

TRICO BANCSHARES /  
Form 10-Q  
November 09, 2018  
Table of Contents

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

**FORM 10-Q**

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
for the quarterly period ended: September 30, 2018**

**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**  
**(State or Other Jurisdiction**

**94-2792841**  
**(I.R.S. Employer**

**of Incorporation or Organization)**

**Identification Number)**

**63 Constitution Drive**

**Chico, California 95973**

**(Address of Principal Executive Offices) (Zip Code)**

**(530) 898-0300**

**(Registrant's Telephone Number, Including Area Code)**

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

Common stock, no par value: 30,417,818 shares outstanding as of November 6, 2018



Table of Contents

TriCo Bancshares

FORM 10-Q

TABLE OF CONTENTS

	Page
<u>PART I FINANCIAL INFORMATION</u>	2
<u>Item 1 Financial Statements (Unaudited)</u>	2
<u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	38
<u>Item 3 Quantitative and Qualitative Disclosures about Market Risk</u>	55
<u>Item 4 Controls and Procedures</u>	55
<u>PART II OTHER INFORMATION</u>	56
<u>Item 1 Legal Proceedings</u>	56
<u>Item 1A Risk Factors</u>	56
<u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	56
<u>Item 6 Exhibits</u>	57
<u>Signatures</u>	58
Exhibits	

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

(In thousands, except share data; unaudited)

	At September 30, 2018	At December 31, 2017
<b>Assets:</b>		
Cash and due from banks	\$ 109,363	\$ 105,968
Cash at Federal Reserve and other banks	117,180	99,460
Cash and cash equivalents	226,543	205,428
<b>Investment securities:</b>		
Marketable equity securities	2,846	2,938
Available for sale debt securities	1,055,960	727,945
Held to maturity debt securities	459,897	514,844
Restricted equity securities	17,250	16,956
Loans held for sale	3,824	4,616
Loans	4,027,436	3,015,165
Allowance for loan losses	(31,603)	(30,323)
Total loans, net	3,995,833	2,984,842
Foreclosed assets, net	1,832	3,226
Premises and equipment, net	89,290	57,742
Cash value of life insurance	116,596	97,783
Accrued interest receivable	19,592	13,772
Goodwill	220,972	64,311
Other intangible assets, net	30,711	5,174
Mortgage servicing rights	7,122	6,687
Other assets	70,597	55,051
Total assets	\$ 6,318,865	\$ 4,761,315
<b>Liabilities and Shareholders Equity:</b>		
<b>Liabilities:</b>		
<b>Deposits:</b>		
Noninterest-bearing demand	\$ 1,710,505	\$ 1,368,218
Interest-bearing	3,382,612	2,640,913
Total deposits	5,093,117	4,009,131
Accrued interest payable	1,729	930

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Other liabilities	82,077	66,422
Other borrowings	282,831	122,166
Junior subordinated debt	56,996	56,858
<b>Total liabilities</b>	<b>5,516,750</b>	<b>4,255,507</b>
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Preferred stock, no par value: 1,000,000 shares authorized, zero issued and outstanding at September 30, 2018 and December 31, 2017		
Common stock, no par value: 50,000,000 shares authorized; issued and outstanding:		
30,417,818 at September 30, 2018		
22,955,963 at December 31, 2017	541,519	255,836
Retained earnings	287,555	255,200
Accumulated other comprehensive loss, net of tax	(26,959)	(5,228)
<b>Total shareholders' equity</b>	<b>802,115</b>	<b>505,808</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 6,318,865</b>	<b>\$ 4,761,315</b>

See accompanying notes to unaudited condensed consolidated financial statements.

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

(In thousands, except per share data; unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
<b>Interest and dividend income:</b>				
Loans, including fees	\$ 53,102	\$ 37,268	\$ 130,455	\$ 108,600
<b>Investments:</b>				
Taxable securities	9,189	7,011	23,949	20,617
Tax exempt securities	1,189	1,041	3,272	3,124
Dividends	459	301	1,093	1,020
Interest bearing cash at Federal Reserve and other banks	615	292	1,384	1,080
<b>Total interest and dividend income</b>	<b>64,554</b>	<b>45,913</b>	<b>160,153</b>	<b>134,441</b>
<b>Interest expense:</b>				
Deposits	2,072	1,028	4,402	2,896
Other borrowings	1,178	149	2,106	164
Junior subordinated debt	815	652	2,301	1,870
<b>Total interest expense</b>	<b>4,065</b>	<b>1,829</b>	<b>8,809</b>	<b>4,930</b>
<b>Net interest income</b>	<b>60,489</b>	<b>44,084</b>	<b>151,344</b>	<b>129,511</b>
Provision for (benefit from) loan losses	2,651	765	1,777	(1,588)
<b>Net interest income after provision for (benefit from) loan losses</b>	<b>57,838</b>	<b>43,319</b>	<b>149,567</b>	<b>131,099</b>
<b>Noninterest income:</b>				
Service charges and fees	9,743	9,475	28,327	27,861
Commissions on sale of non-deposit investment products	728	672	2,414	1,984
Increase in cash value of life insurance	732	732	1,996	2,043
Gain on sale of loans	539	606	1,831	2,293
Gain on sale of investment securities	207	961	207	961
Other	237	484	1,875	2,401
<b>Total noninterest income</b>	<b>12,186</b>	<b>12,930</b>	<b>36,650</b>	<b>37,543</b>
<b>Noninterest expense:</b>				
Salaries and related benefits	25,823	20,933	68,928	62,320
Other	21,555	16,289	54,482	46,628

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Total noninterest expense	47,378	37,222	123,410	108,948
Income before income taxes	22,646	19,027	62,807	59,694
Provision for income taxes	6,476	7,130	17,698	22,129
Net income	\$ 16,170	\$ 11,897	\$ 45,109	\$ 37,565
Earnings per share:				
Basic	\$ 0.54	\$ 0.52	\$ 1.78	\$ 1.64
Diluted	\$ 0.53	\$ 0.51	\$ 1.76	\$ 1.62
See accompanying notes to unaudited condensed consolidated financial statements.				



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

(In thousands; unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net income	\$ 16,170	\$ 11,897	\$ 45,109	\$ 37,565
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on available for sale securities arising during the period, after reclassifications	(5,917)	(166)	(20,941)	3,137
Change in minimum pension liability, after reclassifications	81	55	241	164
Other comprehensive income (loss)	(5,836)	(111)	(20,700)	3,301
Comprehensive income	\$ 10,334	\$ 11,786	\$ 24,409	\$ 40,866

See accompanying notes to unaudited condensed consolidated financial statements.

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

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

	Shares of Common Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total
Balance at December 31, 2016	22,867,802	\$ 252,820	\$ 232,440	\$ (7,913)	\$ 477,347
Net income			37,565		37,565
Other comprehensive income				3,301	3,301
Stock option vesting		211			211
Service condition RSU vesting		657			657
Market plus service condition RSU vesting		316			316
Stock options exercised	133,850	2,418			2,418
Service condition RSUs released	28,397				
Market plus service condition RSUs released	18,805				
Repurchase of common stock	(107,390)	(1,191)	(2,663)		(3,854)
Dividends paid (\$ 0.49 per share)			(11,228)		(11,228)
Balance at September 30, 2017	22,941,464	\$ 255,231	\$ 256,114	\$ (4,612)	\$ 506,733

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Balance at December 31, 2017	22,955,963	\$ 255,836	\$ 255,200	\$ (5,228)	\$ 505,808
Net income			45,109		45,109
Adoption ASU 2016-01			(62)	62	
Adoption ASU 2018-02			1,093	(1,093)	
Other comprehensive loss				(20,700)	(20,700)
Stock option vesting		75			75
Service condition RSU vesting		745			745
Market plus service condition RSU vesting		274			274
Service condition RSUs released	32,516				
Market plus service condition RSUs released	25,512				
Stock options exercised	27,400	475			475
Issuance of common stock	7,405,277	284,437			284,437
Repurchase of common stock	(28,850)	(323)	(801)		(1,124)
Dividends paid (\$ 0.51 per share)			(12,984)		(12,984)
Balance at September 30, 2018	30,417,818	\$ 541,519	\$ 287,555	\$ (26,959)	\$ 802,115

See accompanying notes to unaudited condensed consolidated financial statements.

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

(In thousands; unaudited)

	For the nine months ended September 30,	
	2018	2017
<b>Operating activities:</b>		
Net income	\$ 45,109	\$ 37,565
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of premises and equipment, and amortization	4,914	5,089
Amortization of intangible assets	2,068	1,050
Provision for (benefit from) loan losses	1,777	(1,588)
Amortization of investment securities premium, net	1,953	2,431
Gain on sale of investment securities	(207)	(961)
Originations of loans for resale	(63,912)	(83,907)
Proceeds from sale of loans originated for resale	66,138	85,846
Gain on sale of loans	(1,831)	(2,293)
Change in market value of mortgage servicing rights	(38)	795
Provision for losses on foreclosed assets	89	162
Gain on sale of foreclosed assets	(390)	(308)
Loss on disposal of fixed assets	206	61
Gain on sale of premises held for sale		(3)
Increase in cash value of life insurance	(1,996)	(2,043)
Life insurance proceeds in excess of cash value		(108)
Loss on marketable equity securities	92	
Equity compensation vesting expense	1,094	1,184
Change in:		
Reserve for unfunded commitments	(864)	270
Interest receivable	(5,820)	(629)
Interest payable	799	49
Other assets and liabilities, net	10,724	3,155
<b>Net cash from operating activities</b>	<b>59,905</b>	<b>45,817</b>
<b>Investing activities:</b>		
Cash acquired in acquisition, net of consideration paid	30,613	
Proceeds from maturities of securities available for sale	54,510	20,889
Proceeds from maturities of securities held to maturity	54,203	64,969
Proceeds from sale of available for sale securities	293,279	25,757
Purchases of securities available for sale	(370,843)	(195,465)
Net redemption of restricted equity securities	7,429	
Loan origination and principal collections, net	(178,596)	(174,914)
Proceeds from sale of foreclosed assets	2,206	1,787

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Proceeds from sale of premises held for sale		3,338
Proceeds from sale of premises and equipment	62	
Purchases of premises and equipment	(5,736)	(10,874)
Life insurance proceeds		649
Net cash from investing activities	(112,873)	(263,864)
Financing activities:		
Net change in deposits	92,051	31,896
Net change in other borrowings	(4,335)	81,237
Repurchase of common stock	(834)	(1,629)
Dividends paid	(12,984)	(11,228)
Exercise of stock options	185	193
Net cash from financing activities	74,083	100,469
Net change in cash and cash equivalents	21,115	(117,578)
Cash and cash equivalents at beginning of year	205,428	305,612
Cash and cash equivalents at end of year	\$ 226,543	\$ 188,034
Supplemental disclosure of noncash activities:		
Unrealized (loss) gain on securities available for sale	\$ (29,704)	\$ 5,411
Loans transferred to foreclosed assets	\$ 511	\$ 726
Market value of shares tendered in-lieu of cash to pay for exercise of options and/or related taxes	\$ 1,124	\$ 3,854
Supplemental disclosure of cash flow activity:		
Cash paid for interest expense	\$ 8,010	\$ 4,881
Cash paid for income taxes	\$ 11,625	\$ 15,450
Assets acquired in acquisition plus goodwill recognized, net	\$ 1,456,505	\$
Liabilities assumed in acquisition	\$ 1,172,068	\$

See accompanying notes to unaudited condensed consolidated financial statements.

**Table of Contents**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 Summary of Significant Accounting Policies**

**Description of Business and Basis of Presentation**

TriCo Bancshares (the Company or we ) is a California corporation organized to act as a bank holding company for Tri Counties Bank (the Bank ). The Company and the Bank are headquartered in Chico, California. The Bank is a California-chartered bank that is engaged in the general commercial banking business in 29 California counties. The Bank operates from 69 traditional branches, 9 in-store branches and 2 loan production offices. The Company has five capital subsidiary business trusts (collectively, the Capital Trusts ) that issued trust preferred securities, including two organized by the Company and three acquired with the acquisition of North Valley Bancorp.

The consolidated financial statements are prepared in accordance with accounting policies generally accepted in the United States of America and general practices in the banking industry. All adjustments necessary for a fair presentation of these consolidated financial statements have been included and are of a normal and recurring nature. The financial statements include the accounts of the Company. All inter-company accounts and transactions have been eliminated in consolidation. For financial reporting purposes, the Company's investments in the Capital Trusts of \$1,741,000 are accounted for under the equity method and, accordingly, are not consolidated and are included in other assets on the consolidated balance sheet. The subordinated debentures issued and guaranteed by the Company and held by the Capital Trusts are reflected as debt on the Company's consolidated balance sheet.

**Use of Estimates in the Preparation of Financial Statements**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company 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.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 (the 2017 Annual Report ).

**Significant Group Concentration of Credit Risk**

The Company grants agribusiness, commercial, consumer, and residential loans to customers located throughout northern and central 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.

**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.

### **Business Combinations**

The Company accounts for acquisitions of businesses using the acquisition method of accounting. Under the acquisition method, assets acquired and liabilities assumed are recorded at their estimated fair values at the date of acquisition. Management utilizes various valuation techniques including discounted cash flow analyses to determine these fair values. Any excess of the purchase price over amounts allocated to the acquired assets, including identifiable intangible assets, and liabilities assumed is recorded as goodwill.

### **Cash and Cash Equivalents**

Net cash flows are reported for loan and deposit transactions and other borrowings. For purposes of the consolidated statement of cash flows, cash, due from banks with maturities less than 90 days, interest-earning deposits in other banks, and Federal funds sold are considered to be cash equivalents.

### **Revenue Recognition**

The Company records revenue from contracts with customers in accordance with Accounting Standards Codification Topic 606, Revenue from Contracts with Customers (Topic 606). Under Topic 606, the Company must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the Company satisfies a performance obligation.

Most of our revenue-generating transactions are not subject to Topic 606, including revenue generated from financial instruments, such as our loans and investment securities. In addition, certain noninterest income streams such as fees associated with mortgage servicing rights, financial guarantees, derivatives, and certain credit card fees are also not in scope of the new guidance. The Company's noninterest revenue streams are largely based on transactional activity, or standard month-end revenue accruals such as asset management fees based on month-end market values. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized. The Company does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of September 30, 2018 and December 31, 2017, the Company did not have any significant contract balances. The Company has evaluated the nature of its revenue streams and determined that further disaggregation of revenue into more granular categories beyond what is presented in the Note 15 was not necessary.

---

**Table of Contents****Accounting Standards Adopted in 2018**

FASB Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*: ASU 2014-09 is intended to clarify the principles for recognizing revenue, and to develop common revenue standards and disclosure requirements that would: (1) remove inconsistencies and weaknesses in revenue requirements; (2) provide a more robust framework for addressing revenue issues; (3) improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets; (4) provide more useful information to users of financial statements through improved disclosures; and (5) simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer. The guidance affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets. The core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides steps to follow to achieve the core principle. An entity should disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Qualitative and quantitative information is required with regard to contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods therein, with early adoption permitted for reporting periods beginning after December 15, 2016. ASU 2014-09 does not apply to revenue associated with financial instruments such as loans and investments, which are accounted for under other provisions of GAAP. The Company adopted ASU 2014-09 on January 1, 2018 utilizing the modified retrospective approach. Since there was no net income impact upon adoption of the new guidance, a cumulative effect adjustment to opening retained earnings was not deemed necessary.

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. This ASU addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments by making targeted improvements to GAAP as follows: (1) require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer; (2) simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value; (3) eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (4) eliminate the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (5) require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (6) require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (7) require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (8) clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The adoption of ASU No. 2016-01 on January 1, 2018 did not have a material impact on the Company's Consolidated Financial Statements. In accordance with (1) above, the Company recorded a reclassification of cumulative unrealized losses of its marketable equity securities from accumulated other comprehensive income (loss) to retained earnings as of January 1, 2018. Additionally, the Company recognized changes in the fair value of its

marketable equity securities in the condensed consolidated statements of net income for the three and nine months ended September 30, 2018. In accordance with (5) above, the Company measured the fair value of its loan portfolio as of September 30, 2018 using an exit price notion (see Note 18 *Fair Value Measurement*).

FASB issued ASU No. 2016-18, *Statement of Cash Flows - Restricted Cash (Topic 230)*. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 was effective for the Company on January 1, 2018 and did not have a significant impact on the Company's consolidated financial statements.

FASB issued ASU No. 2017-01, *Business Combinations - Clarifying the Definition of a Business (Topic 805)*. ASU 2017-01 clarifies the definition and provides a more robust framework to use in determining when a set of assets and activities constitutes a business. ASU 2017-01 is intended to provide guidance when evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 was effective for the Company on January 1, 2018 and did not have a significant impact on the Company's consolidated financial statements.

FASB issued ASU No. 2017-07, *Compensation - Retirement Benefits (Topic 715)*. ASU 2017-07 requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component. ASU 2017-07 was effective for the Company on January 1, 2018 and did not have a significant impact on the Company's consolidated financial statements.

FASB issued ASU 2017-09, *Compensation - Stock Compensation (Topic 718)*. ASU 2017-09 clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. Under ASU 2017-09, an entity will not apply modification accounting to a share-based payment award if all of the following are the same immediately before and after the change: (i) the award's fair value, (ii) the award's vesting conditions and (iii) the award's classification as an equity or liability instrument. ASU 2017-09 was effective for the Company on January 1, 2018 and did not have a significant impact on the Company's consolidated financial statements.

FASB issued ASU 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220)*. ASU 2018-02 allows, but does not require, entities to reclassify certain income tax effects in accumulated other comprehensive income (AOCI) to retained earnings that resulted from the Tax Cuts and Jobs Act (Tax Act) that was enacted on December 22, 2017. The Tax Act included a reduction to the Federal corporate income tax rate from 35 percent to 21 percent effective January 1, 2018. The amount of the reclassification would be the difference between the income tax effects in



**Table of Contents**

AOCI calculated using the historical Federal corporate income tax rate of 35 percent and the income tax effects in AOCI calculated using the newly enacted 21 percent Federal corporate income tax rate. The amendments in ASU 2018-02 are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company adopted ASU 2018-02 on January 1, 2018, and elected to reclassify certain income tax effects in AOCI to retained earnings. This change in accounting principle was accounted for as a cumulative-effect adjustment to the balance sheet resulting in a \$1,093,000 increase to retained earnings and a corresponding decrease to AOCI on January 1, 2018.

**Accounting Standards Pending Adoption**

FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU 2016-2, among other things, requires lessees to recognize most leases on-balance sheet, increasing reported assets and liabilities. Lessor accounting remains substantially similar to current U.S. GAAP. ASU 2016-02 will be effective for the Company on January 1, 2019, utilizing the modified retrospective transition approach. FASB has issued incremental guidance to the new leasing standard through ASU No. 2018-10 and 2018-11. Based on current leases, subject to change, the Company estimates that the adoption of this standard will result in an increase in assets of approximately \$30 million to recognize the present value of the lease obligations with a corresponding increase in liabilities of approximately \$30 million. This amount is subject to change as the Company continues to evaluate the provisions of ASU No. 2016-02, 2018-10 and 2018-11. The Company does not expect this to have a material impact on the Company's results of operations or cash flows.

FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326)*. ASU 2016-13 is the final guidance on the new current expected credit loss (CECL) model. ASU 2016-13, among other things, requires the incurred loss impairment methodology in current GAAP be replaced with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to estimate future credit loss estimates. As CECL encompasses all financial assets carried at amortized cost, the requirement that reserves be established based on an organization's reasonable and supportable estimate of expected credit losses extends to held to maturity (HTM) debt securities. ASU 2016-13 amends the accounting for credit losses on available-for-sale securities (AFS), whereby credit losses will be presented as an allowance as opposed to a write-down. In addition, CECL will modify the accounting for purchased loans with credit deterioration since origination, so that reserves are established at the date of acquisition for purchased loans. Lastly, ASU 2016-13 requires enhanced disclosures on the significant estimates and judgments used to estimate credit losses, as well as on the credit quality and underwriting standards of an organization's portfolio. These disclosures require organizations to present the currently required credit quality disclosures disaggregated by the year of origination or vintage. ASU 2016-13 allows for a modified retrospective approach with a cumulative effect adjustment to the balance sheet upon adoption (charge to retained earnings instead of the income statement). ASU 2016-13 will be effective for the Company on January 1, 2020, and early adoption is permitted. While the Company is currently evaluating the provisions of ASU 2016-13 to determine the potential impact the new standard will have on the Company's Consolidated Financial Statements, it has taken steps to prepare for the implementation when it becomes effective, such as forming an internal task force, gathering pertinent data, consulting with outside professionals, and evaluating its current IT systems. Management expects to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the first reporting period in which the new standard is effective, but cannot yet estimate the magnitude of the one-time adjustment or the overall impact of the new guidance on the Company's financial position, results of operations or cash flows.

FASB issued ASU No. 2017-04, *Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment (Topic 350)*: ASU 2017-04 eliminates step two of the goodwill impairment test (the hypothetical purchase price allocation used to determine the implied fair value of goodwill) when step one (determining if the carrying value of a reporting unit exceeds its fair value) is failed. Instead, entities simply will compare the fair value of a reporting unit to

its carrying amount and record goodwill impairment for the amount by which the reporting unit's carrying amount exceeds its fair value. ASU 2017-04 will be effective for the Company on January 1, 2020 and is not expected to have a significant impact on the Company's consolidated financial statements.

