

TRICO BANCSHARES /  
Form 10-K  
March 01, 2019  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington D.C. 20549**

**FORM 10-K**

**Annual Report Pursuant to Section 13 or 15(d)**  
**of the Securities Exchange Act of 1934**  
**For the fiscal year ended December 31, 2018**  
**Commission File Number 0-10661**

**TriCo Bancshares**  
**(Exact name of Registrant as specified in its charter)**

**California**  
**(State or other jurisdiction**  
**of incorporation or organization)**

**94-2792841**  
**(I.R.S. Employer**  
**Identification No.)**

**63 Constitution Drive, Chico, California**  
**(Address of principal executive offices)**

**95973**  
**(Zip Code)**

**Registrant's telephone number, including area code: (530) 898-0300**

**Securities registered pursuant to Section 12(b) of the Act:**

**Common Stock, without par value**  
**(Title of Class)**

**Nasdaq Global Select Market**  
**(Name of each exchange on which registered)**

**Securities registered pursuant to Section 12(g) of the Act: None.**

Indicate by check mark whether the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes                  No

Indicate by check mark whether the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes                  No

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 periods 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

Yes                      No

The aggregate market value of the voting common stock held by non-affiliates of the Registrant, as of June 30, 2018, was approximately \$748,354,000 (based on the closing sales price of the Registrant's common stock on the date).

The number of shares outstanding of Registrant's common stock, as of February 25, 2019, was 30,424,119.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

**The information required to be disclosed pursuant to Part III of this report either shall be (i) deemed to be incorporated by reference from selected portions of the Registrant's definitive proxy statement for the 2018 annual meeting of shareholders, if such proxy statement is filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the Registrant's most recently completed fiscal year, or (ii) included in an amendment to this report filed with the Commission on Form 10-K/A not later than the end of such 120 day period.**

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<b>FORWARD-LOOKING STATEMENTS</b>	

In addition to historical information, this Annual Report on Form 10-K contains forward-looking statements about TriCo Bancshares (the Company, TriCo or we) and its subsidiaries for which it claims 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 expressions, these generally indicate that we are 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. These factors include those

listed at Item 1A Risk Factors, in this report.

Forward-looking statements speak only as of the date they are made, and the Company does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made, whether as a result of new information, future developments or otherwise.

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**PART I**

**ITEM 1. BUSINESS**

**Information about TriCo Bancshares Business**

TriCo Bancshares is a bank holding company incorporated in California in 1981 and registered under the Bank Holding Company Act of 1956, as amended (the BHC Act). The Company's principal subsidiary is Tri Counties Bank, a California-chartered commercial bank (the Bank) established in Chico, California in 1975. The Bank offers a unique brand of customer Service with Solutions® available in traditional stand-alone and in-store bank branches in communities throughout Northern and Central California and had total assets of approximately \$6.4 billion at December 31, 2018. The Bank provides an extensive and competitive breadth of consumer, small business and commercial banking services easily accessed through its California communities branch network, advanced online and mobile banking, a shared nationwide network of over 32,000 ATMs, and bankers available by phone 7 days per week. The Bank's deposits are insured by the Federal Deposit Insurance Corporation (the FDIC) up to applicable limits. See Business of Tri Counties Bank. The Company and the Bank are headquartered in Chico, California.

As a bank holding company, TriCo is subject to the supervision of the Board of Governors of the Federal Reserve System (the FRB) under the BHC Act. The Bank is subject to the supervision of the California Department of Business Oversight (the DBO) and the FDIC. See Regulation and Supervision.

TriCo has five capital trusts, which are all wholly-owned trust subsidiaries formed for the purpose of issuing trust preferred securities (Trust Preferred Securities) and lending the proceeds to TriCo. For more information regarding the trust preferred securities please refer to Note 13 Junior Subordinated Debt to the financial statements at Item 8 of this report.

Additional information concerning the Company can be found on our website at [www.tcbk.com](http://www.tcbk.com). Copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports are available free of charge through the investors relations page of our website, [www.tcbk.com](http://www.tcbk.com), as soon as reasonably practicable after the Company files these reports with the U.S. Securities and Exchange Commission (SEC). The information on our website is not part this annual report.

**Business of Tri Counties Bank**

The Bank was incorporated as a California banking corporation on June 26, 1974, and received its certificate of authority to conduct banking operations on March 11, 1975. The Bank engages in the general commercial banking business in 29 counties in Northern and Central California.

The Bank provides a breadth of personal, small business and commercial financial services including accepting demand, savings and time deposits and making small business, commercial, real estate, and consumer loans, as well as a range of Treasury Management Services and other customary banking services including safe deposit boxes. Brokerage services are provided at the Bank's offices by the Bank's arrangement with Raymond James Financial Services, Inc., an independent financial services provider and broker-dealer.

Over 80% of the Bank's customers are personal banking customers. Less than 20% are business and commercial banking customers serving a diversity of industry types including manufacturing, real estate development, retail, wholesale, transportation, agriculture, commerce and professional services. The majority of the Bank's loans are direct

loans made to individuals and businesses in Northern and Central California where its branches are located. At December 31, 2018, the Bank's consumer loans net of deferred fees outstanding was \$418,982,000 (10.4%), commercial loans outstanding were \$276,548,000 (6.9%), and real estate loans including construction loans of \$183,384,000 were \$3,326,484,000 (82.7%) of total loans. The Bank takes real estate, listed and unlisted securities, savings and time deposits, automobiles, machinery, equipment, inventory, accounts receivable and notes receivable secured by property as collateral for loans.

Most of the Bank's deposits are attracted from individuals and business-related sources. No single person or group of persons provides a material portion of the Bank's deposits, the loss of any one or more of which would have a materially adverse effect on the business of the Bank, nor is a material portion of the Bank's loans concentrated within a single industry or group of related industries.

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### **Merger with FNB Bancorp**

On December 11, 2017, the Company and FNB Bancorp ( FNBB ), entered into an Agreement and Plan of Merger and Reorganization (the Merger Agreement ) pursuant to which FNBB will be merged with and into TriCo, with TriCo as the surviving corporation (the Merger ). The Merger Agreement provided that immediately after the Merger, FNBB 's bank subsidiary, First National Bank of Northern California ( First National Bank ), will merge with and into TriCo '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 Merger Transaction.

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

Based on the closing price of TriCo 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. On July 6, 2018, the Merger Transaction was completed. Based on the closing price of TriCo 's common stock of \$38.41 on July 6, 2018, and based on the conversion of FNBB outstanding common shares to 7,405,277 shares of TCBK common shares, the share consideration value was approximately \$284.4 million. The Company also paid cash of \$6.7 million to settle and retire all FNBB stock options outstanding as of the acquisition date.

### **Employees**

At December 31, 2018, the Company employed 1,174 persons, including six executive officers. Full time equivalent employees were 1,141. No employees of the Company are presently represented by a union or covered under a collective bargaining agreement. Management believes that its employee relations are good.

### **Competition**

The banking business in California generally, and in the Bank 's primary service area of Northern and Central California specifically, is highly competitive with respect to both loans and deposits. It is dominated by a relatively small number of national and regional banks with many offices operating over a wide geographic area. Among the advantages such major banks have over the Bank is their ability to finance wide ranging advertising campaigns and to allocate their investment assets to regions of high yield and demand. By virtue of their greater total capitalization such institutions have substantially higher lending limits than does the Bank.

In addition to competing with other banks, the Bank competes with savings institutions, credit unions and the financial markets for funds. Yields on corporate and government debt securities and other commercial paper may be higher than on deposits, and therefore affect the ability of commercial banks to attract and hold deposits. Commercial banks also compete for available funds with money market instruments and mutual funds. During past periods of high interest rates, money market funds have provided substantial competition to banks for deposits and they may continue to do so in the future. Mutual funds are also a major source of competition for savings dollars. The Bank relies substantially on local promotional activity, personal contacts by its officers, directors, employees and shareholders, extended hours, personalized service and its reputation in the communities it services to compete effectively.

### **Regulation and Supervision**

#### *General*



The Company and the Bank are subject to extensive regulation under both federal and state law. This regulation is intended primarily for the protection of customers, depositors, the FDIC deposit insurance fund and the banking system as a whole, and not for the protection of shareholders of the Company. Set forth below is a summary description of the significant laws and regulations applicable to the Company and the Bank. The description is qualified in its entirety by reference to the applicable laws and regulations.

