TRICO BANCSHARES /
Form 10-Q
May 10, 2018

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: March 31, 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	**94-2792841**
(State or Other Jurisdiction	**(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

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: 22,969,792 shares outstanding as of May 4, 2018

TriCo Bancshares

FORM 10-Q

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FORWARD-LOOKING INFORMATION

Important Additional Information about the Merger

TriCo Bancshares (the Company) has filed a registration statement on Form S-4 with the SEC (filed on March 21, 2018 and subsequently amended on April 18, 2018), which includes a joint proxy statement of the Company and FNB Bancorp (FNBB) and a prospectus of the Company, and each party will file other documents with the SEC regarding the Agreement and Plan of Merger and Reorganization (the Merger Agreement) pursuant to which FNBB will be merged with and into the Company, with the Company as the surviving corporation (the Merger). The Merger is subject to a number of conditions, including regulatory and shareholder approval. A definitive joint proxy statement/prospectus will also be sent to the Company and FNBB shareholders seeking required shareholder approvals.

Before making any voting or investment decision, investors and security holders of the Company and FNBB are urged to carefully read the entire registration statement and joint proxy statement/prospectus, when they become available, as well as any amendments or supplements to these documents, because they will contain important information about the proposed transaction.

The documents filed by the Company and FNBB with the SEC may be obtained free of charge at the SEC s website at www.sec.gov. In addition, the documents filed by the Company may be obtained free of charge at the Company s website at https://www.tcbk.com/investor-relations and the documents filed by FNBB may be obtained free of charge at FNBB s website at https://www.fnbnorcal.com/investor-relations-overview. Alternatively, these documents, when available, can be obtained free of charge from the Company upon written request to TriCo Bancshares, Attention: Craig Compton, Secretary, 63 Constitution Drive, Chico, CA 95973 or by calling (800) 922-8742 or from FNBB upon written request to FNB Bancorp, 975 El Camino Real, South San Francisco, CA, 94080, Attention: Corporate Secretary, or by calling (650) 588-6800.

This communication shall not constitute an offer to sell or the solicitation of an offer to buy securities nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction. This communication is also not a solicitation of any vote in any jurisdiction pursuant to the proposed transactions or otherwise. No offer of securities or solicitation will be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended. The communication is not a substitute for the joint proxy statement/prospectus that the Company and FNBB will file with the SEC.

Cautionary Statements Regarding Forward-Looking Information

This report on Form 10-Q contains forward-looking statements about TriCo Bancshares (the Company) that are subject to the protection of the safe harbor provisions contained in the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on the current knowledge and belief of the Company s management (Management) and include information concerning the Company s possible or assumed future financial condition and results of operations. When you see any of the words believes , expects , anticipates , estimates , or similar expression it may mean the Company is making forward-looking statements. A number of factors, some of which are beyond the Company s ability to predict or control, could cause future results to differ materially from those contemplated. The reader is directed to the Company s annual report on Form 10-K for the year ended December 31, 2017 and Part II, Item 1A of this report for further discussion of factors which could affect the Company s business and cause actual results to differ materially from those suggested by any forward-looking statement made in this report. Such Form 10-K and this report should be read in their entirety to put any forward-looking statements in context and to gain a more complete understanding of the risks and uncertainties involved in the Company s business. Any forward-looking statement may turn out to be wrong and cannot be guaranteed. The Company does not intend to update any forward-looking statement after the date of this report.

Statements concerning the potential merger of the Company and FNBB may also be forward-looking statements. Please refer to each of the Company s and FNBB s Annual Report on Form 10-K for the year ended December 31, 2017, as well as their other filings with the SEC, for a more detailed discussion of risks, uncertainties and factors that could cause actual results to differ from those discussed in the forward-looking statements.

In addition to factors previously disclosed in reports filed by the Company and FNBB with the SEC, risks and uncertainties for the Company, FNBB and the combined company include, but are not limited to: the possibility that any of the anticipated benefits of the proposed merger will not be realized or will not be realized within the expected time period; the risk that integration of FNBB s operations with those of the Company will be materially delayed or will be more costly or difficult than expected; the inability to close the merger in a timely manner; the inability to complete the merger due to the failure of the Company s or FNBB s shareholders to adopt the merger agreement; diversion of management s attention from ongoing business operations and opportunities; the failure to satisfy other conditions to completion of the merger, including receipt of required regulatory and other approvals; the failure of the proposed merger to close for any other reason; the challenges of integrating and retaining key employees; the effect of the announcement of the merger on the Company s, FNBB s or the combined company s respective customer relationships and operating results; the possibility that the merger may be more expensive to complete than anticipated, including as a result of unexpected factors or events; and general competitive, economic, political and market conditions and fluctuations. All forward-looking statements included in this filing are made as of the date hereof and are based on information available at the time of the filing. Except as required by law, neither the Company nor FNBB assumes any obligation to update any forward-looking statement.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

TRICO BANCSHARES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data; unaudited)

	At March 31, 2018	At December 31, 2017
Assets:		
Cash and due from banks	$ 87,138	$ 105,968
Cash at Federal Reserve and other banks	95,841	99,460
Cash and cash equivalents	182,979	205,428
Investment securities:		
Marketable equity securities	2,890	2,938
Available for sale debt securities	735,895	727,945
Held to maturity debt securities	496,035	514,844
Restricted equity securities	16,956	16,956
Loans held for sale	2,149	4,616
Loans	3,069,733	3,015,165
Allowance for loan losses	(29,973)	(30,323)
Total loans, net	3,039,760	2,984,842
Foreclosed assets, net	1,564	3,226
Premises and equipment, net	58,558	57,742
Cash value of life insurance	98,391	97,783
Accrued interest receivable	12,407	13,772
Goodwill	64,311	64,311
Other intangible assets, net	4,835	5,174
Mortgage servicing rights	6,953	6,687
Other assets	56,274	55,051
Total assets	$ 4,779,957	$ 4,761,315
Liabilities and Shareholders Equity:		
Liabilities:		
Deposits:		
Noninterest-bearing demand	$ 1,359,996	$ 1,368,218
Interest-bearing	2,724,408	2,640,913
Total deposits	4,084,404	4,009,131
Accrued interest payable	958	930
Reserve for unfunded commitments	3,864	3,164
Other liabilities	63,529	63,258

Other borrowings	65,041	122,166
Junior subordinated debt	56,905	56,858
Total liabilities	4,274,701	4,255,507
Commitments and contingencies (Note 18)		
Shareholders equity:		
Preferred stock, no par value: 1,000,000 shares authorized, zero issued and outstanding at March 31, 2018 and December 31, 2017		
Common stock, no par value: 50,000,000 shares authorized; issued and outstanding:		
22,956,323 at March 31, 2018	256,226	
22,955,963 at December 31, 2017		255,836
Retained earnings	266,235	255,200
Accumulated other comprehensive loss, net of tax	(17,205)	(5,228)
Total shareholders equity	505,256	505,808
Total liabilities and shareholders equity	$ 4,779,957	$ 4,761,315

See accompanying notes to unaudited condensed consolidated financial statements.

TRICO BANCSHARES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data; unaudited)

	Three months ended March 31,	
	2018	2017
Interest and dividend income:		
Loans, including fees	$ 38,049	$ 34,914
Investments:		
Taxable securities	7,322	6,703
Tax exempt securities	1,041	1,041
Dividends	336	391
Interest bearing cash at		
Federal Reserve and other banks	373	435
Total interest and dividend income	47,121	43,484
Interest expense:		
Deposits	1,096	894
Other borrowings	342	2
Junior subordinated debt	697	595
Total interest expense	2,135	1,491
Net interest income	44,986	41,993
Benefit from reversal of provision for loan losses	(236)	(1,557)
Net interest income after benefit from reversal of provision for loan losses	45,222	43,550
Noninterest income:		
Service charges and fees	9,356	8,907
Gain on sale of loans	626	910
Commissions on sale of non-deposit investment products	876	607
Increase in cash value of life insurance	608	685
Other	824	594
Total noninterest income	12,290	11,703
Noninterest expense:		
Salaries and related benefits	21,652	20,893
Other	16,510	14,929
Total noninterest expense	38,162	35,822
Income before income taxes	19,350	19,431

Provision for income taxes	5,440	7,352
Net income	$ 13,910	$ 12,079
Earnings per share:		
Basic	$ 0.61	$ 0.53
Diluted	$ 0.60	$ 0.52

See accompanying notes to unaudited condensed consolidated financial statements.

TRICO BANCSHARES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands; unaudited)

	Three months ended March 31, 2018	Three months ended March 31, 2017
Net income	$ 13,910	$ 12,079
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on available for sale securities arising during the period	(11,026)	457
Change in minimum pension liability	80	54
Other comprehensive income (loss)	(10,946)	511
Comprehensive income	$ 2,964	$ 12,590

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			12,079		12,079
Other comprehensive income				511	511
Stock option vesting		88			88
RSU vesting		204			204
PSU vesting		89			89
Stock options exercised	21,450	435			435
RSUs released	304				
Repurchase of common stock	(16,251)	(180)	(424)		(604)
Dividends paid ($ 0.15 per share)			(3,431)		(3,431)
Balance at March 31, 2017	22,873,305	$ 253,456	$ 240,664	$ (7,402)	$ 486,718
Balance at December 31, 2017	22,955,963	$ 255,836	$ 255,200	$ (5,228)	$ 505,808
Net income			13,910		13,910
Adoption ASU 2016-01			(62)	62	

Adoption ASU 2018-02			1,093	(1,093)	
Other comprehensive loss				(10,946)	(10,946)
Stock option vesting		37			37
RSU vesting		238			238
PSU vesting		116			116
RSUs released	494				
Repurchase of common stock	(134)	(1)	(3)		(4)
Dividends paid ($ 0.17 per share)			(3,903)		(3,903)
Balance at March 31, 2018	22,956,323	$ 256,226	$ 266,235	$ (17,205)	$ 505,256

See accompanying notes to unaudited condensed consolidated financial statements.

TRICO BANCSHARES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands; unaudited)

	For the three months ended March 31, 2018	2017
Operating activities:		
Net income	$ 13,910	$ 12,079
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of premises and equipment, and amortization	1,613	1,604
Amortization of intangible assets	339	359
Reversal of provision for loan losses	(236)	(1,557)
Amortization of investment securities premium, net	700	798
Originations of loans for resale	(20,332)	(34,317)
Proceeds from sale of loans originated for resale	23,270	36,771
Gain on sale of loans	(626)	(910)
Change in market value of mortgage servicing rights	(111)	13
Provision for (reversal of) losses on foreclosed assets	90	(66)
Gain on sale of foreclosed assets	(371)	(118)
Loss on disposal of fixed assets	13	
Gain on sale of premises held for sale		(3)
Increase in cash value of life insurance	(608)	(685)
Gain on life insurance death benefit		(107)
Equity compensation vesting expense	391	381
Loss on marketable equity securities	48	
Change in:		
Reserve for unfunded commitments	700	15
Interest receivable	1,365	791
Interest payable	28	(48)
Other assets and liabilities, net	3,531	4,444
Net cash from operating activities	23,714	19,444
Investing activities:		
Proceeds from maturities of securities available for sale	15,643	14,069
Proceeds from maturities of securities held to maturity	18,535	22,074
Purchases of securities available for sale	(39,647)	(35,241)
Loan origination and principal collections, net	(54,682)	(1,613)
Proceeds from sale of other real estate owned	1,943	726
Proceeds from sale of premises held for sale		3,338
Purchases of premises and equipment	(2,200)	(2,413)
Life insurance proceeds		282
Net cash provided by investing activities	(60,408)	1,222

Financing activities:				
Net increase in deposits		75,273		3,324
Net change in other borrowings		(57,125)		(2,296)
Repurchase of common stock				(169)
Dividends paid		(3,903)		(3,431)
Net cash used by financing activities		14,245		(2,572)
Net change in cash and cash equivalents		(22,449)		18,094
Cash and cash equivalents and beginning of year		205,428		305,612
Cash and cash equivalents at end of year	$	182,979	$	323,706
Supplemental disclosure of noncash activities:				
Unrealized (loss) gain on securities available for sale	$	(15,628)	$	787
Loans transferred to foreclosed assets				85
Deferred gain on sale of premises held for sale				438
Market value of shares tendered in-lieu of cash to pay for exercise of options and/or related taxes		4		604
Supplemental disclosure of cash flow activity:				
Cash paid for interest expense		2,107		1,539
Cash paid for income taxes				

See accompanying notes to unaudited condensed consolidated financial statements.

