ended March 31, 2011 or the year ended December 31, 2010. The average balance of repurchase agreements during the three months ended March 31, 2011 was $50,000,000, with an average rate of 4.72%.

The Company had $7,781,000 and $12,020,000 of other collateralized borrowings at March 31, 2011 and December 31, 2010, respectively. Other collateralized borrowings are generally overnight maturity borrowings from non-financial institutions that are collateralized by securities owned by the Company. As of March 31, 2011, the Company has pledged as collateral and sold under agreements to repurchase investment securities with fair value of $21,888,000 under these other collateralized borrowings.

The Company maintains a collateralized line of credit with the Federal Home Loan Bank of San Francisco. Based on the FHLB stock requirements at March 31, 2011, this line provided for maximum borrowings of $444,305,000 of which none was outstanding, leaving $444,305,000 available. As of March 31, 2011, the Company has designated loans totaling $913,436,000 as potential collateral under this collateralized line of credit with the FHLB.

The Company maintains a collateralized line of credit with the Federal Reserve Bank of San Francisco. As of March 31, 2011, this line provided for maximum borrowings of $73,687,000 of which none was outstanding, leaving $73,687,000 available. As of March 31, 2011, the Company has designated investment securities with fair value of $919,000 and loans totaling $109,319,000 as potential collateral under this collateralized line of credit with the FRB.

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

Note 17 Junior Subordinated Debt

On July 31, 2003, the Company formed a subsidiary business trust, TriCo Capital Trust I, to issue trust preferred securities. Concurrently with the issuance of the trust preferred securities, the trust issued 619 shares of common stock to the Company for $1,000 per share or an aggregate of $619,000. In addition, the Company issued a Junior Subordinated Debenture to the Trust in the amount of $20,619,000. The terms of the Junior Subordinated Debenture are materially consistent with the terms of the trust preferred securities issued by TriCo Capital Trust I. Also on July 31, 2003, TriCo Capital Trust I completed an offering of 20,000 shares of cumulative trust preferred securities for cash in an aggregate amount of $20,000,000. The trust preferred securities are mandatorily redeemable upon maturity on October 7, 2033 with an interest rate that resets quarterly at three-month LIBOR plus 3.05%. TriCo Capital Trust I has the right to redeem the trust preferred securities on or after October 7, 2008. The trust preferred securities were issued through an underwriting syndicate to which the Company paid underwriting fees of $7.50 per trust preferred security or an aggregate of $150,000. The net proceeds of $19,850,000 were used to finance the opening of new branches, improve bank services and technology, repurchase shares of the Company s common stock under its

repurchase plan and increase the Company s capital. The trust preferred securities have not been and will not be registered under the Securities Act of 1933, as amended, or applicable state securities laws and were sold pursuant to an exemption from registration under the Securities Act of 1933. The trust preferred securities may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act of 1933, as amended, and applicable state securities laws.

The $20,619,000 of junior subordinated debentures issued by TriCo Capital Trust I are reflected as junior subordinated debt in the consolidated balance sheets. The common stock issued by TriCo Capital Trust I are recorded in other assets in the consolidated balance sheets.

On June 22, 2004, the Company formed a second subsidiary business trust, TriCo Capital Trust II, to issue trust preferred securities. Concurrently with the issuance of the trust preferred securities, the trust issued 619 shares of common stock to the Company for $1,000 per share or an aggregate of $619,000. In addition, the Company issued a Junior Subordinated Debenture to the Trust in the amount of

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

The $20,619,000 of junior subordinated debentures issued by TriCo Capital Trust II are reflected as junior subordinated debt in the consolidated balance sheets. The common stock issued by TriCo Capital Trust II is recorded in other assets in the consolidated balance sheets.

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

Note 18 Commitments and Contingencies

Restricted Cash Balances Reserves (in the form of deposits with the Federal Reserve Bank) of $17,098,000 and $13,351,000 were maintained to satisfy Federal regulatory requirements at March 31, 2011 and December 31, 2010, respectively. These reserves are included in cash and due from banks in the accompanying balance sheets.

Lease Commitments The Company leases 46 sites under non-cancelable operating leases. The leases contain various provisions for increases in rental rates, based either on changes in the published Consumer Price Index or a predetermined escalation schedule. Substantially all of the leases provide the Company with the option to extend the lease term one or more times following expiration of the initial term. The Company currently does not have any capital leases.

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

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

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

(in thousands)	March 31, 2011	December 31, 2010
Financial instruments whose amounts represent risk:		
Commitments to extend credit:		
Commercial loans	$132,220	$116,785
Consumer loans	382,996	380,269

Real estate mortgage loans	13,838	14,366
Real estate construction loans	6,473	7,174
Standby letters of credit	4,862	5,022
Deposit account overdraft privilege	52,819	38,600

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

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

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

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

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

The remaining unredeemed shares of Visa Class B common stock are restricted and may not be transferred until the later of (1) three years from the date of the initial public offering or (2) the period of time necessary to resolve the covered litigation. If the funds in the escrow account are insufficient to settle all the covered litigation, Visa may sell additional Class A shares, use the proceeds to settle litigation, and further reduce the conversion ratio. If funds remain in the escrow account after all litigation is settled, the Class B conversion ratio will be increased to reflect that surplus. As of December 31, 2010, the value of the Class A shares was $70.38 per share. Utilizing the new conversion ratio effective in July 2009, the value of unredeemed Class A equivalent shares owned by the Company was $367,000 as of December 31, 2010, and has not been reflected in the accompanying financial statements.

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

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

responsibilities.

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

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Note 19 Shareholders Equity

Dividends Paid

The Bank paid to the Company cash dividends in the aggregate amounts of $1,427,000 during the three months ended March 31, 2011. The Bank is regulated by the FDIC and the State of California Department of Financial Institutions. Absent approval from the Commissioner of Financial Institutions of California, California banking laws generally limit the Bank s ability to pay dividends to the lesser of (1) retained earnings or (2) net income for the last three fiscal years, less cash distributions paid during such period.

Shareholders Rights Plan

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

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

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

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

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

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, 2011, the Company had repurchased 166,600 shares under this plan.

Stock Repurchased Under Equity Compensation Plans

During the three months ended March 31, 2011 employees tendered no shares of the Company s common stock in lieu of cash to exercise options to purchase shares of the Company s stock or to pay income taxes related to such exercises as permitted by the Company s shareholder-approved equity compensation plans.

Note 20 Stock Options and Other Equity-Based Incentive Instruments

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

common stock available for issuance under the 2009 Plan shall increase by two shares. Shares awarded and delivered under the 2009 Plan may be authorized but unissued, or reacquired shares. As of March 31, 2011, 215,000 options for the purchase of common shares remain outstanding, and 435,000 remain available for grant, under the 2009 Plan.