FASB issued ASU 2017-08, *Receivables - Nonrefundable Fees and Other Costs (Topic 310)*. ASU 2017-08 shortens the amortization period for certain callable debt securities held at a premium to require such premiums to be amortized to the earliest call date unless applicable guidance related to certain pools of securities is applied to consider estimated prepayments. Under prior guidance, entities were generally required to amortize premiums on individual, non-pooled callable debt securities as a yield adjustment over the contractual life of the security. ASU 2017-08 does not change the accounting for callable debt securities held at a discount. ASU 2017-08 will be effective for the Company on January 1, 2019, and is not expected to have a significant impact on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements. Among the changes, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU No. 2018-13 is effective for interim and annual reporting periods beginning after December 15, 2019; early adoption is permitted. Entities are also allowed to elect early adoption of the eliminated or modified disclosure requirements and delay adoption of the new disclosure requirements until their effective date. As ASU No. 2018-13 only revises disclosure requirements, it will not have a material impact on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-14, *Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans*. This ASU makes minor changes to the disclosure requirements for employers that sponsor defined benefit pension and/or other postretirement benefit plans. ASU 2018-14 is effective for fiscal years ending after December 15, 2020; early adoption is permitted. As ASU 2018-14 only revises disclosure requirements, it will not have a material impact on the Company's consolidated financial statements.

**Table of Contents****Note 2 - Business Combinations****Merger with FNB Bancorp**

On July 6, 2018, the Company completed the acquisition of FNB Bancorp ( FNBB ) for an aggregate transaction value of \$291,132,000. FNBB was merged into the Company, and the Company issued 7,405,277 shares of common stock to the former shareholders of FNBB. FNBB's subsidiary, First National Bank of Northern California, merged into the Bank on the same day. The Company also paid \$6.7 million to settle and retire all FNBB stock options outstanding as of the acquisition date. Upon the consummation of the merger, the Company added 12 branches within San Mateo, San Francisco, and Santa Clara counties.

In accordance with accounting for business combinations, the Company recorded \$156,661,000 of goodwill and \$27,605,000 of core deposit intangibles on the acquisition date. The core deposit intangibles will be amortized over the weighted average remaining life of 6.2 years with no significant residual value. For tax purposes, purchase price accounting adjustments including goodwill are all non-taxable and /or non-deductible. Acquisition related costs of \$4,150,000 and \$5,227,000 are included in the income statement for the three and nine months ended September 30, 2018. During the nine months ended September 30, 2017, there were no acquisition costs incurred.

The acquisition was consistent with the Company's strategy to expand into the Bay Area market. The acquisition offers the Company the opportunity to increase profitability by introducing existing products and services to the acquired customer base as well as add new customers in the expanded region. Goodwill arising from the acquisition consisted largely of the estimated cost savings resulting from the combined operations.

The following table summarizes the consideration paid for FNBB and the amounts of assets acquired and liabilities assumed that were recorded at the acquisition date (in thousands).

	FNB Bancorp July 6, 2018
<b>Fair value of consideration transferred:</b>	
Fair value of shares issued	\$ 284,437
Cash consideration	6,695
<b>Total fair value of consideration transferred</b>	<b>291,132</b>
<b>Assets acquired:</b>	
Cash and cash equivalents	37,308
Securities available for sale	335,667
Restricted equity securities	7,723
Loans	834,683
Premises and equipment	30,522
Cash value of life insurance	16,817
Core deposit intangible	27,605
Other assets	16,214
<b>Total assets acquired</b>	<b>1,306,539</b>

<b>Liabilities assumed:</b>	
Deposits	991,935
Other liabilities	15,133
Short-term borrowings - Federal Home Loan Bank	165,000
<b>Total liabilities assumed</b>	<b>1,172,068</b>
Total net assets acquired	134,471
<b>Goodwill recognized</b>	<b>\$ 156,661</b>

The fair value of net assets acquired includes fair value adjustments to certain loans that were not considered impaired (PNCI loans) as of the acquisition date. The fair value adjustments were determined using discounted contractual cash flows. As such, these loans were not considered impaired at the acquisition date and were not subject to the guidance relating to purchased credit impaired loans (PCI loans), which have shown evidence of credit deterioration since origination. The gross contractual amounts receivable and fair value for PNCI loans as of the acquisition date was \$866,189,000 and \$833,381,000, respectively. The gross contractual amounts receivable and fair value for PCI loans as of the acquisition date was \$1,683,000 and \$1,302,000, respectively.

**Table of Contents**

The accompanying condensed consolidated financial statements include the accounts of FNB Bancorp since July 6, 2018. The table below presents the unaudited pro forma information as if the acquisition of FNB Bancorp had occurred on January 1, 2017 after giving effect to certain acquisition accounting adjustments. The pro forma information for the three and nine months ended September 30, 2018 and 2017 includes acquisition adjustments for the amortization/accretion on loans, core deposit intangibles, and related income tax effects. The pro forma financial information also includes one-time costs associated with the acquisition but does not include expected costs savings synergies that we expect to achieve. The unaudited pro forma financial information is not necessarily indicative of the results of operations that would have occurred had the transaction been effected on the assumed date.

	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	( in thousands, except per share data)			
<b>Summarized proforma income statement data:</b>				
Net interest income	\$ 61,259	\$ 57,329	\$ 178,434	\$ 168,363
Provision for (benefit from) loan losses	2,651	765	1,374	(1,728)
Noninterest income	12,288	13,902	38,517	40,537
Noninterest expense	(40,850)	(45,983)	(135,048)	(135,218)
Income before taxes	30,046	24,483	80,529	75,410
Income taxes	8,384	9,055	22,996	27,436
Net income	\$ 21,662	\$ 15,428	\$ 57,533	\$ 47,974
Basic earnings per share	\$ 0.72	\$ 0.51	\$ 1.76	\$ 1.58
Diluted earnings per share	\$ 0.71	\$ 0.50	\$ 1.74	\$ 1.56

It is impracticable to separately provide information regarding the revenue and earnings of FNB Bancorp included in the Company's consolidated income statement from the July 6, 2018 acquisition date to September 30, 2018 because the operations of FNB Bancorp were substantially comingled with the operations of the Company as of the system conversion date of July 22, 2018.

**Table of Contents****Note 3 - Investment Securities**

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

	Amortized Cost	September 30, 2018 Gross Unrealized Gains      Gross Unrealized Losses		Estimated Fair Value
		(in thousands)		
<b>Debt Securities Available for Sale</b>				
Obligations of U.S. government agencies	\$ 666,021	163	(27,308)	\$ 638,876
Obligations of states and political subdivisions	129,072	107	(5,759)	123,420
Corporate bonds	4,368	65	(2)	4,431
Asset backed securities	289,550	181	(498)	289,233
Total debt securities available for sale	\$ 1,089,011	\$ 516	\$ (33,567)	\$ 1,055,960
<b>Debt Securities Held to Maturity</b>				
Obligations of U.S. government agencies	\$ 445,309	\$ 88	\$ (13,361)	\$ 432,036
Obligations of states and political subdivisions	14,588	58	(395)	14,251
Total debt securities held to maturity	\$ 459,897	\$ 146	\$ (13,756)	\$ 446,287
<b>Debt Securities Available for Sale</b>				
Obligations of U.S. government agencies	\$ 609,695	\$ 695	\$ (5,601)	\$ 604,789
Obligations of states and political subdivisions	121,597	1,888	(329)	123,156
Total debt securities available for sale	\$ 731,292	\$ 2,583	\$ (5,930)	\$ 727,945
<b>Debt Securities Held to Maturity</b>				
Obligations of U.S. government agencies	\$ 500,271	\$ 5,101	\$ (1,889)	\$ 503,483
Obligations of states and political subdivisions	14,573	146	(37)	14,682
Total debt securities held to maturity	\$ 514,844	\$ 5,247	\$ (1,926)	\$ 518,165

Proceeds from sales of available for sale debt securities of \$293,279,000 and \$25,757,000 were received during the three months ended September 30, 2018 and 2017, respectively. Gross realized gains during the three months ended September 30, 2018 and 2017 were \$207,000 and \$961,000, respectively. There were no sales of investment securities during the first six months of 2018 or 2017. Investment securities with an aggregate carrying value of \$548,123,000 and \$285,596,000 at September 30, 2018 and December 31, 2017, 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 September 30, 2018 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 September 30, 2018, obligations of U.S. government corporations and agencies with a cost basis totaling \$1,111,330,000 consist almost entirely of residential real estate 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 September 30, 2018, the Company estimates the average remaining life of these mortgage-backed securities issued by U.S. government corporations and agencies to be approximately 6.1 years. Average remaining life is defined as the time span after which the principal balance has been reduced by half.

Debt Securities (In thousands)	Available for Sale		Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year	\$ 2,435	\$ 2,434	\$	\$
Due after one year through five years	12,486	12,501	1,231	1,240
Due after five years through ten years	17,764	17,740	25,955	25,210
Due after ten years	1,056,326	1,023,285	432,711	419,837
<b>Totals</b>	<b>\$ 1,089,011</b>	<b>\$ 1,055,960</b>	<b>\$ 459,897</b>	<b>\$ 446,287</b>

**Table of Contents**

Gross unrealized losses on debt 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
September 30, 2018						
<b>Debt Securities Available for Sale</b>						
Obligations of U.S. government agencies	\$ 323,972	\$ (10,839)	\$ 311,035	\$ (16,469)	\$ 635,007	\$ (27,308)
Obligations of states and political subdivisions	85,668	(3,659)	18,323	(2,100)	103,991	(5,759)
Corporate bonds	1,969	(2)			1,969	(2)
Asset backed securities	79,943	(498)			79,943	(498)
Total debt securities available for sale	\$ 491,552	\$ (14,998)	\$ 329,358	\$ (18,569)	\$ 820,910	\$ (33,567)
<b>Debt Securities Held to Maturity</b>						
Obligations of U.S. government agencies	\$ 307,432	\$ (7,693)	\$ 109,312	\$ (5,668)	\$ 416,744	\$ (13,361)
Obligations of states and political subdivisions	8,971	(230)	3,076	(165)	12,047	(395)
Total debt securities held to maturity	\$ 316,403	\$ (7,923)	\$ 112,388	\$ (5,833)	\$ 428,791	\$ (13,756)
December 31, 2017						
<b>Debt Securities Available for Sale</b>						
Obligations of U.S. government agencies	\$ 284,367	\$ (2,176)	\$ 166,338	\$ (3,425)	\$ 450,705	\$ (5,601)
Obligations of states and political subdivisions	4,904	(35)	17,085	(294)	21,989	(329)
Total securities available for sale	\$ 289,271	\$ (2,211)	\$ 183,423	\$ (3,719)	\$ 472,694	\$ (5,930)
<b>Debt Securities Held to Maturity</b>						
Obligations of U.S. government agencies	\$ 93,017	\$ (567)	\$ 95,367	\$ (1,322)	\$ 188,384	\$ (1,889)
Obligations of states and political subdivisions	1,488	(7)	2,637	(30)	4,125	(37)



Total debt securities held to maturity \$ 94,505 \$ (574) \$ 98,004 \$ (1,352) \$ 192,509 \$ (1,926)

Obligations of U.S. government agencies: Unrealized losses on investments in obligations of U.S. government 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 September, 2018, 171 debt securities representing obligations of U.S. government agencies had unrealized losses with aggregate depreciation of (3.7%) 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 September 30, 2018, 132 debt securities representing obligations of states and political subdivisions had unrealized losses with aggregate depreciation of (5.0%) from the Company's amortized cost basis.

Corporate bonds: The unrealized losses on investments in corporate bonds 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 management believes 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 September 30, 2018, one corporate bond had unrealized losses with aggregate depreciation of (0.1%) from the Company's amortized cost basis.

Asset backed securities: The unrealized losses on investments in asset backed securities were caused by increases in required yields by investors in these types of securities. At the time of purchase, each of these securities were rated AA or AAA and through September 30, 2018 have not experienced any deterioration in credit rating. The Company continues to monitor these securities for changes in credit rating or other indications of credit deterioration. Because management believes 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 September 30, 2018, 6 asset backed securities had unrealized losses with aggregate depreciation of (0.6%) from the Company's amortized cost basis.

Marketable equity securities: All unrealized losses recognized during the reporting period were for equity securities still held at September 30, 2018.

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

A summary of loan balances follows (in thousands):

	Originated	September 30, 2018		Total
		PNCI	PCI	
<b>Mortgage loans on real estate:</b>				
Residential 1-4 family	\$ 340,515	\$ 182,201	\$ 1,698	\$ 524,414
Commercial	1,863,604	736,299	7,885	2,607,788
<b>Total mortgage loans on real estate</b>	<b>2,204,119</b>	<b>918,500</b>	<b>9,583</b>	<b>3,132,202</b>
<b>Consumer:</b>				
Home equity lines of credit	284,956	44,881	1,299	331,136
Home equity loans	35,556	4,690	447	40,693
Other	26,294	23,120	42	49,456
<b>Total consumer loans</b>	<b>346,806</b>	<b>72,691</b>	<b>1,788</b>	<b>421,285</b>
Commercial	234,741	52,479	2,427	289,647
<b>Construction:</b>				
Residential	81,533	33,041		114,574
Commercial	63,508	6,220		69,728
<b>Total construction</b>	<b>145,041</b>	<b>39,261</b>		<b>184,302</b>
<b>Total loans, net of deferred loan fees and discounts</b>	<b>\$ 2,930,707</b>	<b>\$ 1,082,931</b>	<b>\$ 13,798</b>	<b>\$ 4,027,436</b>
Total principal balance of loans owed, net of charge-offs	\$ 2,940,897	\$ 1,120,654	\$ 21,007	\$ 4,082,558
Unamortized net deferred loan fees	(10,190)			(10,190)
Discounts to principal balance of loans owed, net of charge-offs		(37,723)	(7,209)	(44,932)
<b>Total loans, net of unamortized deferred loan fees and discounts</b>	<b>\$ 2,930,707</b>	<b>\$ 1,082,931</b>	<b>\$ 13,798</b>	<b>\$ 4,027,436</b>
Allowance for loan losses	\$ (30,927)	\$ (566)	\$ (110)	\$ (31,603)
<b>December 31, 2017</b>				
	Originated	PNCI	PCI	Total
<b>Mortgage loans on real estate:</b>				
Residential 1-4 family	\$ 320,522	\$ 63,519	\$ 1,385	\$ 385,426
Commercial	1,690,510	215,823	8,563	1,914,896
<b>Total mortgage loan on real estate</b>	<b>2,011,032</b>	<b>279,342</b>	<b>9,948</b>	<b>2,300,322</b>

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

<b>Consumer:</b>				
Home equity lines of credit	269,942	16,248	2,498	288,688
Home equity loans	39,848	2,698	485	43,031
Other	22,859	2,251	45	25,155
<b>Total consumer loans</b>	<b>332,649</b>	<b>21,197</b>	<b>3,028</b>	<b>356,874</b>
Commercial	209,437	8,391	2,584	220,412
<b>Construction:</b>				
Residential	67,920	10		67,930
Commercial	69,364	263		69,627
<b>Total construction</b>	<b>137,284</b>	<b>273</b>		<b>137,557</b>
<b>Total loans, net of deferred loan fees and discounts</b>	<b>\$ 2,690,402</b>	<b>\$ 309,203</b>	<b>\$ 15,560</b>	<b>\$ 3,015,165</b>
<b>Total principal balance of loans owed, net of charge-offs</b>	<b>\$ 2,699,053</b>	<b>\$ 316,238</b>	<b>\$ 23,181</b>	<b>\$ 3,038,472</b>
Unamortized net deferred loan fees	(8,651)			(8,651)
Discounts to principal balance of loans owed, net of charge-offs		(7,035)	(7,621)	(14,656)
<b>Total loans, net of unamortized deferred loan fees and discounts</b>	<b>\$ 2,690,402</b>	<b>\$ 309,203</b>	<b>\$ 15,560</b>	<b>\$ 3,015,165</b>
Allowance for loan losses	\$ (29,122)	\$ (929)	\$ (272)	\$ (30,323)

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
<b>Change in accretable yield:</b>				
Balance at beginning of period	\$ 3,996	\$ 7,956	\$ 4,262	\$ 10,348
Accretion to interest income	(253)	(594)	(769)	(2,554)
Reclassification (to) from nonaccretable difference	(47)	(2,893)	203	(3,325)
<b>Balance at end of period</b>	<b>\$ 3,696</b>	<b>\$ 4,469</b>	<b>\$ 3,696</b>	<b>\$ 4,469</b>

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

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

(in thousands)	Allowance for Loan Losses		Three Months Ended September 30, 2018		
	Beginning Balance	Charge-offs	Recoveries	Provision (benefit)	Ending Balance
<b>Mortgage loans on real estate:</b>					
Residential 1-4 family	\$ 1,991	\$ (25)	\$	\$ 434	\$ 2,400
Commercial	11,607		15	1,257	12,879
<b>Total mortgage loans on real estate</b>	<b>13,598</b>	<b>(25)</b>	<b>15</b>	<b>1,691</b>	<b>15,279</b>
<b>Consumer:</b>					
Home equity lines of credit	5,048	(172)	151	194	5,221
Home equity loans	1,532	(23)	139	(55)	1,593
Other	557	(229)	63	309	700
<b>Total consumer loans</b>	<b>7,137</b>	<b>(424)</b>	<b>353</b>	<b>448</b>	<b>7,514</b>
Commercial	6,378	(693)	202	337	6,224
<b>Construction:</b>					
Residential	1,434			192	1,626
Commercial	977			(17)	960
<b>Total construction</b>	<b>2,411</b>			<b>175</b>	<b>2,586</b>
<b>Total</b>	<b>\$ 29,524</b>	<b>\$ (1,142)</b>	<b>\$ 570</b>	<b>\$ 2,651</b>	<b>\$ 31,603</b>

(in thousands)	Allowance for Loan Losses		Nine Months Ended September 30, 2018		
	Beginning Balance	Charge-offs	Recoveries	Provision (benefit)	Ending Balance
<b>Mortgage loans on real estate:</b>					
Residential 1-4 family	\$ 2,317	\$ (77)	\$	\$ 160	\$ 2,400
Commercial	11,441	(15)	51	1,402	12,879
<b>Total mortgage loans on real estate</b>	<b>13,758</b>	<b>(92)</b>	<b>51</b>	<b>1,562</b>	<b>15,279</b>
<b>Consumer:</b>					
Home equity lines of credit	5,800	(276)	677	(980)	5,221
Home equity loans	1,841	(23)	176	(401)	1,593
Other	586	(597)	208	503	700
<b>Total consumer loans</b>	<b>8,227</b>	<b>(896)</b>	<b>1,061</b>	<b>(878)</b>	<b>7,514</b>
Commercial	6,512	(952)	331	333	6,224
<b>Construction:</b>					
Residential	1,184			442	1,626

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Commercial	642	318	960
Total construction	1,826	760	2,586
Total	\$ 30,323	\$ (1,940)	\$ 1,443
		\$ 1,777	\$ 31,603

(in thousands)	Allowance for Loan Losses As of September 30, 2018			
	Individually evaluated for impairment	Loans pooled for evaluation	Loans acquired with deteriorated credit quality	Total allowance for loan losses
<b>Mortgage loans on real estate:</b>				
Residential 1-4 family	\$ 57	\$ 2,313	\$ 30	\$ 2,400
Commercial	268	12,552	59	12,879
Total mortgage loans on real estate	325	14,865	89	15,279
<b>Consumer:</b>				
Home equity lines of credit	168	5,046	7	5,221
Home equity loans	175	1,418		1,593
Other	103	597		700
Total consumer loans	446	7,061	7	7,514
Commercial	1,857	4,353	14	6,224
<b>Construction:</b>				
Residential		1,626		1,626
Commercial		960		960
Total construction		2,586		2,586
Total	\$ 2,628	\$ 28,865	\$ 110	\$ 31,603

**Table of Contents**

(in thousands)	Loans, Net of Unearned fees			As of September 30, 2018	
	Individually evaluated for impairment	Loans pooled for evaluation	Loans acquired with deteriorated credit quality	Total loans, net of unearned fees	
<b>Mortgage loans on real estate:</b>					
Residential 1-4 family	\$ 4,781	\$ 517,935	\$ 1,698	\$ 524,414	
Commercial	13,244	2,586,659	7,885	2,607,788	
<b>Total mortgage loans on real estate</b>	<b>18,025</b>	<b>3,104,594</b>	<b>9,583</b>	<b>3,132,202</b>	
<b>Consumer:</b>					
Home equity lines of credit	2,188	327,649	1,299	331,136	
Home equity loans	2,406	37,840	447	40,693	
Other	243	49,171	42	49,456	
<b>Total consumer loans</b>	<b>4,837</b>	<b>414,660</b>	<b>1,788</b>	<b>421,285</b>	
Commercial	4,632	282,588	2,427	289,647	
<b>Construction:</b>					
Residential		114,574		114,574	
Commercial		69,728		69,728	
<b>Total construction</b>		<b>184,302</b>		<b>184,302</b>	
<b>Total</b>	<b>\$ 27,494</b>	<b>\$ 3,986,144</b>	<b>\$ 13,798</b>	<b>\$ 4,027,436</b>	

