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

FORM 10-Q

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

for the quarterly period ended: **June 30, 2016**

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

for the transition period from__________ to __________.

Commission File Number: **000-10661**

TriCo Bancshares

(Exact Name of Registrant as Specified in Its Charter)

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

63 Constitution Drive
Chico, California 95973
(Address of Principal Executive Offices)(Zip Code)

(530) 898-0300
(Registrant's Telephone Number, Including Area Code)

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

☒ 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 ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company

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

☐ Yes ☒ No

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

Common stock, no par value: 22,822,325 shares outstanding as of August 5, 2016

TriCo Bancshares
FORM 10-Q
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FORWARD-LOOKING STATEMENTS

This report on Form 10-Q contains forward-looking statements about TriCo Bancshares (the “Company” or “we”) 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, 2015 and Part II, Item 1A of this report for further discussion of factors which could affect the Company’s business and cause actual results to differ materially from those suggested by any forward-looking statement made in this report. Such Form 10-K and this report should be read in their entirety to put any forward-looking statements in context and to gain a more complete understanding of the risks and uncertainties involved in the Company’s business. Any forward-looking statement may turn out to be wrong and cannot be guaranteed. The Company does not intend to update any forward-looking statement after the date of this report.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

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

	At June 30, 2016	At December 31, 2015
	(in thousands, except share data)	
Assets:		
Cash and due from banks	$88,157	$94,305
Cash at Federal Reserve and other banks	128,629	209,156
Cash and cash equivalents	216,786	303,461
Investment securities:		
Available for sale	529,017	404,885
Held to maturity	674,412	726,530
Restricted equity securities	16,956	16,956
Loans held for sale	2,904	1,873
Loans	2,653,630	2,522,937
Allowance for loan losses	(35,509)	(36,011)
Total loans, net	2,618,121	2,486,926
Foreclosed assets, net	3,842	5,369
Premises and equipment, net	51,728	43,811
Cash value of life insurance	94,572	94,560
Accrued interest receivable	11,602	10,786
Goodwill	64,311	63,462
Other intangible assets, net	7,282	5,894
Mortgage servicing rights	6,720	7,618
Other assets	54,239	48,591
Total assets	$4,352,492	$4,220,722
Liabilities and Shareholders' Equity:		
Liabilities:		
Deposits:		
Noninterest-bearing demand	$1,181,702	$1,155,695
Interest-bearing	2,559,694	2,475,571
Total deposits	3,741,396	3,631,266
Accrued interest payable	727	774
Reserve for unfunded commitments	2,883	2,475
Other liabilities	57,587	65,293
Other borrowings	19,464	12,328
Junior subordinated debt	56,567	56,470
Total liabilities	3,878,624	3,768,606
Commitments and contingencies (Note 18)		
Shareholders' equity:		
Common stock, no par value: 50,000,000 shares authorized; issued and outstanding:		
22,822,325 at June 30, 2016	249,860	
22,775,173 at December 31, 2015		247,587
Retained earnings	217,935	206,307
Accumulated other comprehensive income, net of tax	6,073	(1,778)
Total shareholders' equity	473,868	452,116
Total liabilities and shareholders' equity	$4,352,492	$4,220,722

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

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Interest and dividend income:				
Loans, including fees	$34,338	$32,019	$69,076	$63,184
Investment securities:				
Taxable	6,535	6,403	13,080	12,202
Tax exempt	975	324	1,872	485
Dividends	410	977	785	1,313
Interest bearing cash at Federal Reserve and other banks	332	144	571	408
Total interest and dividend income	42,590	39,867	85,384	77,592
Interest expense:				
Deposits	881	854	1,736	1,753
Other borrowings	3	1	5	2
Junior subordinated debt	546	491	1,081	973
Total interest expense	1,430	1,346	2,822	2,728
Net interest income	41,160	38,521	82,562	74,864
Benefit from reversal of provision for loan losses	(773)	(633)	(564)	(436)
Net interest income after benefit from reversal of provision for loan losses	41,933	39,154	83,126	75,300
Noninterest income:				
Service charges and fees	8,099	8,848	15,404	16,192
Gain on sale of loans	889	837	1,692	1,459
Commissions on sale of non-deposit investment products	611	784	1,143	1,749
Increase in cash value of life insurance	681	675	1,377	1,350
Other	965	936	1,419	1,510
Total noninterest income	11,245	12,080	21,035	22,260
Noninterest expense:				
Salaries and related benefits	20,045	17,242	39,310	35,342
Other	18,222	15,194	32,708	29,376
Total noninterest expense	38,267	32,436	72,018	64,718
Income before income taxes	14,911	18,798	32,143	32,842
Provision for income taxes	5,506	7,432	12,064	13,140
Net income	$9,405	$11,366	$20,079	$19,702
Earnings per share:				
Basic	$0.41	$0.50	$0.88	$0.87
Diluted	$0.41	$0.49	$0.87	$0.86

See accompanying notes to unaudited condensed consolidated financial statements.

TRICO BANCSHARES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands; unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net income	$9,405	$11,366	$20,079	$19,702
Other comprehensive income, net of tax:				
Unrealized (losses) gains on available for sale securities arising during the period	4,157	(2,754)	7,707	(2,745)
Change in minimum pension liability	148	111	148	222
Change in joint beneficiary agreement liability	(4)	-	(4)	-
Other comprehensive income (loss)	4,301	(2,643)	7,851	(2,523)
Comprehensive income	$13,706	$8,723	$27,930	$17,179

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Shares of Common Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total
Balance at December 31, 2014	22,714,964	$244,318	$176,057	$(2,203)	$418,172
Net income			19,702		19,702
Other comprehensive loss				(2,523)	(2,523)
Stock option vesting		419			419
RSU vesting		202			202
PSU vesting		77			77
Stock options exercised	64,000	1,236			1,236
Tax effect of stock option exercise		30			30
Repurchase of common stock	(29,441)	(317)	(381)		(698)
Dividends paid ($0.24 per share)			(5,473)		(5,473)
Balance at June 30, 2015	22,749,523	$245,965	$189,905	$(4,726)	$431,144
Balance at December 31, 2015	22,775,173	$247,587	$206,307	$(1,778)	$452,116
Net income			20,079		20,079
Other comprehensive income				7,851	7,851
Stock option vesting		311			311
RSU vesting		261			261
PSU vesting		125			125
Stock options exercised	127,200	2,814			2,814
RSUs released	16,948				
Tax effect of stock option exercise		(192)			(192)
Tax effect of RSU release		10			10
Repurchase of common stock	(96,996)	(1,056)	(1,610)		(2,666)
Dividends paid ($0.30 per share)			(6,841)		(6,841)
Balance at June 30, 2016	22,822,325	$249,860	$217,935	$6,073	$473,868

See accompanying notes to unaudited condensed consolidated financial statements.

TRICO BANCSHARES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands; unaudited)

	For the six months ended June 30, 2016	2015
Operating activities:		
Net income	$20,079	$19,702
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of premises and equipment, and amortization	3,245	3,090
Amortization of intangible assets	658	578
Benefit from reversal of provision for loan losses	(564)	(436)
Amortization of investment securities premium, net	2,334	1,645
Originations of loans for resale	(58,952)	(55,669)
Proceeds from sale of loans originated for resale	59,009	55,656
Gain on sale of loans	(1,692)	(1,459)
Change in market value of mortgage servicing rights	1,399	(15)
Provision for losses on foreclosed assets	32	241
Gain on sale of foreclosed assets	(149)	(426)
Loss on disposal of fixed assets	39	83
Increase in cash value of life insurance	(1,377)	(1,350)
Life insurance proceeds in excess of cash value	(238)	-
Equity compensation vesting expense	697	698
Tax effect of equity compensation exercise or release	182	(30)
Change in:		
Reserve for unfunded commitments	408	(20)
Interest receivable	(816)	(789)
Interest payable	(47)	(181)
Other assets and liabilities, net	(629)	4,249
Net cash from operating activities	23,618	25,567
Investing activities:		
Proceeds from maturities of securities available for sale	26,359	13,941
Proceeds from maturities of securities held to maturity	50,963	45,078
Purchases of securities available for sale	(155,444)	(220,383)
Purchases of securities held to maturity	-	(146,100)
Loan origination and principal collections, net	(135,638)	(112,372)
Loans purchased	(22,503)	-
Proceeds from sale of loans other than loans originated for sale	27,049	-
Improvement of foreclosed assets	-	(511)
Proceeds from sale of other real estate owned	2,497	1,033
Proceeds from sale of premises and equipment	1	2
Purchases of premises and equipment	(9,053)	(1,293)
Cash acquired in acquisition	156,316	-
Net cash used by investing activities	(59,453)	(420,605)
Financing activities:		
Net decrease in deposits	(51,101)	(38,741)
Net change in other borrowings	7,136	(2,541)
Tax effect of equity compensation exercise or release	(182)	30
Repurchase of common stock	(335)	(31)
Dividends paid	(6,841)	(5,473)
Exercise of stock options	483	569
Net cash used by financing activities	(50,840)	(46,187)
Net change in cash and cash equivalents	(86,675)	(441,225)
Cash and cash equivalents and beginning of year	303,461	610,728
Cash and cash equivalents at end of period	$216,786	$169,503
Supplemental disclosure of noncash activities:		
Unrealized gain (loss) on securities available for sale	$13,298	$(4,737)
Loans transferred to foreclosed assets	$853	$1,649
Market value of shares tendered in-lieu of cash to pay for exercise of options and/or related taxes	$2,331	$667
Supplemental disclosure of cash flow activity:		
Cash paid for interest expense	$2,869	$2,909
Cash paid for income taxes	$12,540	$7,395
Assets acquired in acquisition	$161,231	-
Liabilities assumed in acquisition	$161,231	-

See accompanying notes to unaudited condensed consolidated financial statements.

Note 1 –Summary of Significant Accounting Policies

Description of Business and Basis of Presentation

TriCo Bancshares (the "Company" or "we") is a California corporation organized to act as a bank holding company for Tri Counties Bank (the "Bank"). The Company and the Bank are headquartered in Chico, California. The Bank is a California-chartered bank that is engaged in the general commercial banking business in 26 California counties. Tri Counties Bank currently operates from 58 traditional branches and 10 in-store branches. The Company has five capital subsidiary business trusts (collectively, the "Capital Trusts") that issued trust preferred securities, including two organized by TriCo and three acquired with the acquisition of North Valley Bancorp. See Note 17 – Junior Subordinated Debt.

The unaudited condensed financial statements of the Company have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. In the opinion of the Company's management ("Management"), all adjustments, consisting solely of normal recurring adjustments, considered necessary for a fair presentation of results for the interim periods presented have been included. For financial reporting purposes, the Company's investments in the Capital Trusts of $1,699,000 are accounted for under the equity method and, accordingly, are not consolidated and are included in other assets on the consolidated balance sheet. The subordinated debentures issued and guaranteed by the Company and held by the Capital Trusts are reflected as debt on the Company's consolidated balance sheet. These interim condensed consolidated financial statements should be read in conjunction with the financial statements and related notes contained in the Company's 2015 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 10, 2016.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Significant Group Concentration of Credit Risk

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

Cash and Cash Equivalents

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

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. These securities are carried at cost adjusted for amortization of premium and accretion of discount, computed by the effective interest method over their contractual lives. All other securities not included in trading or held to maturity are classified as available for sale. Available for sale securities are recorded at fair value. Unrealized gains and losses, net of the related tax effect, on available for sale securities are reported as a separate component of other accumulated comprehensive income in shareholders' equity until realized. Premiums and discounts are amortized or accreted over the life of the related investment security as an adjustment to yield using the effective interest method. Dividend and interest income are recognized when earned. Realized gains and losses are derived from the amortized cost of the security sold. During the six months ended June 30, 2016 and throughout 2015, the Company did not have any securities classified as trading.