In May 2001, the Company adopted the TriCo Bancshares 2001 Stock Option Plan (2001 Plan) covering officers, employees, directors of, and consultants to, the Company. Under the 2001 Plan, the option exercise price cannot be less than the fair market value of the Common Stock at the date of grant except in the case of substitute options. Options for the 2001 Plan expire on the tenth anniversary of the grant date. Vesting schedules under the 2001 Plan are determined individually for each grant. As of March 31, 2011, 1,210,185 options for the purchase of common shares remain outstanding under the 2001 Plan. As of May 2009, as a result of the shareholder approval of the 2009 Plan, no new options may be granted under the 2001 Plan.

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

	Number Of Shares	Option Price Per Share	Weighted Average Exercise Price	Weighted Average Fair Value on Date of Grant
Outstanding at December 31, 2010	1,425,185	$8.05 to $25.91	$15.78	
Options granted		- to -		
Options exercised		- to -		
Options forfeited		- to -		
Outstanding at March 31, 2011	1,425,185	$8.05 to $25.91	$15.78	

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

(dollars in thousands except exercise price)	Currently Exercisable	Currently Not Exercisable	Total Outstanding
Number of options	1,091,065	334,120	1,425,185
Weighted average exercise price	$ 14.98	$ 18.37	$ 15.78
Intrinsic value (thousands)	$ 3,500	$ 66	$ 3,566
Weighted average remaining contractual term (yrs.)	2.87	8.21	4.13

The 334,120 options that are not currently exercisable as of March 31, 2011 are expected to vest, on a weighted-average basis, over the next 2.61 years, and the Company is expected to recognize $1,701,000 of pre-tax compensation costs related to these options as they vest.

Note 21 Noninterest Income and Expenses

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

	Three months ended March 31,	
	2011	2010
Service charges on deposit accounts	$3,430	$3,778
ATM and interchange fees	1,645	1,368
Other service fees	406	331
Mortgage banking service fees	361	307
Change in value of mortgage servicing rights	(60)	(49)
Total service charges and fees	5,782	5,735
Gain on sale of loans	725	585
Commissions on sale of non-deposit investment products	360	267
Increase in cash value of life insurance	450	426
Change in indemnification asset	1,692	
Gain on sale of foreclosed assets	200	40

Legal settlement		400
Sale of customer checks	59	48
Lease brokerage income	33	37
Gain (loss) on disposal of fixed assets	(9)	(25)
Commission rebates	(17)	(16)
Other	75	50
Total other noninterest income	3,568	1,812
Total noninterest income	$9,350	$7,547

Mortgage loan servicing fees, net of change in fair value of mortgage loan servicing rights, totaling $301,000 and $259,000 were recorded in service charges and fees noninterest income for the three months ended March 31, 2011 and 2010, respectively.

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

	Three months ended March 31,	
	2011	2010
Base salaries, net of deferred loan origination costs	$ 7,004	$ 6,974
Incentive compensation	916	546
Benefits and other compensation costs	2,873	2,630
Total salaries and benefits expense	10,793	10,150
Occupancy	1,460	1,329
Equipment	921	974
Data processing and software	852	675
ATM network charges	482	458
Telecommunications	406	413
Postage	216	247
Courier service	208	197
Advertising	432	521
Assessments	867	784
Operational losses	109	67
Professional fees	287	716
Foreclosed assets expense	167	197
Provision for foreclosed asset losses	449	
Change in reserve for unfunded commitments	50	
Intangible amortization	85	65
Other	1,887	2,010
Total other noninterest expense	8,878	8,653
Total noninterest income	$19,671	$18,803

Note 22 Income Taxes

The provisions for income taxes applicable to income before taxes for the years ended December 31, 2010, 2009 and 2008 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 as follows:

	Three months ended March 31,	
	2011	2010
Federal statutory income tax rate	35.0%	35.0%
State income taxes, net of federal tax benefit	5.7	4.4
Tax-exempt interest on municipal obligations	(1.1)	(3.2)
Increase in cash value of insurance policies	(3.6)	(6.7)
Other	0.1	0.4
Effective Tax Rate	36.1%	29.9%

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 March 31,	
(in thousands)	2011	2010
Net income	$ 2,800	$ 1,558
Average number of common shares outstanding	15,860	15,823
Effect of dilutive stock options	163	251
Average number of common shares outstanding used to calculate diluted earnings per share	16,023	16,074

There were 763,000 and 383,000 options excluded from the computation of diluted earnings per share for the three months ended March 31, 2011 and 2010, respectively, because the effect of these options was antidilutive.

Note 24 Comprehensive Income

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

	Three months ended March 31,	
	2011	2010
(in thousands)		
Unrealized holding gains (losses) on available-for-sale securities	$(387)	$(388)
Tax effect	163	163
Unrealized holding gains (losses) on available-for-sale securities, net of tax	$(224)	$(225)

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

	March 31, 2011	December 31, 2010
	(in thousands)	
Net unrealized gains (losses) on available-for-sale securities	$ 7,549	$ 7,936
Tax effect	(3,174)	(3,337)
Unrealized holding gains (losses) on available-for-sale securities, net of tax	4,375	4,599
Minimum pension liability	(5,770)	(5,770)
Tax effect	2,426	2,426
Minimum pension liability, net of tax	(3,344)	(3,344)
Joint beneficiary agreement liability	96	96
Tax effect	(41)	(41)
Joint beneficiary agreement liability, net of tax	55	55
Accumulated other comprehensive income (loss)	$ 1,086	$ 1,310

Note 25 Retirement Plans

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

	Three months ended March 31,	
	2011	2010
	(in thousands)	
Net pension cost included the following components:		
Service cost-benefits earned during the period	$ 164	$ 131
Interest cost on projected benefit obligation	210	191
Amortization of net obligation at transition	1	1
Amortization of prior service cost	38	38
Recognized net actuarial loss	96	54
Net periodic pension cost	$ 509	$ 415

During the three months ended March 31, 2011 and 2010, the Company contributed and paid out as benefits $177,000 and $190,000, respectively, to participants under the plans. For the year ending December 31, 2011, the Company expects to contribute and pay out as benefits $722,000 to participants under the plans.

Note 26 Related Party Transactions

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

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

Balance December 31, 2009	$ 5,245
Advances/new loans	1,999
Removed/payments	(4,673)
Balance December 31, 2010	$ 2,571
Advances/new loans	50
Removed/payments	(533)
Balance March 31, 2011	$ 2,088

Note 27 Fair Value Measurement

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

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

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

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

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

Securities available-for-sale Securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security s credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

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

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

Foreclosed assets Foreclosed assets include assets acquired through, or in lieu of, loan foreclosure. Foreclosed assets are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, management periodically performs valuations and the assets are carried at the lower of carrying amount or fair value less cost to sell. The fair value of foreclosed assets is established using current real estate appraisals. Revenue and expenses from operations and changes in the valuation allowance are included in other noninterest expense. The Company records foreclosed assets as nonrecurring Level 3.

