

TRICO BANCSHARES /
Form 10-Q
May 10, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
for the quarterly period ended: March 31, 2012

.. **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
for the transition period from to .

Commission File Number: 000-10661

TriCo Bancshares

(Exact Name of Registrant as Specified in Its Charter)

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CALIFORNIA (State or Other Jurisdiction)	94-2792841 (I.R.S. Employer Identification Number)
of Incorporation or Organization)	
63 Constitution Drive	
Chico, California 95973	
(Address of Principal Executive Offices)(Zip Code)	
(530) 898-0300	
(Registrant's Telephone Number, Including Area Code)	

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

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

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

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

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

Common stock, no par value: 15,982,958 shares outstanding as of May 4, 2012

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TriCo Bancshares

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FORWARD-LOOKING STATEMENTS

This report on Form 10-Q contains forward-looking statements about TriCo Bancshares (the "Company") that are subject to the protection of the safe harbor provisions contained in the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on the current knowledge and belief of the Company's management ("Management") and include information concerning the Company's possible or assumed future financial condition and results of operations. When you see any of the words "believes", "expects", "anticipates", "estimates", or similar expressions, it may mean the Company is making forward-looking statements. A number of factors, some of which are beyond the Company's ability to predict or control, could cause future results to differ materially from those contemplated. The reader is directed to the Company's annual report on Form 10-K for the year ended December 31, 2011, and Part II, Item 1A of this report for further discussion of factors which could affect the Company's business and cause actual results to differ materially from those suggested by any forward-looking statement made in this report. Such Form 10-K and this report should be read to put any forward-looking statements in context and to gain a more complete understanding of the risks and uncertainties involved in the Company's business. Any forward-looking statement may turn out to be wrong and cannot be guaranteed. The Company does not intend to update any forward-looking statement after the date of this report.

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

(In thousands, except share data; unaudited)

	At March 31, 2012	At December 31, 2011
Assets:		
Cash and due from banks	\$ 74,542	\$ 73,652
Cash at Federal Reserve and other banks	607,218	563,623
Cash and cash equivalents	681,760	637,275
Securities available-for-sale	212,157	229,223
Restricted equity securities	10,508	10,610
Loans held for sale	5,869	10,219
Loans	1,511,085	1,551,032
Allowance for loan losses	(45,452)	(45,914)
Total loans, net	1,465,633	1,505,118
Foreclosed assets, net	14,789	16,332
Premises and equipment, net	19,814	19,893
Cash value of life insurance	50,853	50,403
Interest receivable	7,095	7,312
Goodwill	15,519	15,519
Other intangible assets, net	1,248	1,301
Mortgage servicing rights	4,784	4,603
Indemnification asset	3,405	4,405
Other assets	39,474	43,384
Total assets	\$ 2,532,908	\$ 2,555,597
Liabilities and Shareholders Equity:		
Liabilities:		
Deposits:		
Noninterest-bearing demand	\$ 564,143	\$ 541,276
Interest-bearing	1,605,603	1,649,260
Total deposits	2,169,746	2,190,536
Interest payable	1,587	1,674
Reserve for unfunded commitments	2,550	2,740
Other liabilities	29,675	30,427
Other borrowings	69,074	72,541
Junior subordinated debt	41,238	41,238
Total liabilities	2,313,870	2,339,156
Commitments and contingencies (Note 18)		
Shareholders equity:		

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Common stock, no par value: 50,000,000 shares authorized; issued and outstanding:		
15,978,958 at March 31, 2012	84,336	
15,978,958 at December 31, 2011		84,079
Retained earnings	131,044	128,551
Accumulated other comprehensive income, net of tax	3,658	3,811
Total shareholders' equity	219,038	216,441
Total liabilities and shareholders' equity	\$ 2,532,908	\$ 2,555,597

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

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

(In thousands, except per share data; unaudited)

	Three months ended March 31,	
	2012	2011
Interest and dividend income:		
Loans, including fees	\$ 24,929	\$ 21,722
Debt securities:		
Taxable	1,746	2,374
Tax exempt	108	140
Dividends	13	7
Interest bearing cash at Federal Reserve and other banks	368	191
Total interest and dividend income	27,164	24,434
Interest expense:		
Deposits	1,184	1,827
Other borrowings	606	593
Junior subordinated debt	338	310
Total interest expense	2,128	2,730
Net interest income	25,036	21,704
Provision for loan losses	3,996	7,001
Net interest income after provision for loan losses	21,040	14,703
Noninterest income:		
Service charges and fees	5,952	5,782
Gain on sale of loans	1,650	725
Commissions on sale of non-deposit investment products	819	360
Increase in cash value of life insurance	450	450
Other	(606)	2,033
Total noninterest income	8,265	9,350
Noninterest expense:		
Salaries and related benefits	12,762	10,793
Other	10,153	8,878
Total noninterest expense	22,915	19,671
Income before income taxes	6,390	4,382
Provision for income taxes	2,459	1,582
Net income	\$ 3,931	\$ 2,800

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Earnings per share:

Basic	\$ 0.25	\$ 0.18
Diluted	\$ 0.25	\$ 0.17

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

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

(In thousands; unaudited)

	Three months ended March 31,	
	2012	2011
Net income	\$ 3,931	\$ 2,800
Other comprehensive income, net of tax:		
Unrealized holding losses on securities arising during the period	(153)	(224)
Other comprehensive loss	(153)	(224)
Comprehensive income	\$ 3,778	\$ 2,576

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

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

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

	Shares of Common Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2010	15,860,138	\$ 81,554	\$ 117,533	\$ 1,310	\$ 200,397
Comprehensive income:					
Net income			2,800		2,800
Other comprehensive loss				(224)	(224)
Stock option vesting		265			265
Dividends paid (\$0.09 per share)			(1,427)		(1,427)
Balance at March 31, 2011	15,860,138	\$ 81,819	\$ 118,906	\$ 1,086	\$ 201,811
Balance at December 31, 2011	15,978,958	\$ 84,079	\$ 128,551	\$ 3,811	\$ 216,441
Comprehensive income:					
Net income			3,931		3,931
Other comprehensive loss				(153)	(153)
Stock option vesting		257			257
Dividends paid (\$0.09 per share)			(1,438)		(1,438)
Balance at March 31, 2012	15,978,958	\$ 84,336	\$ 131,044	\$ 3,658	\$ 219,038

See accompanying notes to unaudited condensed consolidated financial statements.

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

(In thousands; unaudited)

	For the three months ended March 31,	
	2012	2011
Operating activities:		
Net income	\$ 3,931	\$ 2,800
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of premises and equipment, and amortization	1,765	830
Amortization of intangible assets	53	85
Provision for loan losses	3,996	7,001
Amortization of investment securities premium, net	329	377
Originations of loans for resale	(58,041)	(32,499)
Proceeds from sale of loans originated for resale	63,491	35,131
Gain on sale of loans	(1,650)	(725)
Change in market value of mortgage servicing rights	369	60
Provision for losses on foreclosed assets	83	449
Loss (gain) on sale of foreclosed assets	358	(200)
Loss on disposal of fixed assets	235	9
Increase in cash value of life insurance	(450)	(450)
Stock option vesting expense	257	265
Change in reserve for unfunded commitments	(190)	50
Change in:		
Interest receivable	217	190
Interest payable	(87)	(107)
Other assets and liabilities, net	3,522	(2,951)
Net cash from operating activities	18,188	10,315
Investing activities:		
Proceeds from maturities of securities available-for-sale	20,060	22,139
Purchases of securities available-for-sale	(3,588)	(25,456)
Net redemption of restricted equity securities	102	
Loan principal (increases) decreases, net	33,795	24,056
Proceeds from sale of foreclosed assets	3,021	2,205
Improvements of foreclosed assets	(225)	(17)
Proceeds from sale of premises and equipment		1
Purchases of premises and equipment	(1,173)	(88)
Net cash from investing activities	51,992	22,840
Financing activities:		
Net (decrease) increase in deposits	(20,790)	7,739
Net change in short-term other borrowings	(3,467)	(4,239)
Dividends paid	(1,438)	(1,427)
Net cash from financing activities	(25,695)	2,073
Net change in cash and cash equivalents	44,485	35,228
Cash and cash equivalents at beginning of period	637,275	371,066

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Cash and cash equivalents at end of period	\$	681,760	\$	406,294
Supplemental disclosure of noncash activities:				
Loans transferred to other real estate owned	\$	1,694	\$	1,523
Unrealized net loss on securities available for sale	\$	(265)	\$	(387)
Supplemental disclosure of cash flow activity:				
Cash paid for interest expense	\$	2,215	\$	2,837
Cash paid for income taxes			\$	2,620

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

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates in the Preparation of Financial Statements

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

As described in Note 2, the Bank assumed the banking operations of two failed financial institutions from the FDIC under whole bank purchase agreements. The acquired assets and assumed liabilities were measured at estimated fair value values as required by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 805, Business Combinations. The Company made significant estimates and exercised significant judgment in accounting for the acquisitions. The Company determined loan fair values based on loan file reviews, loan risk ratings, appraised collateral values, expected cash flows and historical loss factors. Foreclosed assets were primarily valued based on appraised values of the repossessed loan collateral. An identifiable intangible was also recorded representing the fair value of the core deposit customer base based on an evaluation of the cost of such deposits relative to alternative funding sources. The fair value of time deposits and borrowings were determined based on the present value of estimated future cash flows using current rates as of the acquisition date.

Significant Group Concentration of Credit Risk

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

Cash and Cash Equivalents

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

Investment Securities

The Company classifies its debt and marketable equity securities into one of three categories: trading, available-for-sale or held-to-maturity. Trading securities are bought and held principally for the purpose of selling in the near term. Held-to-maturity securities are those securities which the Company has the ability and intent to hold until maturity. All other securities not included in trading or held-to-maturity are classified as available-for-sale. During the three months ended March 31, 2012 and the year ended December 31, 2011, the Company did not have any securities classified as either held-to-maturity or trading. Available-for-sale securities are recorded at fair value. Unrealized gains and losses, net of the related tax effect, on available-for-sale securities are reported as a separate component of other accumulated comprehensive income (loss) in shareholders' equity until realized. Premiums and discounts are amortized or accreted over the life of the related investment security as an adjustment to yield using the effective interest method. Dividend and interest income are recognized when earned. Realized gains and losses are derived from the amortized cost of the security sold.

The Company assesses other-than-temporary impairment (OTTI) based on whether it intends to sell a security or if it is likely that the Company would be required to sell the security before recovery of the amortized cost basis of the investment, which may be maturity. For debt securities, if we intend to sell the security or it is likely that we will be required to sell the security before recovering its cost basis, the entire impairment loss would be recognized in earnings as an OTTI. If we do not intend to sell the security and it is not likely that we will be required to sell the security but we do not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Projected cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for potential OTTI. The remaining impairment related to all other factors, the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to other comprehensive income (OCI). Impairment losses related to all other factors are presented as separate categories within OCI. The accretion of the amount recorded in OCI increases the carrying value of the investment and does not affect earnings. If there is an indication of additional credit losses the security is re-evaluated according to the procedures described above. No OTTI losses were recognized during the three months ended March 31, 2012 and the year ended December 31, 2011.