The Company assesses other-than-temporary impairment ("OTTI") based on whether it intends to sell a security or if it is likely that the Company would be required to sell the security before recovery of the amortized cost basis of the investment, which may be maturity. For debt securities, if we intend to sell the security or it is more likely than not that we will be required to sell the security before recovering its cost basis, the entire impairment loss would be recognized in earnings as an OTTI. If we do not intend to sell the security and it is not likely that we will be required to sell the security but we do not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Projected cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for potential OTTI. The remaining impairment related to all other factors, the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to other comprehensive income ("OCI"). Impairment losses related to all other factors are presented as separate categories within OCI. The accretion of the amount recorded in OCI increases the carrying value of the investment and does not affect earnings. If there is an indication of additional credit losses the security is re-evaluated according to the procedures described above. No OTTI losses were recognized during the six months ended June 30, 2016 and throughout 2015.

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

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

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

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

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

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

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

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

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

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

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

During the three months ended September 30, 2015, the Company modified its methodology used to determine the allowance for home equity lines of credit that are about to exit their revolving period, or have recently entered into their amortization period and are now classified as home equity loans. This change in methodology increased the required allowance for such lines and loans by $859,000, and $459,000, respectively, and represents the increase in estimated incurred losses in these lines and loans as of September 30, 2015 due to higher required contractual principal and interest payments of such lines and loans.

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

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

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

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

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

Foreclosed Assets

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

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

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

Premises and Equipment

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

Goodwill and Other Intangible Assets

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

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

Impairment of Long-Lived Assets and Goodwill

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

As of December 31 of each year, goodwill is tested for impairment, and is tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. This determination is made at the reporting unit level. The Company may choose to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, the Company determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then goodwill is deemed not to be impaired. However, if the Company concludes otherwise, or if the Company elected not to first assess qualitative factors, then the Company performs the first step of a two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit.

Second, if the carrying amount of the reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Currently, and historically, the Company is comprised of only one reporting unit that operates within the business segment it has identified as "community banking". Goodwill was not impaired as of December 31, 2015 because the fair value of the reporting unit exceeded its carrying value.

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

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

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

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

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

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

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

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

Reclassifications
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 Accounting Standard Update (ASU) No. 2016-9, *Compensation – Stock Compensation (Topic 718).* ASU 2016-9, among other things, requires: (i) that all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) should be recognized as income tax expense or benefit in the income statement, (ii) the tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur, (iii) an entity also should recognize excess tax benefits regardless of whether the benefit reduces taxes payable in the current period, (iv) excess tax benefits should be classified along with other income tax cash flows as an operating activity, (v) an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest (current GAAP) or account for forfeitures when they occur, (vi) the threshold to qualify for equity classification permits withholding up to the maximum statutory tax rates in the applicable jurisdictions, and (vii) cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity. ASU 2016-9 will be effective for the Company on January 1, 2017 and is not expected to have a significant impact on the Company's consolidated financial statements.

FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): ASU 2016-13* is the final guidance on the new current expected credit loss (''CECL'') model. ASU 2016-13, among other things, requires the incurred loss impairment methodology in current GAAP be replaced with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to estimate future credit loss estimates. As CECL encompasses all financial assets carried at amortized cost, the requirement that reserves be established based on an organization's reasonable and supportable estimate of expected credit losses extends to held to maturity (''HTM'') debt securities. ASU 2016-13 amends the accounting for credit losses on available-for-sale securities (''AFS''), whereby credit losses will be presented as an allowance as opposed to a write-down. In addition, CECL will modify the accounting for purchased loans with credit deterioration since origination, so that reserves are established at the date of acquisition for purchased loans. Lastly, ASU 2016-13 requires enhanced disclosures on the significant estimates and judgments used to estimate credit losses, as well as on the credit quality and underwriting standards of an organization's portfolio. These disclosures require organizations to present the currently required credit quality disclosures disaggregated by the year of origination or vintage. ASU 2016-13 allows for a modified retrospective approach with a cumulative effect adjustment to the balance sheet upon adoption (charge to retained earnings instead of the income statement). ASU 2016-13 will be effective for Company on January 1, 2020, and early adoption is permitted. The Company is currently evaluating the impact of adopting ASU 2016-13 on the Company's consolidated financial statements.

Note 2 - Business Combinations

On March 18, 2016, the Bank completed its acquisition of three branch banking offices from Bank of America originally announced October 28, 2015. The acquired branches are located in Arcata, Eureka and Fortuna in Humboldt County on the North Coast of California, and have significant overlap compared to the Company's then-existing Northern California customer base and branch locations. As a result, these branch acquisitions create potential cost savings and future growth potential. With the levels of capital at the time, the acquisitions fit well into the Company's growth strategy. Also on March 18, 2016, the electronic customer service and other data processing systems of the acquired branches were converted into the Bank’s systems, and the effect of revenue and expenses from the operations of the acquired branches are included in the results of the Company. The Bank paid a premium of $3,204,000 for deposit relationships with balances of $161,231,000 and loans with balances of $289,000, and received cash of $159,520,000 from Bank of America.

The assets acquired and liabilities assumed in the acquisition of these branches were accounted for in accordance with ASC 805 "Business Combinations," using the acquisition method of accounting and were recorded at their estimated fair values on the March 18, 2016 acquisition date, and the results of operations of the acquired branches are included in the Company’s consolidated statements of income since that date. The excess of the fair value of consideration transferred over total identifiable net assets was recorded as goodwill. The goodwill arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of the Company and the acquired branches. $849,000 of the goodwill is deductible for income tax purposes because the acquisition was accounted for as a purchase of assets and assumption of liabilities for tax purposes.

The following table discloses the calculation of the fair value of consideration transferred, the total identifiable net assets acquired and the resulting goodwill relating to the acquisition of three branch banking offices and certain deposits from Bank of America on March 18, 2016:

(in thousands)	March 18, 2016
Fair value of consideration transferred:	
Cash consideration	$3,204
Total fair value of consideration transferred	3,204
Asset acquired:	
Cash and cash equivalents	159,520
Loans	289
Premises and equipment	1,590
Core deposit intangible	2,046
Other assets	141
Total assets acquired	163,586
Liabilities assumed:	
Deposits	161,231
Total liabilities assumed	161,231
Total net assets acquired	2,355
Goodwill recognized	$849

A summary of the cash paid and estimated fair value adjustments resulting in the goodwill recorded in the acquisition of three branch banking offices and certain deposits from Bank of America on March 18, 2016 are presented below:

	March 18, 2016
(in thousands)	
Cash paid	$3,204
Cost basis net assets acquired	-
Fair value adjustments:	
Loans	-
Premises and Equipment	(309)
Core deposit intangible	(2,046)
Goodwill	$849

As part of the acquisition of three branch banking offices from Bank of America, the Company performed a valuation of premises and equipment acquired. This valuation resulted in a $309,000 increase in the net book value of the land and buildings acquired, and was based on current appraisals of such land and buildings.

The Company recognized a core deposit intangible of $2,046,000 related to the acquisition of the core deposits. The recorded core deposit intangibles represented approximately 1.50% of the core deposits acquired and will be amortized over their estimated useful lives of 7 years.

A valuation of the time deposits acquired was also performed as of the acquisition date. Time deposits were split into similar pools based on size, type of time deposits, and maturity. A discounted cash flow analysis was performed on the pools based on current market rates currently paid on similar time deposits. The valuation resulted in no material fair value discount or premium, and none was recorded.

Note 3 - Investment Securities

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

	June 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities Available for Sale	(in thousands)			
Obligations of U.S. government corporations and agencies	$398,811	$10,175	-	$408,986
Obligations of states and political subdivisions	111,763	5,221	-	116,984
Marketable equity securities	3,000	47	-	3,047
Total securities available for sale	$513,574	$15,443	-	$529,017
Securities Held to Maturity				
Obligations of U.S. government corporations and agencies	$659,867	$24,532	-	$684,399
Obligations of states and political subdivisions	14,545	655	-	15,200
Total securities held to maturity	$674,412	$25,187	-	$699,599

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities Available for Sale	(in thousands)			
Obligations of U.S. government corporations and agencies	$312,917	$2,761	$(1,996)	$313,682
Obligations of states and political subdivisions	86,823	1,428	(33)	88,218
Marketable equity securities	3,000	-	(15)	2,985
Total securities available for sale	$402,740	$4,189	$(2,044)	$404,885
Securities Held to Maturity				
Obligations of U.S. government corporations and agencies	$711,994	$8,394	$(2,882)	$717,506
Obligations of states and political subdivisions	14,536	277	(110)	14,703
Total securities held to maturity	$726,530	$8,671	$(2,992)	$732,209

No investment securities were sold during the six months ended June 30, 2016 or the six months ended June 30, 2015. Investment securities with an aggregate carrying value of $277,023,000 and $297,547,000 at June 30, 2016 and December 31, 2015, 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 June 30, 2016 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 June 30, 2016, obligations of U.S. government corporations and agencies with a cost basis totaling $1,058,678,000 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 June 30, 2016, the Company estimates the average remaining life of these mortgage-backed securities issued by U.S. government corporations and agencies to be approximately 3.9 years. Average remaining life is defined as the time span after which the principal balance has been reduced by half.

Investment Securities	Available for Sale		Held to Maturity	
(In thousands)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year	$1	$1	-	-
Due after one year through five years	12,246	12,748	$1,161	$1,201
Due after five years through ten years	16,676	17,557	845	936
Due after ten years	484,651	498,711	672,406	697,462
Totals	$513,574	$529,017	$674,412	$699,599

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	
June 30, 2016	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Securities Available for Sale:			(in thousands)			
Obligations of U.S. government corporations and agencies	-	-	-	-	-	-
Obligations of states and political subdivisions	-	-	-	-	-	-
Marketable equity securities	-	-	-	-	-	-
Total securities available-for-sale	-	-	-	-	-	-
Securities Held to Maturity:						
Obligations of U.S. government corporations and agencies	-	-	-	-	-	-
Obligations of states and political subdivisions	-	-	-	-	-	-
Total securities held-to-maturity	-	-	-	-	-	-

	Less than 12 months		12 months or more		Total	
December 31, 2015	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Securities Available for Sale:			(in thousands)			
Obligations of U.S. government corporations and agencies	$193,306	$(1,996)	-	-	$193,306	$(1,996)
Obligations of states and political subdivisions	6,469	(33)	-	-	6,469	(33)
Marketable equity securities	2,985	(15)	-	-	2,985	(15)
Total securities available-for-sale	$202,760	$(2,044)	-	-	$202,760	$(2,044)
Securities Held to Maturity:						
Obligations of U.S. government corporations and agencies	$198,481	$(2,882)	-	-	$198,481	$(2,882)
Obligations of states and political subdivisions	497	(11)	$1,121	$(99)	1,618	(110)
Total securities held-to-maturity	$198,978	$(2,893)	$1,121	$(99)	$200,099	$(2,992)

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 June 30, 2016, no debt securities representing obligations of U.S. government corporations and agencies had unrealized losses.

Obligations of states and political subdivisions: The unrealized losses on investments in obligations of states and political subdivisions were caused by increases in required yields by investors in these types of securities. It is expected that the securities would not be settled at a price less than the amortized cost of the investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell and more likely than not will not be required to sell, these investments are not considered other-than-temporarily impaired. At June 30, 2016, no debt securities representing obligations of states and political subdivisions had unrealized losses.