Mortgage servicing rights Mortgage servicing rights are carried at fair value. A valuation model, which utilizes a discounted cash flow analysis using a discount rate and prepayment speed assumptions is used in the computation of the fair value measurement. While the prepayment speed assumption is currently quoted for comparable instruments, the discount rate assumption currently requires a significant degree of management judgment. As such, the Company classifies mortgage servicing rights subjected to recurring fair value adjustments as Level 3.

Goodwill and other intangible assets Goodwill and other intangible assets are subject to impairment testing. A projected cash flow valuation method is used in the completion of impairment testing. This valuation method requires a significant degree of management judgment as there are unobservable inputs for these assets. In the event the projected undiscounted net operating cash flows are less than the carrying value, the asset is recorded at fair value as determined by the valuation model. As such, the Company classifies goodwill and other intangible assets subjected to nonrecurring fair value adjustments as Level 3.

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

	Total	Level 1	Level 2	Level 3
Fair value at Mach 31, 2011				
Securities available-for-sale:				
Obligations of U.S. government corporations and agencies	$266,849		$266,849	
Obligations of states and political subdivisions	11,975		11,975	
Corporate debt securities	1,000		1,000	
Mortgage servicing rights	4,808			4,808
Total assets measured at fair value	$284,632		$279,824	$4,808

	Total	Level 1	Level 2	Level 3
Fair value at December 31, 2010				
Securities available-for-sale:				
Obligations of U.S. government corporations and agencies	$264,181		$264,181	
Obligations of states and political subdivisions	12,541		12,541	
Corporate debt securities	549		549	
Mortgage servicing rights	4,605			$4,605
Total assets measured at fair value	$281,876		$277,271	$4,605

The following table provides a reconciliation of assets and liabilities measured at fair value using significant unobservable inputs (Level 3) on a recurring basis during the three months ended March 31, 2011 and 2010. The amount included in the Transfer into Level 3 column represents the beginning balance of an item in the period (interim quarter) for which it was designated as a Level 3 fair value measure (in thousands):

	Beginning Balance	Transfers into Level 3	Change Included in Earnings	Issuances	Ending Balance
Three months ended March 31,					
2011: Mortgage servicing rights	$4,605		(60)	263	$4,808
2010: Mortgage servicing rights	$4,089		(49)	270	$4,310

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

	Total	Level 1	Level 2	Level 3
As of March 31, 2011				
Fair value:				
Impaired originated loans	$21,062			$21,062
Noncovered foreclosed assets	493			$ 493
Covered foreclosed assets	884			884
Total assets measured at fair value	$22,439			$22,439

	Total	Level 1	Level 2	Level 3
As of March 31, 2010				
Fair value:				
Impaired originated loans	$25,225			$25,225
Noncovered foreclosed assets				
Covered foreclosed assets				
Total assets measured at fair value	$25,225			$25,225

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

	Three months ended March 31,	
(in thousands)	2011	2010
Impaired originated loan	$3,462	$8,463
Non-covered foreclosed assets	67	
Covered foreclosed assets	381	
Total loss from nonrecurring fair value adjustments	$3,910	$8,463

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

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

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

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

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

estimate of the valuation allowance needed to adjust computed fair values for credit quality of certain originated loans in the portfolio.

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

Cash Value of Life Insurance The fair values of insurance policies owned are based on the insurance contract s cash surrender value.

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

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

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

Junior Subordinated Debentures The fair value of junior subordinated debentures is estimated using a discounted cash flow model. The future cash flows of these instruments are extended to the next available redemption date or maturity date as appropriate based upon the spreads of recent issuances or quotes from brokers for comparable bank holding companies compared to the contractual spread of each junior subordinated debenture measured at fair value.
Commitments to Extend Credit and Standby Letters of Credit The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit worthiness of the counter parties. For fixed rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligation with the counter parties at the reporting date.
Fair values for financial instruments are management s estimates of the values at which the instruments could be exchanged in a transaction between willing parties. These estimates are subjective and may vary significantly from amounts that would be realized in actual transactions. In addition, other significant assets are not considered financial assets including, any mortgage banking operations, deferred tax assets, and premises and equipment. Further, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on the fair value estimates and have not been considered in any of these estimates.
The estimated fair values of the Company s financial instruments are as follows:

	March 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)		(in thousands)	
Financial assets:				
Cash and due from banks	$ 54,527	$ 54,527	$ 57,254	$ 57,254
Cash at Federal Reserve and other banks	351,767	351,767	313,812	313,812
Securities available-for-sale	279,824	279,824	277,271	277,271
Restricted equity securities	9,133	9,133	9,133	9,133
Loans held for sale	2,834	2,834	4,988	4,988
Loans, net	1,344,436	1,410,128	1,377,000	1,451,151
Cash value of life insurance	50,991	50,991	50,541	50,541
Mortgage servicing rights	4,808	4,808	4,605	4,605
Indemnification asset	6,689	6,689	5,640	5,640
Financial liabilities:				
Deposits	1,859,912	1,861,444	1,852,173	1,854,763
Other borrowings	57,781	60,852	62,020	65,716
Junior subordinated debt	41,238	21,444	41,238	21,444

	Contract Amount	Fair Value	Contract Amount	Fair Value
Off-balance sheet:				
Commitments	$535,527	$5,355	$518,595	$5,186
Standby letters of credit	4,862	49	5,022	50
Overdraft privilege commitments	52,819	528	38,600	386

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TRICO BANCSHARES

Financial Summary

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

	Three months ended March 31,	
	2011	2010
Net Interest Income (FTE)	$ 21,787	$ 22,101
Provision for loan losses	(7,001)	(8,500)
Noninterest income	9,350	7,547
Noninterest expense	(19,671)	(18,803)
Provision for income taxes (FTE)	(1,665)	(787)
Net income	$ 2,800	$ 1,558
Earnings per share:		
Basic	$ 0.18	$ 0.10
Diluted	$ 0.17	$ 0.10
Per share:		
Dividends paid	$ 0.09	$ 0.13
Book value at period end	$ 12.72	$ 12.63
Tangible book value at period end	$ 11.71	$ 11.63
Average common shares outstanding	15,860	15,823
Average diluted common shares outstanding	16,023	16,074
Shares outstanding at period end	15,860	15,860
At period end:		
Loans, net	$1,344,436	$1,418,849
Total assets	2,195,738	2,169,587
Total deposits	1,859,912	1,833,297
Other borrowings	57,781	60,952
Junior subordinated debt	41,238	41,238
Shareholders equity	201,811	200,284
Financial Ratios:		
During the period (annualized):		
Return on assets	0.51%	0.29%
Return on equity	5.50%	3.05%
Net interest margin[1]	4.31%	4.40%
Net loan charge-offs to average loans	1.82%	2.08%
Efficiency ratio[1]	63.2%	63.4%
Average equity to average assets	9.30%	9.41%
At period end:		
Equity to assets	9.19%	9.23%
Total capital to risk-adjusted assets	14.45%	13.54%
Allowance for losses to loans[2]	3.31%	2.75%

[1] Fully taxable equivalent (FTE)

[2] Allowance for losses includes allowance for loan losses and reserve for unfunded commitments.