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

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

Loans Held for Sale

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

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

Loans and Allowance for Loan Losses

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

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

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

In situations related to originated loans where, for economic or legal reasons related to a borrower's financial difficulties, the Company grants a concession for other than an insignificant period of time to the borrower that the Company would not otherwise consider, the related loan is classified as a troubled debt restructuring (TDR). The Company strives to identify borrowers in financial difficulty early and work with them to

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modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where the Company grants the borrower new terms that result in the loan being classified as a TDR, the Company measures any impairment on the restructuring as noted above for impaired loans. TDR loans are classified as impaired until they are fully paid off or charged off. Loans that are in nonaccrual status at the time they become TDR loans, remain in nonaccrual status until the borrower demonstrates a sustained period of performance which the Company generally believes to be six consecutive months of payments, or equivalent. Otherwise, TDR loans are subject to the same nonaccrual and charge-off policies as noted above with respect to their restructured principal balance.

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

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

The Company's method for assessing the appropriateness of the allowance for originated loan losses includes specific allowances for impaired originated loans and leases, formula allowance factors for pools of credits, and allowances for changing environmental factors (e.g., interest rates, growth, economic conditions, etc.). Allowance factors for loan pools were based on historical loss experience by product type and prior risk rating. For the period ended March 31, 2012, management changed some of the assumptions utilized in the Allowance for Loan Losses estimate calculation. These changes were intended to more accurately reflect the current risk in the loan portfolio and to better estimate the losses inherent but not yet quantifiable. These changes included the conversion to a historical loss migration analysis intended to better determine the appropriate formula reserve ratio by loan category and risk rating, the addition of an environmental factor related to the delinquency rate of loans not classified as impaired by loan category, the elimination of an unspecified reserve allocation previously intended to account for imprecision inherent in the overall calculation, and the reclassification of risk rating of certain consumer loans based on current credit score in an attempt to better identify the risk in the portfolio. The financial effect of these changes resulted in a net reduction in the calculated Allowance for Loan Losses of \$1,388,000. Allowances for impaired loans are based on analysis of individual credits. Allowances for changing environmental factors are Management's best estimate of the probable impact these changes have had on the originated loan portfolio as a whole. The allowance for originated loans is included in the allowance for loan losses.

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

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Acquired loans that are not PCI loans are referred to as purchased not credit impaired (PNCI) loans. PNCI loans are accounted for under FASB ASC Topic 310-20, *Receivables - Nonrefundable Fees and Other Costs*, in which interest income is accrued on a level-yield basis for performing loans. For income recognition purposes, this method assumes that all contractual cash flows will be collected, and no

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allowance for loan losses is established at the time of acquisition. Post-acquisition date, an allowance for loan losses may need to be established for acquired loans through a provision charged to earnings for credit losses incurred subsequent to acquisition. Under ASC 310-20, the loss would be measured based on the probable shortfall in relation to the contractual note requirements, consistent with our allowance for loan loss policy for similar loans.

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

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

Foreclosed Assets

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

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

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

Premises and Equipment

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

Goodwill and Other Intangible Assets

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

The Company has identifiable intangible assets consisting of core deposit intangibles (*CDI*) and minimum pension liability. *CDI* are amortized using an accelerated method over a period of ten years. Intangible assets related to minimum pension liability are adjusted annually based upon actuarial estimates.

Impairment of Long-Lived Assets and Goodwill

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

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

Mortgage Servicing Rights

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

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

Indemnification Asset

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

Reserve for Unfunded Commitments

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

Income Taxes

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

statements or tax returns. The measurement of tax assets and liabilities is based on the provisions of enacted tax laws.

Off-Balance Sheet Credit Related Financial Instruments

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

Geographical Descriptions

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

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Reclassifications

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

Recent Accounting Pronouncements

FASB issued ASU No. 2011-02, *Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. This Update provides additional guidance relating to when creditors should classify loan modifications as troubled debt restructurings. This Update also ends the deferral issued in January 2010 of the disclosures about troubled debt restructurings required by ASU No. 2010-20. The provisions of ASU No. 2011-02 and the disclosure requirements of ASU No. 2010-20 are effective for the Company's interim reporting period ending September 30, 2011. The guidance applies retrospectively to restructurings occurring on or after January 1, 2011. The adoption of this Update did not have a material impact on the Company's consolidated financial statements.

FASB issued ASU No. 2011-03, *Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements*. This Update is intended to improve financial reporting of repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. ASU 2011-03 removes from the assessment of effective control (i) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (ii) the collateral maintenance guidance related to that criterion. ASU 2011-03 will be effective for the Company on January 1, 2012 and is not expected to have a significant impact on the Company's consolidated financial statements.

FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU 2011-04 amends Topic 820, Fair Value Measurements and Disclosures, to converge the fair value measurement guidance in U.S. generally accepted accounting principles and International Financial Reporting Standards. ASU 2011-04 clarifies the application of existing fair value measurement requirements, changes certain principles in Topic 820 and requires additional fair value disclosures. ASU 2011-04 is effective for annual periods beginning after December 15, 2011, and did not have a significant impact on the Company's consolidated financial statements.

FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220) Presentation of Comprehensive Income*. ASU 2011-05 amends Topic 220, Comprehensive Income, to require that all nonowner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, ASU 2011-05 requires entities to present, on the face of the financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement or statements where the components of net income and the components of other comprehensive income are presented. The option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. ASU 2011-05 is effective for annual periods beginning after December 15, 2011, and did not have a significant impact on the Company's consolidated financial statements.

FASB issued ASU 2011-08, *Intangibles—Goodwill and Other (Topic 350) Testing Goodwill for Impairment*. ASU 2011-08 amends Topic 350, Intangibles—Goodwill and Other, to give entities the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. ASU 2011-08 is effective for annual and interim impairment tests beginning after December 15, 2011, and did not have a significant impact on the Company's consolidated financial statements.

FASB issued ASU 2011-11, *Balance Sheet Disclosures about Offsetting Assets and Liabilities (Topic 210)*. ASU 2011-11 requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The Update is not expected to have a significant impact on the Company's consolidated financial statements.

FASB issued ASU 2011-12, *Comprehensive Income—Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. ASU 2011-12 updates and supersedes certain pending paragraphs relating to the presentation on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income. This Update is effective concurrent with ASU

2011-05, and did not have a significant impact on the Company's consolidated financial statements.

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On September 23, 2011, the California Department of Financial Institutions closed Citizens Bank of Northern California (Citizens), Nevada City, California and appointed the FDIC as receiver. That same date, the Bank assumed the banking operations of Citizens from the FDIC under a whole bank purchase and assumption agreement without loss sharing. With this agreement, the Bank added one administration building and seven traditional bank branches, including two in Grass Valley, and one in each of Nevada City, Penn Valley, Lake of the Pines, Truckee, and Auburn, California. This acquisition is consistent with the Bank's community banking expansion strategy and provides further opportunity to fill in the Bank's market presence in the Northern California market.

The assets acquired and liabilities assumed for the Citizens acquisition have been accounted for under the acquisition method of accounting (formerly the purchase method). The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the acquisition date. The fair values of the assets acquired and liabilities assumed were determined based on the requirements of the Fair Value Measurements and Disclosures topic of the FASB ASC. The tax treatment of FDIC assisted acquisitions is complex and subject to interpretations that may result in future adjustments of deferred taxes as of the acquisition date. The terms of the agreement provide for the FDIC to indemnify the Bank against claims with respect to liabilities of Citizens not assumed by the Bank and certain other types of claims identified in the agreement. The application of the acquisition method of accounting resulted in the recognition of a bargain purchase gain of \$7,575,000 in the Citizens acquisition.

A summary of the net assets received in the Citizens acquisition, at their estimated fair values, is presented below:

(In thousands)	Citizens September 23, 2011
Asset acquired:	
Cash and cash equivalents	\$ 80,707
Securities available-for-sale	9,353
Restricted equity securities	1,926
Loans	167,484
Core deposit intangible	898
Foreclosed assets	8,412
Other assets	1,524
Total assets acquired	\$ 270,304
Liabilities assumed:	
Deposits	\$ 239,899
Other borrowings	22,038
Other liabilities	792
Total liabilities assumed	\$ 262,729
Net assets acquired/bargain purchase gain	\$ 7,575

In FDIC-assisted transactions, only certain assets and liabilities are transferred to the acquirer and, depending on the nature and amount of the acquirer's bid, the FDIC may be required to make a cash payment to the acquirer. In the Citizens acquisition, net assets with a cost basis of \$26,682,000 were transferred to the Bank. In the Citizens acquisition, the Company recorded a bargain purchase gain of \$7,575,000 representing the excess of the estimated fair value of the assets acquired over the estimated fair value of the liabilities assumed.

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

(In thousands)	Citizens September 23, 2011
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Cost basis net assets acquired	\$	26,682
Cash payment received from FDIC		44,140
Fair value adjustments:		
Cash and cash equivalents		539
Loans		(57,745)
Foreclosed assets		(5,609)
Core deposit intangible		898
Deposits		(382)
Borrowings		(28)
Other		(920)
Bargain purchase gain	\$	7,575

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The Bank acquired only certain assets and assumed certain liabilities of Citizens. A significant portion of Citizens' operations, its facilities and its central operations and administrative functions were not retained by the Bank. Therefore, disclosure of supplemental pro forma financial information, especially prior period comparison is deemed neither practical nor meaningful given the troubled nature of Citizens prior to the date of acquisition. The Bank did not immediately acquire all the banking facilities, furniture or equipment of Citizens as part of the purchase and assumption agreement. However, the Bank had the option to lease the real estate and purchase the furniture and equipment from the FDIC. The term of this option expired 90 days from the acquisition date. Prior to the expiration of the option, the Bank agreed to purchase essentially all of the furniture and equipment, and assume all of the property leases except for the administration building and Citizen's Auburn branch. During the three months ended March 31, 2012, the Bank transferred the operations of Citizen's Auburn branch to the Bank's existing branch in Auburn, and vacated the Citizen's administration building.

The Company identified the loans acquired in the Citizens acquisition as either PNCI or PCI loans. The Company identified certain of the Citizens PCI loans as having cash flows that were not reasonably estimable and elected to place these loans in nonaccrual status under the cash basis method for income recognition (PCI cash basis loans). The Company elected to use the ASC 310-30 pooled method of accounting for all other Citizens PCI loans (PCI other loans).