*Regulatory Agencies*

The Company is a legal entity separate and distinct from the Bank and its other subsidiaries. As a bank holding company, the Company is regulated under the BHC Act, and is subject to supervision, regulation and examination by the FRB. The Company is also under the jurisdiction of the SEC and is subject to the disclosure and regulatory requirements of the Securities Act of 1933 and the Securities Exchange Act of 1934, each administered by the SEC. The Company's common stock is listed on the Nasdaq Global Select market ( Nasdaq ) under the trading symbol TCBK and the Company is, therefore, subject to the rules of Nasdaq for listed companies.

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The Bank is subject to regulation, supervision and periodic examination by the FDIC, which is the bank's primary federal regulator because the bank is a state-chartered bank that is not a member of the Federal Reserve System and the DBO, because the bank is a California state chartered bank. This regulation is broad and extends to all of the Bank's operations.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) created the Consumer Financial Protection Bureau (the CFPB) as an independent entity with broad rulemaking, supervisory and enforcement authority over consumer financial products and services. The CFPB's functions include investigating consumer complaints, rulemaking, supervising and examining bank consumer transactions, and enforcing rules related to consumer financial products and services. CFPB regulations and guidance apply to all financial institutions, including the Bank. Banks with \$10 billion or more in assets are subject to examination by the CFPB. Banks with less than \$10 billion in assets, including the Bank, continue to be examined for compliance with federal consumer laws by their primary federal banking agency.

*The Bank Holding Company Act*

The Company is registered as a bank holding company under the BHC Act. In general, the BHC Act limits the business of bank holding companies to banking, managing or controlling banks and other activities that the FRB has determined to be so closely related to banking as to be a proper incident thereto. Qualified bank holding companies that elect to be financial holding companies may engage in any activity, or acquire and retain the shares of a company engaged in any activity, that is either (i) financial in nature or incidental to such financial activity or (ii) complementary to a financial activity, and that does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally (as determined solely by the FRB). Activities that are financial in nature include securities underwriting and dealing, insurance underwriting and agency, and making merchant banking investments. The Company currently has not elected to become a financial holding company.

As a bank holding company, TriCo is required to file reports with the FRB and the FRB periodically examines the Company. Under the Dodd-Frank Act, a bank holding company is required to serve as a source of financial and managerial strength to its subsidiary bank and, under appropriate circumstances, to commit resources to support the subsidiary bank.

The BHC Act, the Bank Merger Act, and other federal and state statutes regulate acquisitions of commercial banks. The BHC Act requires a bank holding company to obtain the approval of the FRB prior to directly or indirectly acquiring more than 5 percent of the voting shares of a commercial bank or its parent holding company. Under the Bank Merger Act, the prior approval of an acquiring bank's primary federal regulator is required before it may merge with another bank or purchase the assets or assume the deposits of another bank. In reviewing applications seeking approval of merger and acquisition transactions, the bank regulatory authorities will consider, among other things, the competitive effect and public benefits of the transactions, the capital position of the combined organization, the applicant's performance record under the Community Reinvestment Act, consumer compliance, fair housing laws and the effectiveness of the subject organizations in combating money laundering activities.

*Safety and Soundness Standards*

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) implemented certain specific restrictions on transactions and required the regulators to adopt overall safety and soundness standards for depository institutions related to internal control, loan underwriting and documentation, and asset growth. Among other things, FDICIA limits the interest rates paid on deposits by undercapitalized institutions, the use of brokered deposits and the aggregate extension of credit by a depository institution to an executive officer, director, principal stockholder or

related interest, and reduces deposit insurance coverage for deposits offered by undercapitalized institutions for deposits by certain employee benefits accounts.

Under FDICIA, the federal banking regulatory agencies have established safety and soundness standards for insured financial institutions covering:

Internal controls, information systems and internal audit systems;

Loan documentation;

Credit underwriting;

Interest rate exposure;

Asset growth;

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Compensation, fees and benefits;

Asset quality, earnings and stock valuation; and

Excessive compensation for executive officers, directors or principal shareholders which could lead to material financial loss.

If an agency determines that an institution fails to meet any standard established by the guidelines, the agency may require the financial institution to submit to the agency an acceptable plan to achieve compliance with the standard. If the agency requires submission of a compliance plan and the institution fails to timely submit an acceptable plan or to implement an accepted plan, the agency must require the institution to correct the deficiency. An institution must file a compliance plan within 30 days of a request to do so from the institution's primary federal regulatory agency. The agencies may elect to initiate enforcement actions in certain cases rather than relying on a plan, particularly where failure to meet one or more of the standards could threaten the safe and sound operation of the institution.

*Restrictions on Dividends and Distributions*

A California corporation such as TriCo may make a distribution to its shareholders to the extent that either the corporation's retained earnings meet or exceed the amount of the proposed distribution or the value of the corporation's assets exceed the amount of its liabilities plus the amount of shareholders preferences, if any, and certain other conditions are met. It is the FRB's policy that bank holding companies should generally pay dividends on common stock only out of income available over the past year, and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. In addition, a bank holding company may be unable to pay dividends on its common stock if it fails to maintain an adequate capital conservation buffer under the new capital rules. See *Regulatory Capital Requirements*.

The primary source of funds for payment of dividends by TriCo to its shareholders has been and will be the receipt of dividends and management fees from the Bank. TriCo's ability to receive dividends from the Bank is limited by applicable state and federal law. Under the California Financial Code, funds available for cash dividend payments by a bank are restricted to the lesser of: (i) retained earnings or (ii) the bank's net income for its last three fiscal years (less any distributions to shareholders made during such period). However, with the prior approval of the Commissioner of the DBO, a bank may pay cash dividends in an amount not to exceed the greatest of the: (1) retained earnings of the bank; (2) net income of the bank for its last fiscal year; or (3) net income of the bank for its current fiscal year. However, if the DBO finds that the shareholders' equity of the bank is not adequate or that the payment of a dividend would be unsafe or unsound, the Commissioner may order the bank not to pay a dividend to shareholders.

The new Capital Rules may restrict dividends by the Bank if the additional capital conservation buffer is not achieved. See *Regulatory Capital Requirements*.

The FRB, FDIC and the DBO have authority to prohibit a bank holding company or a bank from engaging in practices which are considered to be unsafe and unsound. Depending on the financial condition of TriCo and the Bank and other factors, the FRB, FDIC or the DBO could determine that payment of dividends or other payments by TriCo or the Bank might constitute an unsafe or unsound practice.

*The Community Reinvestment Act*

The Community Reinvestment Act of 1977 ( CRA ) requires the federal banking regulatory agencies to periodically assess a bank s record of helping meet the credit needs of its entire community, including low- and moderate-income neighborhoods. The CRA also requires the agencies to consider a financial institution s record of meeting its community credit when evaluating applications for, among other things, domestic branches and mergers or acquisitions. The federal banking agencies rate depository institutions compliance with the CRA. The ratings range from a high of outstanding to a low of substantial noncompliance. A less than satisfactory rating could result in the suspension of any growth of the Bank through acquisitions or opening de novo branches until the rating is improved. As of its most recent CRA examination, the Bank s CRA rating was Satisfactory.

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*Consumer Protection Laws*

The Bank is subject to many federal consumer protection statutes and regulations, some of which are discussed below.

The Equal Credit Opportunity Act generally prohibits discrimination in any credit transaction, whether for consumer or business purposes, on the basis of race, color, religion, national origin, sex, marital status, age (except in limited circumstances), receipt of income from public assistance programs, or good faith exercise of any rights under the Consumer Credit Protection Act.

The Truth-in-Lending Act is designed to ensure that credit terms are disclosed in a meaningful way so that consumers may compare credit terms more readily and knowledgeably.

The Fair Housing Act regulates many practices, including making it unlawful for any lender to discriminate in its housing-related lending activities against any person because of race, color, religion, national origin, sex, handicap or familial status.

The Home Mortgage Disclosure Act, which includes a fair lending aspect, requires the collection and disclosure of data about applicant and borrower characteristics as a way of identifying possible discriminatory lending patterns and enforcing anti-discrimination statutes.

The Real Estate Settlement Procedures Act requires lenders to provide borrowers with disclosures regarding the nature and cost of real estate settlements and prohibits certain abusive practices, such as kickbacks, and places limitations on the amount of escrow accounts.

In addition, the CFPB has taken a number of actions that may affect the Bank's operations and compliance costs, including the following:

The issuance of final rules for residential mortgage lending, which became effective January 10, 2013, including definitions for qualified mortgages and detailed standards by which lenders must satisfy themselves of the borrower's ability to repay the loan and revised forms of disclosure under the Truth in Lending Act and the Real Estate Settlement Procedures Act.