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 26 California counties. The Bank operates from 57 traditional branches and 9 in-store branches. The Company has five capital subsidiary business trusts (collectively, the Capital Trusts) that issued trust preferred securities, including two organized by TriCo and three acquired with the acquisition of North Valley Bancorp. See Note 17 Junior Subordinated Debt.

The 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. The consolidated 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 $1,703,000 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.

Significant Group Concentration of Credit Risk

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

Cash and Cash Equivalents

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

Marketable Equity Securities

As of December 31, 2017, marketable equity securities with a fair value of $2,938,000 were recorded within investment securities available for sale on the consolidated balance sheets with changes in the fair value recorded through other comprehensive income and accumulated other comprehensive income (loss). As of January 1, 2018, the Company adopted Accounting Standard Update (ASU) 2016-01 using a prospective transition approach and reclassified its marketable equity securities from investments available for sale into a separate component of investment securities. The ASU requires marketable equity securities to be reported at fair value with changes in the fair value recorded through earnings. As of January 1, 2018, unrealized losses of $62,000 were reclassified from accumulated other comprehensive loss to retained earnings and the deferred tax asset was reduced by $18,000. During the three months ended March 31, 2018, the Company recognized $48,000 of unrealized losses in the condensed consolidated statements of income.

Debt Securities

The Company classifies its debt securities into one of three categories: trading, available for sale or held to maturity. Trading securities are bought and held principally for the purpose of selling in the near term. Held to maturity securities are those securities which the Company has the ability and intent to hold until maturity. These securities are carried at cost adjusted for amortization of premium and accretion of discount, computed by the effective interest method over their contractual lives. All other securities not included in trading or held to maturity are classified as available for sale. Available for sale securities are recorded at fair value. Unrealized gains and losses, net of the related tax effect, on available for sale securities are reported as a separate component of other accumulated comprehensive income in shareholders equity until realized. Premiums and discounts are amortized or accreted over the life of the related investment security as an adjustment to yield using the effective interest method. Dividend and interest income are recognized when earned. Realized gains and losses are derived from the amortized cost of the security sold. During the three months ended March 31, 2018 and throughout 2017, the Company did not have any debt securities classified as trading.

The Company assesses other-than-temporary impairment (OTTI) based on whether it intends to sell a security or if it is likely that the Company would be required to sell the security before recovery of the amortized cost basis of the investment, which may be maturity. For debt securities, if we intend to sell the security or it is more likely than not that we will be required to sell the security before recovering its cost basis, the entire impairment loss would be recognized in earnings as an OTTI. If we do not intend to sell the security and it is not likely that we will be required to sell the security but we do not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Projected cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for potential OTTI. The remaining impairment related to all other factors, the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to other comprehensive income (OCI). Impairment losses related to all other factors are presented as separate categories within OCI. The accretion of the amount recorded in OCI increases the carrying value of the investment and does not affect earnings. If there is an indication of additional credit losses the security is re-evaluated according to the procedures described above. No OTTI losses were recognized during the three months ended March 31, 2018 or the year ended December 31, 2017.

Restricted Equity Securities

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

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

Loans Held for Sale

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

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

Loans and Allowance for Loan Losses

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

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

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

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

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

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

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

Loans purchased or acquired in a business combination are referred to as acquired loans. Acquired loans are valued as of the acquisition date in accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Topic 805, *Business Combinations*. Loans acquired with evidence of credit deterioration since origination for which it is probable that all contractually required payments will not be collected are referred to as purchased credit impaired (PCI) loans. PCI loans are accounted for under FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. Under FASB ASC Topic 805 and FASB ASC Topic 310-30, PCI loans are recorded at fair value at acquisition date, factoring in credit losses expected to be incurred over the life of the loan. Accordingly, an allowance for loan losses is not carried over or recorded as of the acquisition date. Fair value is defined as the present value of the future estimated principal and interest payments of the loan, with the discount rate used in the present value calculation representing the estimated effective yield of the loan. Default rates, loss severity, and prepayment speed assumptions are periodically reassessed and our estimate of future payments is adjusted accordingly. The difference between contractual future payments and estimated future payments is referred to as the nonaccretable difference. The difference between estimated future payments and the present value of the estimated future payments is referred to as the accretable yield. The accretable yield represents the amount that is expected to be recorded as interest income over the remaining life of the loan. If after acquisition, the Company determines that the estimated future cash flows of a PCI loan are expected to be more than originally estimated, an increase in the discount rate (effective yield) would be made such that the newly increased accretable yield would be recognized, on a level yield basis, over the remaining estimated life of the loan. If, thereafter, the Company determines that the estimated future cash flows of a PCI loan are expected to be less than previously estimated, an allowance for loan loss would be established through a provision for loan losses charged to expense to decrease the present value to the required level. If the estimated cash flows improve after an allowance has been established for a loan, the allowance may be partially or fully reversed depending on the improvement in the estimated cash flows. Only after the allowance has been fully reversed may the discount rate be increased. PCI loans are put on nonaccrual status when cash flows cannot be reasonably estimated. PCI loans on nonaccrual status are accounted for using the cost recovery method or cash basis method of income recognition. The Company refers to PCI loans on nonaccrual status that are accounted for using the cash basis method of income recognition as PCI cash basis loans; and the Company refers to all other PCI loans as PCI other loans PCI loans are charged off when evidence suggests cash flows are not recoverable. Foreclosed assets from PCI loans are recorded in foreclosed assets at fair value with the fair value at time of foreclosure representing cash flow from the loan. ASC 310-30 allows PCI loans with similar risk characteristics and acquisition time frame to be pooled and have their cash flows aggregated as if they were one loan. The Company elected to use the pooled method of ASC 310-30 for PCI other loans in the acquisition of certain assets and liabilities of Granite Community Bank, N.A. (Granite) during 2010 and Citizens Bank of Northern California (Citizens) during 2011.

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

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

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

Loans are also categorized as covered or noncovered . Covered loans refer to loans covered by a Federal Deposit Insurance Corporation (FDIC) loss sharing agreement. Noncovered loans refer to loans not covered by a FDIC loss sharing agreement. On May 9, 2017, the Company and the FDIC terminated their loss sharing agreements.

Foreclosed Assets

Foreclosed assets include assets acquired through, or in lieu of, loan foreclosure. Foreclosed assets are held for sale and are initially recorded at fair value less estimated costs to sell at the date of foreclosure, establishing a new cost basis. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Any write-downs based on the asset s fair value less costs to sell at the date of acquisition are charged to the allowance for loan and lease losses. Any recoveries based on the asset s fair value less estimated costs to sell in excess of the recorded value of the loan at the date of acquisition are recorded to the allowance for loan and lease losses. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed. Revenue and expenses from operations and changes in the valuation allowance are included in other noninterest expense. Gain or loss on sale of foreclosed assets is included in noninterest income. Foreclosed assets that are not subject to a FDIC loss-share agreement are referred to as noncovered foreclosed assets.

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

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

Premises and Equipment

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

Goodwill and Other Intangible Assets

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

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

Impairment of Long-Lived Assets and Goodwill

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

As of December 31 of each year, goodwill is tested for impairment, and is tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset s fair value. This determination is made at the reporting unit level. The Company may choose to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, the Company determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then goodwill is deemed not to be impaired. However, if the Company concludes otherwise, or if the Company elected not to first assess qualitative factors, then the Company performs the first step of a two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. Second, if the carrying amount of the reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit s goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Currently, and historically, the Company is comprised of only one reporting unit that operates within the business segment it has identified as community banking . Goodwill was not impaired as of December 31, 2017 because the fair value of the reporting unit exceeded its carrying value.

Mortgage Servicing Rights

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

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

Indemnification Asset/Liability

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

Reserve for Unfunded Commitments

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

Low Income Housing Tax Credits

The Company accounts for low income housing tax credits and the related qualified affordable housing projects using the proportional amortization method. Under the proportional amortization method, the Company amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). Upon entering into a qualified affordable housing project, the Company records, in other liabilities, the entire amount that it has agreed to invest in the project, and an equal amount, in other assets, representing its investment in the project. As the Company disburses cash to satisfy its investment obligation, other liabilities are reduced. Over time, as the tax credits and other tax benefits of the project are realized by the Company, the investment recorded in other assets is reduced using the proportional amortization method.

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. Significant revenue has not been recognized in the current reporting period that results from performance obligations satisfied in previous periods.

Most of our revenue-generating transactions are not subject to ASC 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 March 31, 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 21 was not necessary.

Income Taxes

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

Off-Balance Sheet Credit Related Financial Instruments

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

Geographical Descriptions

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

Reclassifications

During the three months ended September 30, 2017, the Company changed its classification of 1st lien and 2nd lien non-owner occupied 1-4 residential real estate mortgage loans from commercial real estate mortgage loans to residential real estate mortgage loans and consumer home equity loans, respectively. This change in loan category classification was made to better align the Company s financial reporting classifications with regulatory reporting classifications, and to properly classify these loans for regulatory risk-based capital ratio calculations.

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

Recent Accounting Pronouncements

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 months ended March 31, 2018. In accordance with (5) above, the Company measured the fair value of its loan portfolio as of March 31, 2018 using an exit price notion (see Note 27 *Fair Value Measurement*).

FASB issued Accounting Standard Update (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. The Company is currently evaluating the provisions of ASU No. 2016-02 and has determined that the adoption of this standard will result in an increase in assets to recognize the present value of the lease obligations with a corresponding increase in liabilities; however, the Company does not expect this to have a material impact on the Company s results of operations or cash flows.

FASB issued Accounting Standard Update (ASU) No. 2016-09*, Compensation Stock Compensation (Topic 718).* ASU 2016-09, among other things, requires: (i) that all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) should be recognized as income tax expense or benefit in the income statement, (ii) the tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur, (iii) an entity also should recognize excess tax benefits regardless of whether the benefit reduces taxes payable in the current period, (iv) excess tax benefits should be classified along with other income tax cash flows as an operating activity, (v) an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest (current GAAP) or account for forfeitures when they occur, (vi) the threshold to qualify for equity classification permits withholding up to the maximum statutory tax rates in the applicable jurisdictions, and (vii) cash paid by an employer when directly

withholding shares for tax withholding purposes should be classified as a financing activity. ASU 2016-09 was effective for the Company on January 1, 2017 and due to the options exercised during the three months ended March 31, 2017, resulted in the recognition of $90,000 in excess tax benefits.

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. 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 is not expected to 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 us on January 1, 2018 and did not have a significant impact on our financial statements.

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 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 2017-08, *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.

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 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.

Note 2 Business Combinations

Proposed Merger with FNB Bancorp

On December 11, 2017, the Company and FNB Bancorp, a California corporation (FNBB), entered into an Agreement and Plan of Merger and Reorganization (the Merger Agreement) pursuant to which FNBB will be merged with and into the Company, with the Company as the surviving corporation (the Merger). Management expects the acquisition to close in the second quarter of 2018, subject to the satisfaction of customary closing conditions, including regulatory and shareholder approvals. The Merger Agreement provides that immediately after the Merger, FNBB s bank subsidiary, First National Bank of Northern California (First National Bank), will merge with and into the Company s bank subsidiary, Tri Counties Bank, with Tri Counties Bank as the surviving bank (the Bank Merger). The Merger and Bank Merger are collectively referred to as the Proposed Transaction.

The Merger Agreement provides that each share of FNBB common stock issued and outstanding immediately prior to the effective time of the Merger will be canceled and converted into the right to receive 0.98 shares of the Company s common stock (the Exchange Ratio), with cash paid in lieu of fractional shares of the Company s common stock.

Based on the closing price of the Company s common stock of $41.64 on December 8, 2017, the consideration value was $40.81 per share of FNBB common stock or approximately $315.3 million in aggregate. The value of the merger consideration will fluctuate until closing based on the value of the Company s stock and subject to a trading collar in certain circumstances. Upon consummation of the Merger, the shareholders of FNBB will own approximately 24% of the combined company.