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

(In thousands)	Citizens Loans			September 23, 2011	Total
	PNCI	PCI - other	PCI - cash basis		
Undiscounted contractual cash flows	\$ 230,106	\$ 69,346	\$ 35,205	\$ 334,657	
Undiscounted cash flows not expected to be collected (nonaccretable difference)		(26,846)	(24,517)	(51,363)	
Undiscounted cash flows expected to be collected	230,106	42,500	10,688	283,295	
Accretable yield at acquisition	(105,664)	(10,146)		(115,810)	
Estimated fair value of loans acquired at acquisition	124,442	32,354	10,688	167,484	
Purchase discount	20,364	23,207	14,174	57,745	
Principal balance loans acquired	\$ 144,806	\$ 55,561	\$ 24,863	\$ 225,229	

In estimating the fair value of Citizens PNCI loans at the acquisition date, the Company calculated the contractual amount and timing of undiscounted principal and interest payments on an individual loan basis and then discounted those cash flows using an appropriate market rate of interest adjusted for liquidity and credit loss risks inherent in each loan. The Citizens PNCI loans expected accretable yield above represents undiscounted interest, and along with the purchase discount, is accounted for using an effective interest method consistent with our accounting for originated loans.

In estimating the fair value of Citizens PCI cash basis loans at the acquisition date, the Company calculated the contractual amount and timing of undiscounted principal and interest payments and estimated the amount of undiscounted expected principal recovery using historic loss rates or estimated collateral values if applicable. The difference between these two amounts represents the nonaccretable difference. The Company used its estimate of the amount of undiscounted expected principal recovery as the fair value of the Citizens PCI cash basis loans, and placed these loans in nonaccrual status. Interest income and principal reductions on these PCI cash basis loans are recorded only when they are received. At each financial reporting date, the carrying value of each PCI cash basis loan is compared to an updated estimate of expected principal payment or recovery for each loan. To the extent that the loan carrying amount exceeds the updated expected principal payment or recovery, a provision for loan loss would be recorded as a charge to income and an allowance for loan loss established.

In estimating the fair value of Citizens PCI other loans at the acquisition date, the Company calculated the contractual amount and timing of undiscounted principal and interest payments and estimated the amount and timing of undiscounted expected principal and interest payments. The difference between these two amounts represents the nonaccretable difference. On the acquisition date, the amount by which the undiscounted expected cash flows exceed the estimated fair value of the acquired loans is the accretable yield. The accretable yield is then measured at each financial reporting date and represents the difference between the remaining undiscounted expected cash flows and the current carrying value of the loans. For PCI loans the accretable yield is accreted into interest income over the life of the estimated remaining cash

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flows. For further information regarding the accounting for PCI other loans, and acquired loans in general, see the discussion under the heading Loans and Allowance for Loan Losses in Note 1 above.

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The following table presents the contractual maturity schedule of loans acquired in the Citizens acquisition and provides separate analyses with respect to fixed rate loans and floating rate loans as of September 23, 2011:

(In thousands)	Maturing			Total	% of total loans
	Due Within one year	Due after one through five years	Due after five years		
Mortgage loans on real estate:					
Residential 1-4 family	\$ 155	\$ 362	\$ 2,467	\$ 2,984	1.3%
Commercial	7,131	20,563	104,169	131,863	58.5%
Total mortgage loan on real estate	7,286	20,925	106,636	134,847	59.8%
Consumer:					
Home equity lines of credit	16,907	16,129	16,954	49,990	22.2%
Home equity loans		387	636	1,023	0.5%
Auto Indirect	3	102		105	0.0%
Other	36	431	3,726	4,193	1.9%
Total consumer loans	16,946	17,049	21,316	55,311	24.6%
Commercial	4,966	11,572	1,389	17,927	8.0%
Construction:					
Residential	5,187	7,733	191	13,111	5.8%
Commercial	8	1,844	2,181	4,033	1.8%
Total construction	5,195	9,577	2,372	17,144	7.6%
Total loans, net of deferred loan fees	\$ 34,393	\$ 59,123	\$ 131,713	\$ 225,229	100.0%
Total fixed rate loans	\$ 10,467	\$ 17,214	\$ 50,232	\$ 77,913	34.6%
Total variable rate loans	23,926	41,909	81,481	147,316	65.4%
Total loans	\$ 34,393	\$ 59,123	\$ 131,713	\$ 225,229	100.0%

The weighted average contractual loan yield for Citizens loans acquired on September 23, 2011 was 6.01%.

The Citizens acquisition increased the Bank's deposits by \$239,899,000 on September 23, 2011. The following table shows a summary of the deposits acquired and the weighted average interest rates in effect at the acquisition date:

(In thousands)	September 23, 2011	
	Amount	Weighted average interest rate
Noninterest-bearing demand	\$ 79,814	
Interest-bearing demand	37,551	0.02%
Savings	67,379	0.25%
Time deposits less than \$100,000	28,714	0.91%
Time deposits greater than \$100,000	26,059	1.01%
Time deposit fair value adjustment	382	
Total deposits	\$ 239,899	

At September 23, 2011, scheduled maturities of Citizens time deposits were as follows:

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Maturing during the 12-month period ending September 23,	(In thousands)
2012	\$ 45,250
2013	5,858
2014	1,074
2015	1,180
Thereafter	1,411
Total	\$ 54,773

As of September 23, 2011, Citizens had \$26,059,000 in time deposits of \$100,000 or more. The following table provides the scheduled maturities of these time deposits:

Maturing:	(In thousands)
3 months of less	\$ 9,450
Over 3 through 6 months	5,135
Over 6 through 12 months	5,998
Over 12 months	5,476
Total	\$ 26,059

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The operations of Citizens, included in the Company's operating results from September 23, 2011 to December 31, 2011, added approximately \$6,171,000 and \$54,000 to interest income and interest expense, respectively, \$1,462,000 to provision for loan losses, \$8,029,000 to noninterest income, including a bargain purchase gain of \$7,575,000, and \$1,865,000 to noninterest expense. Included in the \$6,171,000 of Citizens related interest income recorded from September 23, 2011 to December 31, 2011, is \$3,146,000 of interest income from fair value discount accretion. Such operating results are not necessarily indicative of future operating results. Citizens' results of operations prior to the acquisition are not included in the Company's operating results. As of December 31, 2011, nonrecurring expenses related to the Citizens acquisition were insignificant.

During the three months ended March 31, 2012, the Company completed the conversion of Citizens' information and data processing systems to the Bank's systems, and consolidated the Citizens Auburn branch into the Bank's existing Auburn branch. The operations of Citizens, included in the Company's operating results from January 1, 2012 to March 31, 2012, added approximately \$4,584,000 and \$8,000 to interest income and interest expense, respectively, \$1,467,000 to provision for loan losses, \$145,000 to noninterest income, and \$2,354,000 to noninterest expense. Included in the \$4,584,000 of Citizens related interest income recorded from January 1, 2012 to March 31, 2012, is \$1,972,000 of interest income from fair value discount accretion. Included in the \$145,000 of Citizens related noninterest income recorded from January 1, 2012 to March 31, 2012, is a \$230,000 loss on disposal of fixed assets related to the system conversion noted above. Included in the \$2,354,000 of Citizens related noninterest expense recorded from January 1, 2012 to March 31, 2012, is \$415,000 of outside data processing expenses related to the system conversion noted above. Such operating results are not necessarily indicative of future operating results. Citizens' results of operations prior to the acquisition are not included in the Company's operating results.

On May 28, 2010, the Office of the Comptroller of the Currency closed Granite Community Bank (Granite), Granite Bay, California and appointed the FDIC as receiver. That same date, the Bank assumed the banking operations of Granite from the FDIC under a whole bank purchase and assumption agreement with loss sharing. Under the terms of the loss sharing agreement, the FDIC will cover a substantial portion of any future losses on loans, related unfunded loan commitments, other real estate owned (OREO)/foreclosed assets and accrued interest on loans for up to 90 days. The FDIC will absorb 80% of losses and share in 80% of loss recoveries on the covered assets acquired from Granite. The loss sharing arrangements for non-single family residential and single family residential loans are in effect for 5 years and 10 years, respectively, and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition date. With this agreement, the Bank added one traditional bank branch in each of Granite Bay, Roseville and Auburn, California. This acquisition is consistent with the Bank's community banking expansion strategy and provides further opportunity to fill in the Bank's market presence in the greater Sacramento, California market.

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

(In thousands)	Granite May 28, 2010
Asset acquired:	
Cash and cash equivalents	\$ 18,764
Securities available-for-sale	2,954
Restricted equity securities	696
Covered loans	64,802
Premises and equipment	17
Core deposit intangible	562
Covered foreclosed assets	4,629
FDIC indemnification asset	7,466
Other assets	392
Total assets acquired	\$ 100,282

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Liabilities assumed:	
Deposits	\$ 95,001
Other borrowings	5,000
Other liabilities	49
Total liabilities assumed	100,050
Net assets acquired/bargain purchase gain	\$ 232

The loan portfolio and foreclosed assets acquired in the Granite acquisition are covered by a loss sharing agreement between the Bank and the FDIC, and are referred to as covered loans and covered foreclosed assets, respectively. These covered loans and covered foreclosed assets are recorded in Loans and Foreclosed assets, respectively, in the Company's consolidated balance sheet. Collectively these balances are referred to as covered assets.

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

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

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

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

Because of the significant credit discounts associated with the loans acquired in the Granite acquisition, the Company elected to account for all loans acquired in the Granite acquisition using the ASC 310-30 "pooled" method of accounting and thus categorize them as PCI "other" loans.

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

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

The following table presents a reconciliation of the undiscounted contractual cash flows, nonaccretable difference, accretable yield, fair value, purchase discount, and principal balance of loans for the Granite loans as of the acquisition date. For PCI loans, the purchase discount does not necessarily represent cash flows to be collected as a portion of it is a nonaccretable difference:

(In thousands)	Granite Loans May 28, 2010 PCI - other
Undiscounted contractual cash flows	\$ 99,179
Undiscounted cash flows not expected to be collected (nonaccretable difference)	(11,226)
Undiscounted cash flows expected to be collected	87,953
Accretable yield at acquisition	(23,151)

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Estimated fair value of loans acquired at acquisition	64,802
Purchase discount	13,189
Principal balance loans acquired	\$ 77,991

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

	March 31, 2012			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Securities Available-for-Sale		(in thousands)		
Obligations of U.S. government corporations and agencies	\$ 190,479	\$ 9,854	\$ (39)	\$ 200,294
Obligations of states and political subdivisions	9,561	415		9,976
Corporate debt securities	1,852	35		1,887
Total securities available-for-sale	\$ 201,892	\$ 10,304	\$ (39)	\$ 212,157

	December 31, 2011			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Securities Available-for-Sale		(in thousands)		
Obligations of U.S. government corporations and agencies	\$ 207,284	\$ 10,100		\$ 217,384
Obligations of states and political subdivisions	9,561	467		10,028
Corporate debt securities	1,848		\$ (37)	1,811
Total securities available-for-sale	\$ 218,693	\$ 10,567	\$ (37)	\$ 229,223

No investment securities were sold during the three months ended March 31, 2012 or the year ended December 31, 2011. Investment securities with an aggregate carrying value of \$105,082,000 and \$110,763,000 at March 31, 2012 and December 31, 2011, respectively, were pledged as collateral for specific borrowings, lines of credit and local agency deposits.