Marketable equity securities: At June 30, 2016, no marketable equity securities had unrealized losses.

Note 4 – Loans

A summary of loan balances follows (in thousands):

	June 30, 2016				
	Originated	PNCI	PCI - Cash basis	PCI - Other	Total
Mortgage loans on real estate:					
Residential 1-4 family	$221,460	$95,121	-	$1,625	$318,206
Commercial	1,297,858	281,018	-	15,942	1,594,818
Total mortgage loan on real estate	1,519,318	376,139	-	17,567	1,913,024
Consumer:					
Home equity lines of credit	273,849	26,579	4,092	2,158	306,678
Home equity loans	36,517	3,854	124	1,507	42,002
Other	29,623	2,748	-	63	32,434
Total consumer loans	339,989	33,181	4,216	3,728	381,114
Commercial	189,494	16,062	-	4,284	209,840
Construction:					
Residential	48,608	13,174	-	549	62,331
Commercial	78,200	9,121	-	-	87,321
Total construction	126,808	22,295	-	549	149,652
Total loans, net of deferred loan fees and discounts	$2,175,609	$447,677	$4,216	$26,128	$2,653,630
Total principal balance of loans owed, net of charge-offs	$2,181,868	$459,359	$11,025	$30,949	$2,683,201
Unamortized net deferred loan fees	(6,259)	-	-	-	(6,259)
Discounts to principal balance of loans owed, net of charge-offs	-	(11,682)	(6,809)	(4,821)	(23,312)
Total loans, net of unamortized deferred loan fees and discounts	$2,175,609	$447,677	$4,216	$26,128	$2,653,630
Noncovered loans	$2,175,609	$447,677	$4,216	$21,884	$2,649,386
Covered loans	-	-	-	4,244	4,244
Total loans, net of unamortized deferred loan fees and discounts	$2,175,609	$447,677	$4,216	$26,128	$2,653,630
Allowance for loan losses	$(30,362)	$(2,339)	$(16)	$(2,792)	$(35,509)

Note 4 – Loans (continued)

A summary of loan balances follows (in thousands):

	December 31, 2015				
	Originated	PNCI	PCI - Cash basis	PCI - Other	Total
Mortgage loans on real estate:					
Residential 1-4 family	$207,585	$104,535	-	$2,145	$314,265
Commercial	1,163,643	310,864	-	23,060	1,497,567
Total mortgage loan on real estate	1,371,228	415,399	-	25,205	1,811,832
Consumer:					
Home equity lines of credit	285,419	29,335	$4,954	2,784	322,492
Home equity loans	34,717	4,018	124	1,503	40,362
Other	28,998	3,367	-	64	32,429
Total consumer loans	349,134	36,720	5,078	4,351	395,283
Commercial	170,320	19,744	1	4,848	194,913
Construction:					
Residential	31,778	13,636	-	721	46,135
Commercial	66,285	8,489	-	-	74,774
Total construction	98,063	22,125	-	721	120,909
Total loans, net of deferred loan fees and discounts	$1,988,745	$493,988	$5,079	$35,125	$2,522,937
Total principal balance of loans owed, net of charge-offs	$1,995,296	$507,935	$12,686	$39,693	$2,555,610
Unamortized net deferred loan fees	(6,551)	-	-	-	(6,551)
Discounts to principal balance of loans owed, net of charge-offs	-	(13,947)	(7,607)	(4,568)	(26,122)
Total loans, net of unamortized deferred loan fees and discounts	$1,988,745	$493,988	$5,079	$35,125	$2,522,937
Noncovered loans	$1,988,745	$493,988	$5,079	$29,890	$2,517,702
Covered loans	-	-	-	5,235	5,235
Total loans, net of unamortized deferred loan fees and discounts	$1,988,745	$493,988	$5,079	$35,125	$2,522,937
Allowance for loan losses	$(31,271)	$(1,848)	$(121)	$(2,771)	$(36,011)

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Change in accretable yield:				
Balance at beginning of period	$11,980	$13,402	$13,255	$14,159
Accretion to interest income	(1,016)	(1,375)	(2,107)	(2,930)
Reclassification (to) from nonaccretable difference	811	920	627	1,718
Balance at end of period	$11,775	$12,947	$11,775	$12,947

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Note 5 – Allowance for Loan Losses

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

Allowance for Loan Losses – Three Months Ended June 30, 2016

	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Beginning balance	$2,765	$11,895	$9,907	$3,111	-	$687	$6,139	$1,066	$818	$36,388
Charge-offs	(125)	-	(114)	(93)	-	(233)	(76)	-	-	(641)
Recoveries	225	65	60	23	-	101	61	-	-	535
(Benefit) provision	(173)	400	(651)	(20)	-	141	(859)	255	134	(773)
Ending balance	$2,692	$12,360	$9,202	$3,021	-	$696	$5,265	$1,321	$952	$35,509

Allowance for Loan Losses – Six Months Ended June 30, 2016

	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Beginning balance	$2,507	$11,443	$11,253	$3,138	-	$688	$5,271	$899	$812	$36,011
Charge-offs	(162)	(793)	(328)	(93)	-	(440)	(114)	-	-	(1,930)
Recoveries	227	882	341	72	-	231	238	-	1	1,992
(Benefit) provision	120	828	(2,064)	(96)	-	217	(130)	422	139	(564)
Ending balance	$2,692	$12,360	$9,202	$3,021	-	$696	$5,265	$1,321	$952	$35,509
Ending balance:										
Individ. evaluated for impairment	$474	$253	$506	$203	-	$87	$647	-	-	$2,170
Loans pooled for evaluation	$2,008	$10,648	$8,680	$2,818	-	$609	$3,545	$1,271	$952	$30,531
Loans acquired with deteriorated credit quality	$210	$1,459	$16	-	-	-	$1,073	$50	-	$2,808

Loans, net of unearned fees – As of June 30, 2016

	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Ending balance:										
Total loans	$318,206	$1,594,818	$306,678	$42,002	-	$32,434	$209,840	$62,331	$87,321	$2,653,630
Individ. evaluated for impairment	$6,629	$12,152	$4,984	$1,944	-	$277	$1,930	$11	-	$27,927
Loans pooled for evaluation	$309,952	$1,566,724	$295,444	$38,427	-	$32,094	$203,626	$61,771	$87,321	$2,595,359
Loans acquired with deteriorated credit quality	$1,625	$15,942	$6,250	$1,631	-	$63	$4,284	$549	-	$30,344

Allowance for Loan Losses - Year Ended December 31, 2015

	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Beginning balance	$3,086	$9,227	$15,676	$1,797	$9	$719	$4,226	$1,434	$411	$36,585
Charge-offs	(224)	-	(694)	(242)	(4)	(972)	(680)	-	-	(2,816)
Recoveries	204	243	666	252	42	500	677	1,728	140	4,452
(Benefit) provision	(559)	1,973	(4,395)	1,331	(47)	441	1,048	(2,263)	261	(2,210)
Ending balance	$2,507	$11,443	$11,253	$3,138	-	$688	$5,271	$899	$812	$36,011
Ending balance:										
Individ. evaluated for impairment	$335	$395	$605	$294	-	$74	$1,187	-	-	$2,890
Loans pooled for evaluation	$2,112	$9,596	$10,423	$2,844	-	$614	$2,983	$844	$812	$30,228
Loans acquired with deteriorated credit quality	$60	$1,452	$225	-	-	-	$1,101	$55	-	$2,893

Note 5 – Allowance for Loan Losses (continued)

Loans, net of unearned fees – As of December 31, 2015

	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Ending balance:										
Total loans	$314,265	$1,497,567	$322,492	$40,362	-	$32,429	$194,913	$46,135	$74,774	$2,522,937
Individ. evaluated for impairment	$6,767	$32,407	$5,747	$1,731	-	$288	$2,671	$4	$490	$50,105
Loans pooled for evaluation	$305,353	$1,442,100	$309,007	$37,004	-	$32,077	$187,393	$45,410	$74,284	$2,432,628
Loans acquired with deteriorated credit quality	$2,145	$23,060	$7,738	$1,627	-	$64	$4,849	$721	-	$40,204

Allowance for Loan Losses – Three Months Ended June 30, 2015

	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Beginning balance	$2,765	$10,451	$15,233	$1,980	$6	$644	$3,976	$750	$250	$36,055
Charge-offs	(128)	-	(84)	(117)	(4)	(176)	(5)	-	-	(514)
Recoveries	-	53	230	6	16	107	121	-	14	547
(Benefit) provision	198	(363)	(1,386)	259	(18)	130	310	92	145	(633)
Ending balance	$2,835	$10,141	$13,993	$2,128	-	$705	$4,402	$842	$409	$35,455

Allowance for Loan Losses – Six Months Ended June 30, 2015

	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Beginning balance	$3,086	$9,227	$15,676	$1,797	$9	$719	$4,226	$1,434	$411	$36,585
Charge-offs	(209)	-	(425)	(128)	(4)	(444)	(539)	-	-	(1,749)
Recoveries	1	149	349	9	36	259	208	11	33	1,055
(Benefit) provision	(43)	765	(1,607)	450	(41)	171	507	(603)	(35)	(436)
Ending balance	$2,835	$10,141	$13,993	$2,128	-	$705	$4,402	$842	$409	$35,455
Ending balance:										
Individ. evaluated for impairment	$857	$418	$1,779	$387	-	$128	$676	-	-	$4,245
Loans pooled for evaluation	$1,884	$8,390	$11,798	$1,741	-	$577	$2,536	$653	$409	$27,988
Loans acquired with deteriorated credit quality	$94	$1,333	$416	-	-	-	$1,190	$189	-	$3,222

Loans, net of unearned fees – As of June 30, 2015

	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Ending balance:										
Total loans	$291,488	$1,395,079	$344,115	$34,572	-	$33,101	$195,791	$41,958	$57,658	$2,393,762
Individ. evaluated for impairment	$7,467	$47,118	$6,135	$1,438	-	$403	$2,048	$328	$88	$65,025
Loans pooled for evaluation	$280,147	$1,320,440	$329,788	$32,372	-	$32,631	$188,642	$40,907	$57,570	$2,282,497
Loans acquired with deteriorated credit quality	$3,874	$27,521	$8,192	$762	-	$67	$5,101	$723	-	$46,240

Note 5 – Allowance for Loan Losses (continued)

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

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

- *Pass* – This grade represents loans ranging from acceptable to very little or no credit risk. These loans typically meet most if not all policy standards in regard to: loan amount as a percentage of collateral value, debt service coverage, profitability, leverage, and working capital.
- *Special Mention* – This grade represents "Other Assets Especially Mentioned" in accordance with regulatory guidelines and includes loans that display some potential weaknesses which, if left unaddressed, may result in deterioration of the repayment prospects for the asset or may inadequately protect the Company's position in the future. These loans warrant more than normal supervision and attention.
- *Substandard* – This grade represents "Substandard" loans in accordance with regulatory guidelines. Loans within this rating typically exhibit weaknesses that are well defined to the point that repayment is jeopardized. Loss potential is, however, not necessarily evident. The underlying collateral supporting the credit appears to have sufficient value to protect the Company from loss of principal and accrued interest, or the loan has been written down to the point where this is true. There is a definite need for a well defined workout/rehabilitation program.
- *Doubtful* – This grade represents "Doubtful" loans in accordance with regulatory guidelines. An asset classified as Doubtful has all the weaknesses inherent in a loan classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral, and financing plans.
- *Loss* – This grade represents "Loss" loans in accordance with regulatory guidelines. A loan classified as Loss is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off the loan, even though some recovery may be affected in the future. The portion of the loan that is graded loss should be charged off no later than the end of the quarter in which the loss is identified.