(in thousands)	Allowance for Loan Losses			Year Ended December 31, 2017		
	Beginning Balance	Charge-offs	Recoveries	Provision (benefit)	Ending Balance	
<b>Mortgage loans on real estate:</b>						
Residential 1-4 family	\$ 2,748	\$ (60)	\$	\$ (371)	\$ 2,317	
Commercial	11,517	(186)	397	(287)	11,441	
<b>Total mortgage loans on real estate</b>	<b>14,265</b>	<b>(246)</b>	<b>397</b>	<b>(658)</b>	<b>13,758</b>	
<b>Consumer:</b>						
Home equity lines of credit	7,044	(98)	698	(1,844)	5,800	
Home equity loans	2,644	(332)	242	(713)	1,841	
Other	622	(1,186)	375	775	586	
<b>Total consumer loans</b>	<b>10,310</b>	<b>(1,616)</b>	<b>1,315</b>	<b>(1,782)</b>	<b>8,227</b>	
Commercial	5,831	(1,444)	428	1,697	6,512	
<b>Construction:</b>						
Residential	1,417	(1,104)		871	1,184	
Commercial	680		1	(39)	642	
<b>Total construction</b>	<b>2,097</b>	<b>(1,104)</b>	<b>1</b>	<b>832</b>	<b>1,826</b>	

Total	\$ 32,503	\$ (4,410)	\$ 2,141	\$ 89	\$ 30,323
-------	-----------	------------	----------	-------	-----------

(in thousands)	Allowance for Loan Losses As of December 31, 2017			
	Individually evaluated for impairment	Loans pooled for evaluation	Loans acquired with deteriorated credit quality	Total allowance for loan losses
<b>Mortgage loans on real estate:</b>				
Residential 1-4 family	\$ 230	\$ 1,932	\$ 155	\$ 2,317
Commercial	30	11,351	60	11,441
Total mortgage loans on real estate	260	13,283	215	13,758
<b>Consumer:</b>				
Home equity lines of credit	427	5,356	17	5,800
Home equity loans	107	1,734		1,841
Other	57	529		586
Total consumer loans	591	7,619	17	8,227
Commercial	1,848	4,624	40	6,512
<b>Construction:</b>				
Residential		1,184		1,184
Commercial		642		642
Total construction		1,826		1,826
<b>Total</b>	<b>\$ 2,699</b>	<b>\$ 27,352</b>	<b>\$ 272</b>	<b>\$ 30,323</b>

**Table of Contents**

(in thousands)	Loans, Net of Unearned fees			As of December 31, 2017	
	Individually evaluated for impairment	Loans pooled for evaluation	Loans acquired with deteriorated credit quality	Total loans, net of unearned fees	
<b>Mortgage loans on real estate:</b>					
Residential 1-4 family	\$ 5,298	\$ 378,743	\$ 1,385	\$ 385,426	
Commercial	13,911	1,892,422	8,563	1,914,896	
<b>Total mortgage loans on real estate</b>	<b>19,209</b>	<b>2,271,165</b>	<b>9,948</b>	<b>2,300,322</b>	
<b>Consumer:</b>					
Home equity lines of credit	2,688	283,502	2,498	288,688	
Home equity loans	1,470	41,076	485	43,031	
Other	257	24,853	45	25,155	
<b>Total consumer loans</b>	<b>4,415</b>	<b>349,431</b>	<b>3,028</b>	<b>356,874</b>	
Commercial	4,470	213,358	2,584	220,412	
<b>Construction:</b>					
Residential	140	67,790		67,930	
Commercial		69,627		69,627	
<b>Total construction</b>	<b>140</b>	<b>137,417</b>		<b>137,557</b>	
<b>Total</b>	<b>\$ 28,234</b>	<b>\$ 2,971,371</b>	<b>\$ 15,560</b>	<b>\$ 3,015,165</b>	

(in thousands)	Allowance for Loan Losses			Three Months Ended September 30, 2017	
	Beginning Balance	Charge-offs	Recoveries	Provision (benefit)	Ending Balance
<b>Mortgage loans on real estate:</b>					
Residential 1-4 family	\$ 2,495	\$ (60)	\$	\$ (217)	\$ 2,218
Commercial	10,119	(20)	238	1,033	11,370
<b>Total mortgage loans on real estate</b>	<b>12,614</b>	<b>(80)</b>	<b>238</b>	<b>816</b>	<b>13,588</b>
<b>Consumer:</b>					
Home equity lines of credit	6,156	(14)	189	(610)	5,721
Home equity loans	2,354	(94)	121	(390)	1,991
Other	645	(349)	91	203	590
<b>Total consumer loans</b>	<b>9,155</b>	<b>(457)</b>	<b>401</b>	<b>(797)</b>	<b>8,302</b>
Commercial	4,729	(291)	61	303	4,802
<b>Construction:</b>					
Residential	1,179	(33)		284	1,430
Commercial	466			159	625
<b>Total construction</b>	<b>1,645</b>	<b>(33)</b>		<b>443</b>	<b>2,055</b>



Total	\$ 28,143	\$ (861)	\$ 700	\$ 765	\$ 28,747
-------	-----------	----------	--------	--------	-----------

(in thousands)	Allowance for Loan Losses				Ending Balance
	Beginning Balance	Charge-offs	Recoveries	Provision (benefit)	
Mortgage loans on real estate:					
Residential 1-4 family	\$ 2,748	\$ (60)	\$	\$ (470)	\$ 2,218
Commercial	11,517	(170)	365	(342)	11,370
Total mortgage loans on real estate	14,265	(230)	365	(812)	13,588
Consumer:					
Home equity lines of credit	7,044	(98)	487	(1,712)	5,721
Home equity loans	2,644	(331)	146	(468)	1,991
Other	622	(831)	300	499	590
Total consumer loans	10,310	(1,260)	933	(1,681)	8,302
Commercial	5,831	(1,188)	315	(156)	4,802
Construction:					
Residential	1,417	(1,104)		1,117	1,430
Commercial	680		1	(56)	625
Total construction	2,097	(1,104)	1	1,061	2,055
Total	\$ 32,503	\$ (3,782)	\$ 1,614	\$ (1,588)	\$ 28,747

**Table of Contents**

(in thousands)	Allowance for Loan Losses		As of September 30, 2017	
	Individually evaluated for impairment	Loans pooled for evaluation	Loans acquired with deteriorated credit quality	Total allowance for loan losses
<b>Mortgage loans on real estate:</b>				
Residential 1-4 family	\$ 240	\$ 1,978	\$	\$ 2,218
Commercial	73	11,022	275	11,370
<b>Total mortgage loans on real estate</b>	<b>313</b>	<b>13,000</b>	<b>275</b>	<b>13,588</b>
<b>Consumer:</b>				
Home equity lines of credit	363	5,346	12	5,721
Home equity loans	111	1,880		1,991
Other	77	513		590
<b>Total consumer loans</b>	<b>551</b>	<b>7,739</b>	<b>12</b>	<b>8,302</b>
Commercial	1,276	3,526		4,802
<b>Construction:</b>				
Residential		1,430		1,430
Commercial		625		625
<b>Total construction</b>		<b>2,055</b>		<b>2,055</b>
<b>Total</b>	<b>\$ 2,140</b>	<b>\$ 26,320</b>	<b>\$ 287</b>	<b>\$ 28,747</b>

(in thousands)	Loans, Net of Unearned fees		As of September 30, 2017	
	Individually evaluated for impairment	Loans pooled for evaluation	Loans acquired with deteriorated credit quality	Total Loans
<b>Mortgage loans on real estate:</b>				
Residential 1-4 family	\$ 5,027	\$ 384,640	\$ 1,405	\$ 391,072
Commercial	19,788	1,775,843	8,171	1,803,802
<b>Total mortgage loans on real estate</b>	<b>24,815</b>	<b>2,160,483</b>	<b>9,576</b>	<b>2,194,874</b>
<b>Consumer:</b>				
Home equity lines of credit	2,219	284,335	2,952	289,506
Home equity loans	1,842	42,454	737	45,033
Other	267	26,470	44	26,781
<b>Total consumer loans</b>	<b>4,328</b>	<b>353,259</b>	<b>3,733</b>	<b>361,320</b>
Commercial	2,938	221,846	2,695	227,479
<b>Construction:</b>				
Residential	144	74,976		75,120
Commercial		72,820		72,820
<b>Total construction</b>	<b>144</b>	<b>147,796</b>		<b>147,940</b>

Total	\$ 32,225	\$ 2,883,384	\$ 16,004	\$ 2,931,613
-------	-----------	--------------	-----------	--------------

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.

**Table of Contents**

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

(in thousands)	Credit Quality Indicators Originated Loans				As of September 30, 2018	Total Originated Loans
	Pass	Special Mention	Substandard	Doubtful / Loss		
<b>Mortgage loans on real estate:</b>						
Residential 1-4 family	\$ 334,902	\$ 1,690	\$ 3,923	\$	\$	\$ 340,515
Commercial	1,821,995	28,747	12,862			1,863,604
<b>Total mortgage loans on real estate</b>	<b>2,156,897</b>	<b>30,437</b>	<b>16,785</b>			<b>2,204,119</b>
<b>Consumer:</b>						
Home equity lines of credit	281,480	1,747	1,729			284,956
Home equity loans	32,242	1,006	2,308			35,556
Other	25,885	334	75			26,294
<b>Total consumer loans</b>	<b>339,607</b>	<b>3,087</b>	<b>4,112</b>			<b>346,806</b>
Commercial	220,328	9,942	4,471			234,741
<b>Construction:</b>						
Residential	81,235	32	266			81,533
Commercial	62,660	848				63,508
<b>Total construction</b>	<b>143,895</b>	<b>880</b>	<b>266</b>			<b>145,041</b>
<b>Total loans</b>	<b>\$ 2,860,727</b>	<b>\$ 44,346</b>	<b>\$ 25,634</b>	<b>\$</b>	<b>\$</b>	<b>\$ 2,930,707</b>

(in thousands)	Credit Quality Indicators PNCI Loans				As of September 30, 2018	Total PNCI Loans
	Pass	Special Mention	Substandard	Doubtful / Loss		
<b>Mortgage loans on real estate:</b>						
Residential 1-4 family	\$ 179,634	\$ 880	\$ 1,687	\$	\$	\$ 182,201
Commercial	729,261	3,478	3,560			736,299
<b>Total mortgage loans on real estate</b>	<b>908,895</b>	<b>4,358</b>	<b>5,247</b>			<b>918,500</b>
<b>Consumer:</b>						
Home equity lines of credit	43,406	826	649			44,881
Home equity loans	4,471	116	103			4,690
Other	23,083	32	5			23,120
<b>Total consumer loans</b>	<b>70,960</b>	<b>974</b>	<b>757</b>			<b>72,691</b>
Commercial	51,633	734	112			52,479
<b>Construction:</b>						
Residential	33,041					33,041
Commercial	6,220					6,220

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Total construction	39,261				39,261
Total loans	\$ 1,070,749	\$ 6,066	\$ 6,116	\$	\$ 1,082,931

(in thousands)	Credit Quality Indicators Originated Loans				As of December 31, 2017
	Pass	Special Mention	Substandard	Doubtful / Loss	Total Originated Loans
<b>Mortgage loans on real estate:</b>					
Residential 1-4 family	\$ 315,120	\$ 2,234	\$ 3,168	\$	\$ 320,522
Commercial	1,649,333	18,434	22,743		1,690,510
Total mortgage loans on real estate	1,964,453	20,668	25,911		2,011,032
<b>Consumer:</b>					
Home equity lines of credit	265,345	2,558	2,039		269,942
Home equity loans	37,428	800	1,620		39,848
Other	22,432	272	155		22,859
Total consumer loans	325,205	3,630	3,814		332,649
Commercial	195,208	9,492	4,737		209,437
<b>Construction:</b>					
Residential	67,813		107		67,920
Commercial	64,492	4,872			69,364
Total construction	132,305	4,872	107		137,284
Total loans	\$ 2,617,171	\$ 38,662	\$ 34,569	\$	\$ 2,690,402

**Table of Contents**

(in thousands)	Credit Quality Indicators PNCI Loans			As of December 31, 2017	
	Pass	Special Mention	Substandard	Doubtful / Loss	Total PNCI Loans
<b>Mortgage loans on real estate:</b>					
Residential 1-4 family	\$ 61,411	\$ 218	\$ 1,890	\$	\$ 63,519
Commercial	203,751	11,513	559		215,823
<b>Total mortgage loans on real estate</b>	<b>265,162</b>	<b>11,731</b>	<b>2,449</b>		<b>279,342</b>
<b>Consumer:</b>					
Home equity lines of credit	14,866	450	932		16,248
Home equity loans	2,433	188	77		2,698
Other	2,207	38	6		2,251
<b>Total consumer loans</b>	<b>19,506</b>	<b>676</b>	<b>1,015</b>		<b>21,197</b>
Commercial	8,390	1			8,391
<b>Construction:</b>					
Residential	10				10
Commercial	263				263
<b>Total construction</b>	<b>273</b>				<b>273</b>
<b>Total</b>	<b>\$ 293,331</b>	<b>\$ 12,408</b>	<b>\$ 3,464</b>	<b>\$</b>	<b>\$ 309,203</b>

Consumer loans, whether unsecured or secured by real estate, automobiles, or other personal property, are susceptible to three primary risks; non-payment due to income loss, over-extension of credit and, when the borrower is unable to pay, shortfall in collateral value. Typically, payment performance will follow general economic trends in the marketplace driven primarily by rises in the unemployment rate, non-payment is likely due to loss of employment. 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 and current performance 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.

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 or revaluations are obtained at initiation of the credit and periodically, but not less than every twelve months depending on collateral type, once repayment is questionable and the loan has been classified.

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

**Table of Contents**

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

Analysis of Originated Past Due Loans - As of September 30, 2018							<sup>3</sup> 90 Days and Still Accruing
(in thousands)	30-59 days	60-89 days	> 90 days	Total Past Due Loans	Current	Total	
<b>Mortgage loans on real estate:</b>							
Residential 1-4 family	\$ 275	\$ 749	\$ 738	\$ 1,762	\$ 338,753	\$ 340,515	\$
Commercial	499	150	117	766	1,862,838	1,863,604	
<b>Total mortgage loans on real estate</b>	<b>774</b>	<b>899</b>	<b>855</b>	<b>2,528</b>	<b>2,201,591</b>	<b>2,204,119</b>	
<b>Consumer:</b>							
Home equity lines of credit	1,450	97	112	1,659	283,297	284,956	
Home equity loans	527	293	411	1,231	34,325	35,556	
Other	262	24		286	26,008	26,294	
<b>Total consumer loans</b>	<b>2,239</b>	<b>414</b>	<b>523</b>	<b>3,176</b>	<b>343,630</b>	<b>346,806</b>	
Commercial	1,010	134	1,309	2,453	232,288	234,741	
<b>Construction:</b>							
Residential	488			488	81,045	81,533	
Commercial					63,508	63,508	
<b>Total construction</b>	<b>488</b>			<b>488</b>	<b>144,553</b>	<b>145,041</b>	
<b>Total originated loans</b>	<b>\$ 4,511</b>	<b>\$ 1,447</b>	<b>\$ 2,687</b>	<b>\$ 8,645</b>	<b>\$ 2,922,062</b>	<b>\$ 2,930,707</b>	<b>\$</b>

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

Analysis of PNCI Past Due Loans - As of September 30, 2018							<sup>3</sup> 90 Days and Still Accruing
(in thousands)	30-59 days	60-89 days	> 90 days	Total Past Due Loans	Current	Total	
<b>Mortgage loans on real estate:</b>							
Residential 1-4 family	\$	\$ 397	\$ 163	\$ 560	\$ 181,641	\$ 182,201	\$
Commercial	992	18	949	1,959	734,340	736,299	949
<b>Total mortgage loans on real estate</b>	<b>992</b>	<b>415</b>	<b>1,112</b>	<b>2,519</b>	<b>915,981</b>	<b>918,500</b>	<b>949</b>
<b>Consumer:</b>							
Home equity lines of credit	613	192	227	1,032	43,849	44,881	99



Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Home equity loans	262	16	278	4,412	4,690		
Other	242		242	22,878	23,120		
<b>Total consumer loans</b>	<b>1,117</b>	<b>192</b>	<b>243</b>	<b>1,552</b>	<b>71,139</b>	<b>72,691</b>	<b>99</b>
Commercial	30	472		502	51,977	52,479	
<b>Construction:</b>							
Residential					33,041	33,041	
Commercial					6,220	6,220	
<b>Total construction</b>					<b>39,261</b>	<b>39,261</b>	
<b>Total PNCI loans</b>	<b>\$ 2,139</b>	<b>\$ 1,079</b>	<b>\$ 1,355</b>	<b>\$ 4,573</b>	<b>\$ 1,078,358</b>	<b>\$ 1,082,931</b>	<b>\$ 1,048</b>

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

Analysis of Originated Past Due Loans - As of December 31, 2017							<sup>3</sup> 90 Days and Still Accruing
(in thousands)	30-59 days	60-89 days	> 90 days	Total Past Due Loans	Current	Total	
<b>Mortgage loans on real estate:</b>							
Residential 1-4 family	\$ 1,740	\$ 510	\$ 243	\$ 2,493	\$ 318,029	\$ 320,522	\$
Commercial	158	987		1,145	1,689,365	1,690,510	
<b>Total mortgage loans on real estate</b>	<b>1,898</b>	<b>1,497</b>	<b>243</b>	<b>3,638</b>	<b>2,007,394</b>	<b>2,011,032</b>	
<b>Consumer:</b>							
Home equity lines of credit	528	48	372	948	268,994	269,942	
Home equity loans	511	107	373	991	38,857	39,848	
Other	56	36	3	95	22,764	22,859	
<b>Total consumer loans</b>	<b>1,095</b>	<b>191</b>	<b>748</b>	<b>2,034</b>	<b>330,615</b>	<b>332,649</b>	
Commercial	956	738	1,527	3,221	206,216	209,437	
<b>Construction:</b>							
Residential	34			34	67,886	67,920	
Commercial					69,364	69,364	
<b>Total construction</b>	<b>34</b>			<b>34</b>	<b>137,250</b>	<b>137,284</b>	
<b>Total loans</b>	<b>\$ 3,983</b>	<b>\$ 2,426</b>	<b>\$ 2,518</b>	<b>\$ 8,927</b>	<b>\$ 2,681,475</b>	<b>\$ 2,690,402</b>	<b>\$</b>

**Table of Contents**

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

(in thousands)	Analysis of PNCI Past Due Loans - As of December 31, 2017				Total Past Due Loans	Current	Total	> 90 Days and Still Accruing
	30-59 days	60-89 days	> 90 days					
<b>Mortgage loans on real estate:</b>								
Residential 1-4 family	\$ 1,495	\$ 90	\$ 109	\$ 1,694	\$ 61,825	\$ 63,519	\$ 81	
Commercial	70			70	215,753	215,823		
<b>Total mortgage loans on real estate</b>	<b>1,565</b>	<b>90</b>	<b>109</b>	<b>1,764</b>	<b>277,578</b>	<b>279,342</b>	<b>81</b>	
<b>Consumer:</b>								
Home equity lines of credit	298	228	330	856	15,392	16,248	200	
Home equity loans	30			30	2,668	2,698		
Other	6	26		32	2,219	2,251		
<b>Total consumer loans</b>	<b>334</b>	<b>254</b>	<b>330</b>	<b>918</b>	<b>20,279</b>	<b>21,197</b>	<b>200</b>	
Commercial					8,391	8,391		
<b>Construction:</b>								
Residential					10	10		
Commercial					263	263		
<b>Total construction</b>					<b>273</b>	<b>273</b>		
<b>Total loans</b>	<b>\$ 1,899</b>	<b>\$ 344</b>	<b>\$ 439</b>	<b>\$ 2,682</b>	<b>\$ 306,521</b>	<b>\$ 309,203</b>	<b>\$ 281</b>	

Interest income on originated nonaccrual loans that would have been recognized during the three months ended September 30, 2018 and 2017, if all such loans had been current in accordance with their original terms, totaled \$338,000 and \$244,000, respectively. Interest income actually recognized on these originated loans during the three months ended September 30, 2018 and 2017 was \$59,000 and \$33,000, respectively. Interest income on PNCI nonaccrual loans that would have been recognized during the three months ended September 30, 2018 and 2017, if all such loans had been current in accordance with their original terms, totaled \$39,000 and \$90,000, respectively. Interest income actually recognized on these PNCI loans during the three months ended September 30, 2018 and 2017 was \$12,000 and \$2,000.

Interest income on originated nonaccrual loans that would have been recognized during the nine months ended September 30, 2018 and 2017, if all such loans had been current in accordance with their original terms, totaled \$964,000 and \$617,000, respectively. Interest income actually recognized on these originated loans during the nine months ended September 30, 2018 and 2017 was \$133,000 and \$49,000, respectively. Interest income on PNCI nonaccrual loans that would have been recognized during the nine months ended September 30, 2018 and 2017, if all such loans had been current in accordance with their original terms, totaled \$93,000 and \$188,000. Interest income actually recognized on these PNCI loans during the nine months ended September 30, 2018 and 2017 was \$23,000 and \$14,000.