The issuance of a policy report on arbitration clauses which could result in the restriction or prohibition of lenders including arbitration clauses in consumer financial services contracts.

Actions taken to regulate and supervise credit bureaus and debt collections.

Positions taken by CFPB on fair lending, including applying the disparate impact theory in auto financing, which could make it harder for lenders, such as the Bank, to charge different rates or apply different terms to loans to different customers.

Penalties for violations of the above laws may include fines, reimbursements, injunctive relief and other penalties.

*Data Privacy and Cyber Security Regulation*

The Company is subject to many U.S. federal, state and international laws and regulations governing requirements for maintaining policies and procedures to protect the non-public confidential information of customers and employees. The privacy provisions of the Gramm-Leach-Bliley Act generally prohibit financial institutions, including the Company, from disclosing nonpublic personal financial information of consumer customers to third parties for certain purposes (primarily marketing) unless customers have the opportunity to opt out of the disclosure. Other laws and regulations, at the international, federal and state level, limit the Company's ability to share certain information with affiliates and non-affiliates for marketing and/or non-marketing purposes, or to contact customers with marketing offers. The Gramm-Leach-Bliley Act also requires banks to implement a comprehensive information security program that includes administrative, technical and physical safeguards to ensure the security and confidentiality of customer records and information.

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*Regulatory Capital Requirements*

The Company and the Bank are subject to the minimum capital requirements of the FRB and FDIC, respectively. Capital requirements may have an effect on the Company's and the Bank's profitability and ability to pay dividends. If the Company or the Bank lacks adequate capital to increase its assets without violating the minimum capital requirements or if it is forced to reduce the level of its assets in order to satisfy regulatory capital requirements, its ability to generate earnings would be reduced.

For a discussion of the regulatory capital requirements, see Note 25 Regulatory Matters to the consolidated financial statements at Part II, Item 8 of this report.

We believe that we were in compliance with the requirements of the new capital rules applicable to us as of December 31, 2018.

*Prompt Corrective Action*

Prompt Corrective Action regulations of the federal bank regulatory agencies establish five capital categories in descending order (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized), assignment to which depends upon the institution's total risk-based capital ratio, Tier 1 risk-based capital ratio, and leverage ratio. The new capital rules revised the prompt corrective action framework. Under the current prompt corrective action framework, insured depository institutions will be required to meet the following minimum capital level requirements in order to qualify as well capitalized: (i) a common equity Tier 1 capital ratio of 6.5%; (ii) a Tier 1 capital ratio of 8%; (iii) a total capital ratio of 10%; and (iv) a Tier 1 leverage ratio of 5%. An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. Institutions classified in one of the three undercapitalized categories are subject to certain mandatory and discretionary supervisory actions, which include increased monitoring and review, implementation of capital restoration plans, asset growth restrictions, limitations upon expansion and new business activities, requirements to augment capital, restrictions upon deposit gathering and interest rates, replacement of senior executive officers and directors, and requiring divestiture or sale of the institution. The Bank's capital levels have exceeded the minimums necessary to be considered well capitalized under the current regulatory framework for prompt corrective action since adoption.

*Deposit Insurance*

Deposit accounts in the Bank are insured by the FDIC, generally up to a maximum of \$250,000 per separately insured depositor. The Bank is subject to deposit insurance assessments as determined by the FDIC. The amount of the deposit insurance assessment for institutions with less than \$10.0 billion in assets, such as the Bank, is based on its risk category, with certain adjustments for any unsecured debt or brokered deposits held by the insured bank. Institutions assigned to higher risk categories (that is, institutions that pose a higher risk of loss to the FDIC's deposit insurance fund (the DIF)) pay assessments at higher rates than institutions that pose a lower risk. An institution's risk classification is assigned based on a combination of its financial ratios and supervisory ratings, reflecting, among other things, its capital levels and the level of supervisory concern that the institution poses to the regulators. In addition, the FDIC can impose special assessments in certain instances.

The Dodd-Frank Act changed the way that deposit insurance premiums are calculated. The assessment base is no longer the institution's deposit base, but rather its average consolidated total assets less its average tangible equity. The Dodd-Frank Act also increased the minimum designated reserve ratio of the DIF from 1.15% to 1.35% of the



estimated amount of total insured deposits by 2020, eliminates the upper limit for the reserve ratio designated by the FDIC each year, and eliminates the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds. Continued action by the FDIC to replenish the DIF, as well as the changes contained in the Dodd-Frank Act, may result in higher assessment rates, which could reduce our profitability or otherwise negatively impact our operations.

The Bank is generally unable to control the amount of premiums that it is required to pay for FDIC insurance. If there are additional bank or financial institution failures or if the FDIC otherwise determines, the Bank may be required to pay even higher FDIC premiums than the recently increased levels. Increases in FDIC insurance premiums may have a material and adverse effect on the Company's earnings and could have a material adverse effect on the value of, or market for, the Company's common stock.

The FDIC may terminate a depository institution's deposit insurance upon a finding that the institution's financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices that pose a risk to the DIF or that may prejudice the interest of the bank's depositors. The termination of deposit insurance for the Bank would also result in the revocation of the Bank's charter by the DBO.

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### *Anti-Money Laundering Laws*

A series of banking laws and regulations beginning with the Bank Secrecy Act in 1970 requires banks to prevent, detect, and report illicit or illegal financial activities to the federal government to prevent money laundering, international drug trafficking, and terrorism. Today, the Bank Secrecy Act requires that all banking institutions develop and provide for the continued administration of a program reasonably designed to assure and monitor compliance with certain recordkeeping and reporting requirements regarding both domestic and international currency transactions. These programs must, at a minimum, provide for a system of internal controls to assure ongoing compliance, provide for independent testing of such systems and compliance, designate individuals responsible for such compliance and provide appropriate personnel training.

Under the USA Patriot Act of 2001, financial institutions are subject to prohibitions against specified financial transactions and account relationships, requirements regarding the Customer Identification Program, as well as enhanced due diligence and know your customer standards in their dealings with high risk customers, foreign financial institutions, and foreign individuals and entities. The act also requires financial institutions, including banks, to establish anti-money laundering programs, including employee training and independent audit requirements, meet minimum standards specified by the act, follow minimum standards for customer identification and maintenance of customer identification records, and regularly compare customer lists against lists of suspected terrorists, terrorist organizations and money launderers.

### *Transactions with Affiliates*

Banks are also subject to certain restrictions imposed by the Federal Reserve Act on extensions of credit to executive officers, directors, principal shareholders (including the Company) or any related interest of such persons. Extensions of credit must be made on substantially the same terms, including interest rates and collateral as, and follow credit underwriting procedures that are not less stringent than, those prevailing at the time for comparable transactions with persons not affiliated with the bank, and must not involve more than the normal risk of repayment or present other unfavorable features. Banks are also subject to certain lending limits and restrictions on overdrafts to such persons. Regulation W requires that certain transactions between the Bank and its affiliates, including its holding company, be on terms substantially the same, or at least as favorable to the Bank, as those prevailing at the time for comparable transactions with or involving nonaffiliated companies or, in the absence of comparable transactions, on terms and under circumstances, including credit standards, that in good faith would be offered to or would apply to nonaffiliated companies.

### *Impact of Monetary Policies*

Banking is a business that depends on interest rate differentials. In general, the difference between the interest paid by a bank on its deposits and other borrowings, and the interest rate earned by banks on loans, securities and other interest-earning assets comprises the major source of banks' earnings. Thus, the earnings and growth of banks are subject to the influence of economic conditions generally, both domestic and foreign, and also to the monetary and fiscal policies of the United States and its agencies, particularly the FRB. The FRB implements national monetary policy, such as seeking to curb inflation and combat recession, by its open-market dealings in United States government securities, by adjusting the required level of reserves for financial institutions subject to reserve requirements and through adjustments to the discount rate applicable to borrowings by banks which are members of the FRB. The actions of the FRB in these areas influence the growth of bank loans, investments and deposits and also affect interest rates. The nature and timing of any future changes in such policies and their impact on the Company cannot be predicted. In addition, adverse economic conditions could make a higher provision for loan losses a prudent course and could cause higher loan loss charge-offs, thus adversely affecting the Company's net earnings.