The Merger Agreement includes a trading collar that could result in termination of the Merger Agreement or a change to the Exchange Ratio. First, the Company can elect to terminate the Merger Agreement if both (i) the average share price of the Company s common stock for the 20 day period up to and including the fifth day prior to the closing date (the Average Closing Share Price) is greater than $49.78, which equals 120% of the average share price of the Company s stock for the 20 trading-day period up to and including December 8, 2017, which was $41.48 (the Initial Price) and (ii) the Company s common stock outperforms the KBW Regional Banking Index by more than 20%, unless FNBB agrees that the Exchange Ratio will be reduced and fewer shares of the Company s common stock will be issued to FNBB shareholders on a per share basis. Conversely, FNBB can terminate the Merger Agreement if both (i) the Average Closing Share Price is less than $33.18, which is equivalent to 80% of the Initial Price, and (ii) the Company s common stock underperforms the KBW Regional Banking Index by more than 20%, unless the Company agrees that the Exchange Ratio will be increased and more shares of the Company common stock will be issued to FNBB shareholders on a per share basis.

Upon consummation of the Merger, each outstanding and unexercised option to acquire shares of FNBB common stock held by FNBB s employees and directors will be canceled and, in exchange, the holder of the option will be entitled to receive, whether or not the option is fully vested, a lump sum cash payment equal to the product of (1) the number of shares of FNBB common stock remaining under the option multiplied by (2) the Exchange Ratio multiplied by (3) the amount, if any, by which the Average Closing Share Price exceeds the exercise price of the option.

The consummation of the Merger is subject to a number of conditions, which include: (i) the approval of the Merger Agreement by FNBB s shareholders and the approval of the Merger Agreement and the issuance of shares of the Company common stock by the Company s shareholders; (ii) as of the closing of the Merger, FNBB shall have tangible common equity of not less than $119.0 million, subject to credit for certain merger-related expenses and certain assumptions and adjustments that are set forth in the Merger Agreement; (iii) the receipt of all necessary regulatory approvals for the Proposed Transaction, without the imposition of conditions or requirements that the Company s Board of Directors reasonably determines in good faith would, individually or in the aggregate, materially reduce the economic benefits of the Proposed Transaction; (iv) the absence of any regulation, judgment, decree, injunction or other order of a governmental authority which prohibits the consummation of the Proposed Transaction or which prohibits or makes illegal the consummation of the Proposed Transaction; (v) the effective registration of the shares of the Company s Common Stock to be issued to FNBB s shareholders with the Securities and Exchange Commission (the SEC) and the approval of such shares for listing on the Nasdaq Global Select Market; (vi) all representations and warranties made by the Company and FNBB in the Merger Agreement must remain true and correct, except for certain inaccuracies that would not have, or would not reasonably be expected to have, a material adverse effect; and (vii) the Company and FNBB must have performed their respective obligations under the Merger Agreement in all material respects.

On March 21, 2018, the Company filed a registration statement on Form S-4 that included historical and pro forma information required in connection with the Merger. The registration statement on Form S-4 was subsequently amended on April 18, 2018.

Note 3 Investment Securities

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

	March 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Debt Securities Available for Sale				
Obligations of U.S. government corporations and agencies	$ 633,310	$ 317	$ (16,970)	$ 616,657
Obligations of states and political subdivisions	121,560	466	(2,788)	119,238
Total debt securities available for sale	$ 754,870	$ 783	$ (19,758)	$ 735,895
Debt Securities Held to Maturity				
Obligations of U.S. government corporations and agencies	$ 481,457	$ 533	$ (7,737)	$ 474,253
Obligations of states and political subdivisions	14,578	39	(231)	14,386
Total debt securities held to maturity	$ 496,035	$ 572	$ (7,968)	$ 488,639

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Debt Securities Available for Sale				
Obligations of U.S. government corporations and 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
Debt Securities Held to Maturity				
Obligations of U.S. government corporations and 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

No investment securities were sold during the three months ended March 31, 2018 or the three months ended March 31, 2017. Investment securities with an aggregate carrying value of $415,542,000 and $285,596,000 at March 31, 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 March 31, 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 March 31, 2018, obligations of U.S. government corporations and agencies with a cost basis totaling $1,114,767,000 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 March 31, 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	Available for Sale		Held to Maturity	
(In thousands)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year	$ 2	$ 2	$	$
Due after one year through five years	235	236	1,215	1,228
Due after five years through ten years	3,324	3,452	20,631	20,291
Due after ten years	751,309	732,205	474,189	467,120
Totals	$ 754,870	$ 735,895	$ 496,035	$ 488,639

Note 3 Investment Securities (continued)

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
			(in thousands)			
March 31, 2018						
Debt Securities Available for Sale						
Obligations of U.S. government corporations and agencies	$ 434,302	$ (10,345)	$ 158,324	$ (6,625)	$ 592,626	$ (16,970)
Obligations of states and political subdivisions	65,047	(1,456)	16,042	(1,332)	81,089	(2,788)
Total debt securities available for sale	$ 499,349	$ (11,801)	$ 174,366	$ (7,957)	$ 673,715	$ (19,758)
Debt Securities Held to Maturity						
Obligations of U.S. government corporations and agencies	$ 299,575	$ (4,551)	$ 89,809	$ (3,186)	$ 389,384	$ (7,737)
Obligations of states and political subdivisions	8,901	(144)	2,579	(87)	11,480	(231)
Total debt securities held to maturity	$ 308,476	$ (4,695)	$ 92,388	$ (3,273)	$ 400,864	$ (7,968)

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
			(in thousands)			
December 31, 2017						
Debt Securities Available for Sale						
Obligations of U.S. government corporations and 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)
Debt Securities Held to Maturity						
Obligations of U.S. government corporations and 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 corporations and agencies: Unrealized losses on investments in obligations of U.S. government corporations and agencies are caused by interest rate increases. The contractual cash flows of these securities are guaranteed by U.S. Government Sponsored Entities (principally Fannie Mae and Freddie Mac). It is expected that the securities would not be settled at a price less than the amortized cost of the investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell and more likely than not will not be required to sell, these investments are not considered other-than-temporarily impaired. At March 31, 2018, 128 debt securities representing obligations of U.S. government corporations and agencies had unrealized losses with aggregate depreciation of (2.45%) from the Company s amortized cost basis.

Obligations of states and political subdivisions: The unrealized losses on investments in obligations of states and political subdivisions were caused by increases in required yields by investors in these types of securities. It is expected that the securities would not be settled at a price less than the amortized cost of the investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell and more likely than not will not be required to sell, these investments are not considered other-than-temporarily impaired. At March 31, 2018, 94 debt securities representing obligations of states and political subdivisions had unrealized losses with aggregate depreciation of (3.16%) 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 March 31, 2018.

Note 4 Loans

A summary of loan balances follows (in thousands):

	March 31, 2018				
	Originated	PNCI	PCI - Cash basis	PCI - Other	Total
Mortgage loans on real estate:					
Residential 1-4 family	$ 323,161	$ 61,206	$	$ 1,744	$ 386,111
Commercial	1,754,062	211,168		8,038	1,973,268
Total mortgage loan on real estate	2,077,223	272,374		9,782	2,359,379
Consumer:					
Home equity lines of credit	266,651	14,939	1,619	42	283,251
Home equity loans	38,889	2,558		485	41,932
Other	21,422	2,141		43	23,606
Total consumer loans	326,962	19,638	1,619	570	348,789
Commercial	205,673	7,837		2,505	216,015
Construction:					
Residential	71,589	9			71,598
Commercial	73,701	251			73,952
Total construction	145,290	260			145,550
Total loans, net of deferred loan fees and discounts	$ 2,755,148	$ 300,109	$ 1,619	$ 12,857	$ 3,069,733
Total principal balance of loans owed, net of charge-offs	$ 2,764,819	$ 306,924	$ 5,167	$ 16,654	$ 3,093,564
Unamortized net deferred loan fees	(9,671)				(9,671)
Discounts to principal balance of loans owed, net of charge-offs		(6,815)	(3,548)	(3,797)	(14,160)
Total loans, net of unamortized deferred loan fees and discounts	$ 2,755,148	$ 300,109	$ 1,619	$ 12,857	$ 3,069,733
Allowance for loan losses	$ (29,057)	$ (748)	$ (8)	$ (160)	$ (29,973)

	December 31, 2017				
	Originated	PNCI	PCI - Cash basis	PCI - Other	Total
Mortgage loans on real estate:					
Residential 1-4 family	$ 320,522	$ 63,519	$	$ 1,385	$ 385,426
Commercial	1,690,510	215,823		8,563	1,914,896
Total mortgage loan on real estate	2,011,032	279,342		9,948	2,300,322

Consumer:					
Home equity lines of credit	269,942	16,248	2,069	429	288,688
Home equity loans	39,848	2,698		485	43,031
Other	22,859	2,251		45	25,155
Total consumer loans	332,649	21,197	2,069	959	356,874
Commercial	209,437	8,391		2,584	220,412
Construction:					
Residential	67,920	10			67,930
Commercial	69,364	263			69,627
Total construction	137,284	273			137,557
Total loans, net of deferred loan fees and discounts	$ 2,690,402	$ 309,203	$ 2,069	$ 13,491	$ 3,015,165
Total principal balance of loans owed, net of charge-offs	$ 2,699,053	$ 316,238	$ 5,863	$ 17,318	$ 3,038,472
Unamortized net deferred loan fees	(8,651)				(8,651)
Discounts to principal balance of loans owed, net of charge-offs		(7,035)	(3,794)	(3,827)	(14,656)
Total loans, net of unamortized deferred loan fees and discounts	$ 2,690,402	$ 309,203	$ 2,069	$ 13,491	$ 3,015,165
Allowance for loan losses	$ (29,122)	$ (929)	$ (17)	$ (255)	$ (30,323)

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

	Three months ended March 31,	
	2018	2017
Change in accretable yield:		
Balance at beginning of period	$ 4,262	$ 10,348
Accretion to interest income	(255)	(902)
Reclassification (to) from nonaccretable difference	140	114
Balance at end of period	$ 4,147	$ 9,560

Note 5 Allowance for Loan Losses

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

	Allowance for Loan Losses Three Months Ended March 31, 2018								
	RE Mortgage		Home Equity		Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Consum.	C&I	Resid.	Comm.	Total
Beginning balance	$ 2,317	$ 11,441	$ 5,800	$ 1,841	$ 586	$ 6,512	$ 1,184	$ 642	$ 30,323
Charge-offs	(1)		(80)		(194)	(205)			(480)
Recoveries		15	209	14	78	50			366
(Benefit) provision	(146)	39	(517)	(119)	100	35	167	205	(236)
Ending balance	$ 2,170	$ 11,495	$ 5,412	$ 1,736	$ 570	$ 6,392	$ 1,351	$ 847	$ 29,973
Ending balance:									
Individ. evaluated for impairment	$ 190	$ 154	$ 448	$ 130	$ 56	$ 2,113			$ 3,091
Loans pooled for evaluation	$ 1,910	$ 11,281	$ 4,956	$ 1,606	$ 514	$ 4,249	$ 1,351	$ 847	$ 26,714
Loans acquired with deteriorated credit quality	$ 70	$ 60	$ 8			$ 30			$ 168

	Loans, net of unearned fees As of March 31, 2018								
	RE Mortgage		Home Equity		Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Consum.	C&I	Resid.	Comm.	Total
Ending balance:									
Total loans	$ 386,111	$ 1,973,268	$ 283,251	$ 41,932	$ 23,606	$ 216,015	$ 71,598	$ 73,952	$ 3,069,733
Individ. evaluated	$ 5,535	$ 11,110	$ 2,450	$ 1,673	$ 278	$ 4,621	$ 136		$ 25,803

for impairment									
Loans pooled for evaluation	$ 378,832	$ 1,954,120	$ 279,140	$ 39,774	$ 23,285	$ 208,889	$ 71,462	$ 73,952	$ 3,029,454
Loans acquired with deteriorated credit quality	$ 1,744	$ 8,038	$ 1,661	$ 485	$ 43	$ 2,505			$ 14,476