The following table shows the ending balance of nonaccrual originated and PNCI loans by loan category as of the date indicated:

(in thousands)	Non Accrual Loans					
	As of September 30, 2018			As of December 31, 2017		
	Originated	PNCI	Total	Originated	PNCI	Total
<b>Mortgage loans on real estate:</b>						
Residential 1-4 family	\$ 2,813	\$ 1,219	\$ 4,032	\$ 1,725	\$ 1,012	\$ 2,737
Commercial	7,876	305	8,181	8,144		8,144
<b>Total mortgage loans on real estate</b>	<b>10,689</b>	<b>1,524</b>	<b>12,213</b>	<b>9,869</b>	<b>1,012</b>	<b>10,881</b>
<b>Consumer:</b>						
Home equity lines of credit	725	568	1,293	811	402	1,213
Home equity loans	1,933	50	1,983	1,106	44	1,150
Other	3	5	8	7	5	12
<b>Total consumer loans</b>	<b>2,661</b>	<b>623</b>	<b>3,284</b>	<b>1,924</b>	<b>451</b>	<b>2,375</b>
Commercial	3,737		3,737	3,669		3,669
<b>Construction:</b>						
Residential						
Commercial						
<b>Total construction</b>						
<b>Total non accrual loans</b>	<b>\$ 17,087</b>	<b>\$ 2,147</b>	<b>\$ 19,234</b>	<b>\$ 15,462</b>	<b>\$ 1,463</b>	<b>\$ 16,925</b>

Impaired originated loans are those where management has concluded that it is probable that the borrower will be unable to pay all amounts due in accordance with the original contractual terms of the loan agreement. The following tables show the recorded investment (financial statement balance), unpaid principal balance, average recorded investment, and interest income recognized for impaired Originated and PNCI loans, segregated by those with no related allowance recorded and those with an allowance recorded for the periods indicated. The average recorded investment and interest income recognized for the three month periods ended September 30, 2018 and 2017 has not been separately presented as the amounts are not considered significant for disclosure.

**Table of Contents**

(in thousands)	Impaired Originated Loans As of, or for the Nine Months Ended, September 30, 2018						
	Unpaid principal balance	Recorded investment with no related allowance	Recorded investment with related allowance	Total recorded investment	Related Allowance	Average recorded investment	Interest income recognized
<b>Mortgage loans on real estate:</b>							
Residential 1-4 family	\$ 4,185	\$ 3,251	\$ 311	\$ 3,562	\$ 57	\$ 3,883	\$ 67
Commercial	12,553	9,619	2,370	11,989	268	11,549	208
<b>Total mortgage loans on real estate</b>	<b>16,738</b>	<b>12,870</b>	<b>2,681</b>	<b>15,551</b>	<b>325</b>	<b>15,432</b>	<b>275</b>
<b>Consumer:</b>							
Home equity lines of credit	1,444	1,346	59	1,405	19	1,410	32
Home equity loans	2,554	1,960	157	2,117	30	1,753	24
Other	3		3	3	3	3	
<b>Total consumer loans</b>	<b>4,001</b>	<b>3,306</b>	<b>219</b>	<b>3,525</b>	<b>52</b>	<b>3,166</b>	<b>56</b>
Commercial	4,868	2,135	2,497	4,632	1,857	4,626	78
<b>Construction:</b>							
Residential						68	
Commercial							
<b>Total construction</b>						<b>68</b>	
<b>Total</b>	<b>\$ 25,607</b>	<b>\$ 18,311</b>	<b>\$ 5,397</b>	<b>\$ 23,708</b>	<b>\$ 2,234</b>	<b>\$ 23,292</b>	<b>\$ 409</b>

(in thousands)	Impaired PNCI Loans As of, or for the Nine Months Ended, September 30, 2018						
	Unpaid principal balance	Recorded investment with no related allowance	Recorded investment with related allowance	Total recorded investment	Related Allowance	Average recorded investment	Interest income recognized
<b>Mortgage loans on real estate:</b>							
Residential 1-4 family	\$ 1,302	\$ 1,219	\$	\$ 1,219	\$	\$ 1,275	\$
Commercial	1,255	1,255		1,255		627	58
<b>Total mortgage loans on real estate</b>	<b>2,557</b>	<b>2,474</b>		<b>2,474</b>		<b>1,902</b>	<b>58</b>
<b>Consumer:</b>							
Home equity lines of credit	852	625	158	783	149	909	13
Home equity loans	296	50	239	289	145	287	9
Other	240		240	240	100	257	7

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Total consumer loans	1,388	675	637	1,312	394	1,453	29
Commercial							
Construction:							
Residential							
Commercial							
Total construction							
Total	\$ 3,945	\$ 3,149	\$ 637	\$ 3,786	\$ 394	\$ 3,355	\$ 87

(in thousands)	Impaired Originated Loans		As of, or for the Twelve Months Ended, December 31, 2017				
	Unpaid principal balance	Recorded investment with no related allowance	Recorded investment with related allowance	Total recorded investment	Related Allowance	Average recorded investment	Interest income recognized
Mortgage loans on real estate:							
Residential 1-4 family	\$ 4,023	\$ 2,058	\$ 1,881	\$ 3,939	\$ 230	\$ 3,501	\$ 143
Commercial	14,186	13,101	810	13,911	30	13,851	645
Total mortgage loans on real estate	18,209	15,159	2,691	17,850	260	17,352	788
Consumer:							
Home equity lines of credit	1,581	1,093	401	1,494	111	1,702	47
Home equity loans	1,627	1,107	198	1,305	10	1,193	24
Other	52	4	3	7	3	20	
Total consumer loans	3,260	2,204	602	2,806	124	2,915	71
Commercial	4,566	575	3,895	4,470	1,848	4,283	184
Construction:							
Residential	140	140		140		76	9
Commercial							
Total construction	140	140		140		76	9
Total	\$ 26,175	\$ 18,078	\$ 7,188	\$ 25,266	\$ 2,232	\$ 24,626	\$ 1,052

**Table of Contents**

(in thousands)	Impaired PNCI Loans		As of, or for the Twelve Months Ended, December 31, 2017				
	Unpaid principal balance	Recorded investment with no related allowance	Recorded investment with related allowance	Total recorded investment	Related Allowance	Average recorded investment	Interest income recognized
Mortgage loans on real estate:							
Residential 1-4 family	\$ 1,404	\$ 1,359	\$	\$ 1,359	\$	\$ 1,041	\$ 24
Commercial						979	
Total mortgage loans on real estate	1,404	1,359		1,359		2,020	24
Consumer:							
Home equity lines of credit	1,216	591	603	1,194	316	1,240	48
Home equity loans	178	44	121	165	97	117	6
Other	250		250	250	54	186	11
Total consumer loans	1,644	635	974	1,609	467	1,543	65
Commercial							
Construction:							
Residential							
Commercial							
Total construction							
Total	\$ 3,048	\$ 1,994	\$ 974	\$ 2,968	\$ 467	\$ 3,563	\$ 89

(in thousands)	Impaired Originated Loans		As of, or for the Nine Months Ended, September 30, 2017				
	Unpaid principal balance	Recorded investment with no related allowance	Recorded investment with related allowance	Total recorded investment	Related Allowance	Average recorded investment	Interest income recognized
Mortgage loans on real estate:							
Residential 1-4 family	\$ 3,489	\$ 1,777	\$ 1,644	\$ 3,421	\$ 167	\$ 3,242	\$ 90
Commercial	18,643	17,039	1,150	18,189	73	15,990	514
Total mortgage loans on real estate	22,132	18,816	2,794	21,610	240	19,232	604
Consumer:							
Home equity lines of credit	1,324	1,108	110	1,218	33	1,564	25
Home equity loans	2,091	1,470	199	1,669	13	1,376	32
Other	59	3	11	14	7	23	(25)

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Total consumer loans	3,474	2,581	320	2,901	53	2,963	32
Commercial	3,262	884	2,048	2,932	1,270	3,514	69
Construction:							
Residential	144	144		144		78	7
Commercial							
Total construction	144	144		144		78	7
Total	\$ 29,012	\$ 22,425	\$ 5,162	\$ 27,587	\$ 1,563	\$ 25,787	\$ 712

(in thousands)	Impaired PNCI Loans			As of, or for the Nine Months Ended, September 30, 2017			
	Unpaid principal balance	Recorded investment with no related allowance	Recorded investment with related allowance	Total recorded investment	Related Allowance	Average recorded investment	Interest income recognized
Mortgage loans on real estate:							
Residential 1-4 family	\$ 1,634	\$ 1,356	\$ 250	\$ 1,606	\$ 73	\$ 1,165	\$ 24
Commercial	1,869	1,599		1,599		1,778	
Total mortgage loans on real estate	3,503	2,955	250	3,205	73	2,943	24
Consumer:							
Home equity lines of credit	1,020	394	607	1,001	328	1,143	28
Home equity loans	185	50	123	173	99	121	5
Other	253		253	253	71	187	8
Total consumer loans	1,458	444	983	1,427	498	1,451	41
Commercial	6				6	3	
Construction:							
Residential							
Commercial							
Total construction							
Total	\$ 4,967	\$ 3,399	\$ 1,233	\$ 4,632	\$ 577	\$ 4,397	\$ 65

At September 30, 2018, \$8,845,000 of originated loans were Troubled Debt Restructurings (TDRs) and classified as impaired. The Company had no obligations to lend additional funds on these TDRs as of September 30, 2018. At September 30, 2018, \$840,000 of PNCI loans were TDRs and classified as impaired. The Company had no obligations to lend additional funds on these TDRs as of September 30, 2018.

At December 31, 2017, \$12,517,000 of originated loans were TDRs and classified as impaired. The Company had obligations to lend \$1,000 of additional funds on these TDRs as of December 31, 2017. At December 31, 2017, \$1,352,000 of PNCI loans were TDRs and classified as impaired. The Company had no obligations to lend additional funds on these TDRs as of December 31, 2017.

At September 30, 2017, \$13,352,000 of originated loans were TDRs and classified as impaired. The Company had obligations to lend \$209,000 of additional funds on these TDRs as of September 30, 2017. At September 30, 2017, \$1,611,000 of PNCI loans were TDRs and classified as impaired. The Company had obligations to lend \$3,000 of additional funds on these TDRs as of September 30, 2017.



**Table of Contents**

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

## TDR Information for the Three Months Ended September 30, 2018

(dollars in thousands)	Number	Pre-mod outstanding principal balance	Post-mod outstanding principal balance	Financial impact due to TDR taken as additional provision	Number that defaulted during the period	Recorded investment of TDRs that defaulted during the period	Financial impact due to the default of previous TDR taken as charge- offs or additional provisions
Mortgage loans on real estate:							
Residential 1-4 family		\$	\$	\$		\$	\$
Commercial	4	1,326	1,324	(308)			
Total mortgage loans on real estate	4	1,326	1,324	(308)			
Consumer:							
Home equity lines of credit					1	128	
Home equity loans	1	478	478				
Other							
Total consumer loans	1	478	478		1	128	
Commercial	2	203	203				
Construction:							
Residential							
Commercial							
Total construction							
Total	7	\$ 2,007	\$ 2,005	\$ (308)	1	\$ 128	\$

## TDR Information for the Nine Months Ended September 30, 2018

(dollars in thousands)	Number	Pre-mod outstanding principal balance	Post-mod outstanding principal balance	Financial impact due to TDR taken as additional provision	Number that defaulted during the period	Recorded investment of TDRs that defaulted during the period	Financial impact due to the default of previous TDR taken as
------------------------	--------	--	---	---	--	---	---

							charge- offs or additional provisions
Mortgage loans on real estate:							
Residential 1-4 family		\$	\$	\$		\$	\$
Commercial	6	1,743	1,741	(262)	1	169	
Total mortgage loans on real estate							
	6	1,743	1,741	(262)	1	169	
Consumer:							
Home equity lines of credit	1	133	138		1	128	
Home equity loans	2	599	599				
Other							
Total consumer loans	3	732	737		1	128	
Commercial	4	619	623	(3)	4	340	(2)
Construction:							
Residential							
Commercial							
Total construction							
Total	13	\$ 3,094	\$ 3,101	\$ (265)	6	\$ 637	\$ (2)

**Table of Contents**

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

## TDR Information for the Three Months Ended September 30, 2017

(dollars in thousands)	Number	Pre-mod outstanding principal balance	Post-mod outstanding principal balance	Financial impact due to TDR taken as additional provision	Number that defaulted during the period	Recorded investment of TDRs that defaulted during the period	Financial impact due to the default of previous TDR taken as charge- offs or additional provisions
<b>Mortgage loans on real estate:</b>							
Residential 1-4 family	1	\$ 939	\$ 939	\$ 169	1	\$ 99	\$
Commercial	4	2,886	2,886	14	1	219	
<b>Total mortgage loans on real estate</b>	<b>5</b>	<b>3,825</b>	<b>3,825</b>	<b>183</b>	<b>2</b>	<b>318</b>	
<b>Consumer:</b>							
<b>Home equity lines of credit</b>							
Home equity loans	1	252	252				
<b>Other</b>							
<b>Total consumer loans</b>	<b>1</b>	<b>252</b>	<b>252</b>				
Commercial	8	1,109	1,109	28			
<b>Construction:</b>							
Residential	1	144	144				
Commercial							
<b>Total construction</b>	<b>1</b>	<b>144</b>	<b>144</b>				
<b>Total</b>	<b>15</b>	<b>\$ 5,330</b>	<b>\$ 5,330</b>	<b>\$ 211</b>	<b>2</b>	<b>\$ 318</b>	<b>\$</b>

## TDR Information for the Nine Months Ended September 30, 2017

(dollars in thousands)	Number	Pre-mod outstanding principal balance	Post-mod outstanding principal balance	Financial impact due to TDR taken as additional provision	Number that defaulted during the period	Recorded investment of TDRs that defaulted during the period	Financial impact due to the default of previous TDR
------------------------	--------	--	---	---	---	--	--

								taken as charge- offs or additional provisions
Mortgage loans on real estate:								
Residential 1-4 family	1	\$ 939	\$ 939	\$ 169	2	\$ 223	\$	
Commercial	7	3,509	3,482	(111)	1	219		
Total mortgage loans on real estate	8	4,448	4,421	58	3	442		
Consumer:								
Home equity lines of credit	3	187	187	27				
Home equity loans	1	252	252					
Other	1	14	14	11				
Total consumer loans	5	453	453	38				
Commercial	11	1,854	1,748	37				
Construction:								
Residential	1	144	144					
Commercial								
Total construction	1	144	144					
Total	25	\$ 6,899	\$ 6,766	\$ 133	3	\$ 442	\$	

Modifications classified as TDRs can include one or a combination of the following: rate modifications, term extensions, interest only modifications, either temporary or long-term, payment modifications, and collateral substitutions/additions.

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

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

**Table of Contents****Note 6 Foreclosed Assets**

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

	Nine months ended September 30,	
	2018	2017
Beginning balance, net	\$ 3,226	\$ 3,986
Additions/transfers from loans	536	726
Dispositions/sales	(1,841)	(1,479)
Valuation adjustments	(89)	(162)
<b>Ending balance, net</b>	<b>\$ 1,832</b>	<b>\$ 3,071</b>
Ending valuation allowance	\$ (143)	\$ (248)
Ending number of foreclosed assets	11	11
Proceeds from sale of foreclosed assets	\$ 2,206	\$ 1,787
Gain on sale of foreclosed assets	\$ 390	\$ 308

As of September 30, 2018, \$1,269,000 of foreclosed residential real estate properties, all of which the Company has obtained physical possession of, are included in foreclosed assets. At September 30, 2018, the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are underway is \$477,000.

**Note 7 - Premises and Equipment**

Premises and equipment were comprised of:

	September 30, 2018	December 31, 2017
	(In thousands)	
Land & land improvements	\$ 28,958	\$ 9,959
Buildings	64,178	50,340
Furniture and equipment	44,271	35,939
	137,407	96,238
Less: Accumulated depreciation	(49,073)	(40,644)
	88,334	55,594
Construction in progress	956	2,148
<b>Total premises and equipment</b>	<b>\$ 89,290</b>	<b>\$ 57,742</b>

Depreciation expense for premises and equipment amounted to \$1,685,000 and \$1,520,000 for the three months ended September 30, 2018 and 2017, respectively, and \$4,442,000 and \$4,224,000 for the nine months ended September 30, 2018 and 2017, respectively.

**Note 8 - Goodwill and Other Intangible Assets**

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

(in thousands)	September 30, 2018	Additions	Reductions	December 31, 2017
Goodwill	\$ 220,972	156,661		\$ 64,311

The following table summarizes the Company's core deposit intangibles (CDI) as of the dates indicated:

(in thousands)	September 30, 2018	Additions	Reductions/ Amortization	December 31, 2017
Core deposit intangibles	\$ 37,163	27,605		\$ 9,558
Accumulated amortization	(6,452)		\$ (2,068)	(4,384)
Core deposit intangibles, net	\$ 30,711	27,605	\$ (2,068)	\$ 5,174

The Company recorded additions to its CDI of \$27,605,000 in conjunction with the acquisition of FNB Bancorp as of July 6, 2018. The following table summarizes the Company's remaining estimated core deposit intangible amortization at September 30, 2018 (in thousands):

Years Ended	Estimated Core Deposit Intangible Amortization
2018	\$ 1,431
2019	5,723
2020	5,723
2021	5,465
2022	4,776
Thereafter	7,593

**Table of Contents****Note 9 Other Assets**

Other assets were comprised of (in thousands):

	September 30, 2018	December 31, 2017
Deferred tax asset, net	\$ 31,963	\$ 21,697
Investment in low income housing tax credit funds	23,572	16,854
Prepaid expense	3,420	4,111
Tax refund receivable	2,836	4,754
Capital trusts	1,712	1,706
Software	762	1,126
Life insurance proceeds receivable		2,242
Miscellaneous other assets	6,332	2,561
<b>Total other assets</b>	<b>\$ 70,597</b>	<b>\$ 55,051</b>

**Note 10 - Deposits**

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

	September 30, 2018	December 31, 2017
Noninterest-bearing demand	\$ 1,710,505	\$ 1,368,218
Interest-bearing demand	1,152,705	971,459
Savings	1,801,087	1,364,518
Time certificates, over \$250,000	140,805	73,596
Other time certificates	288,015	231,340
<b>Total deposits</b>	<b>\$ 5,093,117</b>	<b>\$ 4,009,131</b>

Certificate of deposit balances of \$69,000,000 and \$50,000,000 from the State of California were included in time certificates, over \$250,000, at September 30, 2018 and December 31, 2017, 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 \$1,375,000 and \$1,366,000 were classified as consumer loans at September 30, 2018 and December 31, 2017, respectively.

**Note 11 Other Liabilities**

Other liabilities were comprised of (in thousands):

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

	September 30, 2018	December 31, 2017
Pension liability	\$ 37,789	\$ 28,472
Low income housing tax credit fund commitments	9,146	8,554
Deferred compensation	9,450	6,605
Accrued salaries and benefits expense	8,990	6,619
Joint beneficiary agreements	3,558	3,365
Loan escrow and servicing payable	2,821	1,958
Deferred revenue	1,978	1,228
Litigation contingency		1,450
Miscellaneous other liabilities	8,345	8,171
 Total other liabilities	 \$ 82,077	 \$ 66,422



**Table of Contents****Note 12 - Commitments and Contingencies**

At September 30, 2018, future minimum commitments under non-cancelable operating leases with initial or remaining terms of one year or more are as follows:

	Operating Leases (in thousands)
2018	\$ 1,179
2019	4,478
2020	3,774
2021	3,372
2022	2,549
Thereafter	4,097
<b>Future minimum lease payments</b>	<b>\$ 19,449</b>

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

(in thousands)	September 30, 2018	December 31, 2017
<b>Financial instruments whose amounts represent risk:</b>		
<b>Commitments to extend credit:</b>		
Commercial loans	\$ 310,844	\$ 257,220
Consumer loans	481,837	422,958
Real estate mortgage loans	149,003	66,267
Real estate construction loans	283,858	187,097
Standby letters of credit	11,277	13,075
Deposit account overdraft privilege	107,956	98,260

**Note 13 Shareholders' Equity****Dividends Paid**

The Bank paid to the Company cash dividends in the aggregate amounts of \$13,507,000 and \$5,185,000 during the three months ended September 30, 2018 and 2017, respectively, and \$22,649,000 and \$14,394,000 during the nine months ended September 30, 2018 and 2017, respectively. The Bank is regulated by the Federal Deposit Insurance Corporation (FDIC) and the State of California Department of Business Oversight (DBO). Absent approval from the Commissioner of the DBO, California banking laws generally limit the Bank's ability to pay dividends to the lesser of (1) retained earnings or (2) net income for the last three fiscal years, less cash distributions paid during such period. Under this law, at December 31, 2017, the Bank could have paid dividends of \$85,254,000 to the Company without the approval of the Commissioner of the DBO.

**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 September 30, 2018, the Company had repurchased 166,600 shares under this plan.