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

Credit Quality Indicators – As of June 30, 2016

	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Originated loans:										
Pass	$214,128	$1,271,457	$265,496	$32,662	-	$29,100	$182,447	$48,608	$78,200	$2,122,098
Special mention	2,117	12,509	2,335	1,060	-	357	4,049	-	-	22,427
Substandard	5,215	13,892	6,018	2,795	-	166	2,998	-	-	31,084
Total originated	$221,460	$1,297,858	$273,849	$36,517	-	$29,623	$189,494	$48,608	$78,200	$2,175,609
PNCI loans:										
Pass	$93,348	$261,862	$25,075	$3,691	-	$2,573	$15,995	$13,174	$9,121	$424,839
Special mention	540	8,107	410	74	-	57	8	-	-	9,196
Substandard	1,233	11,049	1,094	89	-	118	59	-	-	13,642
Total PNCI	$95,121	$281,018	$26,579	$3,854	-	$2,748	$16,062	$13,174	$9,121	$447,677
PCI loans	$1,625	$15,942	$6,250	$1,631	-	$63	$4,284	$549	-	$30,344
Total loans	$318,206	$1,594,818	$306,678	$42,002	-	$32,434	$209,840	$62,331	$87,321	$2,653,630

Credit Quality Indicators – As of December 31, 2015

	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Originated loans:										
Pass	$199,837	$1,118,868	$275,251	$31,427	-	$28,339	$166,559	$31,440	$66,285	$1,918,006
Special mention	2,018	10,321	2,494	1,027	-	415	1,037	334	-	17,646
Substandard	5,730	34,454	7,674	2,263	-	244	2,724	4	-	53,093
Total originated	$207,585	$1,163,643	$285,419	$34,717	-	$28,998	$170,320	$31,778	$66,285	$1,988,745
PNCI loans:										
Pass	$102,895	$293,935	$27,378	$3,789	-	$3,164	$19,666	$13,636	$8,489	$472,952
Special mention	600	10,795	445	80	-	74	-	-	-	11,994
Substandard	1,040	6,134	1,512	149	-	129	78	-	-	9,042
Total PNCI	$104,535	$310,864	$29,335	$4,018	-	$3,367	$19,744	$13,636	$8,489	$493,988
PCI loans	$2,145	$23,060	$7,738	$1,627	-	$64	$4,849	$721	-	$40,204
Total loans	$314,265	$1,497,567	$322,492	$40,362	-	$32,429	$194,913	$46,135	$74,774	$2,522,937

Note 5 – Allowance for Loan Losses (continued)

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

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

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

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

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

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

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

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

Analysis of Past Due and Nonaccrual Originated Loans – As of June 30, 2016

	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Originated loan balance:										
Past due:										
30-59 Days	$46	$1,948	$1,326	$272	-	$47	$611	-	$397	$4,647
60-89 Days	70	298	250	110	-	9	415	-	-	1,152
> 90 Days	344	364	219	482	-	9	295	-	-	1,713
Total past due	$460	$2,610	$1,795	$864	-	$65	$1,321	-	$397	$7,512
Current	221,000	1,295,248	272,054	35,653	-	29,558	188,173	$48,608	77,803	2,168,097
Total orig. loans	$221,460	$1,297,858	$273,849	$36,517	-	$29,623	$189,494	$48,608	$78,200	$2,175,609
> 90 Days and still accruing	-	-	-	-	-	-	-	-	-	-
Nonaccrual loans	$2,375	$2,961	$2,826	$1,396	-	$9	$444	$11	-	$10,022

Note 5 – Allowance for Loan Losses (continued)

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

Analysis of Past Due and Nonaccrual PNCI Loans – As of June 30, 2016

	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
PNCI loan balance:										
Past due:										
30-59 Days	-	-	$48	$20	-	$21	-	-	-	$89
60-89 Days	$29	$744	11	33	-	-	-	-	-	817
> 90 Days	287	80	-	-	-	8	-	-	-	375
Total past due	$316	$824	$59	$53	-	$29	-	-	-	$1,281
Current	94,805	280,194	26,520	3,801	-	2,719	$16,062	$13,174	$9,121	446,396
Total PNCI loans	$95,121	$281,018	$26,579	$3,854	-	$2,748	$16,062	$13,174	$9,121	$447,677
> 90 Days and still accruing	-	-	-	-	-	-	-	-	-	-
Nonaccrual loans	$532	$2,667	$512	$70	-	$8	-	-	-	$3,789

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

Analysis of Past Due and Nonaccrual Originated Loans – As of December 31, 2015

	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Originated loan balance:										
Past due:										
30-59 Days	$791	$200	$1,033	$402	-	$12	$2,197	-	-	$4,635
60-89 Days	-	491	324	341	-	40	-	-	-	1,196
> 90 Days	271	3,425	520	82	-	19	24	-	-	4,341
Total past due	1,062	4,116	1,877	825	-	71	2,221	-	-	10,172
Current	206,523	1,159,527	283,542	33,892	-	28,927	168,099	$31,778	$66,285	1,978,573
Total orig. loans	$207,585	$1,163,643	$285,419	$34,717	-	$28,998	$170,320	$31,778	$66,285	$1,988,745
> 90 Days and still accruing	-	-	-	-	-	-	-	-	-	-
Nonaccrual loans	$3,045	$14,196	$3,379	$1,195	-	$21	$976	$12	-	$22,824

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

Analysis of Past Due and Nonaccrual PNCI Loans – As of December 31, 2015

	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
PNCI loan balance:										
Past due:										
30-59 Days	$3,106	$4,037	$92	$23	-	-	$1	-	-	$7,259
60-89 Days	-	-	-	-	-	$13	-	-	-	13
> 90 Days	58	748	275	71	-	10	-	-	$490	1,652
Total past due	3,164	4,785	367	94	-	23	1	-	490	8,924
Current	101,371	306,079	28,968	3,924	-	3,344	19,743	$13,636	7,999	485,064
Total PNCI loans	$104,535	$310,864	$29,335	$4,018	-	$3,367	$19,744	$13,636	$8,489	$493,988
> 90 Days and still accruing	-	-	-	-	-	-	-	-	-	-
Nonaccrual loans	$348	$3,742	$676	$109	-	$33	-	-	$490	$5,398

Note 5 – Allowance for Loan Losses (continued)

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

	Impaired Originated Loans – As of, or for the Six Months Ended, June 30, 2016									
	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
With no related allowance recorded:										
Recorded investment	$3,223	$7,927	$2,861	$1,217	-	$9	$321	$11	-	$15,569
Unpaid principal	$4,706	$8,428	$5,267	$1,871	$7	$13	$356	$16	-	$20,664
Average recorded Investment	$3,554	$17,518	$2,912	$1,082	$1	$13	$448	$8	-	$25,536
Interest income Recognized	$43	$156	$12	$8	-	-	$8	-	-	$227
With an allowance recorded:										
Recorded investment	$2,338	$1,422	$1,115	$657	-	-	$1,609	-	-	$7,141
Unpaid principal	$2,418	$1,467	$1,166	$687	-	-	$1,655	-	-	$7,393
Related allowance	$389	$165	$268	$203	-	-	$647	-	-	$1,672
Average recorded Investment	$2,172	$1,420	$1,420	$666	-	$1	$1,852	-	-	$7,531
Interest income Recognized	$36	$39	$9	$12	-	-	$36	-	-	$132

	Impaired PNCI Loans – As of, or for the Six Months Ended, June 30, 2016									
	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
With no related allowance recorded:										
Recorded investment	$532	$2,667	$512	$70	-	$8	-	-	-	$3,789
Unpaid principal	$701	$2,894	$578	$76	-	$9	-	-	-	$4,258
Average recorded Investment	$704	$1,899	$483	$70	-	$21	$1	-	$245	$3,423
Interest income Recognized	-	-	-	-	-	-	-	-	-	-
With an allowance recorded:										
Recorded investment	$536	$136	$496	-	-	$260	-	-	-	$1,428
Unpaid principal	$536	$136	$496	-	-	$260	-	-	-	$1,428
Related allowance	$85	$88	$238	-	-	$87	-	-	-	$498
Average recorded Investment	$268	$1,442	$551	$19	-	$247	-	-	-	$2,527
Interest income Recognized	$9	$3	$11	-	-	$6	-	-	-	$29

Note 5 – Allowance for Loan Losses (continued)

Impaired Originated Loans – As of December 31, 2015

	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
With no related allowance recorded:										
Recorded investment	$3,886	$27,109	$2,963	$947	-	$20	$576	$4	-	$35,505
Unpaid principal	$5,998	$29,678	$6,079	$1,349	-	$35	$688	$65	-	$43,892
Average recorded Investment	$3,586	$32,793	$2,982	$848	-	$29	$494	$1,202	$50	$41,984
Interest income Recognized	$81	$893	$23	$5	-	-	$29	-	-	$1,031
With an allowance recorded:										
Recorded investment	$2,006	$1,418	$1,724	$674	-	$1	$2,094	-	-	$7,917
Unpaid principal	$2,073	$1,453	$1,904	$701	-	$1	$2,117	-	-	$8,249
Related allowance	$335	$146	$525	$256	-	$1	$1,187	-	-	$2,450
Average recorded Investment	$2,365	$2,180	$2,455	$589	-	$23	$1,716	$141	-	$9,469
Interest income Recognized	$49	$74	$31	$26	-	-	$122	-	-	$302

Impaired PNCI Loans – As of December 31, 2015

	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
With no related allowance recorded:										
Recorded investment	$875	$1,132	$454	$71	-	$33	$1	-	$490	$3,056
Unpaid principal	$908	$1,248	$505	$73	-	$52	$1	-	$490	$3,277
Average recorded Investment	$609	$749	$400	$48	-	$35	$4	-	$245	$2,090
Interest income Recognized	$31	$32	$3	$2	-	$1	-	-	$18	$87
With an allowance recorded:										
Recorded investment	-	$2,748	$606	$39	-	$234	-	-	-	$3,627
Unpaid principal	-	$2,858	$612	$40	-	$234	-	-	-	$3,744
Related allowance	-	$248	$80	$39	-	$73	-	-	-	$440
Average recorded Investment	$417	$1,447	$521	$19	-	$227	-	-	-	$2,631
Interest income Recognized	-	$149	$14	-	-	$11	-	-	-	$174

Impaired Originated Loans – As of, or for the Six Months Ended, June 30, 2015

	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
With no related allowance recorded:										
Recorded investment	$3,770	$40,294	$2,475	$779	-	$23	$338	$328	$88	$48,095
Unpaid principal	$5,901	$44,441	$5,340	$1,256	-	$46	$366	$376	$183	$57,909
Average recorded Investment	$3,528	$39,385	2,738	$764	-	$31	$375	$1,364	$94	$48,279
Interest income Recognized	$19	$795	$2	-	-	-	$11	$9	-	$836
With an allowance recorded:										
Recorded investment	$2,780	$2,365	$2,513	$598	-	$37	$1,706	-	-	$9,999
Unpaid principal	$2,958	$2,448	$2,973	$704	-	$47	$1,808	-	-	$10,938
Related allowance	$784	$216	$1,481	$346	-	$15	$676	-	-	$3,518
Average recorded Investment	$2,752	$2,654	$2,849	$551	-	$41	$1,522	$141	-	$10,510
Interest income Recognized	$40	$56	$25	$3	-	-	$42	-	-	$166

Note 5 – Allowance for Loan Losses (continued)

	Impaired PNCI Loans – As of, or for the Six Months Ended, June 30, 2015									
	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
With no related allowance recorded:										
Recorded investment	$290	$3,633	$637	$20	-	$42	$4	-	-	$4,626
Unpaid principal	$316	$3,713	$696	$22	-	$62	$4	-	-	$4,813
Average recorded Investment	$317	$1,999	$492	$22	-	$40	$5	-	-	$2,875
Interest income Recognized	$3	$74	$1	-	-	-	-	-	-	$78
With an allowance recorded:										
Recorded investment	$627	$826	$511	$41	-	$301	-	-	-	$2,306
Unpaid principal	$643	$836	$512	$42	-	$301	-	-	-	$2,334
Related allowance	$$72	$203	$298	$41	-	$113	-	-	-	$727
Average recorded Investment	$731	$486	$474	$20	-	$261	-	-	-	$1,972
Interest income Recognized	$4	$12	$9	-	-	$6	-	-	-	$31

At June 30, 2016, $15,616,000 of originated loans were TDR and classified as impaired. The Company had obligations to lend $25,000 of additional funds on these TDR as of June 30, 2016. At June 30, 2016, $1,479,000 of PNCI loans were TDR and classified as impaired. The Company had no obligations to lend additional funds on these TDR as of June 30, 2016.