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**ITEM 1A. RISK FACTORS**

There are a number of factors that may adversely affect the Company's business, financial results, or stock price. In analyzing whether to make or continue holding an investment in the Company, investors should consider, among other factors, the following:

**Risks Related to the Nature and Geographic Area of Our Business**

*We are exposed to risks in connection with the loans we make.*

As a lender, we face a significant risk that we will sustain losses because borrowers, guarantors or related parties may fail to perform in accordance with the terms of the loans we make or acquire. Our earnings are significantly affected by our ability to properly originate, underwrite and service loans. We have underwriting and credit monitoring procedures and credit policies, including the establishment and review of the allowance for loan losses, that we believe appropriately address this risk by assessing the likelihood of nonperformance, tracking loan performance and diversifying our respective loan portfolios. Such policies and procedures, however, may not prevent unexpected losses that could adversely affect our results of operations. We could sustain losses if we incorrectly assess the creditworthiness of our borrowers or fail to detect or respond to deterioration in asset quality in a timely manner.

*Our allowance for loan losses may not be adequate to cover actual losses.*

Like other financial institutions, we maintain an allowance for loan losses to provide for loan defaults and non-performance. Our allowance for loan losses may not be adequate to cover actual loan losses, and future provisions for loan losses would reduce our earnings and could materially and adversely affect our business, financial condition, results of operations and cash flows. The allowance for loan losses reflects our estimate of the probable incurred losses in our loan portfolio at the relevant balance sheet date. Our allowance for loan losses is based on prior experience, as well as an evaluation of the known risks in the current portfolio, composition and growth of the loan portfolio and economic factors. Determining an appropriate level of loan loss allowance is an inherently difficult process and is based on numerous assumptions. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, that may be beyond our control and these losses may exceed current estimates. Federal and state regulatory agencies, as an integral part of their examination process, review our loans and allowance for loan losses. While we believe that our allowance for loan losses is adequate to cover current losses, we cannot assure you that we will not increase the allowance for loan losses further or that the allowance will be adequate to absorb loan losses we actually incur. Either of these occurrences could have a material adverse effect on our business, financial condition and results of operations.

*The Financial Accounting Standards Board has recently issued an accounting standard update that will result in a significant change in how we recognize credit losses and may have a material impact on our financial condition or results of operations.*

In June 2016, the Financial Accounting Standards Board issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 requires banking organizations to determine the adequacy of their ALLL with an expected loss model, which is referred to as the current expected credit loss (CECL) model. Under the CECL model, banking organizations will be required to present certain financial assets carried at amortized cost, such as loans held for investment and held-to-maturity debt securities, at the net amount expected to be collected. The measurement of expected credit losses is to be based on information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This measurement will take place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the incurred loss model required under

current GAAP, which delays recognition until it is probable a loss has been incurred. ASU 2016-13 is expected to be effective for public business entities for fiscal years after December 15, 2019. CECL will change the manner in which we determine the adequacy of our allowance for loan losses. We are evaluating the impact the CECL model will have on our accounting, but we may recognize a one-time cumulative-effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective. We cannot yet determine the magnitude of any such one-time cumulative adjustment or of the overall impact of the new standard on our financial condition or results of operations. The federal banking regulators have adopted a rule that gives a banking organization the option to phase in over a three-year period the day-one adverse effects of CECL on its regulatory capital.

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*Our business may be adversely affected by business conditions in northern and central California.*

We conduct most of our business in northern and central California. As a result of this geographic concentration, our financial results may be impacted by economic conditions in California. Deterioration in the economic conditions in California could result in the following consequences, any of which could have a material adverse effect on our business, financial condition, results of operations and cash flows:

problem assets and foreclosures may increase,

demand for our products and services may decline,

low cost or non-interest bearing deposits may decrease, and

collateral for loans made by us, especially real estate, may decline in value, in turn reducing customers borrowing power, and reducing the value of assets and collateral associated with our existing loans.

In view of the concentration of our operations and the collateral securing our loan portfolio in both northern and central California, we may be particularly susceptible to the adverse effects of any of these consequences, any of which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

*A significant majority of the loans in our portfolio are secured by real estate and a downturn in our real estate markets could hurt our business.*

A downturn in our real estate markets in which we conduct our business in California could hurt our business because most of our loans are secured by real estate. Real estate values and real estate markets are generally affected by changes in national, regional or local economic conditions, fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax laws and other governmental statutes, regulations and policies and acts of nature. As real estate prices decline, the value of real estate collateral securing our loans is reduced. As a result, our ability to recover on defaulted loans by foreclosing and selling the real estate collateral could then be diminished and we would be more likely to suffer losses on defaulted loans. As of December 31, 2018, approximately 91.7% of the book value of our loan portfolio consisted of loans collateralized by various types of real estate. Substantially all of our real estate collateral is located in California. So if there is a significant adverse decline in real estate values in California, the collateral for our loans will provide less security. Real estate values could also be affected by, among other things, earthquakes, drought and national disasters in our markets. Any such downturn could have a material adverse effect on our business, financial condition, results of operations and cash flows.

*We depend on key personnel and the loss of one or more of those key personnel may materially and adversely affect our prospects.*

Competition for qualified employees and personnel in the banking industry is intense and there are a limited number of qualified persons with knowledge of, and experience in, the California community banking industry. The process of recruiting personnel with the combination of skills and attributes required to carry out our strategies is often lengthy. Our success depends to a significant degree upon our ability to attract and retain qualified management, loan origination, finance, administrative, marketing and technical personnel and upon the continued contributions of our

management and personnel. In particular, our success has been and continues to be highly dependent upon the abilities of our senior management team of Messrs. Smith, Bailey, Carney, Fleshood, O Sullivan and Wiese, who have expertise in banking and collective experience in the California markets we serve and have targeted for future expansion. We also depend upon a number of other key executives who are California natives or are long-time residents and who are integral to implementing our business plan. The loss of the services of any one of our senior executive management team or other key executives could have a material adverse effect on our business, financial condition, results of operations and cash flows.

*We are exposed to the risk of environmental liabilities with respect to properties to which we take title.*

In the course of our business, we may foreclose and take title to real estate and could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean-up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. If we become subject to significant environmental liabilities, our business, financial condition, results of operations and cash flows could be materially adversely affected.

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*Strong competition in California could hurt our profits.*

Competition in the banking and financial services industry is intense. Our profitability depends upon our continued ability to successfully compete. We primarily compete in northern and central California for loans, deposits and customers with commercial banks, savings and loan associations, credit unions, finance companies, mutual funds, insurance companies, brokerage firms and Internet-based marketplace lending platforms. In particular, our competitors include major financial companies whose greater resources may afford them a marketplace advantage by enabling them to maintain numerous locations and mount extensive promotional and advertising campaigns. Additionally, banks and other financial institutions with larger capitalization and financial intermediaries not subject to bank regulatory restrictions may have larger lending limits which would allow them to serve the credit needs of larger customers. Areas of competition include interest rates for loans and deposits, efforts to obtain loan and deposit customers and a range in quality of products and services provided, including new technology-driven products and services. Technological innovation continues to contribute to greater competition in domestic and international financial services markets as technological advances enable more companies, such as Internet-based marketplace lenders, to provide financial services, often without many of regulatory and capital restrictions that we face. We also face competition from out-of-state financial intermediaries that have opened loan production offices or that solicit deposits in our market areas. If we are unable to attract and retain banking customers, we may be unable to continue our loan growth and level of deposits and our business, financial condition, results of operations and cash flows may be adversely affected.

*Our previous results may not be indicative of our future results.*

We may not be able to sustain our historical rate of growth and level of profitability or may not even be able to grow our business or continue to be profitable at all. Various factors, such as economic conditions, regulatory and legislative considerations and competition, may also impede or prohibit our ability to expand our market presence and financial performance. If we experience a significant decrease in our historical rate of growth, our results of operations and financial condition may be adversely affected due to a high percentage of our operating costs being fixed expenses.

*We may be adversely affected by the soundness of other financial institutions.*

Financial services institutions are interrelated as a result of clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and routinely execute transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, and other institutional clients. Many of these transactions expose us to credit risk in the event of a default by a counterparty or client. In addition, our credit risk may be exacerbated when the collateral that we hold cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due to us. Any such losses could have a material adverse effect on our financial condition and results of operations.

*Severe weather, natural disasters and other external events could adversely affect our business.*

Our operations and our customer base are primarily located in northern and central California where natural and other disasters may occur. These regions are known for being vulnerable to natural disasters and other risks, such as earthquakes, fires, droughts and floods, the nature and severity of which may be impacted by climate change. These types of natural catastrophic events have at times disrupted the local economies, our business and customers in these regions. Such events could also affect the stability of the Bank's deposit base; impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans and cause significant property damage, result in losses of revenue and/or cause us to incur additional expenses. In addition, catastrophic events occurring in other regions of



the world may have an impact on our customers and in turn, on us. Our business continuity and disaster recovery plans may not be successful upon the occurrence of one of these scenarios, and a significant catastrophic event anywhere in the world could materially adversely affect our operating results.