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

General

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

Critical Accounting Policies and Estimates

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

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

On May 28, 2010, the Office of the Comptroller of the Currency closed Granite Community Bank (Granite), Granite Bay, California and appointed the FDIC as receiver. That same date, the Bank assumed the banking operations of Granite from the FDIC under a whole bank purchase and assumption agreement with loss sharing. Under the terms of the loss sharing agreement, the FDIC will cover a substantial portion of any future losses on loans, related unfunded loan commitments, other real estate owned (OREO)/foreclosed assets and accrued interest on loans for up to 90 days. The FDIC will absorb 80% of losses and share in 80% of loss recoveries on the covered assets acquired from Granite. The loss sharing arrangements for non-single family residential and single family residential loans are in effect for 5 years and 10 years, respectively, and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition date. With this agreement, the Bank added one traditional bank branch in each of Granite Bay and Auburn, California. This acquisition is consistent with the Bank s community banking expansion strategy and provides further opportunity to fill in the Bank s market presence in the greater Sacramento, California market. The Company refers to loans and foreclosed assets that are covered by loss share agreements as covered loans and covered foreclosed assets , respectively. In addition, the Company refers to loans purchased or obtained in a business combination as purchased credit impaired (PCI) loans, or purchased non-credit impaired (PNCI) loans. The Company refers to loans that it originates as originated loans. As of December 31, 2010, the Company has no loans that it classifies as PNCI loans.

Geographical Descriptions

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

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

	Three months ended March 31,	
	2011	2010
Net Interest Income (FTE)	$ 21,787	$ 22,101
Provision for loan losses	(7,001)	(8,500)
Noninterest income	9,350	7,547
Noninterest expense	(19,671)	(18,803)
Provision for income taxes (FTE)	(1,665)	(787)
Net income	$ 2,800	$ 1,558

Net Interest Income

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

	Three months ended March 31,	
	2011	2010
Interest income	$24,434	$25,936
Interest expense	(2,730)	(3,958)
FTE adjustment	83	123
Net interest income (FTE)	$21,787	$22,101
Net interest margin (FTE)	4.31%	4.40%

Net interest income (FTE) during the first quarter of 2011 decreased $314,000 (1.4%) from the same period in 2010 to $21,787,000. The decrease in net interest income (FTE) was due to a 0.09% (nine basis points) decrease in net interest margin (FTE) to 4.31% and a $73,354,000 (5.0%) decrease in average balance of loans. Much of the nine basis point decrease in net interest margin was due to the fact that despite historically low deposit rates, deposit balances continue to grow while the ability to deploy these growing deposits into some interest-earning asset other than short-term low-yield interest-earning cash at the Federal Reserve Bank has been limited. This limitation is the result of weak loan demand and investment yields that have been unattractive given their interest rate risk profile.

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Summary of Average Balances, Yields/Rates and Interest Differential

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

	For the three months ended					
	March 31, 2011			March 31, 2010		
	Average Balance	Interest Income/ Expense	Rates Earned /Paid	Average Balance	Interest Income/ Expense	Rates Earned /Paid
Assets:						
Loans	$1,396,331	$21,722	6.22%	$1,469,685	$22,813	6.21%
Investment securities taxable	276,497	2,381	3.44%	265,177	2,761	4.16%
Investment securities nontaxable	12,063	223	7.38%	17,310	331	7.64%
Cash at Federal Reserve and other banks	339,394	191	0.23%	256,724	154	0.24%
Total interest-earning assets	2,024,285	24,517	4.84%	2,008,896	26,059	5.19%
Other assets	165,078			160,242		
Total assets	2,189,363			2,169,138		
Liabilities and shareholders equity:						
Interest-bearing demand deposits	402,267	349	0.35%	368,660	615	0.67%
Savings deposits	592,084	367	0.25%	522,246	642	0.49%
Time deposits	432,166	1,111	1.03%	560,266	1,801	1.29%
Other borrowings	59,223	593	4.01%	61,843	594	3.84%
Junior subordinated debt	41,238	310	3.01%	41,238	306	2.97%
Total interest-bearing liabilities	1,526,978	2,730	0.72%	1,554,253	3,958	1.02%
Noninterest-bearing deposits	425,089			374,018		
Other liabilities	33,761			36,667		
Shareholders equity	203,535			204,200		
Total liabilities and shareholders equity	$2,189,363			$2,169,138		
Net interest spread[1]			4.12%			4.17%
Net interest income and interest margin[2]		$21,787	4.31%		$22,101	4.40%

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

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

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

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

	Three months ended March 31, 2011 compared with three months ended March 31, 2010		
	Volume	Rate	Total
Increase (decrease) in interest income:			
Loans	$(1,139)	$ 48	$(1,091)
Investment securities	66	(555)	(488)
Cash at Federal Reserve and other banks	50	(13)	37
Total interest-earning assets	(1,023)	(520)	(1,542)
Increase (decrease) in interest expense:			
Interest-bearing demand deposits	56	(322)	(266)
Savings deposits	86	(361)	(275)
Time deposits	(413)	(277)	(690)
Other borrowings	(25)	24	(1)
Junior subordinated debt		4	4
Total interest-bearing liabilities	(296)	(932)	(1,228)
Increase (decrease) in Net Interest Income	$ (727)	$ 412	$ (314)

Provision for Loan Losses

The Company provided $7,001,000 for loan losses in the first quarter of 2011 versus $8,144,000 in the fourth quarter of 2010 and $8,500,000 in the first quarter of 2010. The allowance for loan losses increased $653,000 from $42,571,000 at December 31, 2010 to $43,224,000 at March 31, 2011. The provision for loan losses and increase in the allowance for loan and lease losses during the first quarter of 2011 were primarily the result of changes in the make-up of the loan portfolio and the Bank s loss factors in reaction to increased losses in the construction, commercial real estate, commercial & industrial (C&I), home equity and auto indirect loan portfolios.