At December 31, 2015, $29,269,000 of Originated loans were TDRs and classified as impaired. The Company had obligations to lend $35,000 of additional funds on these TDRs as of December 31, 2015. At December 31, 2015, $1,396,000 of PNCI loans were TDRs and classified as impaired. The Company had no obligations to lend additional funds on these TDRs as of December 31, 2015.

At June 30, 2015, $43,047,000 of originated loans were TDR and classified as impaired. The Company had obligations to lend $62,000 of additional funds on these TDR as of June 30, 2015. At June 30, 2015, $1,091,000 of PNCI loans were TDR and classified as impaired. The Company had no obligations to lend additional funds on these TDR as of June 30, 2015.

Modifications classified as TDRs can include one or a combination of the following: rate modifications, term extensions, interest only modifications, either temporary or long-term, payment modifications, and collateral substitutions/additions. For all new TDRs, an impairment analysis is conducted. If the loan is determined to be collateral dependent, any additional amount of impairment will be calculated based on the difference between estimated collectible value and the current carrying balance of the loan. This difference could result in an increased provision and is typically charged off. If the asset is determined not to be collateral dependent, the impairment is measured on the net present value difference between the expected cash flows of the restructured loan and the cash flows which would have been received under the original terms. The effect of this could result in a requirement for additional provision to the reserve. The effect of these required provisions for the period are indicated above. Typically if a TDR defaults during the period, the loan is then considered collateral dependent and, if it was not already considered collateral dependent, an appropriate provision will be reserved or charge will be taken. The additional provisions required resulting from default of previously modified TDR's are noted above.

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

	TDR Information for the Three Months Ended June 30, 2016									
	RE Mortgage		Home Equity		Auto	Other		Construction		
($ in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Number	1	-	3	-	-	-	-	-	-	4
Pre-mod outstanding principal balance	$332	-	$163	-	-	-	-	-	-	$495
Post-mod outstanding principal balance	$332	-	$164	-	-	-	-	-	-	$496
Financial impact due to TDR taken as additional provision	$44	-	$54	-	-	-	-	-	-	$98
Number that defaulted during the period	1	-	-	-	-	-	-	-	-	1
Recorded investment of TDRs that defaulted during the period	$86	-	-	-	-	-	-	-	-	$86
Financial impact due to the default of previous TDR taken as charge-offs or additional provisions	-	-	-	-	-	-	-	-	-	-

Note 5 – Allowance for Loan Losses (continued)

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

TDR Information for the Six Months Ended June 30, 2015

	RE Mortgage		Home Equity		Auto	Other		Construction		
($ in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Number										
Pre-mod outstanding	1	2	4	1	-	-	1	-	-	9
principal balance	$332	$79	$295	$105	-	-	$12	-	-	$823
Post-mod outstanding principal balance	$332	$116	$297	$105	-	-	$12	-	-	$862
Financial impact due to TDR taken as additional provision	$44	-	$73	-	-	-	$8	-	-	$125
Number that defaulted during the period	1	-	-	-	-	-	-	-	-	1
Recorded investment of TDRs that defaulted during the period	$86	-	-	-	-	-	-	-	-	$86
Financial impact due to the default of previous TDR taken as charge-offs or additional provisions	-	-	-	-	-	-	-	-	-	-

TDR Information for the Three Months Ended June 30, 2015

	RE Mortgage		Home Equity		Auto	Other		Construction		
($ in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Number	-	-	-	1	-	-	2	-	-	3
Pre-mod outstanding principal balance	-	-	-	$69	-	-	$182	-	-	$251
Post-mod outstanding principal balance	-	-	-	$73	-	-	$182	-	-	$255
Financial impact due to TDR taken as additional provision	-	-	-	-	-	-	$86	-	-	$86
Number that defaulted during the period	1	1	-	-	-	-	-	-	-	2
Recorded investment of TDRs that defaulted during the period	$98	$37	-	-	-	-	-	-	-	$135
Financial impact due to the default of previous TDR taken as charge-offs or additional provisions	-	-	-	-	-	-	-	-	-	-

TDR Information for the Six Months Ended June 30, 2015

	RE Mortgage		Home Equity		Auto	Other		Construction		
($ in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Number	1	1	-	1	-	2	3	-	-	8
Pre-mod outstanding principal balance	$108	$124	-	$69	-	$89	$468	-	-	$858
Post-mod outstanding principal balance	$110	$124	-	$74	-	$89	$470	-	-	$867
Financial impact due to TDR taken as additional provision	$8	$(5)	-	-	-	$5	$249	-	-	$257
Number that defaulted during the period	1	1	1	-	-	-	-	-	-	3
Recorded investment of TDRs that defaulted during the period	$98	$37	$46	-	-	-	-	-	-	$181
Financial impact due to the default of previous TDR taken as charge-offs or additional provisions	-	-	-	-	-	-	-	-	-	-

Note 6 – Foreclosed Assets

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

	Six months ended June 30, 2016			Six months ended June 30, 2015		
	Noncovered	Covered	Total	Noncovered	Covered	Total
Beginning balance, net	$5,369	-	$5,369	$4,449	$445	$4,894
Additions/transfers from loans and covered	853	-	853	2,605	(445)	2,160
Dispositions/sales	(2,348)	-	(2,348)	(1,420)	-	(1,420)
Valuation adjustments	(32)	-	(32)	(241)	-	(241)
Ending balance, net	$3,842	-	$3,842	$5,393	-	$5,393
Ending valuation allowance	$(287)	-	$(287)	$(438)	-	$(438)
Ending number of foreclosed assets	15	-	15	33	-	33
Proceeds from sale of foreclosed assets	$2,497	-	$2,497	$1,033	-	$1,033
Gain on sale of foreclosed assets	$149	-	$149	$426	-	$426

As of June 30, 2016, $1,563,000 of foreclosed residential real estate properties, all of which the Company has obtained physical possession of, are included in foreclosed assets. At June 30, 2016, the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are underway is $1,177,000.

Note 7 - Premises and Equipment

Premises and equipment were comprised of:	June 30, 2016	December 31, 2015
	(In thousands)	
Land & land improvements	$10,785	$8,909
Buildings	45,868	38,643
Furniture and equipment	32,972	31,081
	89,625	78,633
Less: Accumulated depreciation	(38,606)	(35,518)
	51,019	43,115
Construction in progress	709	696
Total premises and equipment	$51,728	$43,811

Depreciation expense for premises and equipment amounted to $1,415,000 and $1,377,000 for the three months ended June 30, 2016 and 2015, respectively, and $2,686,000 and $2,645,000 for the six months ended June 30, 2016 and 2015, 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):

	Six months ended June 30,	
	2016	2015
Beginning balance	$94,560	$92,337
Increase in cash value of life insurance	1,377	1,350
Death benefit receivable in excess of cash value	238	-
Death benefit receivable	(1,603)	-
Ending balance	$94,572	$93,687
End of period death benefit	$166,632	$165,728
Number of policies owned	187	189
Insurance companies used	14	14
Current and former employees and directors covered	59	60

As of June 30, 2016, the Bank was the owner and beneficiary of 187 life insurance policies, issued by 14 life insurance companies, covering 59 current and former employees and directors. These life insurance policies are recorded on the Company's financial statements at their reported cash (surrender) values. As a result of current tax law and the nature of these policies, the Bank records any increase in cash value of these policies as nontaxable noninterest income. If the Bank decided to surrender any of the policies prior to the death of the insured, such surrender may result in a tax expense related to the life-to-date cumulative increase in cash value of the policy. If the Bank retains such policies until the death of the insured, the Bank would receive nontaxable proceeds from the insurance company equal to the death benefit of the policies. The Bank has entered into Joint Beneficiary Agreements (JBAs) with certain of the insured that for certain of the policies provide some level of sharing of the death benefit, less the cash surrender value, among the Bank and the beneficiaries of the insured upon the receipt of death benefits. See Note 15 of these condensed consolidated financial statements for additional information on JBAs.

Note 9 - Goodwill and Other Intangible Assets

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

(dollar in thousands)	June 30, 2016	Additions	Reductions	December 31, 2015
Goodwill	$64,311	$849	-	$63,462

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

(dollar in thousands)	June 30, 2016	Additions	Reductions/ Amortization	Fully Depreciated	December 31, 2015
Core deposit intangibles	$10,120	$2,046	-	-	$8,074
Accumulated amortization	(2,838)	-	$(658)	-	(2,180)
Core deposit intangibles, net	$7,282	$2,046	$(658)	-	$5,894

The Company recorded additions to its CDI of $2,046,000 in conjunction with the acquisition of three branch offices from Bank of America on March 18, 2016, $6,614,000 in conjunction with the North Valley Bancorp acquisition on October 3, 2014, $898,000 in conjunction with the Citizens acquisition on September 23, 2011, and $562,000 in conjunction with the Granite acquisition on May 28, 2010. The following table summarizes the Company's estimated core deposit intangible amortization (dollars in thousands):

Years Ended	Estimated Core Deposit Intangible Amortization
2016	$1,377
2017	1,389
2018	1,324
2019	1,228
2020	1,228
Thereafter	$1,095

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 ("MSRs") for the periods indicated (dollars in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Mortgage servicing rights:				
Balance at beginning of period	$7,140	$7,057	$7,618	$7,378
Additions	281	236	501	421
Change in fair value	(701)	521	(1,399)	15
Balance at end of period	$6,720	$7,814	$6,720	$7,814
Servicing, late and ancillary fees received	$516	$528	$1,033	$1,062
Balance of loans serviced at:				
Beginning of period	$813,800	$832,143	$817,917	$840,288
End of period	$814,702	$827,333	$814,702	$827,333
Weighted-average prepayment speed (CPR)			13.2%	9.5%
Discount rate			10.0%	10.0%

The changes in fair value of MSRs that occurred during the three and six months ended June 30, 2016 and 2015 were mainly due to changes in principal balances and changes in estimate life of the MSRs.