*We may be adversely affected by recent changes in U.S. tax laws.*

The enactment of the Tax Cuts and Jobs Act (the TCJA ) on December 22, 2017 made significant changes to the Internal Revenue Code, many of which are highly complex and may require interpretations and implementing regulations. The TCJA includes a number of provisions that will have an impact on the banking industry, borrowers and the market for residential real estate. These changes include: (i) a lower limit on the deductibility of mortgage interest on single-family residential mortgage loans, (ii) the elimination of interest deductions for home equity loans, (iii) a limitation on the deductibility of business interest expense, and (iv) a limitation on the deductibility of property taxes and state and local income taxes. The TCJA may have an adverse effect on the market for and the valuation of residential properties, as well as on the demand for such loans in the future, and could make it harder for borrowers to make their loan payments. The

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value of the properties securing loans in our loan portfolio may be adversely impacted as a result of the changing economics of home ownership. Such an impact could require an increase in our provision for loan losses, which would reduce our profitability and could materially adversely affect our business, financial condition and results of operations.

It is too early to evaluate all of the potential consequences of the tax reform bill, but such consequences could include lower commercial customer borrowings, either due to the increase in cash flows as a result of the reduction in the corporate statutory tax rate or the utilization by businesses in certain sectors of alternative non-debt financing and/or early retirement of existing debt. While the reform bill lowered the corporate federal statutory tax rate, it also eliminated or limited certain federal corporate deductions. There can be no assurance that any benefits realized by us as a result of the reduction in the corporate federal statutory tax rate will ultimately result in increased net income, whether due to decreased loan yields as a result of competition or to other factors. Uncertainty also exists related to state and other taxing jurisdictions' response to federal tax reform.

Federal income tax treatment of corporations may be further clarified and modified by other legislative, administrative or judicial changes or interpretations at any time. Any such changes could adversely affect us.

### **Market and Interest Rate Risk**

*Fluctuations in interest rates could reduce our profitability and affect the value of our assets.*

Like other financial institutions, we are subject to interest rate risk. Our primary source of income is net interest income, which is the difference between interest earned on loans and leases and investments, and interest paid on deposits and borrowings. We expect that we will periodically experience imbalances in the interest rate sensitivities of our assets and liabilities and the relationships of various interest rates to each other. Over any defined period of time, our interest-earning assets may be more sensitive to changes in market interest rates than our interest-bearing liabilities, or vice-versa. In addition, the individual market interest rates underlying our loan and lease and deposit products may not change to the same degree over a given time period. If market interest rates should move contrary to our position, earnings may be negatively affected. In addition, loan and lease volume and quality and deposit volume and mix can be affected by market interest rates as can the businesses of our clients. Changes in levels of market interest rates could have a material adverse effect on our net interest spread, asset quality, origination volume, the value of our loans and investment securities and overall profitability.

Market interest rates are beyond our control, and they fluctuate in response to general economic conditions and the policies of various governmental and regulatory agencies, in particular, the Federal Reserve Board. Changes in monetary policy, including changes in interest rates, may negatively affect our ability to originate loans and leases, the value of our assets and our ability to realize gains from the sale of our assets, all of which ultimately could affect our earnings.

*Our business is subject to interest rate risk and variations in interest rates may negatively affect our financial performance.*

Because of the differences in the maturities and repricing characteristics of our interest-earning assets and interest-bearing liabilities, changes in interest rates do not produce equivalent changes in interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. Accordingly, fluctuations in interest rates could adversely affect our interest rate spread and, in turn, our profitability. In addition, loan origination volumes are affected by market interest rates. Rising interest rates, generally, are associated with a lower volume of loan originations while lower interest rates are usually associated with higher loan originations. Conversely, in rising

interest rate environments, loan repayment rates may decline and in falling interest rate environments, loan repayment rates may increase. Although we were successful in generating new loans during 2018, the continuation of historically low long-term interest rate levels may cause additional refinancing of commercial real estate and 1-4 family residence loans, which may depress our loan volumes or cause rates on loans to decline. In addition, an increase in the general level of short-term interest rates on variable rate loans may adversely affect the ability of certain borrowers to pay the interest on and principal of their obligations or reduce the amount they wish to borrow. Additionally, if short-term market rates rise, in order to retain existing deposit customers and attract new deposit customers we may need to increase rates we pay on deposit accounts. Accordingly, changes in levels of market interest rates could materially and adversely affect our net interest spread, asset quality, loan origination volume, business, financial condition, results of operations and cash flows.

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*Reduction in the value, or impairment of our investment securities, can impact our earnings and common shareholders' equity.*

We maintained a balance of \$1.6 billion, or approximately 25% of our assets, in investment securities at December 31, 2018. Changes in market interest rates can affect the value of these investment securities, with increasing interest rates generally resulting in a reduction of value. Although the reduction in value from temporary increases in market rates does not affect our income until the security is sold, it does result in an unrealized loss recorded in other comprehensive income that can reduce our common stockholders' equity. Further, we must periodically test our investment securities for other-than-temporary impairment in value. In assessing whether the impairment of investment securities is other-than-temporary, we consider the length of time and extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability to retain our investment in the security for a period of time sufficient to allow for any anticipated recovery in fair value in the near term.

**Regulatory Risks**

*Recently enacted financial reform legislation has, among other things, created a new Consumer Financial Protection Bureau, tightened capital standards and resulted in new laws and regulations that are expected to increase our costs of operations.*

The Dodd-Frank Act, which was enacted in 2010, significantly changed the current bank regulatory structure and affects the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. Among other things, the Dodd-Frank Act created a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The CFPB has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit unfair, deceptive or abusive acts and practices. The CFPB has examination and enforcement authority over all banks and savings institutions with more than \$10 billion in assets. Banks with \$10 billion or less in assets, such as the Bank, are subject to the CFPB's rules but continue to be examined for compliance with the consumer laws by their primary bank regulators. In addition, the Dodd-Frank Act required the FDIC and FRB to adopt new, more stringent capital rules that apply to us. The Dodd-Frank Act also weakens the federal preemption rules that have been applicable for national banks and federal savings associations, and gives state attorneys general the ability to enforce federal consumer protection laws.

It is difficult to predict the continuing impact that the Dodd-Frank Act and the yet to be written implementing rules and regulations will have on community banks. However, it is expected that at a minimum they will increase our operating and compliance costs and could increase our interest expense.

*We operate in a highly regulated environment and we may be adversely affected by new laws and regulations or changes in existing laws and regulations. Regulations may prevent or impair our ability to pay dividends, engage in acquisitions or operate in other ways.*

We are subject to extensive regulation, supervision and examination by the DBO, FDIC, and the FRB. See Item 1 Regulation and Supervision of this report for information on the regulation and supervision which governs our activities. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on our operations, the classification of our assets and determination of the level of our allowance for loan losses. Banking regulations, designed primarily for the protection of depositors, may limit our growth and the return to our shareholders by restricting certain of our activities, such as:

the payment of dividends to our shareholders,

possible mergers with or acquisitions of or by other institutions,

desired investments,

loans and interest rates on loans,

interest rates paid on deposits,

service charges on deposit account transactions,

the possible expansion of branch offices, and

the ability to provide securities or trust services.

We also are subject to regulatory capital requirements. We could be subject to regulatory enforcement actions if, any of our regulators determines for example, that we have violated a law of regulation, engaged in unsafe or unsound banking practice or lack adequate capital. Federal and state governments and regulators could pass legislation and adopt policies responsive to current credit conditions that would have an adverse effect on the Company and its financial performance. We cannot predict what changes, if any, will be made to existing federal and state legislation and regulations or the effect that such changes may have on our future business and earnings prospects. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material adverse impact on our operations.

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*Compliance with changing regulation of corporate governance and public disclosure may result in additional risks and expenses.*

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Dodd-Frank Act, the Sarbanes-Oxley Act of 2002 and new SEC regulations, are creating additional expense for publicly-traded companies such as the Company. The application of these laws, regulations and standards may evolve over time as new guidance is provided by regulatory and governing bodies, which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We are committed to maintaining high standards of corporate governance and public disclosure. As a result, our efforts to comply with evolving laws, regulations and standards have resulted in, and are likely to continue to result in, increased expenses and a diversion of management time and attention. In particular, our efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002 and the related regulations regarding management's required assessment of its internal control over financial reporting and its external auditors' audit of our internal control over financial reporting requires, and will continue to require, the commitment of significant financial and managerial resources. Further, the members of our board of directors, members of our audit or compensation and management succession committees, our chief executive officer, our chief financial officer and certain other executive officers could face an increased risk of personal liability in connection with the performance of their duties. It may also become more difficult and more expensive to obtain director and officer liability insurance. As a result, our ability to attract and retain executive officers and qualified board and committee members could be more difficult.