The amortized cost and estimated fair value of debt securities at March 31, 2012 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. At March 31, 2012, obligations of U.S. government corporations and agencies with a cost basis totaling \$190,480,000 consist almost entirely of mortgage-backed securities whose contractual maturity, or principal repayment, will follow the repayment of the underlying mortgages. For purposes of the following table, the entire outstanding balance of these mortgage-backed securities issued by U.S. government corporations and agencies is categorized based on final maturity date. At March 31, 2012, the Company estimates the average remaining life of these mortgage-backed securities issued by U.S. government corporations and agencies to be approximately 3.2 years. Average remaining life is defined as the time span after which the principal balance has been reduced by half.

	Amortized Cost	Estimated Fair Value
Investment Securities		(in thousands)
Due in one year	\$ 1,381	\$ 1,437
Due after one year through five years	14,755	15,569
Due after five years through ten years	61,147	62,911
Due after ten years	124,609	132,240
Totals	\$ 201,892	\$ 212,157

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

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
March 31, 2012:						
Securities Available-for-Sale:						
Obligations of U.S. government corporations and agencies	\$ 3,543	\$ (39)			\$ 3,543	\$ (39)
Obligations of states and political subdivisions						
Corporate debt securities						
Total securities available-for-sale	\$ 3,543	\$ (39)			\$ 3,543	\$ (39)

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2011						
Securities Available-for-Sale:						
Obligations of U.S. government corporations and agencies	\$ 10				\$ 10	
Obligations of states and political subdivisions						
Corporate debt securities	1,811	\$ (37)			1,811	\$ (37)
Total securities available-for-sale	\$ 1,821	\$ (37)			\$ 1,821	\$ (37)

Obligations of U.S. government corporations and agencies: Unrealized losses on investments in obligations of U.S. government corporations and agencies are caused by interest rate increases. The contractual cash flows of these securities are guaranteed by U.S. Government Sponsored Entities (principally Fannie Mae and Freddie Mac). It is expected that the securities would not be settled at a price less than the amortized cost of the investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell and more likely than not will not be required to sell, these investments are not considered other-than-temporarily impaired. At March 31, 2012, two debt securities representing obligations of U.S. government corporations and agencies had an unrealized loss with aggregate depreciation of 1.09% from the Company's amortized cost basis.

Table of Contents**Note 4 Loans**

A summary of loan balances follows (in thousands):

	March 31, 2012				
	Originated	PNCI	PCI - Cash basis	PCI - Other	Total
Mortgage loans on real estate:					
Residential 1-4 family	\$ 115,609	\$ 8,689		\$ 6,202	\$ 130,500
Commercial	695,349	89,047	28	32,435	816,859
Total mortgage loan on real estate	810,958	97,736	28	38,637	947,359
Consumer:					
Home equity lines of credit	315,987	19,808	8,492	5,775	350,062
Home equity loans	13,991	363	49	156	14,559
Auto Indirect	8,397				8,397
Other	20,737	2,886		48	23,671
Total consumer loans	359,112	23,057	8,541	5,979	396,689
Commercial	114,583	1,392	1,090	11,278	128,343
Construction:					
Residential	13,175			9,189	22,364
Commercial	12,666			3,664	16,330
Total construction	25,841			12,853	38,694
Total loans, net of deferred loan fees	\$ 1,310,494	\$ 122,185	\$ 9,659	\$ 68,747	\$ 1,511,085
Total principal balance of loans owed, net of charge-offs	\$ 1,312,252	\$ 139,680	\$ 22,103	\$ 89,379	\$ 1,563,414
Unamortized net deferred loan fees	(1,758)				(1,758)
Discounts to principal balance of loans owed, net of charge-offs		(17,495)	(12,444)	(20,632)	(50,571)
Total loans, net of unamortized deferred loan fees	\$ 1,310,494	\$ 122,185	\$ 9,659	\$ 68,747	\$ 1,511,085
Noncovered loans	\$ 1,310,494	\$ 122,185	\$ 9,659	\$ 23,105	\$ 1,465,443
Covered loans				45,642	45,642
Total loans, net of unamortized deferred loan fees	\$ 1,310,494	\$ 122,185	\$ 9,659	\$ 68,747	\$ 1,511,085
Allowance for loan loss	\$ (40,292)	\$ (373)	\$ (1,294)	\$ (3,493)	\$ (45,452)

Table of Contents**Note 4 Loans (continued)**

A summary of loan balances follows (in thousands):

	December 31, 2011				
	Originated	PNCI	PCI - Cash basis	PCI - Other	Total
Mortgage loans on real estate:					
Residential 1-4 family	\$ 118,320	\$ 14,750		\$ 6,516	\$ 139,586
Commercial	699,682	93,428		33,226	826,336
Total mortgage loan on real estate	818,002	108,178		39,742	965,922
Consumer:					
Home equity lines of credit	321,834	20,902	\$ 8,615	5,954	357,305
Home equity loans	14,320	367		157	14,844
Auto Indirect	10,821				10,821
Other	20,270	3,041		49	23,360
Total consumer loans	367,245	24,310	8,615	6,160	406,330
Commercial	123,486	1,805	811	13,029	139,131
Construction:					
Residential	13,908			8,214	22,122
Commercial	12,744			4,783	17,527
Total construction	26,652			12,997	39,649
Total loans, net of deferred loan fees	\$ 1,335,385	\$ 134,293	\$ 9,426	\$ 71,928	\$ 1,551,032
Total principal balance of loans owed, net of charge-offs	\$ 1,337,693	\$ 152,549	\$ 22,137	\$ 94,660	\$ 1,607,039
Unamortized net deferred loan fees	(2,308)				(2,308)
Discounts to principal balance of loans owed, net of charge-offs		(18,256)	(12,711)	(22,732)	(53,699)
Total loans, net of unamortized deferred loan fees	\$ 1,335,385	\$ 134,293	\$ 9,426	\$ 71,928	\$ 1,551,032
Noncovered loans	\$ 1,335,385	\$ 134,293	\$ 9,426	\$ 22,857	\$ 1,501,961
Covered loans				49,071	49,071
Total loans, net of unamortized deferred loan fees	\$ 1,335,385	\$ 134,293	\$ 9,426	\$ 71,928	\$ 1,551,032
Allowance for loan loss	\$ (41,458)	\$ (245)	\$ (1,034)	\$ (3,177)	\$ (45,914)

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

	Three months ended March 31,	
	2012	2011
Change in accretable yield:		
Balance at beginning of period	\$ 25,145	\$ 17,717
Acquisitions		

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Accretion to interest income	(1,959)	(1,034)
Reclassification (to) from nonaccretable difference	1,429	(2,284)
Balance at end of period	\$ 24,615	\$ 14,399

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

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Note 5 Allowance for Loan Losses

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

(In thousands)	Allowance for Loan Losses Three months ended March 31, 2012									
	RE Mortgage		Home Equity		Auto	Other	C&I	Construction		Total
	Resid.	Comm.	Lines	Loans	Indirect	Consum.		Resid.	Comm.	
Beginning balance	\$ 2,404	\$ 13,217	\$ 18,258	\$ 1,101	\$ 215	\$ 932	\$ 6,545	\$ 1,817	\$ 1,425	\$ 45,914
Charge-offs	(223)	(1,305)	(2,625)	(41)	(40)	(339)	(281)	(68)		(4,922)
Recoveries		36	63	3	57	255	50			464
Provision	976	(1,967)	6,336	204	343	(248)	(1,764)	(77)	193	3,996
Ending balance	\$ 3,157	\$ 9,981	\$ 22,032	\$ 1,267	\$ 575	\$ 600	\$ 4,550	\$ 1,672	\$ 1,618	\$ 45,452

Ending balance:

Individ. evaluated for impairment	\$ 582	\$ 1,041	\$ 1,578	\$ 59	\$ 14	\$ 17	\$ 357	\$ 80	\$ 1,048	\$ 4,776
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Loans pooled for evaluation

\$ 2,463	\$ 8,939	\$ 18,949	\$ 1,096	\$ 560	\$ 584	\$ 2,563	\$ 625	\$ 110	\$ 35,889
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Loans acquired with deteriorated credit quality

\$ 113		\$ 1,505	\$ 111			\$ 1,630	\$ 967	\$ 461	\$ 4,787
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(In thousands)	Loans, net of unearned fees As of March 31, 2012									
	RE Mortgage		Home Equity		Auto	Other	C&I	Construction		Total
	Resid.	Comm.	Lines	Loans	Indirect	Consum.		Resid.	Comm.	
Ending balance:										
Total loans	\$ 130,500	\$ 816,859	\$ 350,062	\$ 14,559	\$ 8,397	\$ 23,671	\$ 128,343	\$ 22,364	\$ 16,330	\$ 1,511,085
Individ. evaluated for impairment	\$ 10,490	\$ 69,817	\$ 8,777	\$ 549	\$ 404	\$ 177	\$ 9,286	\$ 5,606	\$ 7,114	\$ 112,220
Loans pooled for evaluation	\$ 113,808	\$ 714,579	\$ 327,018	\$ 13,805	\$ 7,993	\$ 23,446	\$ 106,689	\$ 7,569	\$ 5,552	\$ 1,320,459
Loans acquired with deteriorated credit quality	\$ 6,202	\$ 32,463	\$ 14,267	\$ 205		\$ 48	\$ 12,368	\$ 9,189	\$ 3,664	\$ 78,406

(In thousands)	Allowance for Loan Losses Three months ended March 31, 2011									
	RE Mortgage		Home Equity		Auto	Other	C&I	Construction		Total
	Resid.	Comm.	Lines	Loans	Indirect	Consum.		Resid.	Comm.	
Beginning balance	\$ 3,007	\$ 12,700	\$ 15,054	\$ 795	\$ 1,229	\$ 701	\$ 5,991	\$ 1,824	\$ 1,270	\$ 42,571
Charge-offs	(1,125)	(368)	(3,601)		(135)	(229)	(1,556)	(35)		(7,049)
Recoveries	112	28	161	2	127	209	21	2	39	701
Provision	1,550	(333)	4,682	114	(740)	23	2,511	(396)	(410)	7,001

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Ending balance	\$ 3,544	\$ 12,027	\$ 16,296	\$ 911	\$ 481	\$ 704	\$ 6,967	\$ 1,395	\$ 899	\$ 43,224
Ending balance:										
Individ. evaluated for impairment	\$ 1,055	\$ 917	\$ 1,772	\$ 14	\$ 161	\$ 16	\$ 166	\$ 136	\$ 595	\$ 4,832
Loans pooled for evaluation	\$ 2,471	\$ 10,953	\$ 13,972	\$ 897	\$ 319	\$ 689	\$ 4,781	\$ 1,258	\$ 143	\$ 35,483
Loans acquired with deteriorated credit quality	\$ 18	\$ 157	\$ 553				\$ 2,020		\$ 161	\$ 2,909