Allowance for Loan Losses Year Ended December 31, 2017

	RE Mortgage		Home Equity		Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Consum.	C&I	Resid.	Comm.	Total
Beginning balance	$ 2,748	$ 11,517	$ 7,044	$ 2,644	$ 622	$ 5,831	$ 1,417	$ 680	$ 32,503
Charge-offs	(60)	(186)	(98)	(332)	(1,186)	(1,444)	(1,104)		(4,410)
Recoveries		397	698	242	375	428		1	2,141
(Benefit) provision	(371)	(287)	(1,844)	(713)	775	1,697	871	(39)	89
Ending balance	$ 2,317	$ 11,441	$ 5,800	$ 1,841	$ 586	$ 6,512	$ 1,184	$ 642	$ 30,323
Ending balance:									
Individ. evaluated for impairment	$ 230	$ 30	$ 427	$ 107	$ 57	$ 1,848			$ 2,699
Loans pooled for evaluation	$ 1,932	$ 11,351	$ 5,356	$ 1,734	$ 529	$ 4,624	$ 1,184	$ 642	$ 27,352
Loans acquired with deteriorated credit quality	$ 155	$ 60	$ 17			$ 40			$ 272

Loans, net of unearned fees As of December 31, 2017

RE Mortgage		Home Equity		Other		Construction		
Resid.	Comm.	Lines	Loans	Consum.	C&I	Resid.	Comm.	Total

(in thousands)									
Ending balance:									
Total loans	$ 385,426	$ 1,914,896	$ 288,688	$ 43,031	$ 25,155	$ 220,412	$ 67,930	$ 69,627	$ 3,015,165
Individ. evaluated for impairment	$ 5,298	$ 13,911	$ 2,688	$ 1,470	$ 257	$ 4,470	$ 140		$ 28,234
Loans pooled for evaluation	$ 378,743	$ 1,892,422	$ 283,502	$ 41,076	$ 24,853	$ 213,358	$ 67,790	$ 69,627	$ 2,971,371
Loans acquired with deteriorated credit quality	$ 1,385	$ 8,563	$ 2,498	$ 485	$ 45	$ 2,584			$ 15,560

	Allowance for Loan Losses	Three Months Ended March 31, 2017							
	RE Mortgage		Home Equity		Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Consum.	C&I	Resid.	Comm.	Total
Beginning balance	$ 2,748	$ 11,517	$ 7,044	$ 2,644	$ 622	$ 5,831	$ 1,417	$ 680	$ 32,503
Charge-offs			(71)	(31)	(174)	(133)			(409)
Recoveries		110	46	12	141	170		1	480
(Benefit) provision	(86)	(85)	(489)	(174)	6	(542)	(78)	(109)	(1,557)
Ending balance	$ 2,662	$ 11,542	$ 6,530	$ 2,451	$ 595	$ 5,326	$ 1,339	$ 572	$ 31,017
Ending balance:									
Individ. evaluated for impairment	$ 249	$ 124	$ 400	$ 57	$ 31	$ 811	$ 14		$ 1,686
Loans pooled for evaluation	$ 2,188	$ 9,971	$ 6,122	$ 2,328	$ 564	$ 3,873	$ 1,282	$ 572	$ 26,900
Loans acquired with	$ 225	$ 1,447	$ 8	$ 66		$ 642	$ 43		$ 2,431

deteriorated credit quality									

	Loans, net of unearned fees As of March 31, 2017								
	RE Mortgage		Home Equity		Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Consum.	C&I	Resid.	Comm.	Total
Ending balance:									
Total loans	$ 309,701	$ 1,761,114	$ 283,596	$ 40,241	$ 29,313	$ 212,685	$ 59,699	$ 64,843	$ 2,761,192
Individ. evaluated for impairment	$ 3,849	$ 16,979	$ 2,204	$ 1,241	$ 280	$ 3,072	$ 25		$ 27,650
Loans pooled for evaluation	$ 304,493	$ 1,731,785	$ 277,388	$ 37,867	$ 28,967	$ 205,832	$ 58,830	$ 64,843	$ 2,710,005
Loans acquired with deteriorated credit quality	$ 1,359	$ 12,350	$ 4,004	$ 1,133	$ 66	$ 3,781	$ 844		$ 23,537

Note 5 Allowance for Loan Losses (continued)

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

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

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

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

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

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

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

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

Credit Quality Indicators As of March 31, 2018

RE Mortgage	Home Equity	Other	Construction

(in thousands)	Resid.	Comm.	Lines	Loans	Consum.	C&I	Resid.	Comm.	Total
Originated loans:									
Pass	$ 317,799	$ 1,716,599	$ 263,270	$ 35,730	$ 21,067	$ 193,829	$ 71,482	$ 68,846	$ 2,688,622
Special mention	2,274	23,679	1,628	1,532	238	7,263		4,855	41,469
Substandard	3,088	13,784	1,753	1,627	117	4,581	107		25,057
Loss									
Total originated	$ 323,161	$ 1,754,062	$ 266,651	$ 38,889	$ 21,422	$ 205,673	$ 71,589	$ 73,701	$ 2,755,148
PNCI loans:									
Pass	$ 59,184	$ 201,641	$ 13,686	$ 2,301	$ 2,067	$ 7,837	$ 9	$ 251	$ 286,976
Special mention	214	8,977	282	184	37				9,694
Substandard	1,808	550	971	73	37				3,439
Loss									
Total PNCI	$ 61,206	$ 211,168	$ 14,939	$ 2,558	$ 2,141	$ 7,837	$ 9	$ 251	$ 300,109
PCI loans	$ 1,744	$ 8,038	$ 1,661	$ 485	$ 43	$ 2,505			$ 14,476
Total loans	$ 386,111	$ 1,973,268	$ 283,251	$ 41,932	$ 23,606	$ 216,015	$ 71,598	$ 73,952	$ 3,069,733

Credit Quality Indicators As of December 31, 2017

	RE Mortgage		Home Equity		Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Consum.	C&I	Resid.	Comm.	Total
Originated loans:									
Pass	$ 315,120	$ 1,649,333	$ 265,345	$ 37,428	$ 22,432	$ 195,208	$ 67,813	$ 64,492	$ 2,617,171
Special mention	2,234	18,434	2,558	800	272	9,492		4,872	38,662
Substandard	3,168	22,743	2,039	1,620	155	4,737	107		34,569
Loss									
Total originated	$ 320,522	$ 1,690,510	$ 269,942	$ 39,848	$ 22,859	$ 209,437	$ 67,920	$ 69,364	$ 2,690,402
PNCI loans:									
Pass	$ 61,411	$ 203,751	$ 14,866	$ 2,433	$ 2,207	$ 8,390	$ 10	$ 263	$ 293,331
Special mention	218	11,513	450	188	38	1			12,408
Substandard	1,890	559	932	77	6				3,464
Loss									
Total PNCI	$ 63,519	$ 215,823	$ 16,248	$ 2,698	$ 2,251	$ 8,391	$ 10	$ 263	$ 309,203
PCI loans	$ 1,385	$ 8,563	$ 2,498	$ 485	$ 45	$ 2,584			$ 15,560
Total loans	$ 385,426	$ 1,914,896	$ 288,688	$ 43,031	25,155	$ 220,412	$ 67,930	$ 69,627	$ 3,015,165

Note 5 Allowance for Loan Losses (continued)

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

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

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

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

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

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

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

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

Analysis of Past Due and Nonaccrual Originated Loans As of March 31, 2018

	RE Mortgage		Home Equity		Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Consum.	C&I	Resid.	Comm.	Total
Originated loan balance:									
Past due:									
30-59 Days	$ 2,217	$ 5,531	$ 938	$ 1,490	$ 63	$ 915	$ 298	$	$ 11,452
60-89 Days			26	18	18	534		1,249	1,845
> 90 Days	846	1,162	320	154		1,557			4,039
Total past due	3,063	6,693	1,284	1,662	81	3,006	298	1,249	17,336
Current	320,098	1,747,369	265,367	37,227	21,341	202,667	71,291	72,452	2,737,812
Total originated loans	$ 323,161	$ 1,754,062	$ 266,651	$ 38,889	$ 21,422	$ 205,673	$ 71,589	$ 73,701	$ 2,755,148
> 90 Days and still accruing									
Nonaccrual loans	$ 2,235	$ 7,925	$ 733	$ 1,193	$ 4	$ 3,990			$ 16,080

Note 5 Allowance for Loan Losses (continued)

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

Analysis of Past Due and Nonaccrual PNCI Loans As of March 31, 2018									
	RE Mortgage		Home Equity		Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Consum.	C&I	Resid.	Comm.	Total
PNCI loan balance:									
Past due:									
30-59 Days	$ 2,537		$ 362	$ 2		$ 1			$ 2,902
60-89 Days					4				4
> 90 Days			146		28				174
Total past due	2,537		508	2	32	1			3,080
Current	58,669	211,168	14,431	2,556	2,109	7,836	9	251	297,029
Total PNCI loans	$ 61,206	$ 211,168	$ 14,939	$ 2,558	$ 2,141	$ 7,837	$ 9	$ 251	$ 300,109
> 90 Days and still accruing									
Nonaccrual loans	$ 1,067		$ 571	$ 40	$ 33				$ 1,711

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

Analysis of Past Due and Nonaccrual Originated Loans As of December 31, 2017									
	RE Mortgage		Home Equity		Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Consum.	C&I	Resid.	Comm.	Total
Originated loan balance:									
Past due:									
30-59 Days	$ 1,740	$ 158	$ 528	$ 511	$ 56	$ 956	$ 34		$ 3,983
60-89 Days	510	987	48	107	36	738			2,426
> 90 Days	243		372	373	3	1,527			2,518
Total past due	$ 2,493	$ 1,145	$ 948	$ 991	$ 95	$ 3,221	$ 34		$ 8,927
Current	318,029	1,689,365	268,994	38,857	22,764	206,216	67,886	$ 69,364	2,681,475
Total originated loans	$ 320,522	$ 1,690,510	$ 269,942	$ 39,848	$ 22,859	$ 209,437	$ 67,920	$ 69,364	$ 2,690,402
> 90 Days and still accruing									

Nonaccrual loans	$ 1,725	$ 8,144	$ 811	$ 1,106	$ 7	$ 3,669			$ 15,462

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

Analysis of Past Due and Nonaccrual PNCI Loans As of December 31, 2017									
	RE Mortgage		Home Equity		Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Consum.	C&I	Resid.	Comm.	Total
PNCI loan balance:									
Past due:									
30-59 Days	$ 1,495	$ 70	$ 298	$ 30	$ 6				$ 1,899
60-89 Days	90		228		26				344
> 90 Days	109		330						439
Total past due	$ 1,694	$ 70	$ 856	$ 30	$ 32				$ 2,682
Current	61,825	215,753	15,392	2,668	2,219	$ 8,391	$ 10	$ 263	306,521
Total PNCI loans	$ 63,519	$ 215,823	$ 16,248	$ 2,698	$ 2,251	$ 8,391	$ 10	$ 263	$ 309,203
> 90 Days and still accruing	$ 81		$ 200						$ 281
Nonaccrual loans	$ 1,012		$ 402	$ 44	$ 5				$ 1,463

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Note 5 Allowance for Loan Losses (continued)

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

	Impaired Originated Loans		As of, or for the Three Months Ended, March 31, 2018						
	RE Mortgage		Home Equity		Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Consum.	C&I	Resid.	Comm.	Total
With no related allowance recorded:									
Recorded investment	$ 2,678	$ 9,848	$ 888	$ 1,193		$ 881	$ 136		$ 15,624
Unpaid principal	$ 2,829	$ 10,126	$ 944	$ 1,548		$ 894	$ 136		$ 16,477
Average recorded investment	$ 2,368	$ 11,474	$ 991	$ 1,150	$ 2	$ 728	$ 138		$ 16,851
Interest income recognized	$ 19	$ 35	$ 6			$ 9	$ 2		$ 71
With an allowance recorded:									
Recorded investment	$ 1,525	$ 1,262	$ 527	$ 196	$ 4	$ 3,740			$ 7,254
Unpaid principal	$ 1,549	$ 1,281	$ 534	$ 196	$ 4	$ 3,862			$ 7,426
Related allowance	$ 190	$ 154	$ 146	$ 10	$ 4	$ 2,113			$ 2,617
Average recorded investment	$ 1,703	$ 1,036	$ 464	$ 197	$ 4	$ 3,817			$ 7,221
Interest income recognized	$ 9	$ 9	$ 4	$ 2		$ 17			$ 41