### **Stock Repurchased Under Equity Compensation Plans**

During the three months ended September 30, 2018 and 2017, employees tendered 11,630 and 21,738 shares, respectively, of the Company's common stock with market value of \$453,000, and \$762,000, respectively, in lieu of cash to exercise options to purchase shares of the Company's stock and to pay income taxes related to equity compensation plan instruments as permitted by the Company's shareholder-approved equity compensation plans. The tendered shares were retired. The market value of tendered shares is the last market trade price at closing on the day an option is exercised. Stock repurchased under equity incentive plans are not included in the total of stock repurchased under the stock repurchase plan announced on August 21, 2007.

During the nine months ended September 30, 2018 and 2017 employees tendered 28,850 and 107,390 shares, respectively, of the Company's common stock with market value of \$1,124,000 and \$3,854,000, respectively, in lieu of cash to exercise options to purchase shares of the Company's stock and to satisfy tax withholding requirements related to such exercises and the release of restricted stock units (RSUs) as permitted by the Company's shareholder-approved equity compensation plans. The tendered shares were retired. The market value of tendered shares is the last market trade price at closing on the day an option is exercised. Stock repurchased under equity incentive plans are not included in the total of stock repurchased under the stock repurchase plan announced on August 21, 2007.

**Table of Contents****Note 14 - Stock Options and Other Equity-Based Incentive Instruments**

Stock option activity during the nine months ended September 30, 2018 is summarized in the following table:

	Number of Shares	Option Price per Share	Weighted Average Exercise Price
Outstanding at December 31, 2017	446,400	\$ 12.63 to \$23.21	\$ 16.84
Options granted		to	
Options exercised	(27,400)	\$ 15.34 to \$23.21	\$ 17.33
Options forfeited	(3,000)	\$ 23.21 to \$23.21	\$ 23.21
Outstanding at September 30, 2018	416,000	\$ 12.63 to \$23.21	\$ 16.77

The following table shows the number, weighted-average exercise price, intrinsic value, and weighted average remaining contractual life of options exercisable, options not yet exercisable and total options outstanding as of September 30, 2018:

	Currently Exercisable	Currently Not Exercisable	Total Outstanding
Number of options	413,000	3,000	416,000
Weighted average exercise price	\$ 16.72	\$ 23.21	\$ 16.77
Intrinsic value (in thousands)	\$ 9,045	\$ 46	\$ 9,091
Weighted average remaining contractual term (yrs.)	3.2	6.0	3.2

The 3,000 options that are currently not exercisable as of September 30, 2018 are expected to vest, on a weighted-average basis, over the next year. The Company did not modify any option grants during 2017 or the nine months ended September 30, 2018.

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

	Service Condition	Vesting RSUs Weighted Average Fair Value on Date of Grant	Market Plus Service Condition	Vesting RSUs Weighted Average Fair Value on Date of Grant
	Number of RSUs		Number of RSUs	
Outstanding at December 31, 2017	68,457		52,829	
RSUs granted	38,605	\$ 39.08	16,939	\$ 36.40
Additional market plus service condition RSUs vested			8,506	

RSUs added through dividend credits	806	
RSUs released through vesting	(32,516)	(25,512)
RSUs forfeited/expired	(4,744)	(5,478)
Outstanding at September 30, 2018	70,608	47,284

The 70,608 of service condition vesting RSUs outstanding as of September 30, 2018 include a feature whereby each RSU outstanding is credited with a dividend amount equal to any common stock cash dividend declared and paid, and the credited amount is divided by the closing price of the Company's stock on the dividend payable date to arrive at an additional amount of RSUs outstanding under the original grant. The 70,608 of service condition vesting RSUs outstanding as of September 30, 2018 are expected to vest, and be released, on a weighted-average basis, over the next 1.6 years. The Company expects to recognize \$2,063,000 of pre-tax compensation costs related to these service condition vesting RSUs between September 30, 2018 and their vesting dates. The Company did not modify any service condition vesting RSUs during 2017 or during the nine months ended September 30, 2018.

The 47,284 of market plus service condition vesting RSUs outstanding as of September 30, 2018 are expected to vest, and be released, on a weighted-average basis, over the next 1.7 years. The Company expects to recognize \$902,000 of pre-tax compensation costs related to these RSUs between September 30, 2018 and their vesting dates. As of September 30, 2018, the number of market plus service condition vesting RSUs outstanding that will actually vest, and be released, may be reduced to zero or increased to 70,926 depending on the total return of the Company's common stock versus the total return of an index of bank stocks from the grant date to the vesting date. The Company did not modify any market plus service condition vesting RSUs during 2017 or during the nine months ended September 30, 2018.

**Table of Contents****Note 15 - Noninterest Income and Expense**

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
ATM and interchange fees	\$ 4,590	\$ 4,209	\$ 13,335	\$ 12,472
Service charges on deposit accounts	4,015	4,160	11,407	12,102
Other service fees	676	917	2,020	2,521
Mortgage banking service fees	499	514	1,527	1,561
Change in value of mortgage servicing rights	(37)	(325)	38	(795)
<b>Total service charges and fees</b>	<b>9,743</b>	<b>9,475</b>	<b>28,327</b>	<b>27,861</b>
Commissions on sale of non-deposit investment products	728	672	2,414	1,984
Increase in cash value of life insurance	732	732	1,996	2,043
Gain on sale of loans	539	606	1,831	2,293
Lease brokerage income	186	234	514	601
Gain on sale of foreclosed assets	2	37	390	308
Sale of customer checks	88	89	327	287
Gain on sale of investment securities	207	961	207	961
Loss on disposal of fixed assets	(152)	(33)	(206)	(61)
Loss on marketable equity securities	(22)		(92)	
Other	135	157	942	1,266
<b>Total other noninterest income</b>	<b>2,443</b>	<b>3,455</b>	<b>8,323</b>	<b>9,682</b>
<b>Total noninterest income</b>	<b>\$ 12,186</b>	<b>\$ 12,930</b>	<b>\$ 36,650</b>	<b>\$ 37,543</b>

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Base salaries, net of deferred loan origination costs	\$ 17,051	\$ 13,600	\$ 45,442	\$ 40,647
Incentive compensation	3,223	2,609	7,834	6,980
Benefits and other compensation costs	5,549	4,724	15,652	14,693
<b>Total salaries and benefits expense</b>	<b>25,823</b>	<b>20,933</b>	<b>68,928</b>	<b>62,320</b>
Occupancy	3,173	2,799	8,574	8,196
Data processing and software	2,786	2,495	7,979	7,332

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Merger and acquisition expense	4,150		5,227	
Equipment	1,750	1,816	4,938	5,344
ATM and POS network charges	1,195	1,425	3,858	3,353
Advertising	1,341	1,039	3,214	3,173
Professional fees	929	901	2,475	2,357
Telecommunications	819	716	2,201	2,027
Regulatory assessments and insurance	537	427	1,384	1,252
Intangible amortization	1,390	339	2,068	1,050
Postage	275	325	934	1,058
Courier service	278	235	769	752
Operational losses	217	301	763	1,166
Foreclosed assets expense	93	41	297	117
Provision for (reversal of) foreclosed asset losses	(1)	134	89	162
Other miscellaneous expense	2,623	3,296	9,712	9,289
<b>Total other noninterest expense</b>	<b>21,555</b>	<b>16,289</b>	<b>54,482</b>	<b>46,628</b>
<b>Total noninterest expense</b>	<b>\$ 47,378</b>	<b>\$ 37,222</b>	<b>\$ 123,410</b>	<b>\$ 108,948</b>

**Table of Contents****Note 16 Earnings Per Share**

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

(in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net income	\$ 16,170	\$ 11,897	\$ 45,109	\$ 37,565
Average number of common shares outstanding	30,011	22,932	25,317	22,901
Effect of dilutive stock options and restricted stock	280	312	300	338
Average number of common shares outstanding used to calculate diluted earnings per share	30,291	23,244	25,617	23,239
Options excluded from diluted earnings per share because the effect of these options was antidilutive	10,000		10,000	

**Note 17 Comprehensive Income**

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

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

(in thousands)	September 30, 2018	December 31, 2017
Net unrealized loss on available for sale securities	\$ (33,051)	(3,409)
Tax effect	9,771	1,433
Unrealized holding loss on available for sale securities, net of tax	(23,280)	(1,976)
Unfunded status of the supplemental retirement plans	(5,010)	(5,352)
Tax effect	1,481	2,250

Unfunded status of the supplemental retirement plans, net of tax	(3,529)	(3,102)
Joint beneficiary agreement liability	(150)	(150)
Tax effect		
Joint beneficiary agreement liability, net of tax	(150)	(150)
Accumulated other comprehensive loss	\$ (26,959)	\$ (5,228)



**Table of Contents**

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

(in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Unrealized holding gains (losses) on available for sale securities before reclassifications	\$ (8,193)	\$ 674	\$ (29,134)	\$ 6,372
Amounts reclassified out of accumulated other comprehensive income:				
Realized gains on debt securities	(207)	(961)	(207)	(961)
Adoption ASU 2016-01			62	
Adoption ASU 2018-02			(425)	
Total amounts reclassified out of accumulated other comprehensive income	(207)	(961)	(570)	(961)
Unrealized holding gains (losses) on available for sale securities after reclassifications	(8,400)	(287)	(29,704)	5,411
Tax effect	2,483	121	8,763	(2,274)
Unrealized holding gains (losses) on available for sale securities, net of tax	(5,917)	(166)	(20,941)	3,137
Change in unfunded status of the supplemental retirement plans before reclassifications			668	
Amounts reclassified out of accumulated other comprehensive income:				
Amortization of prior service cost	(13)	(1)	(40)	(5)
Amortization of actuarial losses	128	96	382	288
Adoption ASU 2018-02			(668)	
Total amounts reclassified out of accumulated other comprehensive income	115	95	(326)	283
Change in unfunded status of the supplemental retirement plans after reclassifications	115	95	342	283
Tax effect	(34)	(40)	(101)	(119)
Change in unfunded status of the supplemental retirement plans, net of tax	81	55	241	164
Total other comprehensive income (loss)	\$ (5,836)	\$ (111)	\$ (20,700)	\$ 3,301

**Note 18 - Fair Value Measurement**

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

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

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

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

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

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

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

**Table of Contents**

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

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

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

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
<b>Fair value at September 30, 2018</b>				
Marketable equity securities	\$ 2,846	\$ 2,846	\$	\$
<b>Debt securities available for sale:</b>				
Obligations of U.S. government agencies	638,876		638,876	
Obligations of states and political subdivisions	123,420		123,420	
Corporate bonds	4,431		4,431	
Asset backed securities	289,233		289,233	
Loans held for sale	3,824		3,824	

Mortgage servicing rights	7,122			7,122
Total assets measured at fair value	\$ 1,069,752	\$ 2,846	\$ 1,059,784	\$ 7,122
	Total	Level 1	Level 2	Level 3
<u>Fair value at December 31, 2017</u>				
Marketable equity securities	\$ 2,938	\$ 2,938	\$	\$
Debt securities available for sale:				
Obligations of U.S. government agencies	604,789		604,789	
Obligations of states and political subdivisions	123,156		123,156	
Loans held for sale	4,616		4,616	
Mortgage servicing rights	6,687			6,687
Total assets measured at fair value	\$ 742,186	\$ 2,938	\$ 732,561	\$ 6,687

Transfers between levels of the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer, which generally corresponds with the Company's quarterly valuation process. There were no transfers between any levels during the nine months ended September 30, 2018 or the year ended December 31, 2017.

**Table of Contents**

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

	Beginning Balance	Transfers into (out of) Level 3	Change Included in Earnings	Issuances	Ending Balance
<b>Three months ended September 30,</b>					
2018: Mortgage servicing rights	\$ 7,021		\$ (37)	\$ 138	\$ 7,122
2017: Mortgage servicing rights	\$ 6,596		\$ (325)	\$ 148	\$ 6,419

	Beginning Balance	Transfers into (out of) Level 3	Change Included in Earnings	Issuances	Ending Balance
<b>Nine months ended September 30,</b>					
2018: Mortgage servicing rights	\$ 6,687		\$ 38	\$ 397	\$ 7,122
2017: Mortgage servicing rights	\$ 6,595		\$ (795)	\$ 619	\$ 6,419

The key unobservable inputs used in determining the fair value of mortgage servicing rights are mortgage prepayment speeds and the discount rate used to discount cash projected cash flows. Generally, any significant increases in the mortgage prepayment speed and discount rate utilized in the fair value measurement of the mortgage servicing rights will result in a negative fair value adjustments (and decrease in the fair value measurement). Conversely, a decrease in the mortgage prepayment speed and discount rate will result in a positive fair value adjustment (and increase in the fair value measurement).

The following table presents quantitative information about recurring Level 3 fair value measurements at September 30, 2018:

	Fair Value (in thousands)	Valuation Technique	Unobservable Inputs	Range, Weighted Average
Mortgage Servicing Rights	\$ 7,122	Discounted cash flow	Constant prepayment rate Discount rate	4.8%-33%, 7.3% 12%, 12%

The following table presents quantitative information about recurring Level 3 fair value measurements at December 31, 2017:

	Fair Value (in thousands)	Valuation Technique	Unobservable Inputs	Range, Weighted Average
Mortgage Servicing Rights	\$ 6,687			6.2%-22.0%, 8.9%

Discounted cash flow	Constant prepayment rate	Discount rate	13.0%-15.0%, 13.0%
-------------------------	-----------------------------	---------------	--------------------

The tables below present the recorded investment in assets and liabilities measured at fair value on a nonrecurring basis, as of the dates indicated (in thousands):

	Total	Level 1	Level 2	Level 3	Total Gains (Losses)
<b><u>Nine months ended September 30, 2018</u></b>					
Fair value:					
Impaired Originated & PNCI loans	\$ 445			\$ 445	\$ (808)
Foreclosed assets	863			863	(23)
<b>Total assets measured at fair value</b>	<b>\$ 1,308</b>			<b>\$ 1,308</b>	<b>\$ (831)</b>

	Total	Level 1	Level 2	Level 3	Total Gains (Losses)
<b><u>Year ended December 31, 2017</u></b>					
Fair value:					
Impaired Originated & PNCI loans	\$ 2,767			\$ 2,767	\$ (1,452)
Foreclosed assets	2,217			2,217	(135)
<b>Total assets measured at fair value</b>	<b>\$ 4,984</b>			<b>\$ 4,984</b>	<b>\$ (1,587)</b>

	Total	Level 1	Level 2	Level 3	Total Gains (Losses)
<b><u>Nine months ended September 30, 2017</u></b>					
Fair value:					
Impaired Originated & PNCI loans	\$ 1,026			\$ 1,026	\$ (892)
Foreclosed assets	2,062			2,062	(157)
<b>Total assets measured at fair value</b>	<b>\$ 3,088</b>			<b>\$ 3,088</b>	<b>\$ (1,049)</b>

**Table of Contents**

The impaired originated and PNCI loan amount above represents impaired, collateral dependent loans that have been adjusted to fair value. When we identify a collateral dependent loan as impaired, we measure the impairment using the current fair value of the collateral, less selling costs. Depending on the characteristics of a loan, the fair value of collateral is generally estimated by obtaining external appraisals. If we determine that the value of the impaired loan is less than the recorded investment in the loan, we recognize this impairment and adjust the carrying value of the loan to fair value through the allowance for loan and lease losses. The loss represents charge-offs or impairments on collateral dependent loans for fair value adjustments based on the fair value of collateral. The carrying value of loans fully charged-off is zero. The foreclosed assets amount above represents impaired real estate that has been adjusted to fair value. Foreclosed assets represent real estate which the Bank has taken control of in partial or full satisfaction of loans. At the time of foreclosure, other real estate owned is recorded at fair value less costs to sell, which becomes the property's new basis. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan and lease losses. After foreclosure, management periodically performs valuations such that the real estate is carried at the lower of its new cost basis or fair value, net of estimated costs to sell. Fair value adjustments on other real estate owned are recognized within net loss on real estate owned. The loss represents impairments on non-covered other real estate owned for fair value adjustments based on the fair value of the real estate.

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

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a nonrecurring basis at September 30, 2018:

	Fair Value (in thousands)	Valuation Technique	Unobservable Inputs	Range, Weighted Average
<b>September 30, 2018</b>				
Impaired Originated & PNCI loans	\$ 445	Sales comparison approach	Adjustment for differences between comparable sales;	(55.8%) - 60%; (28%)
		Income approach	Capitalization rate	N/A
Foreclosed assets (Residential real estate)	\$ 744	Sales comparison approach	Adjustment for differences between comparable sales	(47%) - 52%; 0.9%
Foreclosed assets (Commercial real estate)	\$ 92	Sales comparison approach	Adjustment for differences between comparable sales	(65%) - 20%; (45%)
Foreclosed assets (Land and construction)	\$ 27	Sales comparison approach	Adjustment for differences between comparable sales	Information not meaningful

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a nonrecurring basis at December 31, 2017:

	Fair Value (in thousands)	Valuation Technique	Unobservable Inputs	Range, Weighted Average
<u>December 31, 2017</u>				
Impaired Originated & PNCI loans	\$ 2,767	Sales comparison approach	Adjustment for differences between comparable sales	(74%) - 23%; (19.76%)
		Income approach	Capitalization rate	N/A
Foreclosed assets (Land & construction)	\$ 1,341	Sales comparison approach	Adjustment for differences between comparable sales	(53%) - 283%; 167%
Foreclosed assets (Residential real estate)	\$ 622	Sales comparison approach	Adjustment for differences between comparable sales	(47%) - 39%; (3.13%)
Foreclosed assets (Commercial real estate)	\$ 254	Sales comparison approach	Adjustment for differences between comparable sales	(84%) - 19%; (84%)

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

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

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

*Restricted Equity Securities* - It is not practical to determine the fair value of restricted equity securities due to restrictions placed on their transferability.



**Table of Contents**

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

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

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

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

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

*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.

In January 2018, the Company adopted the provisions of Accounting Standard Update 2016-01 *Recognition and Measurement of Financial Assets and Financial Liabilities*, which requires the Company to use the exit price notion when measuring the fair value of financial instruments. The Company used the exit price notion for valuing financial instruments in 2018 and the entry price notion for valuing financial instruments in 2017. The estimated fair values of financial instruments that are reported at amortized cost in the Company's condensed consolidated balance sheets, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value, were as follows (in thousands):

September 30, 2018

December 31, 2017

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets:</b>				
<b>Level 1 inputs:</b>				
Cash and due from banks	\$ 109,363	\$ 109,363	\$ 105,968	\$ 105,968
Cash at Federal Reserve and other banks	117,180	117,180	99,460	99,460
<b>Level 2 inputs:</b>				
Securities held to maturity	459,897	446,287	514,844	518,165
Restricted equity securities	17,250	N/A	16,956	N/A
<b>Level 3 inputs:</b>				
Loans, net	3,995,833	3,987,841	2,984,842	2,992,225
<b>Financial liabilities:</b>				
<b>Level 2 inputs:</b>				
Deposits	5,093,117	5,088,024	4,009,131	4,006,620
Other borrowings	282,831	282,831	122,166	122,166
<b>Level 3 inputs:</b>				
Junior subordinated debt	56,996	58,930	56,858	58,466
	Contract Amount	Fair Value	Contract Amount	Fair Value
<b>Off-balance sheet:</b>				
<b>Level 3 inputs:</b>				
Commitments	\$ 1,225,542	\$ 12,255	\$ 933,542	\$ 9,335
Standby letters of credit	11,277	113	13,075	131
Overdraft privilege commitments	107,956	1,080	98,260	983

**Table of Contents****Note 19 - Regulatory Matters**

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

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total, Tier 1, and common equity Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets.