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

Table of Contents**Note 5 Allowance for Loan Losses (Continued)**

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

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

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

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

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

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

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

The following tables present ending loan balances by loan category and risk grade as of the dates indicated:

(In thousands)	Credit Quality Indicators As of March 31, 2012									Total
	RE Mortgage		Home Equity		Auto	Other	C&I	Construction		
	Resid.	Comm.	Lines	Loans	Indirect	Consumer			Resid.	Comm.
Originated loans:										
Pass	\$ 100,541	\$ 580,788	\$ 297,041	\$ 12,760	\$ 6,748	\$ 19,952	\$ 98,541	\$ 6,874	\$ 5,215	\$ 1,128,460
Special mention	2,048	40,584	6,894	616	951	610	7,457	43	571	59,774
Substandard	13,020	73,977	12,051	615	698	175	8,585	6,256	6,880	122,257
Loss			1					2		3

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Total Originated loans	\$ 115,609	\$ 695,349	\$ 315,987	\$ 13,991	\$ 8,397	\$ 20,737	\$ 114,583	\$ 13,175	\$ 12,666	\$ 1,310,494
PNCI loans:										
Pass	\$ 8,427	\$ 81,623	\$ 18,482	\$ 363		\$ 2,700	\$ 1,392			\$ 112,987
Special mention		5,167	1,042			106				6,315
Substandard	262	2,257	284			80				2,883
Loss										
Total PNCI loans	\$ 8,689	\$ 89,047	\$ 19,808	\$ 363		\$ 2,886	\$ 1,392			\$ 122,185
PCI loans	\$ 6,202	\$ 32,463	\$ 14,267	\$ 205		\$ 48	\$ 12,368	\$ 9,189	\$ 3,664	\$ 78,406
Total loans	\$ 130,500	\$ 816,859	\$ 350,062	\$ 14,559	\$ 8,397	\$ 23,671	\$ 128,343	\$ 22,364	\$ 16,330	\$ 1,511,085

Table of Contents**Note 5 Allowance for Loan Losses (Continued)**

(In thousands)	RE Mortgage		Home Equity			Auto		Other		Construction		Total
	Resid.	Comm.	Lines	Loans	Indirect	Consumer	C&I	Resid.	Comm.			
Originated loans:												
Pass	\$ 103,611	\$ 574,167	\$ 305,290	\$ 13,478	\$ 9,686	\$ 19,871	\$ 107,877	\$ 6,872	\$ 5,387	\$ 1,146,239		
Special mention	1,020	46,518	1,295		33	10	6,709	903	430	56,918		
Substandard	13,689	78,997	15,249	842	1,102	389	8,900	6,133	6,927	132,228		
Total Originated loans	\$ 118,320	\$ 699,682	\$ 321,834	\$ 14,320	\$ 10,821	\$ 20,270	\$ 123,486	\$ 13,908	\$ 12,744	\$ 1,335,385		
PNCI loans:												
Pass	\$ 14,576	\$ 83,735	\$ 20,053	\$ 367		\$ 3,034	\$ 1,707			\$ 123,472		
Special mention		9,693	548			4				10,245		
Substandard	174		301			3	98			576		
Total PNCI loans	\$ 14,750	\$ 93,428	\$ 20,902	\$ 367		\$ 3,041	\$ 1,805			\$ 134,293		
PCI loans	\$ 6,516	\$ 33,226	\$ 14,569	\$ 157		\$ 49	\$ 13,840	\$ 8,214	\$ 4,783	\$ 81,354		
Total loans	\$ 139,586	\$ 826,336	\$ 357,305	\$ 14,844	\$ 10,821	\$ 23,360	\$ 139,131	\$ 22,122	\$ 17,527	\$ 1,551,032		

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

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

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

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

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

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

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

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

(In thousands)	Analysis of Past Due and Nonaccrual Originated Loans As of March 31, 2012									
	RE Mortgage		Home Equity		Auto	Other	C&I	Construction		Total
	Resid.	Comm.	Lines	Loans	Indirect	Consumer		Resid.	Comm.	
Originated loan balance:										
Past due:										
30-59 Days	\$ 3,051	\$ 6,641	\$ 1,638	\$ 79	\$ 138	\$ 8	\$ 481	\$ 220	\$ 161	\$ 12,417
60-89 Days	221	3,118	2,476	393	14	3	811	97		7,133
> 90 Days	2,134	11,125	2,303	35	105	10	4,902	780	39	21,433
Total past due	5,406	20,884	6,417	507	257	21	6,194	1,097	200	40,983
Current	110,203	674,465	309,570	13,484	8,140	20,716	108,389	12,078	12,466	1,269,511
Total Originated loans	\$ 115,609	\$ 695,349	\$ 315,987	\$ 13,991	\$ 8,397	\$ 20,737	\$ 114,583	\$ 13,175	\$ 12,666	\$ 1,310,494
> 90 Days and still accruing							\$ 111			\$ 111
Nonaccrual loans	\$ 8,296	\$ 41,040	\$ 7,001	\$ 485	\$ 348	\$ 100	\$ 7,085	\$ 5,647	\$ 651	\$ 70,653

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

(In thousands)	Analysis of Past Due and Nonaccrual PNCI Loans As of March 31, 2012									
	RE Mortgage		Home Equity		Auto	Other	C&I	Construction		Total
	Resid.	Comm.	Lines	Loans	Indirect	Consumer		Resid.	Comm.	
PNCI loan balance:										
Past due:										
30-59 Days		\$ 4,592	\$ 462	\$ 521						\$ 5,575
60-89 Days		175		226						401
> 90 Days				53						53
Total past due		4,767	462	800						6,029
Current		3,922	88,585	19,008	363		2,886	1,392		116,156
Total PNCI loans		\$ 8,689	\$ 89,047	\$ 19,808	\$ 363		\$ 2,886	\$ 1,392		\$ 122,185
> 90 Days and still accruing										
Nonaccrual loans			\$ 1,693	\$ 406			\$ 47			\$ 2,146

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

(In thousands)	Analysis of Past Due and Nonaccrual Originated Loans									As of December 31, 2011	Total
	RE Mortgage		Home Equity		Auto	Other	Construction				
	Resid.	Comm.	Lines	Loans	Indirect	Consumer	C&I	Resid.	Comm.		
Originated loan balance:											
Past due:											
30-59 Days	\$ 1,715	\$ 7,509	\$ 2,586	\$ 52	\$ 181	\$ 46	\$ 683	\$ 921		\$ 13,693	
60-89 Days	750	1,171	2,629	281	56	153	1,334	92		6,466	
> 90 Days	3,279	9,892	3,129	114	130	5	4,929	2,088		23,566	
Total past due	5,744	18,572	8,344	447	367	204	6,946	3,101		43,725	
Current	112,576	681,110	313,490	13,873	10,454	20,066	116,540	10,807	12,744	1,291,660	
Total Originated loans	\$ 118,320	\$ 699,682	\$ 321,834	\$ 14,320	\$ 10,821	\$ 20,270	\$ 123,486	\$ 13,908	\$ 12,744	\$ 1,335,385	
> 90 Days and still accruing		\$ 500								\$ 500	
Nonaccrual loans	\$ 8,525	\$ 43,765	\$ 8,307	\$ 509	\$ 509	\$ 109	\$ 7,257	\$ 5,627	\$ 667	\$ 75,275	

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

(In thousands)	Analysis of Past Due and Nonaccrual PNCI Loans							As of December 31, 2011		Total
	RE Mortgage		Home Equity		Auto	Other	Construction			
	Resid.	Comm.	Lines	Loans	Indirect	Consumer	C&I	Resid.	Comm.	
PNCI loan balance:										
Past due:										
30-59 Days		\$ 118	\$ 63							\$ 181
60-89 Days	\$ 76		39							115
> 90 Days		420	14							434
Total past due	76	538	116							730
Current	14,674	92,890	20,786	\$ 367		\$ 3,041	\$ 1,805			133,563
Total PNCI loans	\$ 14,750	\$ 93,428	\$ 20,902	\$ 367		\$ 3,041	\$ 1,805			\$ 134,293
> 90 Days and still accruing		\$ 420								\$ 420
Nonaccrual loans			\$ 110							\$ 110

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

(In thousands)	Impaired Originated Loans							As of March 31, 2012		Total
	RE Mortgage		Home Equity		Auto	Other	Construction			
	Resid.	Comm.	Lines	Loans	Indirect	Consumer	C&I	Resid.	Comm.	
With no related allowance recorded:										
Recorded investment	\$ 7,288	\$ 61,224	\$ 4,039	\$ 188	\$ 311	\$ 55	\$ 8,453	\$ 4,631	\$ 629	\$ 86,818
Unpaid principal	\$ 9,377	\$ 72,273	\$ 6,755	\$ 488	\$ 568	\$ 80	\$ 9,110	\$ 9,642	\$ 953	\$ 109,246
Average recorded Investment	\$ 8,079	\$ 52,833	\$ 5,053	\$ 479	\$ 467	\$ 44	\$ 6,597	\$ 5,315	\$ 3,570	\$ 82,437
Interest income Recognized	\$ 22	\$ 375	\$ 4	\$ 1	\$ 1		\$ 33		\$ 3	\$ 439
With an allowance recorded:										
Recorded investment	\$ 3,040	\$ 6,521	\$ 4,332	\$ 361	\$ 93	\$ 45	\$ 833	\$ 975	\$ 6,485	\$ 22,685
Unpaid principal	\$ 3,524	\$ 7,010	\$ 5,389	\$ 720	\$ 117	\$ 47	\$ 873	\$ 2,071	\$ 6,523	\$ 26,274
Related allowance	\$ 559	\$ 1,043	\$ 1,498	\$ 59	\$ 14	\$ 17	\$ 357	\$ 78	\$ 1,048	\$ 4,673
Average recorded Investment	\$ 3,399	\$ 10,714	\$ 3,690	\$ 188	\$ 297	\$ 46	\$ 704	\$ 815	\$ 3,725	\$ 23,578
Interest income Recognized	\$ 6	\$ 62	\$ 11				\$ 7	\$ 2	\$ 94	\$ 182

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(In thousands)	RE Mortgage		Impaired PNCI Loans			As of March 31, 2012			Total
	Resid.	Comm.	Home Equity Lines	Auto Loans	Indirect	Other Consumer	C&I	Construction Resid. Comm.	
With no related allowance recorded:									
Recorded investment		\$ 2,072	\$ 326			\$ 77			\$ 2,475
Unpaid principal		\$ 2,075	\$ 363			\$ 78			\$ 2,516
Average recorded Investment		\$ 1,036	\$ 163			\$ 39			\$ 1,238
Interest income Recognized		\$ 26				\$ 1			\$ 27
With an allowance recorded:									
Recorded investment	\$ 162		\$ 80						\$ 242
Unpaid principal	\$ 162		\$ 84						\$ 246
Related allowance	\$ 23		\$ 80						\$ 103
Average recorded Investment	\$ 81		\$ 40						\$ 121
Interest income Recognized	\$ 3								\$ 3

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The following tables show the recorded investment (financial statement balance), unpaid principal balance, average recorded investment, and interest income recognized for impaired Originated and PNCI loans, segregated by those with no related allowance recorded and those with an allowance recorded for the periods indicated.