	Impaired PNCI Loans		As of, or for the Three Months Ended, March 31, 2018						
	RE Mortgage		Home Equity		Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Consum.	C&I	Resid.	Comm.	Total
With no related allowance recorded:									
Recorded investment	$ 1,332		$ 501	$ 40	$ 28				$ 1,901
Unpaid principal	$ 1,390		$ 529	$ 54	$ 28				$ 2,001
Average recorded investment	$ 1,345		$ 546	$ 42	$ 14				$ 1,947
Interest income recognized	$ 2		$ 2						$ 4

With an allowance recorded:									
Recorded investment			$ 534	$ 244	$ 246				$ 1,024
Unpaid principal			$ 536	$ 244	$ 246				$ 1,026
Related allowance			$ 302	$ 120	$ 52				$ 474
Average recorded investment			$ 568	$ 183	$ 248				$ 999
Interest income recognized			$ 3	$ 3	$ 2				$ 8

Impaired Originated Loans As of, or for the Twelve Months Ended, December 31, 2017

	RE Mortgage		Home Equity		Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Consum.	C&I	Resid.	Comm.	Total
With no related allowance recorded:									
Recorded investment	$ 2,058	$ 13,101	$ 1,093	$ 1,107	$ 4	$ 575	$ 140		$ 18,078
Unpaid principal	$ 2,109	$ 13,360	$ 1,175	$ 1,429	$ 52	$ 585	$ 140		$ 18,850
Average recorded investment	$ 1,875	$ 13,123	$ 1,287	$ 852	$ 10	$ 668	$ 76		$ 17,891
Interest income recognized	$ 85	$ 609	$ 39	$ 14		$ 18	$ 9		$ 774
With an allowance recorded:									
Recorded investment	$ 1,881	$ 810	$ 401	$ 198	$ 3	$ 3,895			$ 7,188
Unpaid principal	$ 1,914	$ 826	$ 406	$ 198	$ 3	$ 3,981			$ 7,328
Related allowance	$ 230	$ 30	$ 111	$ 10	$ 3	$ 1,848			$ 2,232
Average recorded investment	$ 1,626	$ 728	$ 415	$ 341	$ 10	$ 3,615			$ 6,735
Interest income recognized	$ 58	$ 36	$ 8	$ 10		$ 166			$ 278

Impaired PNCI Loans As of, or for the Twelve Months Ended, December 31, 2017

	RE Mortgage		Home Equity		Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Consum.	C&I	Resid.	Comm.	Total
With no related allowance recorded:									
Recorded investment	$ 1,359		$ 591	$ 44					$ 1,994
Unpaid principal	$ 1,404		$ 612	$ 57					$ 2,073
Average recorded investment	$ 911	$ 913	$ 663	$ 56	$ 2				$ 2,545
Interest income recognized	$ 24		$ 22						$ 46

With an allowance recorded:						
Recorded investment			$ 603	$ 121	$ 250	$ 974
Unpaid principal			$ 604	$ 121	$ 250	$ 975
Related allowance			$ 316	$ 97	$ 54	$ 467
Average recorded investment	$ 130	$ 66	$ 577	$ 61	$ 184	$ 1,018
Interest income recognized			$ 26	$ 6	$ 11	$ 43

Note 5 Allowance for Loan Losses (continued)

Impaired Originated Loans As of, or for the Three Months Ended, March 31, 2017

	RE Mortgage		Home Equity		Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Consum.	C&I	Resid.	Comm.	Total
With no related allowance recorded:									
Recorded investment	$ 1,782	$ 14,431	$ 1,064	$ 743	$ 5	$ 1,289	$ 11		$ 19,325
Unpaid principal	$ 1,793	$ 14,881	$ 1,144	$ 1,085	$ 6	$ 1,312	$ 16		$ 20,237
Average recorded investment	$ 2,834	$ 20,770	$ 2,013	$ 845	$ 12	$ 932	$ 7		$ 27,413
Interest income recognized	$ 20	$ 98	$ 6	$ 1		$ 7			$ 132
With an allowance recorded:									
Recorded investment	$ 1,378	$ 640	$ 427	$ 440	$ 21	$ 1,783	$ 14		$ 4,703
Unpaid principal	$ 1,382	$ 640	$ 440	$ 443	$ 22	$ 1,842	$ 14		$ 4,783
Related allowance	$ 172	$ 18	$ 106	$ 57	$ 14	$ 811	$ 14		$ 1,192
Average recorded investment	$ 1,692	$ 1,029	$ 1,076	$ 557	$ 11	$ 1,938	$ 7		$ 6,310
Interest income recognized	$ 11	$ 9	$ 1	$ 5		$ 14			$ 40

Impaired PNCI Loans As of, or for the Three Months Ended, March 31, 2017

	RE Mortgage		Home Equity		Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Consum.	C&I	Resid.	Comm.	Total
With no related allowance recorded:									
Recorded investment	$ 433	$ 1,777	$ 220	$ 58	$ 138				$ 2,626
Unpaid principal	$ 455	$ 2,011	$ 233	$ 67	$ 139				$ 2,905
Average recorded investment	$ 654	$ 1,455	$ 337	$ 64	$ 86	$ 1		$ 245	$ 2,842
Interest income recognized	$ 2		$ 1		$ 2				$ 5
With an allowance recorded:									
Recorded investment	$ 256	$ 131	$ 493		$ 116				$ 996
Unpaid principal	$ 256	$ 131	$ 493		$ 116				$ 996
Related allowance	$ 77	$ 106	$ 295		$ 16				$ 494

Average recorded investment	$ 128	$ 1,440	$ 550	$ 19	$ 175				$ 2,312
Interest income recognized	$ 2	$ 2	$ 5		$ 1				$ 10

At March 31, 2018, $9,781,000 of originated loans were TDR and classified as impaired. The Company had obligations to lend $1,000 of additional funds on these TDR as of March 31, 2018. At March 31, 2018, $1,471,000 of PNCI loans were TDR and classified as impaired. The Company had no obligations to lend additional funds on these TDR as of March 31, 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 March 31, 2017, $12,285,000 of originated loans were TDR and classified as impaired. The Company had obligations to lend $70,000 of additional funds on these TDR as of March 31, 2017. At March 31, 2017, $1,470,000 of PNCI loans were TDR and classified as impaired. The Company had no obligations to lend additional funds on these TDR as of March 31, 2017.

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

	TDR Information for the Three Months Ended March 31, 2018								
	RE Mortgage		Home Equity		Other		Construction		
(dollars in thousands)	Resid.	Comm.	Lines	Loans	Consum.	C&I	Resid.	Comm.	Total
Number		1	1	1					3
Pre-mod outstanding principal balance		$ 384	$ 133	$ 121					$ 638
Post-mod outstanding principal balance		$ 384	$ 138	$ 121					$ 643
Financial impact due to TDR taken as additional provision		$ 11							$ 11
Number that defaulted during the period		1							1
Recorded investment of TDRs that defaulted during the period		$ 169							$ 169
Financial impact due to the default of previous TDR taken as charge-offs or additional provisions									

Note 5 Allowance for Loan Losses (continued)

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

	TDR Information for the Year Ended December 31, 2017								
	RE Mortgage		Home Equity		Other		Construction		
(dollars in thousands)	Resid.	Comm.	Lines	Loans	Consum.	C&I	Resid.	Comm.	Total
Number	1	8	3	1	1	11	1		26
Pre-mod outstanding principal balance	$ 939	$ 3,721	$ 187	$ 252	$ 14	$ 1,854	$ 144		$ 7,111
Post-mod outstanding principal balance	$ 939	$ 3,695	$ 187	$ 252	$ 14	$ 1,747	$ 144		$ 6,978
Financial impact due to TDR taken as additional provision	$ 169	$ (111)	$ 27		$ 11	$ 37			$ 133
Number that defaulted during the period	2	1	1	1					5
Recorded investment of TDRs that defaulted during the period	$ 223	$ 219	$ 127	$ 55					$ 624
Financial impact due to the default of previous TDR taken as charge-offs or additional provisions			$ (5)						$ (5)

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.

Note 6 Foreclosed Assets

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

	Three months ended March 31, 2018	Three months ended March 31, 2017		
	Total	Noncovered	Covered	Total

Beginning balance, net	$	3,226	$	3,763	$	223	$	3,986
Additions/transfers from loans				85				85
Dispositions/sales		(1,572)		(385)		(223)		(608)
Valuation adjustments		(90)		66				66
Ending balance, net	$	1,564	$	3,529			$	3,529
Ending valuation allowance	$	(152)	$	(300)			$	(300)
Ending number of foreclosed assets		10		12				12
Proceeds from sale of foreclosed assets	$	1,943	$	510	$	216	$	726
Gain (loss) on sale of foreclosed assets	$	371	$	125	$	(7)	$	118

As of March 31, 2018, $836,000 of foreclosed residential real estate properties, all of which the Company has obtained physical possession of, are included in foreclosed assets. At March 31, 2018, the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are underway is $407,000.

Note 7 Premises and Equipment

Premises and equipment were comprised of:

	March 31, 2018	December 31, 2017
	(In thousands)	
Land & land improvements	$ 9,959	$ 9,959
Buildings	50,792	50,340
Furniture and equipment	37,348	35,939
	98,099	96,238
Less: Accumulated depreciation	(41,678)	(40,644)
	56,421	55,594
Construction in progress	2,137	2,148
Total premises and equipment	$ 58,558	$ 57,742

Depreciation expense for premises and equipment amounted to $1,371,000 and $1,311,000 for the three months ended March 31, 2018 and 2017, respectively.

Note 8 Cash Value of Life Insurance

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

	Three months ended March 31, 2018	Three months ended March 31, 2017
Beginning balance	$ 97,783	$ 95,912
Increase in cash value of life insurance	608	685
Gain on death benefit		107
Insurance proceeds receivable reclassified to other assets		(921)
Ending balance	$ 98,391	$ 95,783
End of period death benefit	$ 159,640	$ 164,574
Number of policies owned	182	183
Insurance companies used	14	14
Current and former employees and directors covered	57	58

As of March 31, 2018, the Bank was the owner and beneficiary of 182 life insurance policies, issued by 14 life insurance companies, covering 57 current and former employees and directors. These life insurance policies are recorded on the Company s financial statements at their reported cash (surrender) values. As a result of current tax law and the nature of these policies, the Bank records any increase in cash value of these policies as nontaxable noninterest income. If the Bank decided to surrender any of the policies prior to the death of the insured, such surrender may result in a tax expense related to the life-to-date cumulative increase in cash value of the policy. If the Bank retains such policies until the death of the insured, the Bank would receive nontaxable proceeds from the insurance company equal to the death benefit of the policies. The Bank has entered into Joint Beneficiary Agreements (JBAs) with certain of the insured that for certain of the policies provide some level of sharing of the death benefit, less the cash surrender value, among the Bank and the beneficiaries of the insured upon the receipt of death benefits. See Note 15 of these condensed consolidated financial statements for additional information on JBAs.

Note 9 Goodwill and Other Intangible Assets

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

(in thousands)	March 31, 2018	Additions	Reductions	December 31, 2017
Goodwill	$ 64,311			$ 64,311

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

(in thousands)	March 31, 2018	Additions	Reductions/ Amortization	December 31, 2017
Core deposit intangibles	$ 9,558			$ 9,558

Accumulated amortization		(4,723)	$	(339)		(4,384)
Core deposit intangibles, net	$	4,835	$	(339)	$	5,174

The Company recorded additions to its CDI of $2,046,000 in conjunction with the acquisition of three branch offices from Bank of America on March 18, 2016, $6,614,000 in conjunction with the North Valley Bancorp acquisition on October 3, 2014, and $898,000 in conjunction with the Citizens acquisition on September 23, 2011. The following table summarizes the Company s remaining estimated core deposit intangible amortization (in thousands):

Years Ended		Estimated Core Deposit Intangible Amortization
2018	$	1,324
2019		1,228
2020		1,228
2021		969
2022		280
Thereafter		145

Note 10 Mortgage Servicing Rights

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

	Three months ended March 31,	
	2018	2017
Balance at beginning of period	$ 6,687	$ 6,595
Additions	155	278
Change in fair value	111	(13)
Balance at end of period	$ 6,953	$ 6,860
Contractually specified servicing fees, late fees and ancillary fees earned	$ 517	$ 521
Balance of loans serviced at:		
Beginning of period	$ 811,065	$ 816,623
End of period	$ 806,478	$ 822,506
Weighted-average prepayment speed (CPR)	7.5%	8.3%
Weighted-average discount rate	13.0%	14.0%

The changes in fair value of MSRs that occurred during the three months ended March 31, 2018 and 2017 were mainly due to changes in principal balances, changes in mortgage prepayment speeds, and changes in investor required rate of return, or discount rate, of the MSRs.