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

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

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Noninterest Income

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

	Three months ended March 31,	
	2011	2010
Service charges on deposit accounts	$3,430	$3,778
ATM fees and interchange	1,645	1,368
Other service fees	406	331
Mortgage banking service fees	361	307
Change in value of mortgage servicing rights	(60)	(49)
Gain on sale of loans	725	585
Commissions on sale of nondeposit investment products	360	267
Increase in cash value of life insurance	450	426
Change in indemnification asset	1,692	
Gain on disposition of foreclosed assets	200	40
Legal settlement		400
Other noninterest income	141	94
Total noninterest income	$9,350	$7,547

Noninterest income increased $1,803,000 (23.9%) to $9,350,000 in the three months ended March 31, 2011 when compared to the three months ended March 31, 2010. Service charges on deposit accounts were down $348,000 (9.2%) due to new overdraft regulations that became effective on July 1, 2010 and caused a decrease in non-sufficient funds fees. ATM fees and interchange income was up $277,000 (20.2%) due to increased customer point-of-sale transactions that are the result of incentives for such usage. Overall, mortgage banking activities, which includes mortgage banking servicing fees, change in value of mortgage servicing rights, and gain on sale of loans, accounted for $1,026,000 of noninterest income during the three months ended March 31, 2011 compared to $844,000 during the three months ended March 31, 2010. Commissions on sale of nondeposit investment products increased $93,000 (34.8%) during the three months ended March 31, 2011. The change in indemnification asset of $1,692,000 recorded during the three months ended March 31, 2011 is primarily due to an increase in estimated loan losses from the loan portfolio and foreclosed assets acquired in the Granite acquisition on May 28, 2010, and the fact that such losses are generally covered at the rate of 80% by the FDIC. The actual increase in estimated losses is reflected in decreased interest income, increased provision for loan losses and/or increased provision for foreclosed asset losses.

Noninterest Expense

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

	Three months ended March 31, 2011	Three months ended March 31, 2010
Salaries and related benefits:		
Base salaries, net of deferred loan origination costs	$ 7,004	$ 6,974
Incentive compensation	916	546
Benefits and other compensation costs	2,873	2,630
Total salaries and related benefits	10,793	10,150
Other noninterest expense:		
Occupancy	1,460	1,329
Equipment	921	974
Data processing and software	852	675
ATM network charges	482	458
Telecommunications	406	413
Postage	216	247
Courier service	208	197
Advertising and marketing	432	521
Assessments	867	784
Operational losses	109	67
Professional fees	287	716
Foreclosed asset expense	167	197
Provision for foreclosed asset losses	449	
Change in reserve for unfunded commitments	50	
Intangible amortization	85	65
Other	1,887	2,010
Total other noninterest expenses	8,878	8,653
Total noninterest expense	$19,671	$18,803
Average full time equivalent staff	670	651
Noninterest expense to revenue (FTE)	63.2%	63.4%

Salary and benefit expenses increased $643,000 (6.3%) to $10,793,000 during the three months ended March 31, 2011 compared to the three months ended March 31, 2010. Base salaries increased $30,000 (0.4%) to $7,004,000 during the three months ended March 31, 2011. The increase in base salaries was mainly due to a 2.9% increase in average full time equivalent staff to 670 that was substantially offset by increased deferral of loan origination related salaries due to increased loan production when compared to the three months ended March 31, 2010. Incentive and commission related salary expenses increased $370,000 (67.8%) to $916,000 during three months ended March 31, 2011 due primarily to increases in production related incentives and incentives tied to net income. Benefits expense, including retirement, medical and workers compensation insurance, and taxes, increased $243,000 (9.2%) to $2,873,000 during the three months ended March 31, 2011 primarily due to increases in stock option vesting and supplemental retirement

plan expenses.

Other noninterest expenses increased $225,000 (2.6%) to $8,878,000 during the three months ended March 31, 2011 when compared to the three months ended March 31, 2010. Changes in the various categories of other noninterest expense are reflected in the table above. The changes are indicative of the economic environment which has led to increases, or fluctuations, in professional loan collection expenses, provision for foreclosed asset losses, and foreclosed asset expenses. Occupancy and equipment expenses increased primarily due to one new branch opening in each of the first and second quarters of 2010, and two branches acquired in the Granite acquisition on May 28, 2010.

Income Taxes

The effective tax rate on income was 36.1% and 29.9% for the three months ended March 31, 2011 and 2010, respectively. The effective tax rate was greater than the federal statutory tax rate due to state tax expense of $381,000 and $151,000, respectively, in these periods. Tax-exempt income of $140,000 and $208,000, respectively, from investment securities, and $450,000 and $426,000, respectively, from increase in cash value of life insurance in these periods, along with relatively low levels of net income before taxes, helped to reduce the effective tax rate.

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Financial Condition

Investment Securities

Investment securities available for sale increased $2,553,000 to $279,824,000 as of March 31, 2011, as compared to December 31, 2010. This increase is attributable to purchases of $25,456,000 of investment securities available for sale offset by proceeds from maturities of $22,139,000 of investment securities available for sale, a decrease in fair value of investments securities available for sale of $387,000, and amortization of net purchase price premiums of $377,000.

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

	March 31, 2011		December 31, 2010	
(dollars in thousands)	Fair Value	%	Fair Value	%
Securities Available-for-Sale:				
Obligations of U.S. government corporations and agencies	$266,849	95.4%	$264,181	95.3%
Obligations of states and political subdivisions	11,975	4.2%	12,541	4.5%
Corporate debt securities	1,000	0.4	549	0.2%
Total securities available-for-sale	$279,824	100.0%	$277,271	100.0%

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

Restricted Equity Securities

Restricted equity securities were $9,133,000 at March 31, 2011 and $9,133,000 at December 31, 2010. The entire balance of restricted equity securities at March 31, 2011 and December 31, 2010 represent the Bank s investment in the Federal Home Loan Bank of San Francisco (FHLB).

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

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

Loans

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

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

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

(dollars in thousands)	March 31, 2011	December 31, 2010
Real estate mortgage	$ 823,563	$ 835,471
Consumer	388,142	395,771
Commercial	131,242	143,413
Real estate construction	44,713	44,916
Total loans	$1,387,660	$1,419,571

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

(dollars in thousands)	March 31, 2011	December 31, 2010
Real estate mortgage	59.3%	58.8%
Consumer	28.0%	27.9%
Commercial	9.5%	10.1%
Real estate construction	3.2%	3.2%
Total loans	100.0%	100.0%

At March 31, 2011 loans, including net deferred loan costs, totaled $1,387,660,000 which was a 2.2% ($31,911,000) decrease over the balances at December 31, 2010. Demand for all categories of loans was weak during the three months ended March 31, 2011.

In connection with the FDIC-assisted acquisition of certain of the assets and liabilities of Granite, the Bank entered into a loss-sharing agreement with the FDIC that covered approximately $85 million of Granite s assets. The Bank shares in the losses on the asset pools (loans, and foreclosed loan collateral) covered under the loss-sharing agreement. Pursuant to the terms of the loss sharing agreement, the FDIC is obligated to reimburse the Bank for 80% of losses with respect to covered assets. The Bank will reimburse the FDIC for 80% of recoveries with respect to losses for which the FDIC paid the Bank under the loss sharing agreement. We refer to the loans covered by the loss sharing agreement as covered loans. We referred to our loans that are not covered by the loss-sharing agreement as noncovered loans. In addition, we refer to loans purchased or obtained in a business combination as purchased credit impaired (PCI) loans, or purchased non-credit impaired (PNCI) loans. The Company refers to loans that it originates

as originated loans. As of March 31, 2011, the Company has no loans that it classifies as PNCI loans.