(In thousands)	Impaired Originated Loans As of December 31, 2011									
	RE Mortgage		Home Equity		Auto		Other		Construction	
	Resid.	Comm.	Lines	Loans	Indirect	Consumer	C&I	Resid.	Comm.	
With no related allowance recorded:										
Recorded investment	\$ 6,921	\$ 61,205	\$ 5,101	\$ 224	\$ 424	\$ 39	\$ 8,473	\$ 1,809	\$ 571	\$ 84,767
Unpaid principal	\$ 8,663	\$ 72,408	\$ 8,519	\$ 528	\$ 777	\$ 56	\$ 9,229	\$ 2,857	\$ 916	\$ 103,953
Average recorded Investment	\$ 6,557	\$ 53,346	\$ 5,228	\$ 458	\$ 569	\$ 44	\$ 6,687	\$ 3,942	\$ 3,590	\$ 80,421
Interest income Recognized	\$ 58	\$ 2,235	\$ 99	\$ 7	\$ 15	\$ 2	\$ 381		\$ 4	\$ 2,801
With an allowance recorded:										
Recorded investment	\$ 3,246	\$ 10,688	\$ 4,177	\$ 350	\$ 147	\$ 70	\$ 964	\$ 3,818	\$ 6,328	\$ 29,788
Unpaid principal	\$ 3,760	\$ 11,094	\$ 4,977	\$ 666	\$ 193	\$ 75	\$ 1,040	\$ 8,698	\$ 6,330	\$ 36,833
Related allowance	\$ 460	\$ 1,613	\$ 2,365	\$ 73	\$ 29	\$ 24	\$ 200	\$ 258	\$ 971	\$ 5,993
Average recorded Investment	\$ 4,611	\$ 10,019	\$ 4,770	\$ 215	\$ 407	\$ 52	\$ 1,023	\$ 2,334	\$ 3,578	\$ 27,009
Interest income Recognized	\$ 77	\$ 588	\$ 122	\$ 3	\$ 2	\$ 2	\$ 36	\$ (16)	\$ 387	\$ 1,201

(In thousands)	Impaired PNCI Loans As of December 31, 2011									
	RE Mortgage		Home Equity		Auto		Other		Construction	
	Resid.	Comm.	Lines	Loans	Indirect	Consumer	C&I	Resid.	Comm.	
With no related allowance recorded:										
Recorded investment				\$ 110	\$ 87			\$ 89		\$ 286
Unpaid principal				\$ 126	\$ 89			\$ 98		\$ 313
Average recorded Investment				\$ 55	\$ 44			\$ 45		\$ 144
Interest income Recognized				\$ 5	\$ 2			\$ 3		\$ 10

With an allowance recorded:

Recorded investment

Unpaid principal

Related allowance

Average recorded Investment

Interest income Recognized

At March 31, 2012, \$67,348,000 of Originated loans were TDR and classified as impaired. The Company had obligations to lend \$333,000 of additional funds on these TDR as of March 31, 2012. At March 31, 2012, \$495,000 of PNCI loans were TDR and classified as impaired. The Company had no obligations to lend additional funds on these TDR as of March 31, 2012.

At December 31, 2011, \$66,160,000 of Originated loans were TDR and classified as impaired. The Company had obligations to lend \$258,000 of additional funds on these TDR as of December 31, 2011. At December 31, 2011, \$176,000 of PNCI loans were TDR and classified as impaired. The Company had no obligations to lend additional funds on these TDR as of December 31, 2011.

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The following tables show the recorded investment (financial statement balance), unpaid principal balance, average recorded investment, and interest income recognized for impaired Originated loans, segregated by those with no related allowance recorded and those with an allowance recorded for the periods indicated.

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

At March 31, 2011, \$46,326,000 of originated loans were TDR and classified as impaired. The Company had obligations to lend \$378,000 of additional funds on these TDR as of March 31, 2011. At March 31, 2011, the Company had no PNCI loans.

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

(In thousands)	TDR Information for the Three Months Ended March 31, 2012									
	RE Mortgage		Home Equity		Auto	Other	Construction		Total	
	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.		Comm.
Number	2	7	2			1	1	2		15
Pre-modification out-standing principal balance	\$ 650	\$ 1,561	\$ 436			\$ 38	\$ 249	\$ 230		\$ 3,164
Post-modification out-standing principal balance	\$ 669	\$ 1,523	\$ 464			\$ 38	\$ 249	\$ 232		\$ 3,175
Financial Impact due to troubled debt restructure taken as additional provision				\$ 16						\$ 16
Number that defaulted during the period	1	4							1	6
Recorded investment of TDRs that defaulted during the period	\$ 112	\$ 2,632							\$ 39	\$ 2,783
Financial Impact due to the default of previous troubled debt restructure taken as charge-offs or additional provisions										

Modifications classified as Troubled Debt Restructurings can include one or a combination of the following:

Rate modifications

Term extensions

Interest only modifications, either temporary or long-term

Payment modifications

Collateral substitutions/additions

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

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

Note 6 Foreclosed Assets

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

	Three months ended March 31, 2012			Three months ended March 31, 2011		
	Noncovered	Covered	Total	Noncovered	Covered	Total
Beginning balance, net	\$ 13,268	\$ 3,064	\$ 16,332	\$ 5,000	\$ 4,913	\$ 9,913
Additions/transfers from loans	1,694	225	1,919	1,523		1,523
Dispositions/sales	(3,379)		(3,379)	(1,983)	(21)	(2,004)
Valuation adjustments	(83)		(83)	(68)	(381)	(449)
Ending balance, net	\$ 11,500	\$ 3,289	\$ 14,789	\$ 4,472	\$ 4,511	\$ 8,983
Ending valuation allowance	\$ (977)	\$ (776)	\$ (1,753)	\$ (505)	\$ (996)	\$ (1,501)
Ending number of foreclosed assets	52	11	63	32	13	45
Proceeds from sale of foreclosed assets	\$ 3,021		\$ 3,021	\$ 2,175	\$ 30	\$ 2,205
Gain (loss) on sale of foreclosed assets	\$ (358)		\$ (358)	\$ 191	\$ 9	\$ 200

Note 7 Premises and Equipment

Premises and equipment were comprised of:

	March 31, 2012	December 31, 2011
	(In thousands)	
Premises	\$ 21,197	\$ 20,975
Furniture and equipment	24,733	24,340
	45,930	45,315
Less: Accumulated depreciation	(30,241)	(29,562)
	15,689	15,753
Land and land improvements	4,125	4,140
	\$ 19,814	\$ 19,893

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Depreciation expense for premises and equipment amounted to \$782,000 and \$646,000 for the three months ended March 31, 2012 and 2011, respectively.

Note 8 Cash Value of Life Insurance

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

	Three months ended March 31,	
	2012	2011
Beginning balance	\$ 50,403	\$ 50,541
Increase in cash value of life insurance	450	450
Ending balance	\$ 50,853	\$ 50,991

As of March 31, 2012, the Bank was the owner and beneficiary of 139 life insurance policies, issued by six life insurance companies, covering 38 current and former employees and directors. These life insurance policies are recorded on the Company's financial statements at their reported cash (surrender) values. As a result of current tax law and the nature of these policies, the Bank records any increase in cash value of these policies as nontaxable noninterest income. If the Bank decided to surrender any of the policies prior to the death of the insured, such surrender may result in a tax expense related to the life-to-date cumulative increase in cash value of the policy. If the Bank retains such policies until the death of the insured, the Bank would receive nontaxable proceeds from the insurance company equal to the death benefit of the policies. The Bank has entered into Joint Beneficiary Agreements (JBAs) with certain of the insureds that for certain of the policies provide some level of sharing of the death benefit, less the cash surrender value, among the Bank and the beneficiaries of the insured upon the receipt of death benefits. See Note 15 of these consolidated financial statements for additional information on JBAs.

Table of Contents**Note 9 Goodwill and Other Intangible Assets**

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

(In thousands)	March 31, 2012	Additions	Reductions	December 31, 2011
Goodwill	\$ 15,519			\$ 15,519

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

(In thousands)	March 31, 2012	Additions	Reductions	December 31, 2011
Core deposit intangibles	\$ 1,460			\$ 1,460
Accumulated amortization	(212)		\$ (53)	(159)
Core deposit intangibles, net	\$ 1,248		\$ (53)	\$ 1,301

The Company recorded additions to core deposit intangibles of \$898,000 and \$562,000 in conjunction with the Citizens and Granite acquisition on September 23, 2011 and May 28, 2010, respectively. The following table summarizes the Company's estimated core deposit intangible amortization (in thousands):

Years Ended	Estimated Core Deposit Intangible Amortization
2012	\$ 209
2013	209
2014	209
2015	209
2016	209
Thereafter	\$ 256

Note 10 Mortgage Servicing Rights

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

	Three months ended March 31,	
	2012	2011
Mortgage servicing rights:		
Balance at beginning of period	\$ 4,603	\$ 4,605
Additions	550	263
Change in fair value	(369)	(60)
Balance at end of period	\$ 4,784	\$ 4,808
Servicing, late and ancillary fees received	\$ 372	\$ 361
Balance of loans serviced at:		
Beginning of period	\$ 598,185	\$ 573,300
End of period	\$ 615,867	\$ 583,625

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Weighted-average prepayment speed (CPR)	18.4%	14.8%
Discount rate	9.0%	9.0%

The changes in fair value of MSR's that occurred during the three months ended March 31, 2012 and 2011 were mainly due to principal reductions and changes in estimated life of the MSR's.