## **Risks Related to Growth and Expansion**

*Goodwill resulting from acquisitions may adversely affect our results of operations.*

Goodwill and other intangible assets have increased substantially as a result of our acquisitions of FNB Bancorp in 2018 and North Valley Bancorp in 2014. Potential impairment of goodwill and amortization of other intangible assets could adversely affect our financial condition and results of operations. We assess our goodwill and other intangible assets and long-lived assets for impairment annually and more frequently when required by U.S. GAAP. We are required to record an impairment charge if circumstances indicate that the asset carrying values exceed their fair values. Our assessment of goodwill, other intangible assets, or long-lived assets could indicate that an impairment of the carrying value of such assets may have occurred that could result in a material, non-cash write-down of such assets, which could have a material adverse effect on our results of operations and future earnings.

*If we cannot attract deposits, our growth may be inhibited.*

We plan to increase the level of our assets, including our loan portfolio. Our ability to increase our assets depends in large part on our ability to attract additional deposits at favorable rates. We intend to seek additional deposits by offering deposit products that are competitive with those offered by other financial institutions in our markets and by establishing personal relationships with our customers. We cannot assure that these efforts will be successful. Our inability to attract additional deposits at competitive rates could have a material adverse effect on our business, financial condition, results of operations and cash flows.

*Potential acquisitions create risks and may disrupt our business and dilute shareholder value.*

We intend to continue to explore opportunities for growth through mergers and acquisitions. Acquiring other banks, businesses, or branches involves various risks commonly associated with acquisitions, including, among other things:

incurring substantial expenses in pursuing potential acquisitions without completing such acquisitions,

exposure to potential asset quality issues of the target company,

losing key clients as a result of the change of ownership,

the acquired business not performing in accordance with our expectations,

difficulties and expenses arising in connection with the integration of the operations of the acquired business with our operations,

difficulty in estimating the value of the target company,

potential exposure to unknown or contingent liabilities of the target company,

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management needing to divert attention from other aspects of our business,

potentially losing key employees of the acquired business,

incurring unanticipated costs which could reduce our earnings per share,

assuming potential liabilities of the acquired company as a result of the acquisition,

potential changes in banking or tax laws or regulations that may affect the target company,

potential disruption to our business, and

an acquisition may dilute our earnings per share, in both the short and long term, or it may reduce our tangible capital ratios

*Our growth and expansion may strain our ability to manage our operations and our financial resources.*

Our financial performance and profitability depend on our ability to execute our corporate growth strategy. In addition to seeking deposit and loan and lease growth in our existing markets, we may pursue expansion opportunities in new markets. Continued growth, however, may present operating and other problems that could adversely affect our business, financial condition, results of operations and cash flows. Accordingly, there can be no assurance that we will be able to execute our growth strategy or maintain the level of profitability that we have recently experienced.

Our growth may place a strain on our administrative, operational and financial resources and increase demands on our systems and controls. This business growth may require continued enhancements to and expansion of our operating and financial systems and controls and may strain or significantly challenge them. In addition, our existing operating and financial control systems and infrastructure may not be adequate to maintain and effectively monitor future growth. Our continued growth may also increase our need for qualified personnel. We cannot assure you that we will be successful in attracting, integrating and retaining such personnel.

**Risks Relating to Dividends and Our Common Stock**

*Our future ability to pay dividends is subject to restrictions.*

Our ability to pay dividends to our shareholders is limited by California law and the policies and regulations of the FRB. The FRB has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses the FRB's view that a bank holding company should pay cash dividends only to the extent that its net income for the past year is sufficient to cover both the cash dividends and a rate of earnings retention that is consistent with the holding company's capital needs, asset quality and overall financial condition. See Regulation and Supervision Restrictions on Dividends and Distributions.

As a holding company with no significant assets other than the Bank, our ability to continue to pay dividends depends in large part upon the Bank's ability to pay dividends to us. The Bank's ability to pay dividends or make other capital



distributions to us is subject to the restrictions in the California Financial Code.

Our ability to pay dividends to our shareholder and the ability of the Bank to pay in dividends to us are by the requirements that the we and the Bank maintain a certain minimum amount of capital to be considered a well capitalized institution as well as a separate capital conservation buffer, as further described under Item 1 Supervision and Regulation Regulatory Capital Requirements in this report.

From time to time, we may become a party to financing agreements or other contractual arrangements that have the effect of limiting or prohibiting us or the Bank from declaring or paying dividends. Our holding company expenses and obligations with respect to our trust preferred securities and corresponding junior subordinated deferrable interest debentures issued by us may limit or impair our ability to declare or pay dividends.

*Anti-takeover provisions and federal law may limit the ability of another party to acquire us, which could cause our stock price to decline.*

Various provisions of our articles of incorporation and bylaws could delay or prevent a third party from acquiring us, even if doing so might be beneficial to our shareholders. These provisions provide for, among other things, specified actions that the Board of Directors shall or may take when an offer to merge, an offer to acquire all assets or a tender offer is received and the authority to issue preferred stock by action of the board of directors acting alone, without obtaining shareholder approval.

The BHC Act and the Change in Bank Control Act of 1978, as amended, together with federal regulations, require that, depending on the particular circumstances, either FRB approval must be obtained or notice must be furnished to the FRB and not disapproved prior to any person or entity acquiring control of a bank holding company such as TriCo. These provisions may prevent a merger or acquisition that would be attractive to shareholders and could limit the price investors would be willing to pay in the future for our common stock.

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*The amount of common stock owned by, and other compensation arrangements with, our officers and directors may make it more difficult to obtain shareholder approval of potential takeovers that they oppose.*

As of December 31, 2018, directors and executive officers beneficially owned approximately 10.37% of our common stock and our Employee Stock Ownership Plan ( ESOP ) owned approximately 3.9%. Agreements with our senior management also provide for significant payments under certain circumstances following a change in control. These compensation arrangements, together with the common stock beneficially owned by our board of directors, management, and the ESOP, could make it difficult or expensive to obtain majority support for shareholder proposals or potential acquisition proposals of us that our directors and officers oppose.

*We may issue additional common stock or other equity securities in the future which could dilute the ownership interest of existing shareholders.*

In order to maintain our capital at desired or regulatory-required levels, or to fund future growth, our board of directors may decide from time to time to issue additional shares of common stock, or securities convertible into, exchangeable for or representing rights to acquire shares of our common stock. The sale of these shares may significantly dilute your ownership interest as a shareholder. New investors in the future may also have rights, preferences and privileges senior to our current shareholders which may adversely impact our current shareholders.

*Holders of our junior subordinated debentures have rights that are senior to those of our common stockholders.*

We have supported our continued growth through the issuance of trust preferred securities from special purpose trusts and accompanying junior subordinated debentures. At December 31, 2018, we had outstanding trust preferred securities and accompanying junior subordinated debentures with face value of \$62,889,000. Payments of the principal and interest on the trust preferred securities are conditionally guaranteed by us. Further, the accompanying junior subordinated debentures we issued to the trusts are senior to our shares of common stock. As a result, we must make payments on the junior subordinated debentures before we can pay any dividends on our common stock and, in the event of our bankruptcy, dissolution or liquidation, the holders of the junior subordinated debentures must be satisfied before any distributions can be made on our common stock.

## **Risks Relating to Systems, Accounting and Internal Controls**

*If we fail to maintain an effective system of internal and disclosure controls, we may not be able to accurately report our financial results or prevent fraud. As a result, current and potential shareholders could lose confidence in our financial reporting, which would harm our business and the trading price of our securities.*

Effective internal control over financial reporting and disclosure controls and procedures are necessary for us to provide reliable financial reports and effectively prevent fraud and to operate successfully as a public company. If we cannot provide reliable financial reports or prevent fraud, our reputation and operating results would be harmed. We continually review and analyze our internal control over financial reporting for Sarbanes-Oxley Section 404 compliance. As part of that process we may discover material weaknesses or significant deficiencies in our internal control as defined under standards adopted by the Public Company Accounting Oversight Board that require remediation. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected in a timely basis. A significant deficiency is a deficiency or combination of deficiencies, in internal control over financial reporting that is less severe than material weakness, yet important enough to merit attention by those responsible for the oversight of the Company's financial reporting.