Note 11 Indemnification Asset

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

	Three months ended March 31,	
	2018	2017
Beginning balance		$ (744)
Effect of actual and estimated future covered losses and recoveries		(191)
Reimbursable (revenue) expenses incurred		(32)
Payments made to (received from) FDIC		72
Ending balance		$ (895)
Amount of indemnification liability recorded in other assets		$ (179)
Amount of indemnification liability recorded in other liabilities		(716)
Ending balance		$ (895)

On May 9, 2017, the Company and the FDIC terminated their loss sharing agreements. As part of the termination agreement, the Company paid the FDIC $184,000, and recorded a $712,000 gain representing the difference between the Company s payment to the FDIC and the recorded payable balance on May 9, 2017.

Note 12 Other Assets

Other assets were comprised of (in thousands):

	March 31, 2018	December 31, 2017
Deferred tax asset, net	$ 26,266	$ 21,697
Investment in low income housing tax credit funds	17,095	16,854
Prepaid expense	4,411	4,111
Tax refund receivable	4,754	4,754
Capital trusts	1,709	1,706
Software	883	1,126
Life insurance proceeds receivable		2,242
Miscellaneous other assets	1,156	2,561
Total other assets	$ 56,274	$ 55,051

Note 13 Deposits

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

	March 31, 2018	December 31, 2017
Noninterest-bearing demand	$ 1,359,996	$ 1,368,218
Interest-bearing demand	1,022,299	971,459
Savings	1,395,481	1,364,518
Time certificates, over $250,000	76,306	73,596
Other time certificates	230,322	231,340
Total deposits	$ 4,084,404	$ 4,009,131

Certificate of deposit balances of $50,000,000 from the State of California were included in time certificates, $250,000 and over, at each of March 31, 2018 and December 31, 2017. 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 $1,085,000 and $1,366,000 were classified as consumer loans at March 31, 2018 and December 31, 2017, respectively.

Note 14 Reserve for Unfunded Commitments

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

	Three months ended March 31, 2018	Three months ended March 31, 2017
Balance at beginning of period	$ 3,164	$ 2,719
Provision for losses unfunded commitments	700	15
Balance at end of period	$ 3,864	$ 2,734

Note 15 Other Liabilities

Other liabilities were comprised of (in thousands):

	March 31, 2018	December 31, 2017
Pension liability	$ 28,686	$ 28,472
Low income housing tax credit fund commitments	7,677	8,554
Deferred compensation	6,809	6,605
Taxes payable	5,243	
Accrued salaries and benefits expense	5,180	6,619

Joint beneficiary agreements	3,429	3,365
Loan escrow and servicing payable	1,464	1,958
Deferred revenue	1,077	1,228
Litigation contingency		1,450
Miscellaneous other liabilities	3,964	5,007
Total other liabilities	$ 63,529	$ 63,258

Note 16 Other Borrowings

A summary of the balances of other borrowings follows:

	March 31, 2018	December 31, 2017
	(in thousands)	
FHLB collateralized borrowing, fixed rate, as of March 31, 2018 of 1.87%, payable on April 2, 2018	$ 48,000	
FHLB collateralized borrowing, fixed rate, as of December 31, 2017 of 1.38%, payable on January 2, 2018		$ 104,729
Other collateralized borrowings, fixed rate, as of March 31, 2018 and December 31, 2017 of 0.05%, payable on April 2, 2018 and January 2, 2018, respectively	17,041	17,437
Total other borrowings	$ 65,041	$ 122,166

The Company did not enter into any repurchase agreements during the three months ended March 31, 2018 or the year ended December 31, 2017.

Note 16 Other Borrowings (continued)

The Company maintains a collateralized line of credit with the Federal Home Loan Bank of San Francisco. Based on the FHLB stock requirements at March 31, 2018, this line provided for maximum borrowings of $1,597,695,000 of which $48,000,000 was outstanding, leaving $1,549,695,000 available. As of March 31, 2018, the Company has designated investment securities with fair value of $205,777,000 and loans totaling $2,138,150,000 as potential collateral under this collateralized line of credit with the FHLB.

The Company had $17,041,000 and $17,437,000 of other collateralized borrowings at March 31, 2018 and December 31, 2017, respectively. Other collateralized borrowings are generally overnight maturity borrowings from non-financial institutions that are collateralized by securities owned by the Company. As of March 31, 2018, the Company has pledged as collateral and sold under agreements to repurchase investment securities with fair value of $31,667,000 under these other collateralized borrowings.

The Company maintains a collateralized line of credit with the San Francisco Federal Reserve Bank. As of March 31, 2018, this line provided for maximum borrowings of $140,921,000 of which zero was outstanding, leaving $140,921,000 available. As of March 31, 2018, the Company has designated investment securities with fair value of $15,677 and loans totaling $262,663,000 as potential collateral under this collateralized line of credit with the San Francisco Federal Reserve Bank.

The Company had available unused correspondent banking lines of credit from commercial banks totaling $20,000,000 for federal funds transactions at March 31, 2018.

Note 17 Junior Subordinated Debt

At March 31, 2018, the Company had five wholly-owned subsidiary business trusts that had issued $62.9 million of trust preferred securities (the Capital Trusts). Trust preferred securities accrue and pay distributions periodically at specified annual rates as provided in the indentures. The trusts used the net proceeds from the offering to purchase a like amount of subordinated debentures (the Debentures) of the Company. The Debentures are the sole assets of the trusts. The Company s obligations under the subordinated debentures and related documents, taken together, constitute a full and unconditional guarantee by the Company of the obligations of the trusts. The trust preferred securities are mandatorily redeemable upon the maturity of the Debentures, or upon earlier redemption as provided in the indentures. The Company has the right to redeem the Debentures in whole (but not in part) on or after specific dates, at a redemption price specified in the indentures plus any accrued but unpaid interest to the redemption date. The Company also has a right to defer consecutive payments of interest on the debentures for up to five years.

The Company organized two of the Capital Trusts. The Company acquired its three other Capital Trusts and assumed their related Debentures as a result of its acquisition of North Valley Bancorp. At the acquisition date of October 3, 2014, the Debentures associated with North Valley Bancorp s three Capital Trusts were recorded on the Company s books at their fair values of $5,006,000, $3,918,000, and $6,063,000, respectively. The related fair value discounts to face value of these Debentures will be amortized over the remaining time to maturity for each of these Debentures using the effective interest method. Similar, and proportional, discounts were applied to the acquired common stock interests in each of the acquired Capital Trusts and these discounts will be proportionally amortized over the remaining time to maturity for each related debenture.

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

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

				As of March 31, 2018		December 31, 2017
Subordinated Debt Series	Maturity Date	Face Value	Coupon Rate (Variable) 3 mo. LIBOR +	Current Coupon Rate	Recorded Book Value	Recorded Book Value
TriCo Cap Trust I	10/7/2033	$ 20,619	3.05%	4.77%	$ 20,619	$ 20,619
TriCo Cap Trust II	7/23/2034	20,619	2.55%	4.29%	20,619	20,619
North Valley Trust II	4/24/2033	6,186	3.25%	5.02%	5,145	5,135
North Valley Trust III	4/24/2034	5,155	2.80%	4.54%	4,050	4,041
North Valley Trust IV	3/15/2036	10,310	1.33%	3.45%	6,472	6,444
		$ 62,889			$ 56,905	$ 56,858

During the three months ended March 31, 2018, the balance of Junior Subordinated Debt increased $47,000 to $56,905,000 due to purchase fair value discount amortization.

Note 18 Commitments and Contingencies

Restricted Cash Balances Reserves (in the form of deposits with the San Francisco Federal Reserve Bank) of $91,860,000 and $82,068,000 were maintained to satisfy Federal regulatory requirements at March 31, 2018 and December 31, 2017. These reserves are included in cash and due from banks in the accompanying consolidated balance sheets.

Lease Commitments The Company leases 41 sites under non-cancelable operating leases. The leases contain various provisions for increases in rental rates, based either on changes in the published Consumer Price Index or a predetermined escalation schedule. Substantially all of the leases provide the Company with the option to extend the lease term one or more times following expiration of the initial term. The Company currently does not have any capital leases.

At December 31, 2017, 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	$ 3,278
2019	2,499
2020	1,847
2021	1,488
2022	757
Thereafter	798
Future minimum lease payments	$ 10,667

Rent expense under operating leases was $921,000 and $1,047,000 during the three months ended March 31, 2018 and 2017, respectively. Rent expense was offset by rent income of $10,000 and $13,000 during the three months ended March 31, 2018 and 2017, respectively.

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

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

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

(in thousands)	March 31, 2018	December 31, 2017
Financial instruments whose amounts represent risk:		
Commitments to extend credit:		
Commercial loans	$ 253,001	$ 257,220
Consumer loans	437,790	422,958
Real estate mortgage loans	73,618	66,267
Real estate construction loans	236,650	187,097
Standby letters of credit	11,573	13,075
Deposit account overdraft privilege	101,411	98,260

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

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

Note 18 Commitments and Contingencies (continued)

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

Legal Proceedings Neither the Company nor its subsidiaries are a party to any pending legal proceedings that are material, nor is their property the subject of any other material pending legal proceeding at this time. All other legal proceedings are routine and arise out of the ordinary course of the Bank s business. None of those proceedings are currently expected to have a material adverse impact upon the Company s and the Bank s business, their consolidated financial position nor their operations in any material amount not already accrued, after taking into consideration any applicable insurance.

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

The Company owns 13,396 shares of Class B common stock of Visa Inc. which are convertible into Class A common stock at a conversion ratio of 1.648265 per Class B share. As of March 31, 2018, the value of the Class A shares was $119.62 per share. Utilizing the conversion ratio, the value of unredeemed Class A equivalent shares owned by the Bank was $2,641,000 as of March 31, 2018, and has not been reflected in the accompanying financial statements. The shares of Visa Class B common stock are restricted and may not be transferred. Visa Member Banks are required to fund an escrow account to cover settlements, resolution of pending litigation and related claims. If the funds in the escrow account are insufficient to settle all the covered litigation, Visa may sell additional Class A shares, use the proceeds to settle litigation, and further reduce the conversion ratio. If funds remain in the escrow account after all litigation is settled, the Class B conversion ratio will be increased to reflect that surplus.

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

Note 19 Shareholders Equity

Dividends Paid

The Bank paid to the Company cash dividends in the aggregate amounts of $4,372,000 and $4,042,000 during the three months ended March 31, 2018 and 2017, respectively. The Bank is regulated by the Federal Deposit Insurance Corporation (FDIC) and the State of California Department of Business Oversight. Absent approval from the Commissioner of the Department of Business Oversight, California banking laws generally limit the Bank s ability to pay dividends to the lesser of (1) retained earnings or (2) net income for the last three fiscal years, less cash distributions paid during such period. Under this law, at December 31, 2017, the Bank could have paid dividends of $85,254,000 to the Company without the approval of the Commissioner of the Department of Business Oversight.

Stock Repurchase Plan

On August 21, 2007, the Board of Directors adopted a plan to repurchase, as conditions warrant, up to 500,000 shares of the Company s common stock on the open market. The timing of purchases and the exact number of shares to be purchased will depend on market conditions. The 500,000 shares authorized for repurchase under this stock repurchase plan represented approximately 3.2% of the Company s 15,814,662 outstanding common shares as of August 21, 2007. This stock repurchase plan has no expiration date. As of March 31, 2018, the Company had repurchased 166,600 shares under this plan.