Note 11 - Indemnification Asset/Liability

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Beginning (payable) receivable balance	$(607)	$(433)	$(521)	$(349)
Effect of actual covered losses and change in estimated future covered losses	(151)	(24)	(262)	(86)
Reimbursable expenses (revenue), net	-	(18)	(4)	(21)
Payments made (received)	96	9	125	(10)
Ending payable balance	$(662)	$(466)	$(662)	$(466)
Amount of indemnification asset (liability) recorded in other assets			$(29)	$105
Amount of indemnification liability recorded in other liabilities			(633)	(571)
Ending balance			$(662)	$(466)

During May 2015, the indemnification portion of the Company's agreement with the FDIC related to the Company's acquisition of certain nonresidential real estate loans of Granite in May 2010 expired. The indemnification portion of the Company's agreement with the FDIC related to the Company's acquisition of certain residential real estate loans of Granite in May 2010 will expire in May 2018. The agreement specifies that recoveries of losses that are claimed by the Company and indemnified by the FDIC under the agreement that are recovered by the Company through May 2020 are to be shared with the FDIC in the same proportion as they were indemnified by the FDIC. In addition, the agreement specifies that at the end of the agreement in May 2020, to the extent that total claimed losses plus servicing expenses, net of recoveries, claimed under the agreement over the entire ten year period of the agreement do not meet a certain threshold, the Company will be required to pay to the FDIC a "true up" amount equal to fifty percent of the difference of the threshold and actual claimed losses plus servicing expenses, net of recoveries. The Company has continually been estimating, updating and recording this "true up" amount, at its estimated present value, since the inception of the agreement in May 2010. As of June 30, 2016, the present value of this "true up" amount is estimated to be $633,000, and is recorded in other liabilities.

Note 12 – Other Assets

Other assets were comprised of (in thousands):

	June 30, 2016	December 31, 2015
Deferred tax asset, net	$30,115	$36,440
Prepaid expense	2,352	3,062
Software	2,173	1,290
Advanced compensation	492	673
Capital Trusts	1,699	1,696
Investment in Low Housing Tax Credit Funds	13,930	4,223
Miscellaneous other assets	3,478	1,207
Total other assets	$54,239	$48,591

Note 13 - Deposits

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

	June 30, 2016	December 31, 2015
Noninterest-bearing demand	$1,181,702	$1,155,695
Interest-bearing demand	867,638	853,961
Savings	1,346,269	1,281,540
Time certificates, $250,000 and over	77,486	75,897
Other time certificates	268,301	264,173
Total deposits	$3,741,396	$3,631,266

Certificate of deposit balances of $50,000,000 from the State of California were included in time certificates, $250,000 and over, at each of June 30, 2016 and December 31, 2015. 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 $1,172,000 and $796,000 were classified as consumer loans at June 30, 2016 and December 31, 2015, respectively.

Note 14 – Reserve for Unfunded Commitments

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Balance at beginning of period	$2,475	$2,015	$2,475	$2,145
Provision (benefit) for losses – unfunded commitments	408	110	408	(20)
Balance at end of period	$2,883	$2,125	$2,883	$2,125

Note 15 – Other Liabilities

Other liabilities were comprised of (in thousands):

	June 30, 2016	December 31, 2015
Deferred compensation	$6,692	$6,725
Pension liability	26,641	26,182
Joint beneficiary agreements	2,587	2,529
Low income housing tax credit fund commitments	11,670	3,330
Accrued salaries and benefits expense	3,875	3,851
Taxes receivable	(2,407)	-
Loan escrow and servicing payable	2,080	2,037
Deferred revenue	791	1,082
Unsettled investment security purchases	-	17,072
Litigation contingent liability reserve	1,450	-
Miscellaneous other liabilities	4,208	2,485
Total other liabilities	$57,587	$65,293

Note 16 - Other Borrowings

A summary of the balances of other borrowings follows:

	June 30, 2016	December 31, 2015
	(in thousands)	
Other collateralized borrowings, fixed rate, as of June 30, 2016 of 0.05%, payable on July 1, 2016	$19,464	$12,328
Total other borrowings	$19,464	$12,328

The Company did not enter into any repurchase agreements during the six months ended June 30, 2016 or the year ended December 31, 2015.

The Company had $19,464,000 and $12,328,000 of other collateralized borrowings at June 30, 2016 and December 31, 2015, respectively. Other collateralized borrowings are generally overnight maturity borrowings from non-financial institutions that are collateralized by securities owned by the Company. As of June 30, 2016, the Company has pledged as collateral and sold under agreements to repurchase investment securities with fair value of $22,433,000 under these other collateralized borrowings.

The Company maintains a collateralized line of credit with the Federal Home Loan Bank of San Francisco. Based on the FHLB stock requirements at June 30, 2016, this line provided for maximum borrowings of $1,220,327,000 of which none was outstanding, leaving $1,220,327,000 available. As of June 30, 2016, the Company has designated investment securities with fair value of $85,703,000 and loans totaling $1,749,757,000 as potential collateral under this collateralized line of credit with the FHLB.

The Company maintains a collateralized line of credit with the San Francisco Federal Reserve Bank. As of June 30, 2016, this line provided for maximum borrowings of $101,713,000 of which none was outstanding, leaving $101,713,000 available. As of June 30, 2016, the Company has designated investment securities with fair value of $213,000 and loans totaling $135,458,000 as potential collateral under this collateralized line of credit with the San Francisco Federal Reserve Bank.

The Company had available unused correspondent banking lines of credit from commercial banks totaling $15,000,000 for federal funds transactions at June 30, 2016.

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.

On June 22, 2004, the Company formed a second subsidiary business trust, TriCo Capital Trust II, to issue trust preferred securities. Concurrently with the issuance of the trust preferred securities, the trust issued 619 shares of common stock to the Company for $1,000 per share or an aggregate of $619,000. In addition, the Company issued a junior subordinated debenture to the trust in the amount of $20,619,000. The terms of the junior subordinated debenture are materially consistent with the terms of the trust preferred securities issued by TriCo Capital Trust II. Also on June 22, 2004, TriCo Capital Trust II completed an offering of 20,000 shares of cumulative trust preferred securities for cash in an aggregate amount of $20,000,000. The trust preferred securities are mandatorily redeemable upon maturity on July 23, 2034 with an interest rate that resets quarterly at three-month LIBOR plus 2.55%. TriCo Capital Trust II has the right to redeem the trust preferred securities on or after July 23, 2009. The trust preferred securities were issued through an underwriting syndicate to which the Company paid underwriting fees of $2.50 per trust preferred security or an aggregate of $50,000. The net proceeds of $19,950,000 were used to finance the opening of new branches, improve bank services and technology, repurchase shares of the Company’s common stock under its repurchase plan and increase the Company’s capital.

As a result of the Company’s acquisition of North Valley Bancorp on October 3, 2014, the Company assumed the junior subordinated debentures issued by North Valley Bancorp to North Valley Capital Trusts II, III & IV with face amounts of $6,186,000, $5,155,000 and $10,310,000, respectively. Also, as a result of the North Valley Bancorp acquisition, the Company acquired common stock interests in North Valley Capital Trusts II, III and IV with face valley of $186,000, $155,000, and $310,000, respectively. At the acquisition date of October 3, 2014, the junior subordinated debentures associated with North Valley Capital Trust II, III and IV were recorded on the Company’s books at their fair values of $5,006,000, $3,918,000, and $6,063,000, respectively. The related fair value discounts to face value of these debentures will be amortized over the remaining time to maturity for each of these debentures using the effective interest method. Similar, and proportional, discounts were applied to the acquired common stock interest in North Valley Capital Trusts II, III and IV, and these discounts will be proportionally amortized over the remaining time to maturity for each related debenture.

Note 17 – Junior Subordinated Debt (continued)

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

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

Subordinated Debt Series	Maturity Date	Face Value	Coupon Rate (Variable) 3 mo. LIBOR +	As of June 30, 2016 Current Coupon Rate	As of June 30, 2016 Recorded Book Value	December 31, 2015 Recorded Book Value
TriCo Cap Trust I	10/7/2033	$20,619	3.05%	3.68%	$20,619	$20,619
TriCo Cap Trust II	7/23/2034	20,619	2.55%	3.19%	20,619	20,619
North Valley Trust II	4/24/2033	6,186	3.25%	3.89%	5,075	5,055
North Valley Trust III	4/24/2034	5,155	2.80%	3.44%	3,985	3,966
North Valley Trust IV	3/15/2036	10,310	1.33%	1.98%	6,270	6,211
		$62,889			$56,568	$56,470

During the six months ended June 30, 2016, the balance of Junior Subordinated Debt increased $98,000 to $56,568,000 due to purchase fair value discount amortization.

Note 18 - Commitments and Contingencies

Restricted Cash Balances— Reserves (in the form of deposits with the San Francisco Federal Reserve Bank) of $77,248,000 and $70,660,000 were maintained to satisfy Federal regulatory requirements at June 30, 2016 and December 31, 2015. These reserves are included in cash and due from banks in the accompanying consolidated balance sheets.

Lease Commitments— The Company leases 42 sites under non-cancelable operating leases. The leases contain various provisions for increases in rental rates, based either on changes in the published Consumer Price Index or a predetermined escalation schedule. Substantially all of the leases provide the Company with the option to extend the lease term one or more times following expiration of the initial term. The Company currently does not have any capital leases.

At December 31, 2015, 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)
2016	$3,067
2017	2,400
2018	1,755
2019	1,211
2020	2,382
Thereafter	659
Future minimum lease payments	$11,474

Rent expense under operating leases was $1,009,000 and $984,000 during the three months ended June 30, 2016 and 2015, respectively. Rent expense was offset by rent income of $61,000 and $56,000 during the three months ended June 30, 2016 and 2015, respectively. Rent expense under operating leases was $1,990,000 and $1,943,000 during the six months ended June 30, 2016 and 2015, respectively. Rent expense was offset by rent income of $120,000 and $104,000 during the six months ended June 30, 2016 and 2015, 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.

Note 18 - Commitments and Contingencies (continued)

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

(in thousands) Financial instruments whose amounts represent risk:	June 30, 2016	December 31, 2015
Commitments to extend credit:		
Commercial loans	$222,637	$196,399
Consumer loans	400,677	394,278
Real estate mortgage loans	61,634	42,793
Real estate construction loans	75,653	71,846
Standby letters of credit	9,241	8,330
Deposit account overdraft privilege	99,149	94,473

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

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

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

Legal Proceedings— On September 15, 2014, a former Personal Banker at one of the Bank's in-store branches filed a Class Action Complaint against the Bank in Butte County Superior Court, alleging causes of action related to the observance of meal and rest periods and seeking to represent a class of current and former hourly-paid or non-exempt personal bankers, or employees with the same or similar job duties, employed by Defendants within the State of California during the preceding four years. On or about June 25, 2015, Plaintiff filed an Amended Complaint expanding the class definition to all current and formerly hourly-paid or non-exempt branch employees employed by Defendant's within the State of California at any time during the period from September 15, 2010 to final judgment. The Bank has responded to the First Amended Complaint, denying the charges, and the parties have engaged in written discovery. The parties have agreed to non-binding mediation of this proposal during the third quarter of 2016.

On January 20, 2015, a current Personal Banker at one of the Bank's in-store branches filed a First Amended Complaint against Tri Counties Bank and TriCo Bancshares, dba Tri Counties Bank, in Sacramento County Superior Court, alleging causes of action related to wage statement violations. Plaintiff seeks to represent a class of current and former exempt and non-exempt employees who worked for the Bank during the time period beginning October 18, 2013 through the date of the filing of this action. The Company and the Bank have responded to the First Amended Complaint, deny the charges, and has engaged in written discovery with Plaintiff. The parties have agreed to non-binding mediation of this proposal during the third quarter of 2016.