Note 11 Indemnification Asset

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

	Three months ended March 31,	
	2012	2011
Beginning balance	\$ 4,405	\$ 5,640
Effect of actual covered losses and change in estimated future covered losses	(418)	1,681
Reimbursable expenses incurred	58	122
Payments received	(640)	(754)
Ending balance	\$ 3,405	\$ 6,689

Table of Contents**Note 12 Other Assets**

Other assets were comprised of (in thousands):

	March 31, 2012	December 31, 2011
Deferred tax asset, net	\$ 26,963	\$ 27,810
Prepaid expense including FDIC assessment and taxes	6,773	8,459
Software	1,839	1,530
Life insurance proceeds receivable		2,811
Advanced compensation	1,328	1,363
TriCo Capital Trust I & II	1,238	1,238
Mmiscellaneous other assets	1,333	173
Total other assets	\$ 39,474	\$ 43,384

Note 13 Deposits

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

	March 31, 2012	December 31, 2011
Noninterest-bearing demand	\$ 564,143	\$ 541,276
Interest-bearing demand	488,573	431,565
Savings	724,449	797,182
Time certificates, \$100,000 and over	204,663	220,374
Other time certificates	187,918	200,139
Total deposits	\$ 2,169,746	\$ 2,190,536

Certificate of deposit balances of \$5,000,000 and \$5,000,000 from the State of California were included in time certificates, \$100,000 and over, at March 31, 2012 and December 31, 2011, respectively. The Bank participates in a deposit program offered by the State of California whereby the State may make deposits at the Bank's request subject to collateral and credit worthiness constraints. The negotiated rates on these State deposits are generally more favorable than other wholesale funding sources available to the Bank. Overdrawn deposit balances of \$1,168,000 and \$1,343,000 were classified as consumer loans at March 31, 2012 and December 31, 2011, respectively.

Note 14 Reserve for Unfunded Commitments

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

	Three months ended March 31, 2012	2011
Balance at beginning of period	\$ 2,740	\$ 2,640
Provision for losses - unfunded commitments	(190)	50
Balance at end of period	\$ 2,550	\$ 2,690

Note 15 Other Liabilities

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Other liabilities were comprised of (in thousands):

	March 31, 2012	December 31, 2011
Deferred compensation	\$ 8,320	\$ 8,209
Supplemental retirement	11,567	11,201
Additional minimum pension liability	3,802	3,802
Joint beneficiary agreements	2,382	2,323
Miscellaneous other liabilities	3,604	4,892
Total other liabilities	\$ 29,675	\$ 30,427

Note 16 Other Borrowings

A summary of the balances of other borrowings follows:

(In thousands)	March 31, 2012	December 31, 2011
Borrowing under security repurchase agreement, rate is fixed at 4.72% and principal is callable in its entirety by lender on a quarterly basis until final maturity on August 30, 2012	\$ 50,000	\$ 50,000
FHLB fixed rate borrowings:		
Matured January 25, 2012, effective rate 0.24%		3,000
Matures April 6, 2012, effective rate 0.26%	5,000	5,013
Matures April 25, 2012, effective rate 0.26%	3,000	3,001
Matures July 25, 2012, effective rate 0.34%	3,000	3,000
Other collateralized borrowings, fixed rate, as of March 31, 2012 of 0.05% payable on April 2, 2012	8,074	8,527
Total other borrowings	\$ 69,074	\$ 72,541

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During August 2007, the Company entered into a security repurchase agreement with principal balance of \$50,000,000 and terms as described above. As of March 31, 2012, the Company has pledged as collateral and sold under an agreement to repurchase investment securities with fair value of \$58,365,000 under this security repurchase agreement. The Company did not enter into any other repurchase agreements during the three months ended March 31, 2012 or the year ended December 31, 2011. The average balance of repurchase agreements during the three months ended March 31, 2012 was \$50,000,000, with an average rate of 4.72%.

The Company had \$8,074,000 and \$8,527,000 of other collateralized borrowings at March 31, 2012 and December 31, 2011, respectively. Other collateralized borrowings are generally overnight maturity borrowings from non-financial institutions that are collateralized by securities owned by the Company. As of March 31, 2012, the Company has pledged as collateral and sold under agreements to repurchase investment securities with fair value of \$8,074,000 under these other collateralized borrowings.

As part of the Citizens acquisition on September 23, 2011, the Company assumed borrowings with principal balances totaling \$22,000,000 and fair values totaling \$22,028,000. These borrowings from the Federal Home Loan Bank of San Francisco (FHLB) are now collateralized under the Bank's line of credit at the FHLB as described below. As of March 31, 2012, borrowings with principal balances totaling \$11,000,000 remain from the \$22,000,000 issued in the Citizens acquisition.

The Company maintains a collateralized line of credit with the Federal Home Loan Bank of San Francisco. Based on the FHLB stock requirements at March 31, 2012, this line provided for maximum borrowings of \$512,266,000 of which \$11,000,000 was outstanding, leaving \$501,266,000 available. As of March 31, 2012, the Company has designated loans totaling \$1,035,990,000 as potential collateral under this collateralized line of credit with the FHLB.

The Company maintains a collateralized line of credit with the Federal Reserve Bank of San Francisco. As of March 31, 2012, this line provided for maximum borrowings of \$65,918,000 of which none was outstanding, leaving \$65,918,000 available. As of March 31, 2012, the Company has designated investment securities with fair value of \$291,000 and loans totaling \$65,627,000 as potential collateral under this collateralized line of credit with the FRB.

The Company has available unused correspondent banking lines of credit from commercial banks totaling \$5,000,000 for federal funds transactions at March 31, 2012.

Note 17 Junior Subordinated Debt

On July 31, 2003, the Company formed a subsidiary business trust, TriCo Capital Trust I, to issue trust preferred securities. Concurrently with the issuance of the trust preferred securities, the trust issued 619 shares of common stock to the Company for \$1,000 per share or an aggregate of \$619,000. In addition, the Company issued a Junior Subordinated Debenture to the Trust in the amount of \$20,619,000. The terms of the Junior Subordinated Debenture are materially consistent with the terms of the trust preferred securities issued by TriCo Capital Trust I. Also on July 31, 2003, TriCo Capital Trust I completed an offering of 20,000 shares of cumulative trust preferred securities for cash in an aggregate amount of \$20,000,000. The trust preferred securities are mandatorily redeemable upon maturity on October 7, 2033 with an interest rate that resets quarterly at three-month LIBOR plus 3.05%. TriCo Capital Trust I has the right to redeem the trust preferred securities on or after October 7, 2008. The trust preferred securities were issued through an underwriting syndicate to which the Company paid underwriting fees of \$7.50 per trust preferred security or an aggregate of \$150,000. The net proceeds of \$19,850,000 were used to finance the opening of new branches, improve bank services and technology, repurchase shares of the Company's common stock under its repurchase plan and increase the Company's capital. The trust preferred securities have not been and will not be registered under the Securities Act of 1933, as amended, or applicable state securities laws and were sold pursuant to an exemption from registration under the Securities Act of 1933. The trust preferred securities may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act of 1933, as amended, and applicable state securities laws.

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

On June 22, 2004, the Company formed a second subsidiary business trust, TriCo Capital Trust II, to issue trust preferred securities. Concurrently with the issuance of the trust preferred securities, the trust issued 619 shares of common stock to the Company for \$1,000 per share or an aggregate of \$619,000. In addition, the Company issued a Junior Subordinated Debenture to the Trust in the amount of \$20,619,000. The terms of the Junior Subordinated Debenture are materially consistent with the terms of the trust preferred securities issued by TriCo Capital Trust II. Also on June 22, 2004, TriCo Capital Trust II completed an offering of 20,000 shares of cumulative trust preferred securities for cash in an aggregate amount of \$20,000,000. The trust preferred securities are mandatorily redeemable upon maturity on July 23, 2034 with an interest rate that resets quarterly at three-month LIBOR plus 2.55%. TriCo Capital Trust II has the right to redeem the trust preferred securities on or

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after July 23, 2009. The trust preferred securities were issued through an underwriting syndicate to which the Company paid underwriting fees of \$2.50 per trust preferred security or an aggregate of \$50,000. The net proceeds of \$19,950,000 were used to finance the opening of new branches, improve bank services and technology, repurchase shares of the Company's common stock under its repurchase plan and increase the Company's capital. The trust preferred securities have not been and will not be registered under the Securities Act of 1933, as amended, or applicable state securities laws and were sold pursuant to an exemption from registration under the Securities Act of 1933. The trust preferred securities may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act of 1933, as amended, and applicable state securities laws.

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

The debentures issued by TriCo Capital Trust I and TriCo Capital Trust II, less the common securities of TriCo Capital Trust I and TriCo Capital Trust II, continue to qualify as Tier 1 or Tier 2 capital under interim guidance issued by the Board of Governors of the Federal Reserve System (Federal Reserve Board). As of March 31, 2012, the interest rates on the junior subordinated debentures issued by TriCo Capital Trust I and II were 3.622% and 3.111%, respectively.

Note 18 Commitments and Contingencies

Restricted Cash Balances Reserves (in the form of deposits with the Federal Reserve Bank) of \$24,042,000 and \$20,143,000 were maintained to satisfy Federal regulatory requirements at March 31, 2012 and December 31, 2011, respectively. These reserves are included in cash and due from banks in the accompanying balance sheets.

Lease Commitments The Company leases 51 sites under non-cancelable operating leases. The leases contain various provisions for increases in rental rates, based either on changes in the published Consumer Price Index or a predetermined escalation schedule. Substantially all of the leases provide the Company with the option to extend the lease term one or more times following expiration of the initial term.

At December 31, 2011, future minimum commitments under non-cancelable operating leases with initial or remaining terms of one year or more are as follows:

	Operating Leases (In thousands)
2012	\$ 2,773
2013	2,260
2014	1,658
2015	1,032
2016	446
Thereafter	712
Future minimum lease payments	\$ 8,881

Rent expense under operating leases was \$832,000 and \$693,000 during the three months ended March 31, 2012 and 2011, respectively

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

The Company's exposure to loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit written is represented by the contractual amount of those instruments. The Company uses the same

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

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

(In thousands)

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	March 31, 2012	December 31, 2011
Financial instruments whose amounts represent risk:		
Commitments to extend credit:		
Commercial loans	\$ 137,896	\$ 119,634
Consumer loans	379,371	380,489
Real estate mortgage loans	20,893	22,277
Real estate construction loans	6,017	6,646
Standby letters of credit	4,536	5,324
Deposit account overdraft privilege	63,697	61,623

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates of one year or less or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of

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collateral obtained, if deemed necessary by the Company upon extension of credit, is based on Management's credit evaluation of the customer. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, residential properties, and income-producing commercial properties.

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

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

Legal Proceedings The Bank owns 10,214 shares of Class B common stock of Visa Inc. which are convertible into Class A common stock at a conversion ratio of 0.4881 per Class A share. As of March 31, 2012, the value of the Class A shares was \$118.00 per share. Utilizing the conversion ratio, the value of unredeemed Class A equivalent shares owned by the Company was \$588,000 as of March 31, 2012, and has not been reflected in the accompanying financial statements. The shares of Visa Class B common stock are restricted and may not be transferred. Visa Member Banks are required to fund an escrow account to cover settlements, resolution of pending litigation and related claims. If the funds in the escrow account are insufficient to settle all the covered litigation, Visa may sell additional Class A shares, use the proceeds to settle litigation, and further reduce the conversion ratio. If funds remain in the escrow account after all litigation is settled, the Class B conversion ratio will be increased to reflect that surplus.