Stock Repurchased Under Equity Compensation Plans

During the three months ended March 31, 2018 and 2017, employees tendered 134 and 16,251 shares, respectively, of the Company s common stock with market value of $4,000, and $604,000, 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.

Note 20 Stock Options and Other Equity-Based Incentive Instruments

In March 2009, the Company s Board of Directors adopted the TriCo Bancshares 2009 Equity Incentive Plan (2009 Plan) covering officers, employees, directors of, and consultants to, the Company. The 2009 Plan was approved by the Company s shareholders in May 2009. The 2009 Plan allows for the granting of the following types of stock awards (Awards): incentive stock options, nonstatutory stock options, performance awards, restricted stock, restricted stock unit (RSU) awards and stock appreciation rights. RSUs that vest based solely on the grantee remaining in the service of the Company for a certain amount of time, are referred to as service condition vesting RSUs . RSUs that vest based on the grantee remaining in the service of the Company for a certain amount of time and a market condition such as the total return of the Company s common stock versus the total return of an index of bank stocks, are referred to as market plus service condition vesting RSUs . In May 2013, the Company s shareholders approved an amendment to the 2009 Plan increasing the maximum aggregate number of shares of TriCo s common stock which may be issued pursuant to or subject to Awards from 650,000 to 1,650,000. The number of shares available for issuance under the 2009 Plan is reduced by: (i) one share for each share of common stock issued pursuant to a stock option or a Stock Appreciation Right and (ii) two shares for each share of common stock issued pursuant to a Performance Award, a Restricted Stock Award or a Restricted Stock Unit Award. When Awards made under the 2009 Plan expire or are forfeited or cancelled, the underlying shares will become available for future Awards under the 2009 Plan. To the extent that a share of common stock pursuant to an Award that counted as two shares against the number of shares again becomes available for issuance under the 2009 Plan, the number of shares of common stock available for issuance under the 2009 Plan shall increase by two shares. Shares awarded and delivered under the 2009 Plan may be authorized but unissued, or reacquired shares. As of March 31, 2018, 446,400 options for the purchase of common shares, and 121,102 restricted stock units were outstanding, and 526,418 shares remain available for issuance, under the 2009 Plan.

In May 2001, the Company adopted the TriCo Bancshares 2001 Stock Option Plan (2001 Plan) covering officers, employees, directors of, and consultants to, the Company. Under the 2001 Plan, the option exercise price cannot be less than the fair market value of the Common Stock at the date of grant except in the case of substitute options. Options for the 2001 Plan expire on the tenth anniversary of the grant date.

Vesting schedules under the 2001 Plan are determined individually for each grant. As of March 31, 2018, 34,500 options for the purchase of common shares were outstanding under the 2001 Plan. As of May 2009, as a result of the shareholder approval of the 2009 Plan, no new options may be granted under the 2001 Plan.

Stock option activity during the three months ended March 31, 2018 is summarized in the following table:

	Number of Shares	Option Price per Share	Weighted Average Exercise Price	Value on Date of Grant	Weighted Average Fair Value
Outstanding at December 31, 2017	446,400	$ 12.63 to $23.21	$ 16.84		
Options granted		to			
Options exercised		to			
Options forfeited		to			
Outstanding at March 31, 2018	446,400	$ 12.63 to $23.21	$ 16.84		

The following table shows the number, weighted-average exercise price, intrinsic value, and weighted average remaining contractual life of options exercisable, options not yet exercisable and total options outstanding as of March 31, 2018:

	Currently Exercisable	Currently Not Exercisable	Total Outstanding
Number of options	423,600	22,800	446,400
Weighted average exercise price	$ 16.65	$ 20.45	$ 16.84
Intrinsic value (in thousands)	$ 8,713	$ 382	$ 9,096
Weighted average remaining contractual term (yrs.)	3.6	5.5	3.7

The 22,800 options that are currently not exercisable as of March 31, 2018 are expected to vest, on a weighted-average basis, over the next 6 months, and the Company is expected to recognize $61,000 of pre-tax compensation costs related to these options as they vest. The Company did not modify any option grants during 2017 or the three months ended March 31, 2018.

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

	Service Condition Vesting RSUs		Market Plus Service Condition Vesting RSUs	
	Number of RSUs	Weighted Average Fair Value on Date of Grant	Number of RSUs	Weighted Average Fair Value on Date of Grant
Outstanding at December 31, 2017	68,457		52,829	
RSUs granted				
RSUs added through dividend credits	310			
RSUs released	(494)			
RSUs forfeited/expired				
Outstanding at March 31, 2018	68,273		52,829	

The 68,273 of service condition vesting RSUs outstanding as of March 31, 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 68,273 of service condition vesting RSUs outstanding as of March 31, 2018 are expected to vest, and be released, on a weighted-average basis, over the next 1.0 year. The Company expects to recognize $1,211,000 of pre-tax compensation costs related to these service condition vesting RSUs between March 31, 2018 and their vesting dates. The Company did not modify any service condition vesting RSUs during 2017 or the three months ended March 31, 2018.

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

The 52,829 of market plus service condition vesting RSUs outstanding as of March 31, 2018 are expected to vest, and be released, on a weighted-average basis, over the next 1.2 years. The Company expects to recognize $608,000 of pre-tax compensation costs related to these RSUs between March 31, 2018 and their vesting dates. As of March 31, 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 79,244 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 the three months ended March 31, 2018.

Note 21 Noninterest Income and Expense

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

	Three months ended March 31,	
	2018	2017
Service charges on deposit accounts	$ 3,779	$ 3,619
ATM and interchange fees	4,235	4,015
Other service fees	714	765
Mortgage banking service fees	517	521
Change in value of mortgage servicing rights	111	(13)
Total service charges and fees	9,356	8,907
Commissions on sale of non-deposit investment products	876	607
Gain on sale of loans	626	910
Increase in cash value of life insurance	608	685
Gain on sale of foreclosed assets	371	118
Lease brokerage income	128	206
Sale of customer checks	101	104
Change in indemnification asset		(221)
Life insurance proceeds in excess of cash value		107
Loss on disposal of fixed assets	(13)	
Loss on marketable equity securities	(47)	
Other	284	280
Total other noninterest income	2,934	2,796
Total noninterest income	$ 12,290	$ 11,703

Mortgage loan servicing fees, net of change in fair value of mortgage loan servicing rights, totaling $628,000 and $508,000 were recorded in service charges and fees noninterest income for the three months ended March 31, 2018 and 2017, respectively.

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Note 21 Noninterest Income and Expense (continued)

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

	Three months ended March 31, 2018	2017
Base salaries, net of deferred loan origination costs	$ 13,962	$ 13,390
Incentive compensation	2,452	2,198
Benefits and other compensation costs	5,238	5,305
Total salaries and benefits expense	21,652	20,893
Occupancy	2,681	2,692
Data processing and software	2,514	2,396
Equipment	1,551	1,723
ATM and POS network charges	1,226	853
Advertising	838	967
Professional fees	773	766
Telecommunications	701	643
Change in reserve for unfunded commitments	700	15
Merger and acquisition expense	476	
Assessments	430	405
Postage	358	404
Intangible amortization	339	359
Operational losses	294	435
Courier service	267	254
Provision for (reversal of) foreclosed asset losses	90	(66)
Foreclosed assets expense	24	38
Other miscellaneous expense	3,248	3,045
Total other noninterest expense	16,510	14,929
Total noninterest expense	$ 38,162	$ 35,822
Merger and acquisition expense:		
Professional fees	$ 355	
Advertising and marketing	8	
Other miscellaneous expense	112	
Total merger and acquisition expense	$ 476	

Note 22 Income Taxes

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

	Three months ended March 31,	
	2018	2017
Federal statutory income tax rate	21.0%	35.0%
State income taxes, net of federal tax benefit	9.0	6.9
Tax-exempt interest on municipal obligations	(1.1)	(1.9)
Increase in cash value of insurance policies	(0.7)	(1.4)
Low income housing tax credits	(1.0)	(0.6)
Equity compensation		(0.5)
Nondeductible merger expenses	0.4	
Nondeductible joint beneficiary agreement expense	0.1	0.1
Other	0.4	0.2
Effective Tax Rate	28.1%	37.8%

Note 23 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 March 31, 2018	2017
Net income	$ 13,910	$ 12,079
Average number of common shares outstanding	22,956	22,870
Effect of dilutive stock options and restricted stock	327	362
Average number of common shares outstanding used to calculate diluted earnings per share	23,283	23,232
Options excluded from diluted earnings per share because the effect of these options was antidilutive		

Note 24 Comprehensive Income

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

(in thousands)	Three months ended March 31, 2018	2017
Unrealized holding gains (losses) on available for sale securities before reclassifications	$ (15,265)	$ 787
Amounts reclassified out of accumulated other comprehensive income:		
Adoption ASU 2016-01	62	
Adoption ASU 2018-02	(425)	
Total amounts reclassified out of accumulated other comprehensive income	(363)	
Unrealized holding gains (losses) on available for sale securities after reclassifications	(15,628)	787
Tax effect	4,602	(330)
Unrealized holding gains (losses) on available for sale securities, net of tax	(11,026)	457

Change in unfunded status of the supplemental retirement plans before reclassifications	667	
Amounts reclassified out of accumulated other comprehensive income:		
Amortization of prior service cost	(13)	(3)
Amortization of actuarial losses	127	96
Adoption ASU 2018-02	(668)	
Total amounts reclassified out of accumulated other comprehensive income	(554)	93
Change in unfunded status of the supplemental retirement plans after reclassifications	113	93
Tax effect	(33)	(39)
Change in unfunded status of the supplemental retirement plans, net of tax	80	54
Change in joint beneficiary agreement liability before reclassifications		
Amounts reclassified out of accumulated other comprehensive income		
Change in joint beneficiary agreement liability after reclassifications		
Tax effect		
Change in joint beneficiary agreement liability, net of tax		
Total other comprehensive income (loss)	$ (10,946)	$ 511

Note 24 - Comprehensive Income (continued)

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

	Three months ended March 31,	
(in thousands)	2018	2017
Net unrealized loss on available for sale securities	$ (18,975)	$ (8,083)
Tax effect	5,610	3,399
Unrealized holding loss on available for sale securities, net of tax	(13,365)	(4,684)
Unfunded status of the supplemental retirement plans	(5,238)	(4,621)
Tax effect	1,549	1,943
Unfunded status of the supplemental retirement plans, net of tax	(3,689)	(2,678)
Joint beneficiary agreement liability	(151)	(40)
Tax effect		
Joint beneficiary agreement liability, net of tax	(151)	(40)
Accumulated other comprehensive loss	$ (17,205)	$ (7,402)

Note 25 - Retirement Plans

401(k) Plan

The Company sponsors a 401(k) Plan that allows participants to contribute a portion of their compensation subject to certain limits based on federal tax laws. Prior to July 1, 2015, the Company did not contribute to the 401(k) Plan. Effective July 1, 2015, the Company initiated a discretionary matching contribution equal to 50% of participant s elective deferrals each quarter, up to 4% of eligible compensation. The Company recorded $203,000, and $186,000 of salaries & benefits expense attributable to the 401(k) Plan matching contributions during the three months ended March 31, 2018 and 2017, respectively. The Company made contributions to the 401(k) Plan of $199,000 and $179,000 during the three months ended March 31, 2018 and 2017, respectively.

Employee Stock Ownership Plan

Substantially all employees with at least one year of service are covered by a discretionary employee stock ownership plan (ESOP). Contributions are made to the plan at the discretion of the Board of Directors. Contributions to the plan totaling $465,000 and $525,000 during the three months ended March 31, 2018 and 2017, respectively, are included in salary expense. Company shares owned by the ESOP are paid dividends and included in the calculation of earnings per share exactly as other common shares outstanding.

Deferred Compensation Plans

The Company has deferred compensation plans for certain directors and key executives, which allow certain directors and key executives designated by the Board of Directors of the Company to defer a portion of their compensation. The Company has purchased insurance on the lives of the participants and intends to hold these policies until death as a cost recovery of the Company s deferred compensation obligations of $6,809,000 and $6,605,000 at March 31, 2018 and December 31, 2017, respectively. Earnings credits on deferred balances totaling $124,000 and $145,000 during the three months ended March 31, 2018 and 2017, respectively, are included in noninterest expense.