In the second quarter of 2016, the Company accrued $1,450,000 for the estimated probable losses with respect to the two legal proceedings noted above. The outcome of litigation is inherently difficult to predict. It is reasonably possible that the Company could incur losses in excess of the reserved amounts; however it is not able to reasonably estimate the amount of additional losses, if any, at this time. The parties have conducted only limited discovery in these cases. Further, the range of potential losses could be impacted substantially by future rulings by the courts, including rulings regarding class certification and size, the merits of the claims and the Company's defenses. The Company continues to evaluate what facts may arise in the course of discovery and what legal rulings the courts may render and how these facts and rulings might impact the Company's loss.

Neither the Company nor its subsidiaries, are party to any other material pending legal proceeding, nor is their property the subject of any other material pending legal proceeding, except routine legal proceedings arising in the ordinary course of their business. None of these proceedings is currently expected to have a material adverse impact upon the Company's business, consolidated financial position or results of operations in addition to amounts already accrued, taking any applicable insurance into consideration.

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

The Bank owns 13,396 shares of Class B common stock of Visa Inc. which are convertible into Class A common stock at a conversion ratio of 1.648265 per Class B share. As of June 30, 2016, the value of the Class A shares was $74.17 per share. Utilizing the conversion ratio, the value of unredeemed Class A equivalent shares owned by the Bank was $1,638,000 as of June 30, 2016, 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.

Note 18 - Commitments and Contingencies

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 $7,338,000 and $5,713,000 during the six months ended June 30, 2016 and 2015 respectively. The Bank is regulated by the Federal Deposit Insurance Corporation (FDIC) and the State of California Department of Business Oversight. Absent approval from the Commissioner of the Department of Business Oversight, California banking laws generally limit the Bank's ability to pay dividends to the lesser of (1) retained earnings or (2) net income for the last three fiscal years, less cash distributions paid during such period. Under this law, at December 31, 2015, the Bank could pay dividends to the Company of up to $73,297,000.

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 June 30, 2016, the Company had repurchased 166,600 shares under this plan.

Stock Repurchased Under Equity Compensation Plans
During the six months ended June 30, 2016 and 2015, employees tendered 96,996 and 29,441 shares, respectively, of the Company's common stock with market value of $2,666,000, and $699,000, respectively, in lieu of cash to exercise options to purchase shares of the Company's stock and to satisfy tax withholding requirements related to such exercises as permitted by the Company's shareholder-approved equity compensation plans. The tendered shares were retired. The market value of tendered shares is the last market trade price at closing on the day an option is exercised. Stock repurchased under equity incentive plans are not included in the total of stock repurchased under the stock repurchase plan announced on August 21, 2007.

Note 20 - Stock Options and Other Equity-Based Incentive Instruments

In March 2009, the Company's Board of Directors adopted the TriCo Bancshares 2009 Equity Incentive Plan (2009 Plan) covering officers, employees, directors of, and consultants to, the Company. The 2009 Plan was approved by the Company's shareholders in May 2009. The 2009 Plan allows for the granting of the following types of "stock awards" (Awards): incentive stock options, nonstatutory stock options, performance awards, restricted stock, restricted stock unit (RSU) awards and stock appreciation rights. RSUs that vest based solely on the grantee remaining in the service of the Company for a certain amount of time, are referred to as "service condition vesting RSUs". RSUs that vest based on the grantee remaining in the service of the Company for a certain amount of time and a market condition such as the total return of the Company's common stock versus the total return of an index of bank stocks, are referred to as "market plus service condition vesting RSUs". In May 2013, the Company's shareholders approved an amendment to the 2009 Plan increasing the maximum aggregate number of shares of TriCo's common stock which may be issued pursuant to or subject to Awards from 650,000 to 1,650,000. The number of shares available for issuance under the 2009 Plan is reduced by: (i) one share for each share of common stock issued pursuant to a stock option or a Stock Appreciation Right and (ii) two shares for each share of common stock issued pursuant to a Performance Award, a Restricted Stock Award or a Restricted Stock Unit Award. When Awards made under the 2009 Plan expire or are forfeited or cancelled, the underlying shares will become available for future Awards under the 2009 Plan. To the extent that a share of common stock pursuant to an Award that counted as two shares against the number of shares again becomes available for issuance under the 2009 Plan, the number of shares of common stock available for issuance under the 2009 Plan shall increase by two shares. Shares awarded and delivered under the 2009 Plan may be authorized but unissued, or reacquired shares. As of June 30, 2016, 645,400 options for the purchase of common shares, and 117,367 restricted stock units were outstanding, and 628,241 shares remain available for issuance, under the 2009 Plan.

In May 2001, the Company adopted the TriCo Bancshares 2001 Stock Option Plan (2001 Plan) covering officers, employees, directors of, and consultants to, the Company. Under the 2001 Plan, the option exercise price cannot be less than the fair market value of the Common Stock at the date of grant except in the case of substitute options. Options for the 2001 Plan expire on the tenth anniversary of the grant date. Vesting schedules under the 2001 Plan are determined individually for each grant. As of June 30, 2016, 169,750 options for the purchase of common shares were outstanding under the 2001 Plan. As of May 2009, as a result of the shareholder approval of the 2009 Plan, no new options may be granted under the 2001 Plan.

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

Stock option activity during the six months ended June 30, 2016 is summarized in the following table:

	Number of Shares	Option Price per Share			Weighted Average Exercise Price	Weighted Average Fair Value on Date of Grant
Outstanding at December 31, 2015	948,350	$12.63	to	$25.91	$17.94	
Options granted	-	-	to	-	-	-
Options exercised	(127,200)	$14.76	to	$25.91	$22.12	
Options forfeited	(6,000)	$23.21	to	$23.21	$23.21	
Outstanding at June 30, 2016	815,150	$12.63	to	$23.21	$17.25	

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 June 30, 2016:

	Currently Exercisable	Currently Not Exercisable	Total Outstanding
Number of options	694,350	120,800	815,150
Weighted average exercise price	$17.24	$17.28	$17.25
Intrinsic value (in thousands)	$7,191	$1,247	$8,438
Weighted average remaining contractual term (yrs.)	4.4	6.4	4.7

The 120,800 options that are currently not exercisable as of June 30, 2016 are expected to vest, on a weighted-average basis, over the next 1.4 years, and the Company is expected to recognize $738,000 of pre-tax compensation costs related to these options as they vest. The Company did not modify any option grants during 2015 or the six months ended June 30, 2016.

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

	Service Condition Vesting RSUs		Market Plus Service Condition Vesting RSUs	
	Number of RSUs	Weighted Average Fair Value on Date of Grant	Number of RSUs	Weighted Average Fair Value on Date of Grant
Outstanding at December 31, 2015	46,286		32,097	
RSUs granted	36,542	$26.60	18,753	$24.39
RSUs added through dividend credits	641		-	
RSUs released	(16,948)		-	
RSUs forfeited/expired	(4)		-	
Outstanding at June 30, 2016	66,517		50,850	

The 66,517 service condition vesting RSUs outstanding as of June 30, 2016 include a feature whereby each RSU award outstanding is adjusted for cash dividends with additional RSUs equal in number to the number of shares of common stock that could be purchased with the cash dividends that would have been paid on the shares underlying the awards on the date the dividend is paid. The 66,517 service condition vesting RSUs outstanding as of June 30, 2016 are expected to vest, and be released, on a weighted-average basis, over the next 1.7 years. The Company is expected to recognize $1,441,000 of pre-tax compensation costs related to these service condition vesting RSUs between June 30, 2016 and their vesting dates. During the six months ended June 30, 2016, the Company did not modify any service condition vesting RSUs. During 2015 the Company did not modify any service condition vesting RSUs.

The 50,850 market plus service condition vesting RSUs outstanding as of June 30, 2016 are expected to vest, and be released, on a weighted-average basis, over the next 2.4 years. The Company is expected to recognize $784,000 of pre-tax compensation costs related to these RSUs between June 30, 2016 and their vesting dates. As of June 30, 2016, the number of market plus service condition vesting RSUs outstanding that will actually vest, and be released, may be reduced to zero or increased to 76,275 depending on the total return of the Company's common stock versus the total return of an index of bank stocks from the grant date to the vesting date. During the six months ended June 30, 2016, the Company did not modify any market plus service condition vesting RSUs. During 2015 the Company did not modify any market plus service condition vesting RSUs.

Note 21 - Noninterest Income and Expense

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Service charges on deposit accounts	$3,543	$3,637	$6,908	$7,237
ATM and interchange fees	3,892	3,383	7,285	6,385
Other service fees	849	779	1,577	1,493
Mortgage banking service fees	516	528	1,033	1,062
Change in value of mortgage servicing rights	(701)	521	(1,399)	15
Total service charges and fees	8,099	8,848	15,404	16,192
Gain on sale of loans	889	837	1,692	1,459
Commissions on sale of non-deposit investment products	611	784	1,143	1,749
Increase in cash value of life insurance	681	675	1,377	1,350
Change in indemnification asset	(149)	(57)	(264)	(122)
Gain (loss) on sale of foreclosed assets	57	115	149	426
Sale of customer checks	70	121	189	249
Lease brokerage income	235	245	430	382
(Loss) gain on disposal of fixed assets	(8)	1	(39)	(83)
Other	760	511	954	658
Total other noninterest income	3,146	3,232	5,631	6,068
Total noninterest income	$11,245	$12,080	$21,035	$22,260
Mortgage loan servicing fees, net of change in fair value of mortgage loan servicing rights	$(185)	$1,049	$(366)	$1,077

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Base salaries, net of deferred loan origination costs	$12,968	$11,502	$25,676	$23,246
Incentive compensation	2,471	1,390	4,210	2,986
Benefits and other compensation costs	4,606	4,350	9,424	9,110
Total salaries and benefits expense	20,045	17,242	39,310	35,342
Occupancy	2,529	2,541	4,837	4,958
Equipment	1,844	1,527	3,230	2,941
Data processing and software	2,355	1,834	4,198	3,786
ATM network charges	1,002	985	2,008	1,755
Telecommunications	698	785	1,383	1,671
Postage	342	330	805	642
Courier service	265	253	536	501
Advertising	1,077	1,002	1,972	1,810
Assessments	578	694	1,210	1,345
Operational losses	345	149	509	273
Professional fees	1,356	1,035	2,165	2,154
Foreclosed assets expense	114	102	160	200
Provision for foreclosed asset losses	43	174	32	241
Change in reserve for unfunded commitments	408	110	408	(20)
Intangible amortization	359	289	658	578
Merger expense	162	-	784	586
Litigation contingent liability	1,450	-	1,450	-
Other	3,295	3,384	6,363	5,955
Total other noninterest expense	18,222	15,194	32,708	29,376
Total noninterest expense	$38,267	$32,436	$72,018	$64,718
Merger expense:				
Base salaries (outside temporary help)	-	-	$187	-
Data processing and software	-	-	-	$108
Professional fees	$162	-	342	120
Advertising and marketing	-	-	114	-
Other	-	-	141	358
Total merger expense	$162	-	$784	$586

Note 22 - Income Taxes

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Federal statutory income tax rate	35.0%	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefit	7.0	6.7	6.6	6.8
Tax-exempt interest on municipal obligations	(2.3)	(0.6)	(2.0)	(0.5)
Increase in cash value of insurance policies	(2.2)	(1.3)	(1.8)	(1.4)
Low income housing tax credits	(1.4)		(0.7)	-
Other	0.8	(0.3)	0.4	0.1
Effective Tax Rate	36.9%	39.5%	37.5%	40.0%