Asset Quality and Nonperforming Assets

Nonperforming Assets

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

Originated loans are placed in nonaccrual status when reasonable doubt exists as to the full, timely collection of interest or principal, or a loan becomes contractually past due by 90 days or more with respect to interest or principal and is not well

secured and in the process of collection. When an originated loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed. Income on such loans is then recognized only to the extent that cash is received and where the future collection of principal is probable. Interest accruals are resumed on such loans only when they are brought fully current with respect to interest and principal and when, in the judgment of Management, the loan is estimated to be fully collectible as to both principal and interest.

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

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

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

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

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

changes have had on the originated loan portfolio as a whole. The allowance for originated loans is included in the allowance for loan losses.

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

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

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

Interest income on originated nonaccrual loans that would have been recognized during the months ended March 31, 2011 and 2010, if all such loans had been current in accordance with their original terms, totaled $1,601,000 and $1,826,000, respectively. Interest income actually recognized on these originated loans during the three months ended March 31, 2011 and 2010 was $108,000 and $316,000, respectively.

The Company s policy is to place originated loans 90 days or more past due on nonaccrual status. In some instances when an originated loan is 90 days past due Management does not place it on nonaccrual status because the loan is well secured and in the process of collection. A loan is considered to be in the process of collection if, based on a

probable specific event, it is expected that the loan will be repaid or brought current. Generally, this collection period would not exceed 30 days. Loans where the collateral has been repossessed are classified as foreclosed assets.

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Management considers both the adequacy of the collateral and the other resources of the borrower in determining the steps to be taken to collect nonaccrual loans. Alternatives that are considered are foreclosure, collecting on guarantees, restructuring the loan or collection lawsuits.
The following tables set forth the amount of the Bank s nonperforming assets as of the dates indicated. For purposes of the following table, PCI loans that are ninety days past and still accruing are not considered nonperforming loans:

(dollars in thousands)	March 31, 2011	December 31, 2010
Performing nonaccrual loans	$36,545	$36,518
Nonperforming nonaccrual loans	34,364	39,224
Total nonaccrual loans	70,909	75,742
Originated loans 90 days past due and still accruing	144	245
Total nonperforming loans	71,053	75,987
Noncovered foreclosed assets	4,472	5,000
Covered foreclosed assets	4,511	4,913
Total nonperforming assets	$80,036	$85,900
U.S. government, including its agencies and its government-sponsored agencies, guaranteed portion of nonperforming loans	$ 3,736	$ 3,937
Indemnified portion of covered foreclosed assets	$ 3,609	$ 3,930
PCI loans 90 days past due and still accruing	$ 2,618	$ 3,553
Nonperforming assets to total assets	3.65%	3.92%
Nonperforming loans to total loans	5.12%	5.35%
Allowance for loan losses to nonperforming loans	65%	56%

The following table and narrative describe the activity in the balance of nonperforming assets during the three-month period ended March 31, 2011:

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

Residential	7,117		12	(124)	(35)	(30)	(287)	6,653
Commercial	872	479		(436)			287	1,202
Total nonperforming loans	75,987	7,627	656	(4,645)	(7,049)	(1,523)		71,053
Noncovered foreclosed assets	5,000			(1,983)	(68)	1,523		4,472
Covered foreclosed assets	4,913			(21)	(381)			4,511
Total nonperforming assets	$85,900	$7,627	656	$(6,649)	$(7,498)			$80,036

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

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

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

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

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

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

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

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

Allowance for Loan Losses

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

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

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

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consecutive months of payments, or equivalent. Otherwise, TDR loans are subject to the same nonaccrual and charge-off policies as noted above with respect to their restructured principal balance.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

loans. Under FASB ASC Topic 805 and FASB ASC Topic 310-30, PCI loans are recorded at fair value at acquisition date, factoring in credit losses expected to be incurred over the life of the loan. Accordingly, an allowance for loan losses is not carried over or recorded as of the acquisition date. Fair value is defined as the present value of the future estimated principal and interest payments of the loan, with the discount rate used in the present value calculation representing the estimated effective yield of the loan. The difference between contractual future payments and estimated future payments is referred to as the nonaccretable difference. The difference between estimated future payments and the present value of the estimated future payments is referred to as the accretable yield. The accretable yield represents the amount that is expected to be recorded as interest income over the remaining life of the loan. If after acquisition, the Company determines that the future cash flows of a PCI loan are expected to be more than the originally estimated, an increase in the discount rate (effective yield) would be made such that the newly

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

The Components of the Allowance for Loan Losses

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

	March 31, 2011	December 31, 2010
Allowance for originated loan losses:		
Specific allowance	$ 4,832	$ 6,945
Formula allowance	32,278	31,070
Environmental factors allowance	3,205	2,948
Allowance for originated loan losses	40,315	40,963
Allowance for PCI loan losses	2,909	1,608
Allowance for loan losses	$43,224	$42,571
Allowance for loan losses to loans	3.12%	3.00%

Based on the current conditions of the loan portfolio, management believes that the $43,224,000 allowance for loan losses at March 31, 2011 is adequate to absorb probable losses inherent in the Bank s loan portfolio. No assurance can be given, however, that adverse economic conditions or other circumstances will not result in increased losses in the portfolio.

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

(dollars in thousands)	March 31, 2011	December 31, 2010
Real estate mortgage	$15,570	$15,707
Consumer	18,393	17,779
Commercial	6,967	5,991
Real estate construction	2,294	3,094
Total allowance for loan losses	$43,224	$42,571

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

(dollars in thousands)	March 31, 2011	December 31, 2010
Real estate mortgage	36.0%	36.9%
Consumer	42.6%	41.8%
Commercial	16.1%	14.1%
Real estate construction	5.3%	7.2%
Total allowance for loan losses	100.0%	100.0%

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

	Three months ended March 31,	
	2011	2010
Allowance for loan losses:		
Balance at beginning of period	$42,571	$35,473
Provision for loan losses	7,001	8,500
Loans charged off:		
Real estate mortgage:		
Residential	(1,125)	(455)
Commercial	(368)	(2,567)
Consumer:		
Home equity lines	(3,601)	(2,242)
Home equity loans		(408)
Auto indirect	(135)	(526)
Other consumer	(229)	(340)
Commercial	(1,556)	(526)
Construction:		
Residential	(35)	(1,037)
Commercial		
Total loans charged off	(7,049)	(8,101)
Recoveries of previously charged-off loans:		
Real estate mortgage:		
Residential	112	
Commercial	28	27
Consumer:		
Home equity lines	161	44
Home equity loans	2	
Auto indirect	127	160
Other consumer	209	202

Commercial	21	14
Construction:		
Residential	2	21
Commercial	39	
Total recoveries of previously charged off loans	701	468
Net charge-offs	(6,348)	(7,633)
Balance at end of period	$43,224	$36,340