The following tables present actual and required capital ratios as of September 30, 2018 and December 31, 2017 for the Company and the Bank under Basel III Capital Rules. The minimum capital amounts presented include the minimum required capital levels as of September 30, 2018 and December 31, 2017 based on the then phased-in provisions of the Basel III Capital Rules and the minimum required capital levels as of January 1, 2019 when the Basel III Capital Rules have been fully phased-in. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

	Actual		Minimum Capital Required Phase-in Schedule		Minimum Capital Required Fully Phased In		Required to be Considered Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
(dollars in thousands)								
As of September 30, 2018:								
Total Capital (to Risk Weighted Assets):								
Consolidated	\$ 664,197	13.90%	\$ 471,956	9.875%	\$ 501,826	10.50%	N/A	N/A
Tri Counties Bank	\$ 658,075	13.77%	\$ 471,784	9.875%	\$ 501,643	10.50%	\$ 477,756	10.00%
Tier 1 Capital (to Risk Weighted Assets):								
Consolidated	\$ 630,294	13.19%	\$ 376,370	7.875%	\$ 406,240	8.50%	N/A	N/A
Tri Counties Bank	\$ 624,172	13.06%	\$ 376,233	7.875%	\$ 406,092	8.50%	\$ 382,205	8.00%
Common equity Tier 1 Capital (to Risk Weighted Assets):								
Consolidated	\$ 575,010	12.03%	\$ 304,680	6.375%	\$ 334,551	7.00%	N/A	N/A
Tri Counties Bank	\$ 624,172	13.06%	\$ 304,569	6.375%	\$ 334,429	7.00%	\$ 310,541	6.50%
Tier 1 Capital (to Average Assets):								
Consolidated	\$ 630,294	10.66%	\$ 236,503	4.000%	\$ 236,503	4.00%	N/A	N/A
Tri Counties Bank	\$ 624,172	10.56%	\$ 236,496	4.000%	\$ 236,496	4.00%	\$ 295,620	5.00%

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

	Actual		Minimum Capital Required Phase-in Schedule		Minimum Capital Required Fully Phased In		Required to be Considered Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
(dollars in thousands)								
As of December 31, 2017:								
Total Capital (to Risk Weighted Assets):								
Consolidated	\$ 528,805	14.07%	\$ 347,694	9.250%	\$ 394,679	10.50%	N/A	N/A
Tri Counties Bank	\$ 525,384	13.98%	\$ 347,535	9.250%	\$ 394,499	10.50%	\$ 375,713	10.00%
Tier 1 Capital (to Risk Weighted Assets):								
Consolidated	\$ 495,318	13.18%	\$ 272,517	7.250%	\$ 319,502	8.50%	N/A	N/A
Tri Counties Bank	\$ 491,897	13.09%	\$ 272,392	7.250%	\$ 319,356	8.50%	\$ 300,570	8.00%
Common equity Tier 1 Capital (to Risk Weighted Assets):								
Consolidated	\$ 440,643	11.72%	\$ 216,134	5.750%	\$ 263,120	7.00%	N/A	N/A
Tri Counties Bank	\$ 491,897	13.09%	\$ 216,035	5.750%	\$ 262,999	7.00%	\$ 244,214	6.50%
Tier 1 Capital (to Average Assets):								
Consolidated	\$ 495,318	10.80%	\$ 183,400	4.000%	\$ 183,400	4.00%	N/A	N/A
Tri Counties Bank	\$ 491,897	10.73%	\$ 183,394	4.000%	\$ 183,394	4.00%	\$ 229,243	5.00%

As of September 30, 2018, capital levels at the Company and the Bank exceed all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis. Also, at September 30, 2018 and December 31, 2017, the Bank's capital levels exceeded the minimum amounts necessary to be considered well capitalized under the current regulatory framework for prompt corrective action.

Beginning January 1, 2016, the Basel III Capital Rules implemented a requirement for all banking organizations to maintain a capital conservation buffer above the minimum risk-based capital requirements in order to avoid certain limitations on capital distributions, stock repurchases and discretionary bonus payments to executive officers. The capital conservation buffer is exclusively composed of common equity tier 1 capital, and it applies to each of the risk-based capital ratios but not the leverage ratio. At September 30, 2018, the Company and the Bank are in compliance with the capital conservation buffer requirement. The three risk-based capital ratios will increase by 0.625% each year through 2019, at which point, the common equity tier 1 risk-based, tier 1 risk-based and total risk-based capital ratio minimums will be 7.0%, 8.5% and 10.5%, respectively.

---

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****FORWARD-LOOKING STATEMENTS****Cautionary Statements Regarding Forward-Looking Information**

Certain statements contained in this Form 10-Q that are not historical facts are forward-looking statements based on management's current expectations and beliefs concerning future developments and their potential effects on the Company. Such statements involve inherent risks and uncertainties, many of which are difficult to predict and are generally beyond our control. There can be no assurance that future developments affecting us will be the same as those anticipated by management. We caution readers that a number of important factors could cause actual results to differ materially from those expressed in, or implied or projected by, such forward-looking statements. These risks and uncertainties include, but are not limited to, the following: the strength of the United States economy in general and the strength of the local economies in which we conduct operations; the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System; inflation, interest rate, market and monetary fluctuations; the impact of changes in financial services policies, laws and regulations; technological changes; mergers and acquisitions (including costs or difficulties related to integration of acquired companies); changes in the level of our nonperforming assets and charge-offs; any deterioration in values of California real estate, both residential and commercial; the effect of changes in accounting standards and practices; possible other-than-temporary impairment of securities held by us; changes in consumer spending, borrowing and savings habits; our ability to attract deposits and other sources of liquidity; changes in the financial performance and/or condition of our borrowers; the impact of competition from other financial service providers; the possibility that any of the anticipated benefits of our recent merger with FNB Bancorp ( "FNBB" ) will not be realized or will not be realized within the expected time period, or that integration of FNBB's operations will be more costly or difficult than expected; the challenges of integrating and retaining key employees; unanticipated regulatory or judicial proceedings; the costs and effects of litigation and of unexpected or adverse outcomes in such litigation; and our ability to manage the risks involved in the foregoing. Additional factors that could cause results to differ materially from those described above can be found in Part II Item 1A of this report and our Annual Report on Form 10-K for the year ended December 31, 2017, which is on file with the Securities and Exchange Commission (the "SEC" ) and available in the Investor Relations section of our website, <https://www.tcbk.com/investor-relations> and in other documents we file with the SEC.

**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, net interest income, net interest yield, and efficiency ratio are generally presented on a fully tax-equivalent ( "FTE" ) basis. The Company believes the use of these non-generally accepted accounting principles (non-GAAP) measures provides additional clarity in assessing its results, and the presentation of these measures on a FTE basis is a common practice within the banking industry. Interest income and net interest income are shown on a non-FTE basis in the Part I Financial Information section of this Form 10-Q, and a reconciliation of the FTE and non-FTE presentations is provided below in the discussion of net interest income.

**Critical Accounting Policies and Estimates**

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. A detailed discussion related to the Company's accounting policies including those 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 of the financial statements included in the Company's annual report of Form 10-K for the period ended December 31, 2017.

### **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.

**Table of Contents**

**Financial Highlights**

Performance highlights and other developments for the Company included the following:

For the three and nine months ended September 30, 2018, the Company's return on average assets was 1.05% and 1.15% and the return on average equity was 9.11% and 10.44%.

The Company completed the merger of FNBB effective July 6, 2018 with the systems integration being achieved just two weeks later.

As of September 30, 2018, the Company reached record levels of total assets, total loans and total deposits which were \$6.32 billion, \$4.03 billion and \$5.09 billion, respectively.

The loan to deposit ratio increased to 79.1% at September 30, 2018 as compared to 77.2% at June 30, 2018 and 75.2% at December 31, 2017.

Net interest margin grew 18 basis points to 4.32% on a tax equivalent basis as compared to 4.14% in the trailing quarter.

Annualized organic loan and deposit growth during the nine months ended September 30, 2018 was 7.9% and 3.1%. During the current quarter, organic loan and deposit growth was 5.9% and 2.4% on an annualized basis.

Non-interest bearing deposits as a percentage of total deposits were 33.6% at September 30, 2018 and June 30, 2018 as compared to 34.1% at December 31, 2017.

The average rate of interest paid on deposits, including noninterest-bearing deposits, remained low and stable at 0.16%. This incorporates the impact of the FNBB deposit portfolio which had a 0.24% average cost of total deposits on the day of acquisition.

Non-performing assets to total assets were 0.46% as of September 30, 2018 as compared to 0.55% and 0.58% at June 30, 2018 and December 31, 2017, respectively.

**TRICO BANCSHARES**

Financial Summary

(In thousands, except per share amounts; unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net interest income	\$ 60,489	\$ 44,084	\$ 151,344	\$ 129,511
Provision for (benefit from) loan losses	2,651	765	1,777	(1,588)
Noninterest income	12,186	12,930	36,650	37,543
Noninterest expense	(47,378)	(37,222)	(123,410)	(108,948)
Provision for income taxes	(6,476)	(7,130)	(17,698)	(22,129)
Net income	\$ 16,170	\$ 11,897	\$ 45,109	\$ 37,565

### Share Data

#### Earnings per share:

Basic	\$ 0.54	\$ 0.52	\$ 1.78	\$ 1.64
Diluted	\$ 0.53	\$ 0.51	\$ 1.76	\$ 1.62

#### Per share:

Dividends paid	\$ 0.17	\$ 0.17	\$ 0.51	\$ 0.49
Book value at period end	\$ 26.37	\$ 22.09		
Average common shares outstanding	30,011	22,932	25,317	22,901
Average diluted common shares outstanding	30,291	23,244	25,617	23,239
Shares outstanding at period end	30,418	22,941		

### Financial Ratios

#### During the period (annualized):

Return on average assets	1.05%	1.02%	1.15%	1.14%
Return on average equity	9.11%	9.38%	10.44%	10.09%
Net interest margin <sup>1</sup>	4.32%	4.26%	4.21%	4.19%
Efficiency ratio	65.2%	65.3%	65.6%	65.2%
Average equity to average assets	11.5%	11.1%	11.0%	10.9%

<sup>1</sup> Fully taxable equivalent (FTE)



**Table of Contents**

	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
<b>Balance Sheet Data</b>					
Total assets	\$ 6,318,865	\$ 4,863,153	\$ 4,779,957	\$ 4,761,315	\$ 4,656,435
Total investments	1,535,953	1,251,776	1,251,776	1,262,683	1,231,759
Total loans	4,027,436	3,116,789	3,069,733	3,015,165	2,931,613
Total non-interest bearing deposits	1,710,505	1,369,834	1,359,996	1,368,218	1,283,949
Total deposits	5,093,117	4,077,222	4,084,404	4,009,131	3,927,456
Total other borrowings	282,831	153,839	65,041	122,166	98,730
Total junior subordinated debt	56,996	56,950	56,905	56,858	56,810
Total shareholders equity	802,115	512,344	505,256	505,808	506,733
Total tangible equity <sup>(1)</sup>	\$ 550,432	\$ 443,537	\$ 436,110	\$ 436,323	\$ 436,909

NOTE:

(1) Tangible equity is calculated by subtracting Goodwill and Other intangible assets from Total shareholders equity.

Ending balances (\$ s in thousands)	As of September 30,			Acquired Balances	Organic \$ Change	Organic % Change
	2018	2017	\$ Change			
Total assets	\$ 6,318,865	\$ 4,656,435	\$ 1,662,430	\$ 1,463,199	\$ 199,231	4.28%
Total loans	4,027,436	2,931,613	1,095,823	834,683	261,140	8.91%
Total investments	1,535,953	1,231,759	304,194	335,667	(31,473)	(2.56%)
Total deposits	\$ 5,093,117	\$ 3,927,456	\$ 1,165,661	\$ 991,935	\$ 173,726	4.42%

**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.

The Company reported net income of \$16,170,000 for the quarter ended September 30, 2018, compared to \$15,029,000 and \$11,897,000 for the trailing quarter and the three months ended September 30, 2017, respectively. Diluted earnings per share were \$0.53 for the quarter ended September 30, 2018, compared to \$0.65 and \$0.51 for the trailing quarter and three months ended September 30, 2017. Overall results for the three and nine months ended September 30, 2018 were primarily benefited by the acquisition of First National Bank of Northern California, the wholly owned subsidiary of FNB Bancorp, effective July 6, 2018. In connection with the acquisition and subsequent integration and restructuring, the Company incurred a variety of expenses. During the three and nine month periods ended September 30, 2018 total non-interest expenses increased by \$10,156,000 and \$14,462,000 as compared to the same periods in 2017. The non-recurring costs included in those increases were \$4,150,000 and \$5,227,000 for the three and nine months ended September 30, 2018. The Company continued to benefit from the reduction in Federal income tax rate which declined to 21% effective January 1, 2018 as compared to 35% in prior periods.

In addition to the \$834,683,000 in loans acquired, recorded net of a \$33,417,000 discount, organic loan growth totaled \$177,588,000 or an annualized rate of 7.9% during the first nine months of 2018. In addition to the \$991,935,000 in acquired deposits, organic deposit growth for the first nine months of 2018 was \$92,051,000 or 3.1% on an annualized basis. Total assets acquired from FNB Bancorp totaled \$1,306,539,000, inclusive of the core deposit intangible. Goodwill associated with the acquisition of FNB Bancorp was \$156,661,000 and the core deposit intangible, which

will be amortized over an estimated weighted average life of 6.2 years, was \$27,605,000.

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net interest income (FTE)	\$ 60,846	\$ 44,708	\$ 152,326	\$ 131,385
Provision for (benefit from) loan losses	2,651	765	1,777	(1,588)
Noninterest income	12,186	12,930	36,650	37,543
Noninterest expense	(47,378)	(37,222)	(123,410)	(108,948)
Provision for income taxes (FTE)	(6,833)	(7,754)	(18,680)	(24,003)
Net income	\$ 16,170	\$ 11,897	\$ 45,109	\$ 37,565

### 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):

**Table of Contents**

	Three months ended		\$ Change	% Change
	September 30,			
	2018	2017		
Interest income	\$ 64,554	\$ 45,913	\$ 18,641	40.6%
Interest expense	(4,065)	(1,829)	(2,236)	122.3%
Net interest income (not FTE)	60,489	44,084	16,405	37.2%
FTE adjustment	357	624	(267)	(42.8%)
Net interest income (FTE)	\$ 60,846	\$ 44,708	\$ 16,138	36.1%
Net interest margin (FTE)	4.32%	4.24%		
<b>Acquired loans discount accretion:</b>				
Purchased loan discount accretion	\$ 2,098	\$ 1,364		
Effect on average loan yield	0.21%	0.19%		
Effect of purchased loan discount accretion on net interest margin (FTE)	0.15%	0.13%		
	Three months ended		\$ Change	% Change
	September 30, 2018			
	2018	June 30, 2018		
Interest income	\$ 64,554	\$ 48,478	\$ 16,076	33.2%
Interest expense	(4,065)	(2,609)	(1,456)	55.8%
Net interest income (not FTE)	60,489	45,869	14,620	31.9%
FTE adjustment	357	313	44	14.1%
Net interest income (FTE)	\$ 60,846	\$ 46,182	\$ 14,664	31.8%
Net interest margin (FTE)	4.32%	4.14%		
<b>Acquired loans discount accretion:</b>				
Purchased loan discount accretion	\$ 2,098	\$ 559		
Effect on average loan yield	0.21%	0.07%		
Effect of purchased loan discount accretion on net interest margin (FTE)	0.15%	0.05%		
	Nine months ended		\$ Change	% Change
	September 30,			
	2018	2017		
Interest income	\$ 160,153	\$ 134,441	\$ 25,712	19.1%
Interest expense	(8,809)	(4,930)	(3,879)	78.7%
Net interest income (not FTE)	151,344	129,511	21,833	16.9%
FTE adjustment	982	1,874	(892)	(47.6%)
Net interest income (FTE)	\$ 152,326	\$ 131,385	\$ 20,941	15.9%

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Net interest margin (FTE)	4.21%	4.21%
---------------------------	-------	-------

Acquired loans discount accretion:

Purchased loan discount accretion	\$ 3,289	\$ 5,075
Effect on average loan yield	0.13%	0.24%
Effect of purchased loan discount accretion on net interest margin (FTE)	0.09%	0.16%

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

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

	For the three months ended					
	September 30, 2018			September 30, 2017		
	Average Balance	Interest Income/Expense	Rates Earned /Paid	Average Balance	Interest Income/Expense	Rates Earned /Paid
<b>Assets:</b>						
Loans	\$ 4,028,462	\$ 53,102	5.27%	\$ 2,878,944	\$ 37,268	5.18%
Investment securities - taxable	1,336,361	9,648	2.89%	1,114,112	7,312	2.63%
Investment securities - nontaxable <sup>(1)</sup>	153,704	1,546	4.02%	136,095	1,665	4.89%
<b>Total investments</b>	<b>1,490,065</b>	<b>11,194</b>	<b>3.00%</b>	<b>1,250,207</b>	<b>8,977</b>	<b>2.87%</b>
Cash at Federal Reserve and other banks	119,635	615	2.06%	85,337	292	1.37%
<b>Total interest-earning assets</b>	<b>5,638,162</b>	<b>64,911</b>	<b>4.61%</b>	<b>4,214,488</b>	<b>46,537</b>	<b>4.42%</b>
Other assets	530,182			357,936		
<b>Total assets</b>	<b>\$ 6,168,344</b>			<b>\$ 4,572,424</b>		
<b>Liabilities and shareholders' equity:</b>						
Interest-bearing demand deposits	\$ 1,125,159	248	0.09%	\$ 949,348	206	0.09%
Savings deposits	1,803,022	833	0.18%	1,365,249	419	0.12%
Time deposits	430,286	991	0.92%	310,325	403	0.52%
<b>Total interest-bearing deposits</b>	<b>3,358,467</b>	<b>2,072</b>	<b>0.25%</b>	<b>2,624,922</b>	<b>1,028</b>	<b>0.16%</b>
Other borrowings	246,637	1,178	1.91%	65,234	149	0.91%
Junior subordinated debt	56,973	815	5.72%	56,784	652	4.59%
<b>Total interest-bearing liabilities</b>	<b>3,662,077</b>	<b>4,065</b>	<b>0.44%</b>	<b>2,746,940</b>	<b>1,829</b>	<b>0.27%</b>
Noninterest-bearing deposits	1,710,374			1,253,261		
Other liabilities	86,131			64,834		
Shareholders' equity	709,762			507,389		
<b>Total liabilities and shareholders' equity</b>	<b>\$ 6,168,344</b>			<b>\$ 4,572,424</b>		
Net interest spread <sup>(2)</sup>			4.17%			4.15%
Net interest income and interest margin <sup>(3)</sup>		\$ 60,846	4.32%		\$ 44,708	4.24%



**Table of Contents**

	For the nine months ended					
	September 30, 2018			September 30, 2017		
	Average Balance	Interest Income/ Expense	Rates Earned /Paid	Average Balance	Interest Income/ Expense	Rates Earned /Paid
<b>Assets:</b>						
Loans	\$ 3,390,447	\$ 130,455	5.13%	\$ 2,807,453	\$ 108,600	5.16%
Investment securities - taxable	1,195,541	25,042	2.79%	1,076,887	21,637	2.68%
Investment securities - nontaxable <sup>(1)</sup>	142,061	4,254	3.99%	136,213	4,998	4.89%
<b>Total investments</b>	<b>1,337,602</b>	<b>29,296</b>	<b>2.92%</b>	<b>1,213,100</b>	<b>26,635</b>	<b>2.93%</b>
Cash at Federal Reserve and other banks	101,889	1,384	1.81%	139,739	1,080	1.03%
<b>Total interest-earning assets</b>	<b>4,829,938</b>	<b>161,135</b>	<b>4.45%</b>	<b>4,160,292</b>	<b>136,315</b>	<b>4.37%</b>
Other assets	416,520			359,489		
<b>Total assets</b>	<b>\$ 5,246,458</b>			<b>\$ 4,519,781</b>		
<b>Liabilities and shareholders equity:</b>						
Interest-bearing demand deposits	\$ 1,038,775	673	0.09%	\$ 931,079	534	0.08%
Savings deposits	1,524,048	1,671	0.15%	1,364,812	1,253	0.12%
Time deposits	350,559	2,058	0.78%	321,150	1,109	0.46%
<b>Total interest-bearing deposits</b>	<b>2,913,382</b>	<b>4,402</b>	<b>0.20%</b>	<b>2,617,041</b>	<b>2,896</b>	<b>0.15%</b>
Other borrowings	165,026	2,106	1.70%	34,413	164	0.64%
Junior subordinated debt	56,928	2,301	5.39%	56,737	1,870	4.39%
<b>Total interest-bearing liabilities</b>	<b>3,135,336</b>	<b>8,809</b>	<b>0.37%</b>	<b>2,708,191</b>	<b>4,930</b>	<b>0.24%</b>
Noninterest-bearing deposits	1,462,209			1,247,201		
Other liabilities	72,772			67,854		
Shareholders equity	576,141			496,535		
<b>Total liabilities and shareholders equity</b>	<b>\$ 5,246,458</b>			<b>\$ 4,519,781</b>		
Net interest spread <sup>(2)</sup>			4.08%			4.13%
Net interest income and interest margin <sup>(3)</sup>		\$ 152,326	4.21%		\$ 131,385	4.21%

(1) Fully taxable equivalent (FTE)

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

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

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

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 September 30, 2018 compared with three months ended September 30, 2017		
	Volume	Rate	Total
Increase in interest income:			
Loans	\$ 14,886	\$ 948	\$ 15,834
Investment securities	1,676	541	2,217
Cash at Federal Reserve and other banks	117	206	323
<b>Total interest-earning assets</b>	<b>16,679</b>	<b>1,695</b>	<b>18,374</b>
Increase in interest expense:			
Interest-bearing demand deposits	40	2	42
Savings deposits	131	283	414
Time deposits	156	432	588
Other borrowings	413	616	1,029
Junior subordinated debt	2	161	163
<b>Total interest-bearing liabilities</b>	<b>742</b>	<b>1,494</b>	<b>2,236</b>
<b>Increase in net interest income</b>	<b>\$ 15,937</b>	<b>\$ 201</b>	<b>\$ 16,138</b>

	Nine months ended September 30, 2018 compared with nine months ended September 30, 2017		
	Volume	Rate	Total
Increase (decrease) in interest income:			
Loans	\$ 22,562	\$ (707)	\$ 21,855
Investment securities	2,599	62	2,661
Cash at Federal Reserve and other banks	(292)	596	304
<b>Total interest-earning assets</b>	<b>24,869</b>	<b>(49)</b>	<b>24,820</b>
Increase in interest expense:			
Interest-bearing demand deposits	65	74	139
Savings deposits	143	275	418
Time deposits	101	848	949



Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Other borrowings	627	1,315	1,942
Junior subordinated debt	6	425	431
Total interest-bearing liabilities	942	2,937	3,879
Increase (decrease) in net interest income	\$ 23,927	\$ (2,986)	\$ 20,941

The following commentary regarding net interest income, interest income and interest expense may be best understood while referencing the *Summary of Average Balances, Yields/Rates and Interest Differential* and the *Summary of Changes in Interest Income and Expense due to Changes in Average Asset and Liability Balances and Yields Earned and Rates Paid* shown above.