Supplemental Retirement Plans

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

	Three months ended March 31,	
	2018	2017
(in thousands)		
Net pension cost included the following components:		
Service cost-benefits earned during the period	$ 243	$ 235
Interest cost on projected benefit obligation	237	249
Amortization of net obligation at transition	1	1
Amortization of prior service cost	(13)	(3)
Recognized net actuarial loss	127	96
Net periodic pension cost	$ 595	$ 578

During the three months ended March 31, 2018 and 2017, the Company contributed and paid out as benefits $267,000 and $259,000, respectively, to participants under the plans. For the year ending December 31, 2018, the Company expects to contribute and pay out as benefits $1,106,000 to participants under the plans.

Note 26 - Related Party Transactions

Certain directors, officers, and companies with which they are associated were customers of, and had banking transactions with, the Company or the Bank in the ordinary course of business.

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

Balance December 31, 2016	$ 2,432
Advances/new loans	437
Removed/payments	(721)
Balance December 31, 2017	2,148
Advances/new loans	145
Removed/payments	(314)
Balance March 31, 2018	$ 1,979

Deposits of directors, officers and other related parties to the Bank totaled $30,871,000 and $46,025,000 at March 31, 2018 and December 31, 2017, respectively.

Note 27 - Fair Value Measurement

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

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

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

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

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

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

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

Impaired originated and PNCI loans - Originated and PNCI loans are not recorded at fair value on a recurring basis. However, from time to time, an originated or PNCI loan is considered impaired and an allowance for loan losses is established. Originated and PNCI loans for which it is probable that payment of interest and principal will not be made in accordance with the 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.

Note 27 - Fair Value Measurement (continued)

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 foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value, or the appraised value contains a significant unobservable assumption, such as deviations from comparable sales, and there is no observable market price, the Company records the foreclosed asset as nonrecurring Level 3. Revenue and expenses from operations and changes in the valuation allowance are included in other noninterest expense.

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

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

Fair value at March 31, 2018	Total	Level 1	Level 2	Level 3
Marketable equity securities	$ 2,890	$ 2,890	$	$
Debt securities available for sale:				
Obligations of U.S. government corporations and agencies	616,657		616,657	
Obligations of states and political subdivisions	119,238		119,238	
Mortgage servicing rights	6,953			6,953
Total assets measured at fair value	$ 745,738	$ 2,890	$ 735,895	$ 6,953

Fair value at December 31, 2017	Total	Level 1	Level 2	Level 3
Marketable equity securities	$ 2,938	$ 2,938	$	$
Debt securities available for sale:				
Obligations of U.S. government corporations and agencies	604,789		604,789	
Obligations of states and political subdivisions	123,156		123,156	
Mortgage servicing rights	6,687			6,687
Total assets measured at fair value	$ 737,570	$ 2,938	$ 727,945	$ 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 three months ended March 31, 2018 or the year ended December 31, 2017.

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

Three months ended March 31,	Beginning Balance	Transfers into (out of) Level 3	Change Included in Earnings	Issuances	Ending Balance
2018: Mortgage servicing rights	$ 6,687		$ 111	$ 155	$ 6,953
2017: Mortgage servicing rights	$ 6,595		$ (13)	$ 278	$ 6,860

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

The following table presents quantitative information about recurring Level 3 fair value measurements at March 31, 2018:

	Fair Value (in thousands)	Valuation Technique	Unobservable Inputs	Range, Weighted Average
Mortgage Servicing Rights	$ 6,953	Discounted cash flow	Constant prepayment rate	6.0%-19.7%, 7.5%
			Discount rate	11.0%-15.0%, 13.0%

Note 27 - Fair Value Measurement (continued)

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	Discounted cash flow	Constant prepayment rate	6.2%-22.0%, 8.9%
			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):

Three months ended March 31, 2018	Total	Level 1	Level 2	Level 3	Total Gains (Losses)
Fair value:					
Impaired Originated & PNCI loans	$ 2,103			$ 2,103	$ (795)
Foreclosed assets	774			774	(87)
Total assets measured at fair value	$ 2,877			$ 2,877	$ (882)

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

Three months ended March 31, 2017	Total	Level 1	Level 2	Level 3	Total Gains (Losses)
Fair value:					
Impaired Originated & PNCI loans	$ 824			$ 824	$ 30
Foreclosed assets	1,528			1,528	(22)
Total assets measured at fair value	$ 2,352			$ 2,352	$ 8

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 Company 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.

Note 27 - Fair Value Measurement (continued)

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a nonrecurring basis at March 31, 2018:

March 31, 2018	Fair Value (in thousands)	Valuation Technique	Unobservable Inputs	Range, Weighted Average
Impaired Originated & PNCI loans		Sales comparison approach	Adjustment for differences between comparable sales	Not meaningful
	$ 2,103	Income approach	Capitalization rate	N/A
Foreclosed assets (Land & construction)	$ 190	Sales comparison approach	Adjustment for differences between comparable sales	Not meaningful
Foreclosed assets (Residential real estate)	$ 492	Sales comparison approach	Adjustment for differences between comparable sales	Not meaningful
Foreclosed assets (Commercial real estate)	$ 92	Sales comparison approach	Adjustment for differences between comparable sales	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:

December 31, 2017	Fair Value (in thousands)	Valuation Technique	Unobservable Inputs	Range, Weighted Average
Impaired Originated & PNCI loans		Sales comparison approach	Adjustment for differences between comparable sales	Not meaningful
	$ 2,767	Income approach	Capitalization rate	N/A
Foreclosed assets (Land & construction)	$ 1,341	Sales comparison approach	Adjustment for differences between comparable sales	Not meaningful
Foreclosed assets (Residential real estate)	$ 622	Sales comparison approach	Adjustment for differences between comparable sales	Not meaningful
Foreclosed assets (Commercial real estate)	$ 254	Sales comparison approach	Adjustment for differences between comparable sales	Not meaningful

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 consolidated balance sheets, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value, were as follows (in thousands):

	March 31, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Level 1 inputs:				
Cash and due from banks	$ 87,138	$ 87,138	$ 105,968	$ 105,968
Cash at Federal Reserve and other banks	95,841	95,841	99,460	99,460
Level 2 inputs:				
Securities held to maturity	496,035	488,639	514,844	518,165
Restricted equity securities	16,956	N/A	16,956	N/A
Loans held for sale	2,149	2,149	4,616	4,616
Level 3 inputs:				
Loans, net	3,039,760	3,025,636	2,984,842	2,992,225
Financial liabilities:				
Level 2 inputs:				
Deposits	4,084,404	4,081,089	4,009,131	4,006,620
Other borrowings	65,041	65,041	122,166	122,166
Level 3 inputs:				
Junior subordinated debt	56,905	59,982	56,858	58,466
	Contract Amount	Fair Value	Contract Amount	Fair Value
Off-balance sheet:				
Level 3 inputs:				
Commitments	$ 1,001,059	$ 10,011	$ 933,542	$ 9,335
Standby letters of credit	11,573	116	13,075	131
Overdraft privilege commitments	101,411	1,014	98,260	983

Note 28 TriCo Bancshares Condensed Financial Statements (Parent Only)

Condensed Balance Sheets

	March 31, 2018	December 31, 2017
	(In thousands)	
Assets		
Cash and cash equivalents	$ 3,516	$ 3,924
Investment in Tri Counties Bank	557,380	557,538
Other assets	1,758	1,721
Total assets	$ 562,654	$ 563,183
Liabilities and shareholders equity		
Other liabilities	$ 493	$ 517
Junior subordinated debt	56,905	56,858
Total liabilities	57,398	57,375
Shareholders equity:		
Preferred stock, no par value: 1,000,000 shares authorized, zero issued and outstanding at March 31, 2018 and December 31, 2017		
Common stock, no par value: authorized 50,000,000 shares; issued and outstanding 22,956,323 and 22,955,963 shares, respectively	256,226	255,836
Retained earnings	266,235	255,200
Accumulated other comprehensive loss, net	(17,205)	(5,228)
Total shareholders equity	505,256	505,808
Total liabilities and shareholders equity	$ 562,654	$ 563,183

Condensed Statements of Income

	Three months ended March 31, 2018	2017
	(In thousands)	
Interest expense	$ (697)	$ (595)
Administration expense	(426)	(159)
Loss before equity in net income of Tri Counties Bank	(1,123)	(754)
Equity in net income of Tri Counties Bank:		
Distributed	4,372	4,042
Undistributed	10,397	8,474
Income tax benefit	264	317
Net income	$ 13,910	$ 12,079

Condensed Statements of Comprehensive Income

	Three months ended March 31,	
	2018	2017
	(In thousands)	
Net income	$ 13,910	$ 12,079
Other comprehensive income (loss), net of tax:		
Increase (decrease) in unrealized gains on available for sale securities arising during the period	(11,026)	457
Change in minimum pension liability	80	54
Other comprehensive income (loss)	(10,946)	511
Comprehensive income	$ 2,964	$ 12,590

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

Condensed Statements of Cash Flows

	Three months ended March 31,	
	2018	2017
	(In thousands)	
Operating activities:		
Net income	$ 13,910	$ 12,079
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed equity in earnings of Tri Counties Bank	(10,397)	(8,474)
Equity compensation vesting expense	391	381
Stock option excess tax benefits		
Net change in other assets and liabilities	(405)	(348)
Net cash provided by operating activities	3,499	3,638
Investing activities: None		
Financing activities:		
Repurchase of common stock	(4)	(169)
Cash dividends paid common	(3,903)	(3,431)
Net cash used for financing activities	(3,907)	(3,600)
Net change in cash and cash equivalents	(408)	38
Cash and cash equivalents at beginning of year	3,924	2,802
Cash and cash equivalents at end of year	$ 3,516	$ 2,840

Note 29 - Regulatory Matters

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

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

The following tables present actual and required capital ratios as of March 31, 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 March 31, 2018 (1.875%) and December 31, 2017 (1.25%) 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 Basel III Phase-in Schedule		Minimum Capital Required Basel III Fully Phased In		Required to be Considered Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(dollars in thousands)							
As of March 31, 2018:								
Total Capital (to Risk Weighted Assets):								
Consolidated	$539,966	13.91%	$ 383,434	9.875%	$ 407,702	10.50%	N/A	N/A
Tri Counties Bank	$536,894	13.83%	$ 383,261	9.875%	$ 407,518	10.50%	$ 388,112	10.00%
Tier 1 Capital (to Risk Weighted Assets):								
Consolidated	$506,129	13.03%	$ 305,777	7.875%	$ 330,045	8.50%	N/A	N/A
Tri Counties Bank	$503,057	12.96%	$ 305,638	7.875%	$ 329,895	8.50%	$ 310,490	8.00%
Common equity Tier 1 Capital (to Risk Weighted Assets):								
Consolidated	$450,933	11.61%	$ 247,534	6.375%	$ 271,802	7.00%	N/A	N/A
Tri Counties Bank	$503,057	12.96%	$ 247,421	6.375%	$ 271,678	7.00%	$ 252,273	6.50%
Tier 1 Capital (to Average Assets):								
Consolidated	$506,129	10.84%	$ 186,720	4.000%	$ 186,720	4.00%	N/A	N/A
Tri Counties Bank	$503,057	10.78%	$ 186,716	4.000%	$ 186,716	4.00%	$ 233,395	5.00%

Note 29 - Regulatory Matters (continued)

	Actual		Minimum Capital Required Basel III Phase-in Schedule		Minimum Capital Required Basel III Fully Phased In		Required to be Considered Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
				(dollars in thousands)				
As of December 31, 2017:								
Total Capital (to Risk Weighted Assets):								
Consolidated	$ 528,805	14.07 %	$ 347,694	9.25%	$ 394,679	10.50%	N/A	N/A
Tri Counties Bank	$ 525,384	13.98%	$ 347,535	9.25%	$ 394,499	10.50%	$ 375,713	10.00%
Tier 1 Capital (to Risk Weighted Assets): &nb								