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	Three months ended March 31, 2011	2010
Reserve for unfunded commitments:		
Balance at beginning of period	$ 2,640	$ 3,640
Provision for losses unfunded commitments	50	
Balance at end of period	$ 2,690	$ 3,640
Balance at end of period:		
Allowance for loan losses	$ 43,224	$ 36,340
Reserve for unfunded commitments	2,690	3,640
Allowance for loan losses and Reserve for unfunded commitments	$ 45,914	$ 39,980
As a percentage of total loans at end of period:		
Allowance for loan losses	3.12%	2.50%
Reserve for unfunded commitments	0.19%	0.25%
Allowance for loan losses and Reserve for unfunded commitments	3.31%	2.75%
Average total loans	$1,396,331	$1,469,685
Ratios:		
Net charge-offs during period to average loans outstanding during period	1.82%	2.08%
Provision for loan losses to average loans outstanding	2.01%	2.31%

Foreclosed Assets, Net of Allowance for Losses

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

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

Commercial real estate	1,711		(21)	(322)		1,368
Total covered	4,913		(21)	(381)		4,511
Total foreclosed assets	$9,913		$(2,004)	$(449)	$1,523	$8,983

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Intangible Assets

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

(dollars in thousands)	March 31, 2011	December 31, 2010
Core-deposit intangible	$ 495	$ 580
Goodwill	15,519	15,519
Total intangible assets	$16,014	$16,099

The core-deposit intangible assets resulted from the Bank s 2010 acquisition of Granite and the 2003 acquisition of North State National Bank. The goodwill intangible asset resulted from the North State National Bank acquisition. Amortization of core deposit intangible assets amounting to $85,000 and $65,000 was recorded in noninterest expense during the three months ended March 31, 2011 and 2010, respectively.

Deposits

Deposits at March 31, 2011 increased $7,739,000 (4.2%) over 2010 year-end balances to $1,859,912,000. All categories of deposits increased during the three months ended March 31, 2011 except time certificates. Included in the March 31, 2011 and December 31, 2010 certificate of deposit balances is $5,000,000 from the State of California. The Bank participates in a deposit program offered by the State of California whereby the State may make deposits at the Bank s request subject to collateral and creditworthiness constraints. The negotiated rates on these State deposits are generally favorable to other wholesale funding sources available to the Bank. Information on average deposit balances and average rates paid is included under the *Net Interest Income* section of this report. See Note 13 to the consolidated financial statements at Item 1 of this report for information about the Company s deposits.

Long-Term Debt

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

Junior Subordinated Debt

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

Off-Balance Sheet Arrangements

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

Capital Resources

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

The Company adopted and announced a stock repurchase plan on August 21, 2007 for the repurchase of up to 500,000 shares of the Company s common stock from time to time as market conditions allow. The 500,000 shares authorized for repurchase under this plan represented approximately 3.2% of the Company s approximately 15,815,000 common shares outstanding as of August 21, 2007. The Company did not repurchase any shares during the three months ended March 31, 2011. This plan has no stated expiration date for the repurchases. As of March 31, 2011, the Company had repurchased 166,600 shares under this plan, which left 333,400 shares available for repurchase under the plan. Shares that are repurchased in accordance with the provisions of a Company stock option plan or equity compensation plan are not counted against the number of shares repurchased under the repurchase plan adopted on August 21, 2007.

The Company s primary capital resource is shareholders equity, which was $201,811,000 at March 31, 2011. This amount represents an increase of $1,414,000 from December 31, 2010, the net result of comprehensive income for the period of $2,576,000, and the effect of stock option vesting of $265,000, that were partially offset by dividends paid of $1,427,000. The Company s ratio of equity to total assets was 9.19% and 9.15% as of March 31, 2011 and

December 31, 2010, respectively.

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

	As of March 31, 2011	As December 31, 2010	Minimum Regulatory Requirement
Tier I Capital	13.18%	12.93%	4.00%
Total Capital	14.45%	14.20%	8.00%
Leverage ratio	10.32%	10.03%	4.00%

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

Liquidity

The Bank s principal source of asset liquidity is cash at Federal Reserve and other banks and marketable investment securities available for sale. At March 31, 2011, cash at Federal Reserve and other banks and investment securities available for sale totaled $631,591,000, representing an increase of $40,508,000 (6.9%) from December 31, 2010. In addition, the Company generates additional liquidity from its operating activities. The Company s profitability during the first three months of 2011 generated cash flows from operations of $10,315,000 compared to $11,484,000 during the first three months of 2010. Additional cash flows may be provided by financing activities, primarily the acceptance of deposits and borrowings from banks. Maturities of investment securities produced cash inflows of $22,139,000 during the three months ended March 31, 2011 compared to $20,254,000 for the three months ended March 31, 2010. During the three months ended March 31, 2011, the Company invested $25,456,000 in securities and received $24,056,000 of net loan principal reductions, compared to $101,255,000 invested in securities and $35,342,000 of net loan principal reductions, respectively, during the first three months of 2010. These changes in investment and loan balances contributed to net cash provided by investing activities of $22,840,000 during the three months ended March 31, 2011, compared to net cash used by investing activities of $46,586,000 during the three months ended March 31, 2010. Financing activities provided net cash of $2,073,000 during the three months ended March 31, 2011, compared to net cash used by financing activities of $2,823,000 during the three months ended March 31, 2010. Deposit balance increases accounted for $7,739,000 of financing sources of funds during the three months ended March 31, 2011, compared to $4,785,000 of financing sources of funds during the three months ended March 31, 2010. A net decrease in short-term other borrowings accounted for $4,239,000 of financing uses of funds during the three months ended March 31, 2011, compared to $5,801,000 of funds used to decrease short-term other borrowings during the three months ended March 31, 2010. Dividends paid used $1,427,000 and $2,062,000 of cash during the three months ended March 31, 2011 and 2010, respectively. Also, the Company s liquidity is dependent on dividends received from the Bank. Dividends from the Bank are subject to certain regulatory restrictions.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our assessment of market risk as of March 31, 2011 indicates there are no material changes in the quantitative and qualitative disclosures from those in our Annual Report on Form 10-K for the year ended December 31, 2010.

Item 4. Controls and Procedures

The Company s management, including its Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company s disclosure controls and procedures as of March 31, 2011. Disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), are controls and procedures designed to reasonably assure that information required to be disclosed in the Company s reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported on a timely basis. Disclosure controls are also designed to reasonably assure that such information is accumulated and communicated to the Company s management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based upon their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective as of March 31, 2011.

During the quarter ended March 31, 2011, there were no changes in our internal controls or in other factors that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

PART II OTHER INFORMATION

Item 1 Legal Proceedings

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

See Note 18, Commitments and Contingencies, for a discussion of the Company s involvement in litigation pertaining to Visa, Inc.

Item 1A Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed under Part I Item 1A Risk Factors in our Form 10-K for the year ended December 31, 2010, as supplemented and updated by the discussion below. These factors could materially adversely affect our business, financial condition, liquidity, results of operations and capital position, and could cause our actual results to differ materially from our historical results or the results contemplated by the forward-looking statements contained in this report.