Net interest income (FTE) during the three months ended September 30, 2018 increased \$16,138,000 or 36.1% to \$60,846,000 compared to \$44,708,000 during the three months ended September 30, 2017. The increase in net interest income (FTE) was due primarily to an increase in the average balance of loans and a 9 basis point increase in yield on loans, which was partially offset due to an increase in the average balance of interest-bearing liabilities and a 17 basis point increase in the average rate paid on interest-bearing liabilities.

**Table of Contents**

The index utilized in a significant portion of the Company's variable rate loans, Wall Street Journal Prime, has increased by 1.00% to 5.25% at September 30, 2018 as compared to 4.25% at September 30, 2017. The 9 basis point increase in loan yields from 5.18% during the three months ended September 30, 2017 to 5.27% during the three months ended September 30, 2018 was primarily due to increases in market rates. More specifically, increases in purchased loan discount accretion between the three months ended September 30, 2018 and 2017 contributed to an increase net interest margin by only 2 basis points. More importantly, yields on loans increased 21 basis points as compared to the prior quarter from 5.06% for the three months ended June 30, 2018 of which 14 basis points were contributed by increases in loan discount accretion and the remaining 7 basis points were contributed by changes in the coupon rate associated with loans. On their acquisition date, the weighted average coupon rate was 4.88% for loans acquired during the three month period ended September 30, 2018.

The increase in the average rate paid on interest-bearing liabilities for the trailing and comparable quarters of 8 basis points and 17 basis points, respectively, was due in part to differences in market rates associated with deposits acquired from First National Bank of Northern California and to increases in the variable rates paid on other borrowings and subordinated debt. The weighted average rate associated with interest bearing acquired deposits was 0.29% for non-time deposits and 0.92% for time deposits on the day of acquisition. The rate paid on other borrowings was 2.31% at September 30, 2018 as compared to 2.05% and 1.11% as of the trailing quarter and the same quarter in the prior year, respectively.

Net interest income (FTE) during the nine months ended September 30, 2018 increased \$20,941,000 or 15.9% to \$152,326,000 compared to \$131,385,000 during the nine months ended September 30, 2017. The increase in net interest income (FTE) was due primarily to an increase in the average balance of loans, which was partially offset by an increase in the average balance of interest-bearing liabilities and a 13 basis point increase in the average rate paid on interest-bearing liabilities.

During the nine months ended September 30, 2018, the average balance of loans increased by \$582,994,000 or 20.8% to \$3,390,447,000. The increase in net interest income was partially offset by a decrease in the year-to-date purchased loan discount accretion from \$5,075,000 during the nine months ended September 30, 2017 to \$3,289,000 during the nine months ended September 30, 2018. This decrease in purchased loan discount accretion reduced loan yields by 11 basis points, and net interest margin by 7 basis points. The 13 basis point increase in the average rate paid on interest-bearing liabilities was primarily due to increases in market rates that increased the rates the Company pays on its time deposits, overnight borrowings, and junior subordinated debt.

Also affecting net interest margin during the three and nine months ended September 30, 2018, was the decrease in the Federal tax rate from 35% to 21%. This decrease in the Federal tax rate caused the fully tax-equivalent (FTE) yield on the Company's nontaxable investments to decrease from 4.89% during the nine months ended September 30, 2017 to 3.99% during the nine months ended September 30, 2018.

As of September 30, 2018, the Bank's \$4,082,558,000 principal balance of loans, net of charge-offs, and not including deferred loan fees and purchase discounts, was made up of loans with principal balances totaling \$1,297,815,000 that have fixed interest rates, and \$2,784,743,000 of loans with interest rates that are variable. Included in the balance of variable rate loans as of September 30, 2018 were loans with principal balances of approximately \$687,114,000 that had adjustable interest rates tied to the prime lending rate that adjust on or near the date of any prime rate change.

**Asset Quality and Loan Loss Provisioning**

The Company recorded provisions for loan losses of \$2,651,000 and \$765,000 during the three months ended September 30, 2018 and 2017, respectively. While the Company did record net charge-offs of \$572,000 during the

third quarter of 2018 as compared to net charge-offs of \$161,000 in the 2017 quarter, the primary cause for the increase in provision for loan losses was due to changes in the Company's analysis of qualitative factors associated with the California economy. More specifically, the Company has become more cautious about the risks associated with trends in California real estate prices and the decrease in affordability of housing in the markets served by the Company. Loan growth, excluding acquired loans, also contributed to the need for additional provisioning.

During the nine months ended September 30, 2018 the Company recorded a loan loss provision of \$1,777,000 as compared to a reversal of provision for loan losses of \$1,588,000 during the nine months ended September 30, 2017. Nonperforming loans were \$27,148,000, or 0.67% of loans outstanding as of September 30, 2018, compared to \$25,420,000, or 0.81% of loans outstanding as of June 30, 2018 and \$24,394,000 or 0.81% of loans outstanding as of December 31, 2017. The fair value of loans acquired with deteriorated credit quality during the current quarter totaled \$1,302,000.

The Company continued to experience improvement in the overall credit quality of its loan portfolio. At September 30, 2018 loans past due greater than thirty days totaled \$13,218,000 or 0.33% of loans outstanding, as compared to \$11,626,000 or 0.37% at June 30, 2018 and \$11,609,000 or 0.39% at December 31, 2017. At September 30, 2018, classified loans, which includes loans graded substandard or worse plus PCI loans, totaled \$45,548,000 (1.13% of total loans) compared to \$44,202,000 (1.40%) and \$53,593,000 (1.78%) at June 30, 2018 and December 31, 2017, respectively.

**Table of Contents****Noninterest Income**

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

	Three months ended September 30,			
	2018	2017	\$ Change	% Change
ATM and interchange fees	\$ 4,590	\$ 4,209	\$ 381	9.1%
Service charges on deposit accounts	4,015	4,160	(145)	(3.5%)
Other service fees	676	917	(241)	(26.3%)
Mortgage banking service fees	499	514	(15)	(2.9%)
Change in value of mortgage servicing rights	(37)	(325)	288	(88.6%)
<b>Total service charges and fees</b>	<b>9,743</b>	<b>9,475</b>	<b>268</b>	<b>2.8%</b>
Commissions on sale of non-deposit investment products	728	672	56	8.3%
Increase in cash value of life insurance	732	732		0.0%
Gain on sale of loans	539	606	(67)	(11.1%)
Lease brokerage income	186	234	(48)	(20.5%)
Gain on sale of foreclosed assets	2	37	(35)	(94.6%)
Sale of customer checks	88	89	(1)	(1.1%)
Gain on sale of investment securities	207	961	(754)	(78.5%)
Loss on disposal of fixed assets	(152)	(33)	(119)	360.6%
Loss on marketable equity securities	(22)		(22)	
Other	135	157	(22)	(14.0%)
<b>Total other noninterest income</b>	<b>2,443</b>	<b>3,455</b>	<b>(1,012)</b>	<b>(29.3%)</b>
<b>Total noninterest income</b>	<b>\$ 12,186</b>	<b>\$ 12,930</b>	<b>\$ (744)</b>	<b>(5.8%)</b>

Noninterest income decreased \$744,000 (5.8%) to \$12,186,000 during the three months ended September 30, 2018 compared to the three months ended September 30, 2017. The decrease in noninterest income was due to the changes noted in the table above. The decrease of \$241,000 (26.3%) in other service fees was caused primarily by a decrease in merchant residual income due to the lagging effect of transitioning to a new processor, decreasing from \$362,000 during the three months ended September 30, 2017 to \$161,000 during the three months ended September 30, 2018. Gains from sales of investments securities decreased by \$754,000 (78.5%) due to less sales activity during the three month period ending September 30, 2018. Offsetting the decreases in non-interest income was an increase of \$288,000 (88.6%) in change in value of mortgage servicing rights (MSRs) due to slight decreases in estimated prepayment speeds during the three months ended September 30, 2018.

	Nine months ended September 30,			
	2018	2017	\$ Change	% Change
ATM and interchange fees	\$ 13,335	\$ 12,472	\$ 863	6.9%
Service charges on deposit accounts	11,407	12,102	(695)	(5.7%)

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Other service fees	2,020	2,521	(501)	(19.9%)
Mortgage banking service fees	1,527	1,561	(34)	(2.2%)
Change in value of mortgage servicing rights	38	(795)	833	(104.8%)
<b>Total service charges and fees</b>	<b>28,327</b>	<b>27,861</b>	<b>466</b>	<b>1.7%</b>
<b>Commissions on sale of non-deposit investment products</b>	<b>2,414</b>	<b>1,984</b>	<b>430</b>	<b>21.7%</b>
Increase in cash value of life insurance	1,996	2,043	(47)	(2.3%)
Gain on sale of loans	1,831	2,293	(462)	(20.1%)
Lease brokerage income	514	601	(87)	(14.5%)
Gain on sale of foreclosed assets	390	308	82	26.6%
Sale of customer checks	327	287	40	13.9%
Gain on sale of investment securities	207	961	(754)	(78.5%)
Loss on disposal of fixed assets	(206)	(61)	(145)	237.7%
Loss on marketable equity securities	(92)		(92)	
Other	942	1,266	(324)	(25.6%)
<b>Total other noninterest income</b>	<b>8,323</b>	<b>9,682</b>	<b>(1,359)</b>	<b>(14.0%)</b>
<b>Total noninterest income</b>	<b>\$ 36,650</b>	<b>\$ 37,543</b>	<b>\$ (893)</b>	<b>(2.4%)</b>

**Table of Contents**

Noninterest income decreased \$893,000 (2.4%) to \$36,650,000 during the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017. The decrease in noninterest income was due to the changes noted in the table above. The \$695,000 (5.7%) decrease in service charges on deposit accounts was made up of a \$688,000 (10%) decrease in nonsufficient fund (NSF) fees to \$6,220,000, and a \$7,000 (0.1%) decrease in other deposit account service charges to \$5,188,000. The decrease in NSF fees was due primarily to continued growth in customer adoption of the Company's digital services that improves the ability of customers to manage funds and avoid overdrafts. The decrease in other deposit service charges was due primarily to the rapid growth of customer adoption of e-Statements that reduces statement fees. While both of these revenue generating activities decreased, the Company has a net benefit through a reduction in actual operational costs. The decrease of \$467,000 (18.5%) in other service fees was caused primarily by a decrease in merchant residual income due to the lagging effect of transitioning to a new processor, decreasing from \$890,000 during the prior nine month period to \$471,000 during the nine months ended September 30, 2018. Gains from sales of investments securities decreased by \$754,000 (78.5%) due to less sales activity during the nine month period ending September 30, 2018. The \$833,000 (104.8%) increase in change in value of mortgage servicing rights (MSRs) was due to slight decreases in prepayment speeds during the nine months ended September 30, 2018. During the nine months ended September 30, 2017, the Company recorded other non-interest income of \$490,000 related to the termination of a loss sharing agreement with the FDIC.

**Noninterest Expense**

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

	Three months ended September 30,			
	2018	2017	\$ Change	% Change
Base salaries, net of deferred loan origination costs	\$ 17,051	\$ 13,600	\$ 3,451	25.4%
Incentive compensation	3,223	2,609	614	23.5%
Benefits and other compensation costs	5,549	4,724	825	17.5%
<b>Total salaries and benefits expense</b>	<b>25,823</b>	<b>20,933</b>	<b>4,890</b>	<b>23.4%</b>
Occupancy	3,173	2,799	374	13.4%
Data processing and software	2,786	2,495	291	11.7%
Merger and acquisition expense	4,150		4,150	
Equipment	1,750	1,816	(66)	(3.6%)
Intangible amortization	1,390	339	1,051	310.0%
Advertising	1,341	1,039	302	29.1%
ATM and POS network charges	1,195	1,425	(230)	(16.1%)
Professional fees	929	901	28	3.1%
Telecommunications	819	716	103	14.4%
Regulatory assessments and insurance	537	427	110	25.8%
Courier service	278	235	43	18.3%
Postage	275	325	(50)	(15.4%)
Operational losses	217	301	(84)	(27.9%)
Foreclosed assets expense	93	41	52	126.8%
Provision for (reversal of) foreclosed asset losses	(1)	134	(135)	(100.7%)
Other miscellaneous expense	2,623	3,296	(673)	(20.4%)

Total other noninterest expense	21,555	16,289	5,266	32.3%
Total noninterest expense	\$ 47,378	\$ 37,222	\$ 10,156	27.3%
Average full-time equivalent staff	1,146	993	153	15.4%

Salary and benefit expenses increased \$4,890,000 (23.4%) to \$25,823,000 during the three months ended September 30, 2018 compared to \$20,933,000 during the three months ended September 30, 2017. Base salaries, net of deferred loan origination costs increased \$3,451,000 (25.4%) to \$17,051,000. The increase in base salaries was primarily due to the additional full-time equivalent employees acquired with the FNBB merger. Average full-time equivalent employees increased by 153 or 15.4% during the comparable quarters. In addition, increases in base salaries due to annual merit increases and the addition of employees with base salaries above the average base salary also contributed to the increase. Commissions and incentive compensation increased \$614,000 (23.5%) to \$3,223,000 during the three months ended September 30, 2018 compared to the year-ago quarter. Benefits & other compensation expense increased \$825,000 (17.5%) to \$5,549,000 during the three months ended September 30, 2018 due primarily to the increase in full time equivalent employees and to a lesser extent an increase in health insurance expense. Severance and other merger related non-recurring compensation costs are included with merger and acquisition expense in the table above.

Other noninterest expense increased \$5,266,000 (32.3%) to \$21,555,000 during the three months ended September 30, 2018 compared to the three months ended September 30, 2017. The increase in other noninterest expense was due to the changes noted in the table above. During the three months ended September 30, 2018, the Company incurred \$4,150,000 of merger related expense associated with the merger with FNB Bancorp.

**Table of Contents**

	Nine months ended September 30,			
	2018	2017	\$ Change	% Change
Base salaries, net of deferred loan origination costs	\$ 45,442	\$ 40,647	\$ 4,795	11.8%
Incentive compensation	7,834	6,980	854	12.2%
Benefits and other compensation costs	15,652	14,693	959	6.5%
<b>Total salaries and benefits expense</b>	<b>68,928</b>	<b>62,320</b>	<b>6,608</b>	<b>10.6%</b>
Occupancy	8,574	8,196	378	4.6%
Data processing and software	7,979	7,332	647	8.8%
Merger and acquisition expense	5,227		5,227	
Equipment	4,938	5,344	(406)	(7.6%)
ATM and POS network charges	3,858	3,353	505	15.1%
Advertising	3,214	3,173	41	1.3%
Professional fees	2,475	2,357	118	5.0%
Telecommunications	2,201	2,027	174	8.6%
Regulatory assessments and insurance	1,384	1,252	132	10.5%
Intangible amortization	2,068	1,050	1,018	97.0%
Postage	934	1,058	(124)	(11.7%)
Courier service	769	752	17	2.3%
Operational losses	763	1,166	(403)	(34.6%)
Foreclosed assets expense	297	117	180	153.8%
Provision for (reversal of) foreclosed asset losses	89	162	(73)	(45.1%)
Other miscellaneous expense	9,712	9,289	423	4.6%
<b>Total other noninterest expense</b>	<b>54,482</b>	<b>46,628</b>	<b>7,854</b>	<b>16.8%</b>
<b>Total noninterest expense</b>	<b>\$ 123,410</b>	<b>\$ 108,948</b>	<b>\$ 14,462</b>	<b>13.3%</b>
<b>Average full-time equivalent staff</b>	<b>1,050</b>	<b>1,005</b>	<b>45</b>	<b>4.5%</b>

Salary and benefit expenses increased \$6,608,000 (10.6%) to \$68,928,000 during the nine months ended September 30, 2018 compared to \$62,320,000 during the nine months ended September 30, 2017. Base salaries, net of deferred loan origination costs increased \$4,795,000 (11.8%) to \$45,442,000. The increase in base salaries was primarily due to the additional full-time equivalent employees acquired with the FNBB merger. Average full-time equivalent employees increased by 45 or 4.5% during the comparable nine month periods. In addition, increases in base salaries due to annual merit increases and the addition of employees with base salaries above the average base salary also contributed to the increase. Commissions and incentive compensation increased \$854,000 (12.2%) to \$7,834,000 during the nine months ended September 30, 2018 compared to the prior year-to-date period. Benefits & other compensation expense increased \$959,000 (6.5%) to \$15,652,000 during the nine months ended September 30, 2018 due primarily to the increase in full time equivalent employees and to a lesser extent an increase in health insurance expense.

Other noninterest expense increased \$7,854,000 (16.8%) to \$54,482,000 during the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017. The increase in other noninterest expense was due to the changes noted in the table above. During the nine months ended September 30, 2018, the Company incurred \$5,227,000 of merger related expense associated with the merger with FNB Bancorp.



**Income Taxes**

The effective combined Federal and State income tax rate on income was 28.6% and 28.2% for the three and nine months ended September 30, 2018, and 37.5% and 37.1% for the three and nine months ending September 30, 2017. This decrease in effective combined Federal and State income tax rate was due primarily to a decrease in the Federal tax rate from 35% to 21% effective January 1, 2018.

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

Debt securities available for sale increased \$361,066,000 to \$1,089,011,000 as of September 30, 2018, compared to December 31, 2017. This increase is attributable to purchases of \$370,843,000 that were primarily funded with proceeds from sales of securities of \$293,279,000 from the FNBB merger, maturities and principal repayments of \$54,510,000, a decrease in fair value of investments securities available for sale of \$29,704,000 and amortization of net purchase price premiums of \$1,209,000.

The following table presents the available for sale debt securities portfolio by major type as of June 30, 2018 and December 31, 2017:

(dollars in thousands)	September 30, 2018		December 31, 2017	
	Fair Value	%	Fair Value	%
<b>Debt securities available for sale:</b>				
Obligations of U.S. government and agencies	\$ 638,876	60.5%	\$ 604,789	83.1%
Obligations of states and political subdivisions	123,420	11.7%	123,156	16.9%
Corporate bonds	4,431	0.4%		0.0%
Asset backed securities	289,233	27.4%		0.0%
<b>Total debt securities available for sale</b>	<b>\$ 1,055,960</b>	<b>100.0%</b>	<b>\$ 727,945</b>	<b>100.0%</b>

Investment securities held to maturity decreased \$54,857,000 to \$459,897,000 as of September 30, 2018, as compared to December 31, 2017. This decrease is attributable to principal repayments of \$54,203,000, and amortization of net purchase price premiums of \$744,000.

The following table presents the held to maturity investment securities portfolio by major type as of June 30, 2018 and December 31, 2017:

(dollars in thousands)	September 30, 2018		December 31, 2017	
	Cost Basis	%	Cost Basis	%
<b>Securities held to maturity:</b>				
Obligations of U.S. government agencies	\$ 445,309	96.8%	\$ 500,271	97.2%
Obligations of states and political subdivisions	14,588	3.20%	14,573	2.80%
<b>Total securities held to maturity</b>	<b>\$ 459,897</b>	<b>100%</b>	<b>\$ 514,844</b>	<b>100.0%</b>

**Loans**

The Company 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 Company vary with the degree of risk, the size and maturity of the loans, the borrower's relationship with the Company and prevailing money market rates indicative of the Company's cost of funds.

The majority of the Company's loans are direct loans made to individuals, farmers and local businesses. The Company relies substantially on local promotional activity and personal contacts by bank officers, directors and employees to compete with other financial institutions. The Company 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)	September 30, 2018		December 31, 2017	
Real estate mortgage	\$ 3,132,202	77.8%	\$ 2,300,322	76.3%
Consumer	421,285	10.5%	356,874	11.8%
Commercial	289,647	7.1%	220,412	7.3%
Real estate construction	184,302	4.6%	137,557	4.6%
<b>Total loans</b>	<b>\$ 4,027,436</b>	<b>100%</b>	<b>\$ 3,015,165</b>	<b>100%</b>

At September 30, 2018 loans, including net deferred loan costs, totaled \$4,027,436,000 which was a \$1,012,271,000 (33.6%) increase over the balances at December 31, 2017. In addition to the \$834,683,000 in loans acquired from FNBB, which were recorded net of a \$33,417,000 discount, organic loan growth totaled \$177,588,000 or an annualized rate of 7.9% during the first nine months of 2018.