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

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

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

Note 19 Shareholders' Equity**Dividends Paid**

The Bank paid to the Company cash dividends in the aggregate amounts of \$1,625,000 during the three months ended March 31, 2012. The Bank is regulated by the FDIC and the State of California Department of Financial Institutions. Absent approval from the Commissioner of Financial Institutions of California, California banking laws generally limit the Bank's ability to pay dividends to the lesser of (1) retained earnings or (2) net income for the last three fiscal years, less cash distributions paid during such period.

Shareholders' Rights Plan

On June 25, 2001, the Company announced that its Board of Directors adopted and entered into a Shareholder Rights Plan designed to protect and maximize shareholder value and to assist the Board of Directors in ensuring fair and equitable benefit to all shareholders in the event of a hostile bid to acquire the Company. On July 8, 2011, the Company amended the Rights Plan to extend its maturity until July 10, 2021.

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

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

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

The rights' initial exercise price, which is subject to adjustment, is \$49.00 per right. The Company's Board of Directors generally will be entitled to redeem the rights at a redemption price of \$0.01 per right until an acquiring entity acquires a 15% position.

Table of Contents**Stock Repurchase Plan**

On August 21, 2007, the Board of Directors adopted a plan to repurchase, as conditions warrant, up to 500,000 shares of the Company's common stock on the open market. The timing of purchases and the exact number of shares to be purchased will depend on market conditions. The 500,000 shares authorized for repurchase under this stock repurchase plan represented approximately 3.2% of the Company's 15,814,662 outstanding common shares as of August 21, 2007. This stock repurchase plan has no expiration date. As of March 31, 2012, the Company had repurchased 166,600 shares under this plan.

Stock Repurchased Under Equity Compensation Plans

During the three months ended March 31, 2012 employees tendered no shares of the Company's common stock in lieu of cash to exercise options to purchase shares of the Company's stock or to pay income taxes related to such exercises as permitted by the Company's shareholder-approved equity compensation plans. Such tendered shares are considered repurchased shares but are not counted against the repurchase plan noted above.

Note 20 Stock Options and Other Equity-Based Incentive Instruments

In March 2009, the Company's Board of Directors adopted the TriCo Bancshares 2009 Equity Incentive Plan (2009 Plan) covering officers, employees, directors of, and consultants to, the Company. The 2009 Plan was approved by the Company's shareholders in May 2009. The 2009 Plan allows for the granting of the following types of stock awards (Awards): incentive stock options, nonstatutory stock options, performance awards, restricted stock, restricted stock unit awards and stock appreciation rights. Subject to certain adjustments, the maximum aggregate number of shares of TriCo's common stock which may be issued pursuant to or subject to Awards is 650,000. The number of shares available for issuance under the 2009 Plan shall be reduced by: (i) one share for each share of common stock issued pursuant to a stock option or a Stock Appreciation Right and (ii) two shares for each share of common stock issued pursuant to a Performance Award, a Restricted Stock Award or a Restricted Stock Unit Award. When Awards made under the 2009 Plan expire or are forfeited or cancelled, the underlying shares will become available for future Awards under the 2009 Plan. To the extent that a share of common stock pursuant to an Award that counted as two shares against the number of shares again becomes available for issuance under the 2009 Plan, the number of shares of common stock available for issuance under the 2009 Plan shall increase by two shares. Shares awarded and delivered under the 2009 Plan may be authorized but unissued, or reacquired shares. As of March 31, 2012, 399,000 options for the purchase of common shares remain outstanding, and 251,000 remain available for grant, under the 2009 Plan.

In May 2001, the Company adopted the TriCo Bancshares 2001 Stock Option Plan (2001 Plan) covering officers, employees, directors of, and consultants to, the Company. Under the 2001 Plan, the option exercise price cannot be less than the fair market value of the Common Stock at the date of grant except in the case of substitute options. Options for the 2001 Plan expire on the tenth anniversary of the grant date. Vesting schedules under the 2001 Plan are determined individually for each grant. As of March 31, 2012, 851,935 options for the purchase of common shares remain outstanding under the 2001 Plan. No new options may be granted under the 2001 Plan. Stock option activity is summarized in the following table for the time period indicated:

	Number	Option Price	Weighted Average Exercise Price	Weighted Average Fair Value on Date of Grant
	of Shares	per Share		
Outstanding at December 31, 2011	1,250,935	\$11.72 to \$25.91	\$ 17.18	
Options granted		to		
Options exercised		to		
Options forfeited		to		
Outstanding at March 31, 2012	1,250,935	\$11.72 to \$25.91	\$ 17.18	

The following table shows the number, weighted-average exercise price, intrinsic value, and weighted average remaining contractual life of options exercisable, options not yet exercisable and total options outstanding as of March 31, 2012:

(In thousands except exercise price)	Currently Exercisable	Currently Not Exercisable	Total Outstanding
Number of options	861,845	369,090	1,250,935

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Weighted average exercise price	\$ 17.60	\$ 16.26	\$ 17.18
Intrinsic value (thousands)	\$ 1,429	\$ 636	\$ 2,065
Weighted average remaining contractual term (yrs.)	3.4	8.6	5.0

The 369,090 options that are currently not exercisable as of March 31, 2012 are expected to vest, on a weighted-average basis, over the next 3.2 years, and the Company is expected to recognize \$2,274,000 of pre-tax compensation costs related to these options as they vest. The Company did not modify any option grants in 2011 or 2012.

Table of Contents**Note 21 Noninterest Income and Expenses**

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

	Three months ended March 31,	
	2012	2011
Service charges on deposit accounts	\$ 3,527	\$ 3,430
ATM and interchange fees	1,819	1,645
Other service fees	603	406
Mortgage banking service fees	372	361
Change in value of mortgage servicing rights	(369)	(60)
 Total service charges and fees	 5,952	 5,782
Gain on sale of loans	1,650	725
Commissions on sale of non-deposit investment products	819	360
Increase in cash value of life insurance	450	450
Change in indemnification asset	(353)	1,692
(Loss) gain on sale of foreclosed assets	(358)	200
Sale of customer checks	73	59
Lease brokerage income	58	33
Loss on disposal of fixed assets	(235)	(9)
Commission rebates	(16)	(17)
Other	225	75
 Total other noninterest income	 2,313	 3,568
 Total noninterest income	 \$ 8,265	 \$ 9,350

Mortgage loan servicing fees, net of change in fair value of mortgage loan servicing rights, totaling \$3,000 and \$301,000 were recorded in service charges and fees noninterest income for the three months ended March 31, 2012 and 2011, respectively.

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

	Three months ended March 31,	
	2012	2011
Base salaries, net of deferred loan origination costs	\$ 8,159	\$ 7,004
Incentive compensation	1,375	916
Benefits and other compensation costs	3,228	2,873
 Total salaries and benefits expense	 12,762	 10,793
Occupancy	1,716	1,460
Equipment	1,117	921
Data processing and software	1,429	852
ATM network charges	567	482
Telecommunications	555	406
Postage	256	216
Courier service	189	208
Advertising	498	432
Assessments	606	867

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Operational losses	116	109
Professional fees	423	287
Foreclosed assets expense	525	167
Provision for foreclosed asset losses	83	449
Change in reserve for unfunded commitments	(190)	50
Intangible amortization	53	85
Other	2,210	1,887
Total other noninterest expense	10,153	8,878
Total noninterest income	\$ 22,915	\$ 19,671

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

	Three months ended March 31,	
	2012	2011
Federal statutory income tax rate	35.0%	35.0%
State income taxes, net of federal tax benefit	6.3	5.7
Tax-exempt interest on municipal obligations	(0.6)	(1.1)
Increase in cash value of insurance policies	(2.5)	(3.6)
Other	0.3	0.1
Effective Tax Rate	38.5%	36.1%

Note 23 Earnings Per Share

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

(In thousands)	Three months ended March 31,	
	2012	2011
Net income	\$ 3,931	\$ 2,800
Average number of common shares outstanding	15,979	15,860
Effect of dilutive stock options	64	163
Average number of common shares outstanding used to calculate diluted earnings per share	16,043	16,023
Options excluded from diluted earnings per share because the effect of these options was antidilutive	869	763

Note 24 Comprehensive Income

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

(In thousands)	Three months ended March 31,	
	2012	2011
Unrealized holding gains (losses) on available-for-sale securities	\$ (265)	\$ (387)
Tax effect	112	163

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Other comprehensive income	\$ (153)	\$ (224)
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The components of accumulated other comprehensive income, included in shareholders' equity, are as follows:

	March 31, 2012	December 31, 2011
	(In thousands)	
Net unrealized gains (losses) on available-for-sale securities	\$ 10,265	\$ 10,530
Tax effect	(4,315)	(4,427)
Unrealized holding gains (losses) on available-for-sale securities, net of tax	5,950	6,103
Minimum pension liability	(3,802)	(3,802)
Tax effect	1,598	1,598
Minimum pension liability, net of tax	(2,204)	(2,204)
Joint beneficiary agreement liability	(152)	(152)
Tax effect	64	64
Joint beneficiary agreement liability, net of tax	(88)	(88)
Accumulated other comprehensive income (loss)	\$ 3,658	\$ 3,811

Table of Contents**Note 25 Retirement Plans**

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

	Three months ended March 31,	
	2012	2011
	(In thousands)	
Net pension cost included the following components:		
Service cost-benefits earned during the period	\$ 170	\$ 164
Interest cost on projected benefit obligation	172	210
Amortization of net obligation at transition		1
Amortization of prior service cost	38	38
Recognized net actuarial loss	72	96
Net periodic pension cost	\$ 452	\$ 509

During the three months ended March 31, 2012 and 2011, the Company contributed and paid out as benefits \$106,000 and \$177,000, respectively, to participants under the plans. For the year ending December 31, 2012, the Company expects to contribute and pay out as benefits \$472,000 to participants under the plans.

Note 26 Related Party Transactions

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

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

Balance December 31, 2010	\$ 2,571
Advances/new loans	378
Removed/payments	(1,185)
 Balance December 31, 2011	 \$ 1,764
Advances/new loans	365
Removed/payments	(34)
 Balance March 31, 2012	 \$ 2,095

Note 27 Fair Value Measurement

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

or market accounting or impairment write-downs of individual assets. Transfers between levels of the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer, which generally corresponds with the Company's quarterly valuation process.

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

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

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

Level 3 - Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability.

Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

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

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

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

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

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

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

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

Fair value at March 31, 2012	Total	Level 1	Level 2	Level 3
Securities available-for-sale:				
Obligations of U.S. government corporations and agencies	\$ 200,294		\$ 200,294	
Obligations of states and political subdivisions	9,976		9,976	
Corporate debt securities	1,887		1,887	
Mortgage servicing rights	4,784			\$ 4,784
 Total assets measured at fair value	 \$ 216,941		 \$ 212,157	 \$ 4,784
 Fair value at December 31, 2011	 Total	 Level 1	 Level 2	 Level 3
Securities available-for-sale:				