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

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

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

Our ability to obtain reimbursement under the loss sharing agreements on covered assets depends on our compliance with the terms of the loss sharing agreements. Management must certify to the FDIC on a quarterly basis our compliance with the terms of the FDIC loss sharing agreements as a prerequisite to obtaining reimbursement from the FDIC for realized losses on covered assets. The required terms of the agreements are extensive and failure to comply

with any of the guidelines could result in a specific asset or group of assets permanently losing their loss sharing coverage. Additionally, Management may decide to forgo loss share coverage on certain assets to allow greater flexibility over the management of certain assets. As of

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March 31, 2011, $56,496,000, or 2.6%, of the Company s assets were covered by the aforementioned FDIC loss sharing agreements.

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

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

The following table shows information concerning the common stock repurchased by the Company during the first quarter of 2011 pursuant to the Company s stock repurchase plan adopted on August 21, 2007, which is discussed in more detail under Capital Resources in this report and is incorporated herein by reference:

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans or programs	(d) Maximum number of shares that may yet be purchased under the plans or programs
Jan. 1-31, 2011				333,400
Feb. 1-28, 2011				333,400
Mar. 1-31, 2011				333,400
Total				333,400

Item 6 Exhibits

3.1 Restated Articles of Incorporation, filed as Exhibit 3.1 to TriCo s Current Report on Form 8-K filed on March 16, 2009.

3.2 Bylaws of TriCo Bancshares, as amended, filed as Exhibit 3.1 to TriCo s Current Report on Form 8-K filed February 17, 2011.

4 Certificate of Determination of Preferences of Series AA Junior Participating Preferred Stock filed as Exhibit 3.3 to TriCo s Quarterly Report on Form 10-Q for the quarter ended September 30, 2001.

10.1 Rights Agreement dated June 25, 2001, between TriCo and Mellon Investor Services LLC filed as Exhibit 1 to TriCo s Form 8-A dated July 25, 2001.

10.2* Form of Change of Control Agreement dated as of August 23, 2005, between TriCo, Tri Counties Bank and each of Dan Bailey, Bruce Belton, Craig Carney, Gary Coelho, Rick Miller, Richard O Sullivan, Thomas Reddish, and Ray Rios filed as Exhibit 10.2 to TriCo s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.

10.5*

TriCo s 1995 Incentive Stock Option Plan filed as Exhibit 4.1 to TriCo s Form S-8 Registration Statement dated August 23, 1995 (No. 33-62063).

10.6*	TriCo s 2001 Stock Option Plan, as amended, filed as Exhibit 10.7 to TriCo s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.
10.7*	TriCo s 2009 Equity Incentive plan, included as Appendix A to TriCo s definitive proxy statement filed on April 4, 2009.
10.8*	Amended Employment Agreement between TriCo and Richard Smith dated as of August 23, 2005 filed as Exhibit 10.8 to TriCo s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.
10.9*	Tri Counties Bank Executive Deferred Compensation Plan restated April 1, 1992, and January 1, 2005 filed as Exhibit 10.9 to TriCo s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.
10.10*	Tri Counties Bank Deferred Compensation Plan for Directors effective January 1, 2005 filed as Exhibit 10.10 to TriCo s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.
10.11*	2005 Tri Counties Bank Deferred Compensation Plan for Executives and Directors effective January 1, 2005 filed as Exhibit 10.11 to TriCo s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.
10.13*	Tri Counties Bank Supplemental Retirement Plan for Directors dated September 1, 1987, as restated January 1, 2001, and amended and restated January 1, 2004 filed as Exhibit 10.12 to TriCo s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.
10.14*	2004 TriCo Bancshares Supplemental Retirement Plan for Directors effective January 1, 2004 filed as Exhibit 10.13 to TriCo s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.
10.15*	Tri Counties Bank Supplemental Executive Retirement Plan effective September 1, 1987, as amended and restated January 1, 2004 filed as Exhibit 10.14 to TriCo s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.

10.16*	2004 TriCo Bancshares Supplemental Executive Retirement Plan effective January 1, 2004 filed as Exhibit 10.15 to TriCo s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.
10.17*	Form of Joint Beneficiary Agreement effective March 31, 2003 between Tri Counties Bank and each of George Barstow, Dan Bay, Ron Bee, Craig Carney, Robert Elmore, Greg Gill, Richard Miller, Richard O Sullivan, Thomas Reddish, Jerald Sax, and Richard Smith, filed as Exhibit 10.14 to TriCo s Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.
10.18*	Form of Joint Beneficiary Agreement effective March 31, 2003 between Tri Counties Bank and each of Don Amaral, William Casey, Craig Compton, John Hasbrook, Michael Koehnen, Donald Murphy, Carroll Taresh, and Alex Vereschagin, filed as Exhibit 10.15 to TriCo s Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.
10.19*	Form of Tri-Counties Bank Executive Long Term Care Agreement effective June 10, 2003 between Tri Counties Bank and each of Craig Carney, Richard Miller, Richard O Sullivan, and Thomas Reddish, filed as Exhibit 10.16 to TriCo s Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.
10.20*	Form of Tri-Counties Bank Director Long Term Care Agreement effective June 10, 2003 between Tri Counties Bank and each of Don Amaral, William Casey, Craig Compton, John Hasbrook, Michael Koehnen, Donald Murphy, Carroll Taresh, and Alex Vereschagin, filed as Exhibit 10.17 to TriCo s Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.
10.21*	Form of Indemnification Agreement between TriCo Bancshares/Tri Counties Bank and each of the directors of TriCo Bancshares/Tri Counties Bank effective on the date that each director is first elected, filed as Exhibit 10.18 to TriCo S Annual Report on Form 10-K for the year ended December 31, 2003.
10.22*	Form of Indemnification Agreement between TriCo Bancshares/Tri Counties Bank and each of Dan Bailey, Craig Carney, Rick Miller, Richard O Sullivan, Thomas Reddish, Ray Rios, and Richard Smith filed as Exhibit 10.21 to TriCo s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.
10.23	Purchase and Assumption Agreement Whole Bank All Deposits, among the Federal Deposit Insurance Corporation, receiver of Granite Community Bank, N.A., Granite Bay, California, the Federal Deposit Insurance Corporation and Tri Counties Bank, dated as of May 28, 2010, and related addendum filed as Exhibit 2.1 to the Company s Current Report on Form 8-K filed June 3, 2010.
21.1	Tri Counties Bank, a California banking corporation, TriCo Capital Trust I, a Delaware business trust, and TriCo Capital Trust II, a Delaware business trust, are the only subsidiaries of Registrant.
31.1	Rule 13a-14(a)/15d-14(a) Certification of CEO
31.2	Rule 13a-14(a)/15d-14(a) Certification of CFO
32.1	Section 1350 Certification of CEO
32.2	Section 1350 Certification of CFO

* Management contract or compensatory plan or arrangement

SIGNATURES

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

TRICO BANCSHARES
(Registrant)

Date: May 10, 2011

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

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