**Table of Contents****Asset Quality and Nonperforming Assets****Nonperforming Assets**

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

(dollars in thousands)	September 30, 2018	December 31, 2017
Performing nonaccrual loans	\$ 22,429	\$ 20,937
Nonperforming nonaccrual loans	3,671	3,176
<b>Total nonaccrual loans</b>	<b>26,100</b>	<b>24,113</b>
Originated and PNCI loans 90 days past due and still accruing	1,048	281
<b>Total nonperforming loans</b>	<b>27,148</b>	<b>24,394</b>
Foreclosed assets	1,832	3,226
<b>Total nonperforming assets</b>	<b>\$ 28,980</b>	<b>\$ 27,620</b>
Nonperforming assets to total assets	0.46%	0.58%
Nonperforming loans to total loans	0.67%	0.81%
Allowance for loan losses to nonperforming loans	116%	124%
Allowance for loan losses, unamortized loan fees, and discounts to loan principal balances owed	2.12%	1.77%

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

(dollars in thousands)	Originated	September 30, 2018		Total
		PNCI	PCI	
Performing nonaccrual loans	\$ 14,401	\$ 1,840	\$ 6,188	\$ 22,429
Nonperforming nonaccrual loans	2,686	307	678	3,671
<b>Total nonaccrual loans</b>	<b>17,087</b>	<b>2,147</b>	<b>6,866</b>	<b>26,100</b>
		1,048		1,048

Originated and PNCI loans 90 days past due and still accruing

Total nonperforming loans	17,087	3,195	6,866	27,148
Foreclosed assets	1,042		790	1,832
<b>Total nonperforming assets</b>	<b>\$ 18,129</b>	<b>\$ 3,195</b>	<b>\$ 7,656</b>	<b>\$ 28,980</b>

U.S. government, including its agencies and its government-sponsored agencies, guaranteed portion of nonperforming loans

	\$ 301			\$ 301
Nonperforming assets to total assets	0.29%	0.05%	0.12%	0.46%
Nonperforming loans to total loans	0.42%	0.08%	0.17%	0.67%
Allowance for loan losses to nonperforming loans	170%	23%	0.12%	116.41%
Allowance for loan losses, unamortized loan fees, and discounts to loan principal balances owed	1.35%	2.44%	68.91%	2.12%

**Table of Contents**

(dollars in thousands)	Originated	December 31, 2017		
		PNCI	PCI	Total
Performing nonaccrual loans	\$ 12,942	\$ 1,305	\$ 6,690	\$ 20,937
Nonperforming nonaccrual loans	2,520	158	498	3,176
<b>Total nonaccrual loans</b>	<b>15,462</b>	<b>1,463</b>	<b>7,188</b>	<b>24,113</b>
Originated loans 90 days past due and still accruing		281		281
<b>Total nonperforming loans</b>	<b>15,462</b>	<b>1,744</b>	<b>7,188</b>	<b>24,394</b>
Foreclosed assets	1,836		1,390	3,226
<b>Total nonperforming assets</b>	<b>\$ 17,298</b>	<b>\$ 1,744</b>	<b>\$ 8,578</b>	<b>\$ 27,620</b>
U.S. government, including its agencies and its government-sponsored agencies, guaranteed portion of nonperforming loans	\$ 358			\$ 358
Nonperforming assets to total assets	0.36%	0.04%	0.18%	0.58%
Nonperforming loans to total loans	0.57%	0.56%	46.20%	0.81%
Allowance for loan losses to nonperforming loans	188%	53%	4%	124%
Allowance for loan losses, unamortized loan fees, and discounts to loan principal balances owed	1.32%	2.22%	34.05%	1.77%

**Changes in nonperforming assets during the three months ended September 30, 2018**

(in thousands):	Balance at September 30, 2018	Additions	Transfers to	Charge-offs/Foreclosed Assets	Category Changes	Balance at June 30, 2018
<b>Real estate mortgage:</b>						
Residential	\$ 3,038	\$ 116	\$ (73)	\$	\$ (1,212)	\$ 4,207
Commercial	15,129	2,688	(418)		974	11,885
<b>Consumer</b>						
Home equity lines	2,133	549	(1,053)			2,637
Home equity loans	3,089	762	(76)	(49)	(511)	2,725
Other consumer	8	1	(1)			8
Commercial	3,751	513	(236)	(484)		3,958
<b>Construction:</b>						
Residential						
Commercial						
<b>Total nonperforming loans</b>	<b>27,148</b>	<b>4,629</b>	<b>(1,857)</b>	<b>(533)</b>	<b>(511)</b>	<b>25,420</b>
Foreclosed assets	1,832	25	(79)	1	511	1,374
<b>Total nonperforming assets</b>	<b>\$ 28,980</b>	<b>\$ 4,654</b>	<b>\$ (1,936)</b>	<b>\$ (532)</b>	<b>\$</b>	<b>\$ 26,794</b>

The table above does not include deposit overdraft charge-offs.

Nonperforming assets increased during the third quarter of 2018 by \$2,186,000 (8.2%) to \$28,980,000 at September 30, 2018 compared to \$26,794,000 at June 30, 2018. The increase in nonperforming assets during the third quarter of 2018 was primarily the result of acquired FNBB loans with credit deterioration of \$1,300,000, new nonperforming loans totaling \$3,354,000 and advances on nonperforming loans of \$294,000, that were partially offset by sales or upgrades of nonperforming loans of \$2,151,000, dispositions of foreclosed assets totaling \$79,000, and loan charge-offs of \$532,000.

The \$4,629,000 in new nonperforming loans during the third quarter of 2018 was comprised of increases of \$116,000 on one residential real estate loans, \$2,688,000 on six commercial real estate loans, \$1,311,000 on 10 home equity lines and loans, and \$513,000 on 7 C&I loans. Related charge-offs are discussed below.

### **Loan charge-offs during the three months ended September 30, 2018**

In the third quarter of 2018, the Company recorded \$1,014,000 in loan charge-offs and \$128,000 in deposit overdraft charge-offs less \$519,000 in loan recoveries and \$51,000 in deposit overdraft recoveries resulting in \$570,000 of net charge-offs. Primary causes of the loan charges taken in the third quarter of 2018 were gross charge-offs of \$25,000 on 2 residential real estate loans, \$195,000 on 3 home equity lines and loans, \$229,000 on 23 other consumer loans, and \$693,000 on 18 C&I loans.

Total charge-offs were generally comprised of individual charges of less than \$250,000 each. Generally losses are triggered by non-performance by the borrower and calculated based on any difference between the current loan amount and the current value of the underlying collateral less any estimated costs associated with the disposition of the collateral.

**Table of Contents****Changes in nonperforming assets during the nine months ended September 30, 2018**

(in thousands):	Balance at September 30, 2018	Balance at September 30, 2018	Advances/ Paydowns, net	Charge-offs/ Write-downs	Transfers to Foreclosed Assets	Category Changes	Balance at December 31, 2017
<b>Real estate mortgage:</b>							
Residential	\$ 3,038	\$ 903	\$ (505)	\$ (51)	\$	\$ (1,048)	\$ 3,739
Commercial	15,129	4,257	(2,005)	(15)		1,072	11,820
<b>Consumer</b>							
Home equity lines	2,133	2,153	(3,171)	(104)		(227)	3,482
Home equity loans	3,089	1,973	(260)	(50)	(511)	301	1,636
Other consumer	8	114	(30)	(87)			11
Commercial	3,751	1,871	(985)	(743)		(98)	3,706
<b>Construction:</b>							
Residential							
Commercial							
<b>Total nonperforming loans</b>	<b>27,148</b>	<b>11,271</b>	<b>(6,956)</b>	<b>(1,050)</b>	<b>(511)</b>		<b>24,394</b>
<b>Foreclosed assets</b>	<b>1,832</b>	<b>25</b>	<b>(1,841)</b>	<b>(89)</b>	<b>511</b>		<b>3,226</b>
<b>Total nonperforming assets</b>	<b>\$ 28,980</b>	<b>\$ 11,296</b>	<b>\$ (8,797)</b>	<b>\$ (1,139)</b>	<b>\$</b>	<b>\$</b>	<b>\$ 27,620</b>

The table above does not include deposit overdraft charge-offs.

Nonperforming assets increased during the nine month period ending September 30, 2018 by \$1,360,000 (4.9%) to \$28,980,000 at September 30, 2018 compared to \$27,620,000 at December 31, 2017. The increase in nonperforming assets during 2018 was primarily the result of additions of \$11,296,000 of nonperforming assets outpacing net paydowns of \$8,797,000 and charge-offs/write-downs of \$1,139,000.

**Loan charge-offs during the nine months ended September 30, 2018**

During the first nine months of 2018, the Company recorded \$1,594,000 in loan charge-offs and \$346,000 in deposit overdraft charge-offs less \$1,263,000 in loan recoveries and \$180,000 in deposit overdraft recoveries resulting in \$497,000 of net charge-offs. Primary causes of the loan charges taken during the nine month period during 2018 were gross charge-offs of \$77,000 on 3 residential real estate loans, \$150,000 on one commercial real estate loan, \$299,000 on 9 home equity lines and loans, \$597,000 on 61 other consumer loans, and \$952,000 on 26 C&I loans.

Total charge-offs were generally comprised 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 Components of the Allowance for Loan Losses**



The following table sets forth the allowance for loan losses as of the dates indicated:

(dollars in thousands)	September 30, 2018	December 31, 2017
Allowance for originated and PNCI loan losses:		
Environmental factors allowance	\$ 13,122	\$ 10,252
Formula allowance	15,743	17,100
 Total allowance for originated and PNCI loan losses	 28,865	 27,352
Allowance for impaired loans	2,628	2,699
Allowance for PCI loan losses	110	272
 Total allowance for loan losses	 \$ 31,603	 \$ 30,323

Allowance for loan losses to loans	0.78%	1.01%
------------------------------------	-------	-------

For additional information regarding the allowance for loan losses, including changes in specific, formula, and environmental factors allowance categories, see *Provision for Loan Losses* at *Results of Operations* and *Allowance for Loan Losses* above. Based on the current conditions of the loan portfolio, management believes that the \$31,603,000 allowance for loan losses at September 30, 2018 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.

**Table of Contents**

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

(in thousands)	September 30, 2018		December 31, 2017	
Real estate mortgage	\$ 15,353	48.6%	\$ 13,758	45.4%
Consumer	7,440	23.5%	8,227	27.1%
Commercial	6,224	19.7%	6,512	21.5%
Real estate construction	2,586	8.2%	1,826	6.0%
<b>Total allowance for loan losses</b>	<b>\$ 31,603</b>	<b>100.0%</b>	<b>\$ 30,323</b>	<b>100.0%</b>

The following tables summarize the activity in the allowance for loan losses for the periods indicated (dollars in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
<b>Allowance for loan losses:</b>				
Balance at beginning of period	\$ 29,524	\$ 31,017	\$ 30,323	\$ 32,503
Provision for loan losses	2,651	(796)	1,777	(2,353)
<b>Loans charged off:</b>				
<b>Real estate mortgage:</b>				
Residential	(25)		(77)	
Commercial		(150)	(15)	(150)
<b>Consumer:</b>				
Home equity lines	(172)	(13)	(276)	(84)
Home equity loans	(23)	(206)	(23)	(237)
Other consumer	(229)	(308)	(597)	(482)
Commercial	(693)	(764)	(952)	(897)
<b>Construction:</b>				
Residential		(1,071)		(1,071)
Commercial				
<b>Total loans charged off</b>	<b>(1,142)</b>	<b>(2,512)</b>	<b>(1,940)</b>	<b>(2,921)</b>
<b>Recoveries of previously charged-off loans:</b>				
<b>Real estate mortgage:</b>				
<b>Residential</b>				
Commercial	15	17	51	127
<b>Consumer:</b>				
Home equity lines	151	252	677	298
Home equity loans	139	13	176	25
Other consumer	63	68	208	209
Commercial	202	84	331	254

## Construction:

Residential

Commercial

1

Total recoveries of previously  
charged off loans

570

434

1,443

914

Net (charge-offs) recoveries

(572)

(2,078)

(497)

(2,007)

Balance at end of period

\$ 31,603

\$ 28,143

\$ 31,603

\$ 28,143

Average total loans

\$ 4,028,462

\$ 2,878,944

\$ 3,390,447

\$ 2,807,453

## Ratios (annualized):

Net charge-offs (recoveries) during  
period to average loans  
outstanding during period

0.06%

0.29%

0.02%

0.10%

Provision for (benefit from) loan  
losses to average loans outstanding  
during period

0.26%

(0.11)%

0.07%

(0.11)%

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

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

	Balance at September 30, 2018	Additions	Advances/ Capitalized Costs/Other	Sales	Valuation Adjustments	Balance at December 31, 2017
Land & Construction	\$ 445	\$	\$	\$ (1,341)	\$	\$ 1,786
Residential real estate	1,294	536		(356)	(72)	1,186
Commercial real estate	93			(144)	(17)	254
Total foreclosed assets	\$ 1,832	\$ 536	\$	\$ (1,841)	\$ (89)	\$ 3,226

**Premises and Equipment**

Premises and equipment were comprised of:

	September 30, 2018	December 31, 2017
	(In thousands)	
Land & land improvements	\$ 28,958	\$ 9,959
Buildings	64,178	50,340
Furniture and equipment	44,271	35,939
	137,407	96,238
Less: Accumulated depreciation	(49,073)	(40,644)
	88,334	55,594
Construction in progress	956	2,148
Total premises and equipment	\$ 89,290	\$ 57,742

During the nine months ended September 30, 2018, premises and equipment increased \$31,548,000 due to acquired assets with a fair value of \$30,522,000, purchases of \$5,736,000, that were partially offset by depreciation of \$4,442,000 and disposals of premises and equipment with net book value of \$268,000.

**Intangible Assets**

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

	September 30, 2018	December 31, 2017
	(In thousands)	
Core-deposit intangible	\$ 30,711	\$ 5,174
Goodwill	220,972	64,311
<b>Total intangible assets</b>	<b>\$ 251,683</b>	<b>\$ 69,485</b>

The core-deposit intangible assets resulted from the Bank's acquisition of FNB Bancorp (FNBB) on July 6, 2018, three bank branches from Bank of America on March 18, 2016, North Valley Bancorp in 2014, and Citizens Bank of Northern California in 2011. The goodwill intangible asset includes \$156,661,000 from the acquisition of FNBB, \$849,000 from the acquisition of three bank branches from Bank of America on March 18, 2016, \$47,943,000 from the North Valley Bancorp acquisition in 2014, and \$15,519,000 from the North State National Bank acquisition in 2003.

Amortization of core deposit intangible assets amounting to \$1,390,000 and \$339,000 was recorded during the three months ended September 30, 2018 and 2017, respectively. Amortization of core deposit intangible assets amounting to \$2,068,000 and \$1,050,000 was recorded during the nine months ended September 30, 2018 and 2017, respectively.

#### **Investment in Low Income Housing Tax Credit Funds**

During the nine months ended September 30, 2018, the Company's investment in low income housing tax credit funds, recorded in other assets, increased \$6,718,000 to \$23,572,000 due to capital contributions and the acquisition of \$2,794,000 in low income housing tax credit funds from FNBB. During the nine months ended September 30, 2018, the Company also made capital contributions to several of its existing low income housing tax credit fund investments reducing its commitment for future capital contributions to \$6,725,000 at September 30, 2018. This commitment for low income housing tax credit funds is recorded in other liabilities.

#### **Deposits**

During the nine months ended September 30, 2018, the Company's deposits increased \$1,083,986,000 to \$5,093,117,000. In addition to the \$991,935,000 in acquired deposits, organic deposit growth for the first nine months of 2018 was \$92,051,000 or 3.1% on an annualized basis. Included in the September 30, 2018 and December 31, 2017 certificate of deposit balances are \$69,000,000 and \$50,000,000, respectively, from the State of California. The Company participates in a deposit program offered by the State of California whereby the state may make deposits at the Company's request subject to collateral and creditworthiness constraints. The negotiated rates on these state deposits are generally more favorable than other wholesale funding sources available to the Company..

**Table of Contents****Off-Balance Sheet Arrangements**

See Note 12 to the condensed consolidated financial statements at Item 1 of Part I of this report for information about the Company's commitments and contingencies including off-balance-sheet arrangements.

**Capital Resources**

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

The Company adopted and announced a stock repurchase plan on August 21, 2007 for the repurchase of up to 500,000 shares of the Company's common stock from time to time as market conditions allow. The 500,000 shares authorized for repurchase under this plan represented approximately 3.2% of the Company's approximately 15,815,000 common shares outstanding as of August 21, 2007. During the nine months ended September 30, 2018, the Company did not repurchase any shares under this plan. This plan has no stated expiration date for the repurchases. As of September 30, 2018, 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 \$802,115,000 at September 30, 2018. This amount represents an increase of \$296,307,000 (59%) from December 31, 2017, the net result of issued stock of \$284,437,000, comprehensive income for the period of \$24,409,000, the effect of equity compensation vesting of \$1,044,000, and the exercise of stock options of \$475,000, that were partially offset by dividends paid of \$12,984,000, and repurchase of common stock of \$1,124,000. The Company's ratio of equity to total assets was 12.7% and 10.6% as of September 30, 2018 and December 31, 2017, respectively. We believe that the Company and the Bank were in compliance with applicable minimum capital requirements set forth in the final Basel III Capital rules as of September 30, 2018. The following summarizes the Company's ratios of capital to risk-adjusted assets as of the dates indicated:

	September 30, 2018		December 31, 2017	
	Ratio	Minimum Regulatory Requirement	Ratio	Minimum Regulatory Requirement
Total capital	13.90%	9.875%	14.07%	9.25%
Tier I capital	13.19%	7.875%	13.18%	7.25%
Common equity Tier 1 capital	12.03%	6.375%	11.72%	5.75%
Leverage	10.66%	4.00%	10.80%	4.00%

See Note 13 and Note 19 to the condensed consolidated financial statements at Item 1 of Part I of this report for additional information about the Company's capital resources.

**Liquidity**

The Company's principal source of asset liquidity is cash at the Federal Reserve Bank of San Francisco (Federal Reserve) and other banks and marketable investment securities available for sale. At September 30, 2018, cash at Federal Reserve and other banks in excess of reserve requirements and investment securities available for sale totaled

\$1,163,349,000, or 18.4% of total assets, representing an increase of \$312,044,000 from \$851,305,000, or 17.3% of total assets at December 31, 2017. This increase in cash and securities available for sale is due mainly to deposit growth and net cash and available for sale investment securities received in the acquisition of FNBB that was partially offset by new loan originations being in excess of cash received from the maturity and principal repayment of investment securities during the nine months ended September 30, 2018. The Company's profitability during the first nine months of 2018 generated cash flows from operations of \$59,905,000 compared to \$45,817,000 during the first nine months of 2017. Net cash used by investing activities of \$112,873,000 during the nine months ended September 30, 2018, compared to net cash used by investing activities of \$263,864,000 during the nine months ended September 30, 2017. Financing activities provided net cash of \$74,083,000 during the nine months ended September 30, 2018, compared to net provided by financing activities of \$100,469,000 during the nine months ended September 30, 2017. Deposit balance increases accounted for \$92,051,000 and \$31,896,000 of financing sources of funds during the nine months ended September 30, 2018 and 2017, respectively. Dividends paid used \$12,984,000 and \$11,228,000 of cash during the nine months ended September 30, 2018 and 2017, respectively. The Company's liquidity is dependent on dividends received from the Bank. Dividends from the Bank are subject to certain regulatory restrictions.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

The Company's assessment of market risk as of September 30, 2018 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, 2017.

### **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 September 30, 2018. 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 September 30, 2018.

During the nine months ended September 30, 2018, 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.

**Table of Contents****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.

**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, 2017 which are incorporated by reference herein. These factors could materially adversely affect our business, financial condition, liquidity, results of operations and capital position, and could cause our actual results to differ materially from our historical results or the results contemplated by the forward-looking statements contained in this report.

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

The following table shows the repurchases made by the Company or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Exchange Act) during the three months ended September 30, 2018:

Period	(a) Total number of shares purchased <sup>(1)</sup>	(b) Average price paid per share	(c) Total number of shares purchased as of part of publicly announced plans or programs	(d) Maximum number shares that may yet be purchased under the plans or programs <sup>(2)</sup>
July 1-31, 2018	49,996	\$ 37.72		333,400
August 1-31, 2018	41,485	\$ 38.95		333,400
September 1-30, 2018	11,211	\$ 39.15		333,400
Total	102,692	\$ 38.37		333,400

- (1) Includes shares purchased by the Company's Employee Stock Ownership Plan and pursuant to various other equity incentive plans. See Note 14 to the condensed consolidated financial statements at Item 1 of Part I of this report, for a discussion of the Company's stock repurchased under equity compensation plans.
- (2) Does not include shares that may be purchased by the Company's Employee Stock Ownership Plan and pursuant to various other equity incentive plans.



**Table of Contents**

**Item 6 Exhibits**

**EXHIBIT INDEX**

Exhibit No.	Exhibit
31.1	<u>Rule 13a-14(a)/15d-14(a) Certification of CEO</u>
31.2	<u>Rule 13a-14(a)/15d-14(a) Certification of CFO</u>
32.1	<u>Section 1350 Certification of CEO</u>
32.2	<u>Section 1350 Certification of CFO</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

**Table of Contents**

**SIGNATURES**

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

**TRICO BANCSHARES**  
(Registrant)

Date: November 9, 2018

/s/ Peter G. Wiese  
Peter G. Wiese  
Executive Vice President and Chief Financial Officer  
(Duly authorized officer and principal financial and chief accounting officer)