As a result of weaknesses that may be identified in our internal controls, we may also identify certain deficiencies in some of our disclosure controls and procedures that we believe require remediation. If we discover weaknesses, we will make efforts to improve our internal and disclosure controls. However, there is no assurance that we will be successful. Any failure to maintain effective controls or timely effect any necessary improvement of our internal and disclosure controls could harm operating results or cause us to fail to meet our reporting obligations, which could affect our ability to remain listed with Nasdaq. Ineffective internal and disclosure controls could also cause investors to lose confidence in our reported financial information, which would likely have a negative effect on the trading price of our securities.

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*We rely on communications, information, operating and financial control systems technology and we may suffer an interruption in or breach of the security of those systems.*

We rely heavily on our communications, information, operating and financial control systems technology to conduct our business. We rely on third party services providers to provide many of these systems. Any failure, interruption or breach in security of these systems could result in failures or interruptions in our customer relationship management, general ledger, deposit, servicing and loan origination systems. We cannot assure you that such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed by us or the third parties service providers on which we rely. The occurrence of any failures, interruptions or security breaches could damage our reputation, result in a loss of customers, expose us to possible financial liability, lead to additional regulatory scrutiny or require that we make expenditures for remediation or prevention. Any of these circumstances could have a material adverse effect on our business, financial condition, results of operations and cash flows.

*We rely on certain third-party vendors.*

We are reliant upon certain third-party vendors to provide products and services necessary to maintain our day-to-day operations. Accordingly, our operations are exposed to risk that these vendors will not perform in accordance with applicable contractual arrangements or service level agreements. We maintain a system of policies and procedures designed to monitor vendor risks including, among other things, (i) changes in the vendor's organizational structure, (ii) changes in the vendor's financial condition, (iii) changes in existing products and services or the introduction of new products and services, and (iv) changes in the vendor's support for existing products and services. While we believe these policies and procedures help to mitigate risk, the failure of an external vendor to perform in accordance with applicable contractual arrangements or the service level agreements could be disruptive to our operations, which could have a material adverse effect on our business and our financial condition and results of operations.

*Our business is highly reliant on technology and our ability and our third party service providers to manage the operational risks associated with technology.*

Our business involves storing and processing sensitive consumer and business customer data. We depend on internal systems, third party service providers, and outsourced technology to support these data storage and processing operations. Despite our efforts to ensure the security and integrity of our systems, we may not be able to anticipate, detect or recognize threats to our systems or those of third party service providers or to implement effective preventive measures against all cyber security breaches. Cyberattack techniques change regularly and can originate from a wide variety of sources, including third parties who are or may be involved in organized crime or linked to terrorist organizations or hostile foreign governments, and such third parties may seek to gain access to systems directly or using equipment or security passwords belonging to employees, customers, third-party service providers or other users of our systems. These risks may increase in the future as we continue to increase our mobile and other internet-based product offerings and expands our internal usage of web-based products and applications. A cyber security breach or cyberattack could persist for a long time before being detected and could result in theft of sensitive data or disruption of our transaction processing systems.

Our inability to use or access these information systems at critical points in time could unfavorably impact the timeliness and efficiency of our business operations. A material breach of customer data security may negatively impact our business reputation and cause a loss of customers, result in increased expense to contain the event and/or require that we provide credit monitoring services for affected customers, result in regulatory fines and sanctions and/or result in litigation. Cyber security risk management programs are expensive to maintain and will not protect us from all risks associated with maintaining the security of customer data and our proprietary data from external and internal intrusions, disaster recovery and failures in the controls used by our vendors. In addition, Congress and the

legislatures of states in which we operate regularly consider legislation that would impose more stringent data privacy requirements, resulting in increased compliance costs.

*A failure to implement technological advances could negatively impact our business.*

The banking industry is undergoing technological changes with frequent introductions of new technology-driven products and services. In addition to improving customer services, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend, in part, on our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources than we do to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or successfully market such products and services to our customers.

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**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

The Company is engaged in the banking business through 69 traditional branches, 9 in-store branches and 2 loan production offices in 29 counties in northern and central California including the counties of Butte, Colusa, Contra Costa, Del Norte, Fresno, Glenn, Humboldt, Kern, Lake, Lassen, Madera, Mendocino, Merced, Nevada, Placer, Sacramento, San Francisco, San Mateo, Santa Clara, Shasta, Siskiyou, Sonoma, Stanislaus, Sutter, Tehama, Trinity, Tulare, Yolo and Yuba. All offices are constructed and equipped to meet prescribed security requirements.

As of December 31, 2018, the Company owned 35 branch office locations, two administrative buildings that include branch locations, and seven other buildings that are used as either administrative, operational, or loan production offices. The Company leased 32 branch office locations, two loan production offices, and two administrative locations. Most of the leases contain multiple renewal options and provisions for rental increases, principally for changes in the cost of living index, property taxes and maintenance. All of the Company's existing facilities are considered to be adequate for the Company's present and future use. In the opinion of management, all properties are adequately covered by insurance. See Note 7 Premises and Equipment to the consolidated financial statements at Part II, Item 8 of this report.

**ITEM 3. 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.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**Table of Contents****PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Common Stock Market Prices and Dividends**

The Company's common stock is traded on the Nasdaq under the symbol TCBK. The following table shows the high and the low closing sale prices for the common stock for each quarter in the past two years, as reported by Nasdaq:

2018	High	Low
Fourth quarter	\$ 38.45	\$ 31.96
Third quarter	\$ 39.63	\$ 36.98
Second quarter	\$ 40.22	\$ 36.65
First quarter	\$ 39.75	\$ 36.35
2017		
Fourth quarter	\$ 43.42	\$ 37.86
Third quarter	\$ 40.75	\$ 33.60
Second quarter	\$ 36.77	\$ 33.05
First quarter	\$ 37.38	\$ 32.84

As of February 25, 2019 there were approximately 1,665 shareholders of record of the Company's common stock. On February 25, 2019, the closing market price was \$40.11 per share.

The Company has paid cash dividends on its common stock in every quarter since March 1990, and it is currently the intention of the Board of Directors of the Company to continue payment of cash dividends on a quarterly basis. There is no assurance, however, that any dividends will be paid since they are dependent upon earnings, financial condition and capital requirements of the Company and the Bank. As of December 31, 2018 \$98,438,000 was available for payment of dividends by the Bank to the Company, under applicable laws and regulations. See Note 26 Summary of Quarterly Results of Operations (unaudited) for the quarterly cash dividends paid by the Company in 2018 and 2017.

**Issuer Repurchases of Common Stock**

The Company has one previously announced stock repurchase plan under which it is currently authorized to purchase shares of its common stock. The table that follows provides additional information regarding this plan.

Announcement Date	Total shares approved for purchase	Total shares repurchased under the plan	Expiration date
8/21/2007	500,000	193,566	none

The following table shows the repurchases made by the Company or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Exchange Act) during the fourth quarter of 2018:

Period	(a) Total number of shares purchased <sup>(1)</sup>	(b) Average price paid per share	(c) Total number of shares purchased as of part of publicly announced plans or programs	(d) Maximum number of shares that may yet be purchased under the plans or programs <sup>(2)</sup>
October 1-31, 2018		\$		333,400
November 1-30, 2018	49,173	\$ 38.24		333,400
December 1-31, 2018	54,865	\$ 35.87	26,966	306,434
Total	104,038	\$ 38.37	26,966	306,434

(1) Includes shares purchased by the Company's Employee Stock Ownership Plan and pursuant to various other equity incentive plans. See Note 15 to the consolidated financial statements at Item 8 of Part II of this report, for a discussion of the Company's stock repurchased under equity compensation plans.

(2) Does not include shares that may be purchased by the Company's Employee Stock Ownership Plan and pursuant to various other equity incentive plans.



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The following graph presents the cumulative total yearly shareholder return from investing \$100 on December 31, 2013, in each of TriCo common stock, the Russell 3000 Index, and the SNL Western Bank Index. The SNL Western Bank Index compiled by SNL Financial includes banks located in California, Oregon, Washington, Montana, Hawaii and Alaska with market capitalization similar to that of TriCo s. The amounts shown assume that any dividends were reinvested.

**TriCo Bancshares**

<i>Index</i>	<i>Period Ending</i>					
	<i>12/31/13</i>	<i>12/31/14</i>	<i>12/31/15</i>	<i>12/31/16</i>	<i>12/31/17</i>	<i>12/31/18</i>
TriCo Bancshares	100.00	88.68	100.55	127.93	144.27	131.15
Russell 3000 Index	100.00	112.56	113.10	127.50	154.44	146.34
SNL Western Bank Index	100.00	120.01	124.35	137.85	153.70	121.69

**Equity Compensation Plans**

The following table shows shares reserved for issuance for outstanding options, stock appreciation rights and warrants granted under our equity compensation plans as of December 31, 2018. All of our equity compensation plans have been approved by shareholders.

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted average price of securities outstanding		Number of securities remaining available for issuance under equity compensation plans (excluding securities reflected in column (a))
		(c) \$	(d) \$	
Equity compensation plans not approved by shareholders		\$		
Equity compensation plans approved by shareholders	343,000	\$	16.67	380,958
<b>Total</b>	<b>343,000</b>	<b>\$</b>	<b>16.67</b>	<b>380,958</b>

**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA**

The following selected consolidated financial data are derived from our consolidated financial statements. This data should be read in connection with our consolidated financial statements and the related notes located at Item 8 of this report.

**TRICO BANCSHARES**

## Financial Summary

(In thousands, except per share amounts; unaudited)

<b>Year ended December 31,</b>	2018	2017	2016	2015	2014
Interest income	\$ 228,218	\$ 181,402	\$ 173,708	\$ 161,414	\$ 121,115
Interest expense	(12,872)	(6,798)	(5,721)	(5,416)	(4,681)
Net interest income	215,346	174,604	167,987	155,998	116,434
(Provision for) benefit from loan losses	(2,583)	(89)	5,970	2,210	4,045
Noninterest income	49,284	50,021	44,563	45,347	34,516
Noninterest expense	(168,695)	(147,024)	(145,997)	(130,841)	(110,379)
Income before income taxes	93,352	77,512	72,523	72,714	44,616
Provision for income taxes	(25,032)	(36,958)	(27,712)	(28,896)	(18,508)
Net income	\$ 68,320	\$ 40,554	\$ 44,811	\$ 43,818	\$ 26,108

**Share Data**

## Earnings per share:

Basic	\$ 2.57	\$ 1.77	\$ 1.96	\$ 1.93	\$ 1.47
Diluted	\$ 2.54	\$ 1.74	\$ 1.94	\$ 1.91	\$ 1.46

## Per share:

Dividends paid	\$ 0.70	\$ 0.66	\$ 0.60	\$ 0.52	\$ 0.44
Book value at period end	\$ 27.20	\$ 22.03	\$ 20.87	\$ 19.85	\$ 18.41
Tangible book value at period end	\$ 18.97	\$ 19.01	\$ 17.77	\$ 16.81	\$ 15.31
Average common shares outstanding	26,593	22,912	22,814	22,750	17,716
Average diluted common shares outstanding	26,880	23,250	23,087	22,998	17,923
Shares outstanding at period end	30,417	22,956	22,868	22,775	22,715

**Financial Ratios**

## During the period:

Return on average assets	1.24%	0.89%	1.02%	1.11%	0.87%
Return on average equity	10.75%	8.10%	9.46%	10.04%	8.67%
Net interest margin <sup>(1)</sup>	4.30%	4.22%	4.23%	4.32%	4.17%
Efficiency ratio	60.79%	63.53%	66.89%	63.28%	70.92%
Average equity to average assets	11.52%	10.99%	10.84%	11.01%	10.00%
Dividend payout ratio	27.24%	37.30%	30.60%	27.20%	30.10%

At period end:					
Equity to assets	13.02%	10.62%	10.57%	10.71%	10.68%
Total capital to risk-adjusted assets	14.40%	14.07%	14.65%	15.09%	15.63%

**Balance Sheet Data**

Total investments	\$ 1,562,846	\$ 1,245,727	\$ 1,152,769	\$ 1,131,415	\$ 759,631
Total loans	4,022,014	3,015,165	2,759,593	2,522,937	2,282,524
Total assets	6,352,441	4,761,315	4,517,968	4,220,722	3,916,458
Total non-interest bearing deposits	1,760,580	1,368,218	1,275,745	1,155,695	1,083,900
Total deposits	5,366,466	4,009,131	3,895,560	3,631,266	3,380,423
Total other borrowings	15,839	122,166	17,493	12,328	9,276
Total junior subordinated debt	57,042	56,858	56,667	56,470	56,272
Total shareholders equity	827,373	505,808	477,347	452,116	418,172
Total tangible equity <sup>(2)</sup>	\$ 577,121	\$ 436,323	\$ 406,473	\$ 382,760	\$ 347,659

(1) Fully taxable equivalent (FTE)

(2) Tangible equity is calculated by subtracting Goodwill and Other intangible assets from Total shareholders equity. Management believes that tangible equity is meaningful because it is a measure that the Company and investors commonly use to assess capital adequacy.

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**Table of Contents****ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****General**

As TriCo Bancshares has not commenced any business operations independent of the Bank, the following discussion pertains primarily to the Bank. Average balances, including such balances used in calculating certain financial ratios, are generally comprised of average daily balances for the Company. Within Management's Discussion and Analysis of Financial Condition and Results of Operations, interest income and net interest income are generally presented on a fully tax-equivalent (FTE) basis. The presentation of interest income and net interest income on a FTE basis is a common practice within the banking industry. Interest income and net interest income are shown on a non-FTE basis within Item 7 of this report, and a reconciliation of the FTE and non-FTE presentations is provided below in the discussion of net interest income.

**Critical Accounting Policies and Estimates**

The Company's discussion and analysis of its financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP). The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those that materially affect the financial statements and are related to the adequacy of the allowance for loan losses, investments, mortgage servicing rights, fair value measurements, retirement plans, intangible assets and the fair value of acquired assets and liabilities. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The Company's policies related to estimates on the allowance for loan losses, other than temporary impairment of investments and impairment of intangible assets, can be found in Note 1 in the financial statements at Item 8 of this report.

Average balances, including balances used in calculating certain financial ratios, are generally comprised of average daily balances for the Company. Within Management's Discussion and Analysis of Financial Condition and Results of Operations, certain performance measures including interest income, net interest income, net interest yield, and efficiency ratio are generally presented on a fully tax-equivalent (FTE) basis. The Company believes the use of these non-generally accepted accounting principles (non-GAAP) measures provides additional clarity in assessing its results.

On July 6, 2018 the Bank completed its acquisition of FNBB originally announced on December 11, 2017 for an aggregate transaction value of \$291,132,000. Through this business combination assets acquired, including core deposit intangibles of \$27,605,000, totaled \$1,306,539,000 and liabilities assumed totaled \$1,172,068. Goodwill recognized totaled \$156,661,000 and the merger expenses incurred during the year ended December 31, 2018 totaled \$5,227,000.

From time to time the Bank may be presented with the opportunity to purchase individual or pools of loans in whole or in part outside of a transaction that would be considered a business combination. As of December 31, 2018 and 2017 the outstanding carrying value of purchased loans that were not acquired in a business combination totaled \$56,023,000 and \$69,599,000, respectively.

The Company refers to loans purchased or obtained in a business combination as purchased credit impaired (PCI) loans, or purchased not credit impaired (PNCI) loans. The Company refers to loans that it originates as originated loans. Additional information regarding the FNB Bancorp (FNBB) acquisition can be found in Note 2 in the financial statements at Item 8 of this report. Additional information regarding the definitions and accounting for originated, PNCI and PCI loans can be found in Notes 1, 2, 4 and 5 in the financial statements at Item 8 of this report, and under the heading *Asset Quality and Non-Performing Assets* below.

### **Geographical Descriptions**

For the purpose of describing the geographical location of the Company's operations, the Company has defined northern California as that area of California north of, and including, Stockton to the east and San Jose to the west; central California as that area of the state south of Stockton and San Jose, to and including, Bakersfield to the east and San Luis Obispo to the west; and southern California as that area of the state south of Bakersfield and San Luis Obispo.

**Table of Contents****Results of Operations****Overview**

The following discussion and analysis is designed to provide a better understanding of the significant changes and trends related to the Company and the Bank's financial condition, operating results, asset and liability management, liquidity and capital resources and should be read in conjunction with the consolidated financial statements of the Company and the related notes at Item 8 of this report. Following is a summary of the components of net income for the periods indicated (dollars in thousands):

	Year ended December 31,		
	2018	2017	2016
Net interest income	\$ 215,346	\$ 174,604	\$ 167,987
(Provision for) benefit from loan losses	(2,583)	(89)	5,970
Noninterest income	49,284	50,021	44,563