Note 23 – Earnings Per Share

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

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2016	2015	2016	2015
Net income	$9,405	$11,366	$20,079	$19,702
Average number of common shares outstanding	22,803	22,745	22,793	22,736
Effect of dilutive stock options	267	235	269	229
Average number of common shares outstanding used to calculate diluted earnings per share	23,070	22,980	23,062	22,965
Options excluded from diluted earnings per share because the effect of these options was antidilutive	21	23	22	23
Restricted stock excluded from diluted earnings per share because the effect of these restricted stock was antidilutive	19	-	10	-

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 accumulated other comprehensive income, included in shareholders' equity, are as follows:

	June 30, 2016	December 31, 2015
	(in thousands)	
Net unrealized gains on available for sale securities	$15,443	$2,145
Tax effect	(6,493)	(902)
Unrealized holding gains on available for sale securities, net of tax	8,950	1,243
Unfunded status of the supplemental retirement plans	(5,480)	(5,735)
Tax effect	2,304	2,411
Unfunded status of the supplemental retirement plans, net of tax	(3,176)	(3,324)
Joint beneficiary agreement liability	299	303
Tax effect	-	-
Joint beneficiary agreement liability, net of tax	299	303
Accumulated other comprehensive loss	$6,073	$(1,778)

Note 24 – Comprehensive Income (continued)

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

(in thousands)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Unrealized holding (losses) gains on available for sale securities before reclassifications	$7,173	$(4,752)	$13,298	$(4,737)
Amounts reclassified out of accumulated other comprehensive income	-	-	-	-
Unrealized holding (losses) gains on available for sale securities after reclassifications	7,173	(4,752)	13,298	(4,737)
Tax effect	(3,016)	1,998	(5,591)	1,992
Unrealized holding (losses) gains on available for sale securities, net of tax	4,157	(2,754)	7,707	(2,745)
Change in unfunded status of the supplemental retirement plans before reclassifications	-	-	-	-
Amounts reclassified out of accumulated other comprehensive income:				
Amortization of prior service cost	(20)	(14)	(20)	(28)
Amortization of actuarial losses	275	206	275	412
Total amounts reclassified out of accumulated other comprehensive income	255	192	255	384
Change in unfunded status of the supplemental retirement plans after reclassifications	255	192	255	384
Tax effect	(107)	(81)	(107)	(162)
Change in unfunded status of the supplemental retirement plans, net of tax	148	111	148	222
Change in joint beneficiary agreement liability before reclassifications	(4)	-	(4)	-
Amounts reclassified out of accumulated other comprehensive income	-	-	-	-
Change in joint beneficiary agreement liability after reclassifications	(4)	-	(4)	-
Tax effect	-	-	-	-
Change in joint beneficiary agreement liability, net of tax	(4)	-	(4)	-
Total other comprehensive income (loss)	$4,301	$(2,643)	$7,851	$(2,523)

Note 25 - Retirement Plans

401(k) Plan

The Company sponsors a 401(k) Plan whereby substantially all employees age 21 and over with 90 days of service may participate. Participants may contribute a portion of their compensation subject to certain limits based on federal tax laws. Prior to July 1, 2015, the Company did not contribute to the 401(k) Plan. Effective July 1, 2015, the Company initiated a discretionary matching contribution equal to 50% of participant's elective deferrals each quarter, up to 4% of eligible compensation. The following table sets forth the benefit expense attributable to the 401(k) Plan matching contributions, and the contributions made by the Company to the 401(k) Plan during the periods indicated:

(in thousands)	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
401(k) Plan benefits expense	$169	-	$329	-
401(k) Plan contributions made by the Company	$168	-	$461	-

Employee Stock Ownership Plan

Substantially all employees with at least one year of service are covered by a discretionary employee stock ownership plan (ESOP). Contributions are made to the plan at the discretion of the Board of Directors. Company shares owned by the ESOP are paid dividends and included in the calculation of earnings per share exactly as other common shares outstanding. The following table sets forth the benefit expense attributable to the ESOP, and the contributions made by the Company to the ESOP during the periods indicated:

(in thousands)	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
ESOP benefits expense	$464	$571	$905	$1,138
ESOP contributions made by the Company	$905	$571	$905	$1,506

Deferred Compensation Plans

The Company has deferred compensation plans for certain directors and key executives, which allow certain directors and key executives designated by the Board of Directors of the Company to defer a portion of their compensation. The Company has purchased insurance on the lives of the participants and intends to hold these policies until death as a cost recovery of the Company's deferred compensation obligations of $7,259,000 and $7,408,000 at June 30, 2016 and December 31, 2015, respectively. The following table sets forth the earnings credits on deferred balances included in noninterest expense during the periods indicated:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2016	2015	2016	2015
Deferred compensation earnings credits included in noninterest expense	$129	$137	$255	$286

Supplemental Retirement Plans

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

(in thousands)	Three months ended June 30,		Six months ended June 30,	
Net pension cost included the following components:	2016	2015	2016	2015
Service cost-benefits earned during the period	$260	$256	$521	$512
Interest cost on projected benefit obligation	256	239	512	478
Amortization of net obligation at transition	-	-	1	-
Amortization of prior service cost	(10)	(14)	(20)	(28)
Recognized net actuarial loss	138	206	275	412
Net periodic pension cost	$644	$687	$1,289	$1,374
Company contributions to pension plans	$305	$455	$574	$661
Pension plan payouts to participants	$305	$455	$574	$661

For the year ending December 31, 2016, the Company expects to contribute and pay out as benefits $1,104,000 to participants under the plans.

Note 26 - Related Party Transactions

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

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

Balance December 31, 2014	$3,132
Advances/new loans	3,098
Removed/payments	(2,029)
Balance December 31, 2015	$4,201
Advances/new loans	100
Removed/payments	(715)
Balance June 30, 2016	$3,586

Director Chrysler is a principal owner and CEO of Modern Building Inc. Modern Building Inc. provided construction services to the Company related to new and existing Bank facilities for aggregate payments of $1,096,000 during the six months ended June 30, 2016 and $1,030,000 during the year ended December 31, 2015.

Note 27 - Fair Value Measurement

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

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

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

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

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

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

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

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

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

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

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

Fair value at June 30, 2016	Total	Level 1	Level 2	Level 3
Securities available for sale:				
Obligations of U.S. government corporations and agencies	$408,986	-	$408,986	-
Obligations of states and political subdivisions	116,984	-	116,984	-
Corporate debt securities	-	-	-	-
Marketable equity securities	3,047	$3,047	-	-
Mortgage servicing rights	6,720	-	-	$6,720
Total assets measured at fair value	$535,737	$3,047	$525,970	$6,720

Fair value at December 31, 2015	Total	Level 1	Level 2	Level 3
Securities available-for-sale:				
Obligations of U.S. government corporations and agencies	$313,682	-	$313,682	-
Obligations of states and political subdivisions	88,218	-	88,218	-
Corporate debt securities	-	-	-	-
Marketable equity securities	2,985	$2,985	-	-
Mortgage servicing rights	7,618	-	-	$7,618
Total assets measured at fair value	$412,503	$2,985	$401,900	$7,618

Transfers between levels of the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer, which generally corresponds with the Company's quarterly valuation process. There were no transfers between any levels during the six months ended June 30, 2016 or the year ended December 31, 2015.

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Mortgage servicing rights:				
Balance at beginning of period	$7,140	$7,057	$7,618	$7,378
Issuances	281	236	501	421
Change included in earnings	(701)	521	(1,399)	15
Balance at end of period	$6,720	$7,814	$6,720	$7,814

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

Note 27 - Fair Value Measurement (continued)

The following table presents quantitative information about recurring Level 3 fair value measurements at June 30, 2016:

	Fair Value (in thousands)	Valuation Technique	Unobservable Inputs	Range, Weighted Average
Mortgage Servicing Rights	$6,720	Discounted cash flow	Constant prepayment rate	6.5%-20.6%, 13.2%
			Discount rate	10.0%-12.0%, 10.0%

The following table presents quantitative information about recurring Level 3 fair value measurements at December 31, 2015:

	Fair Value (in thousands)	Valuation Technique	Unobservable Inputs	Range, Weighted Average
Mortgage Servicing Rights	$7,618	Discounted cash flow	Constant prepayment rate	6.3%-20.5%, 9.5%
			Discount rate	10.0%-12.0%, 10.0%

The table below presents the recorded amount of certain assets measured at fair value on a nonrecurring basis, as of the dates indicated. For these purposes, an asset is deemed to be measured at fair value if it had a write-down or an additional allowance provided during the periods indicated, and the recorded value of the asset at the end of the period is equal to the net value of the underlying collateral (in thousands):

Six months ended June 30, 2016	Total	Level 1	Level 2	Level 3	Total Gains/(Losses)
Fair value:					
Impaired Originated & PNCI loans	$1,318	-	-	$1,318	$316
Foreclosed assets	1,396	-	-	1,396	-
Total assets measured at fair value	$2,714	-	-	$2,714	$316

Year ended December 31, 2015	Total	Level 1	Level 2	Level 3	Total Gains (Losses)
Fair value:					
Impaired Originated & PNCI loans	$4,649	-	-	$4,649	$(660)
Foreclosed assets	1,540			1,540	(102)
Total assets measured at fair value	$6,189	-	-	$6,189	$(762)

Six months ended June 30, 2015	Total	Level 1	Level 2	Level 3	Total Gains/(Losses)
Fair value:					
Impaired Originated & PNCI loans	$3,377	-	-	$3,377	$151
Foreclosed assets	3,190	-	-	3,190	(239)
Total assets measured at fair value	$6,567	-	-	$6,567	$(88)

The table below presents the gains and losses from nonrecurring fair value adjustments that occurred in the periods indicated (in thousands):

	Three months ended June 30,	
(Gains)/losses from nonrecurring fair value adjustments:	2016	2015
Impaired Originated & PNCI loans	$431	$(22)
Foreclosed assets	-	206
Total losses from nonrecurring fair value adjustments	$431	$184

The impaired Originated and PNCI loan amount above represents impaired, collateral dependent loans that have been adjusted to fair value. When we identify a collateral dependent loan as impaired, we measure the impairment using the current fair value of the collateral, less selling costs. Depending on the characteristics of a loan, the fair value of collateral is generally estimated by obtaining external appraisals. If we determine that the value of the impaired loan is less than the recorded investment in the loan, we recognize this impairment and adjust the carrying value of the loan to fair value through the allowance for loan and lease losses. The loss represents charge-offs or impairments on collateral dependent loans for fair value adjustments based on the fair value of collateral. The carrying value of loans fully charged-off is zero.

The foreclosed assets amount above represents impaired real estate that has been adjusted to fair value. Foreclosed assets represent real estate which the Bank has taken control of in partial or full satisfaction of loans. At the time of foreclosure, other real estate owned is recorded at the lower of the carrying amount of the loan or fair value less costs to sell, which becomes the property's new basis. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan and lease losses. After foreclosure, management periodically performs valuations such that the real estate is carried at the lower of its new cost basis or fair value, net of estimated costs to sell. Fair value adjustments on other real estate owned are recognized within net loss on real estate owned. The loss represents impairments on non-covered other real estate owned for fair value adjustments based on the fair value of the real estate.

Note 27 - Fair Value Measurement (continued)

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

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a nonrecurring basis at June 30, 2016:

	Fair Value (in thousands)	Valuation Technique	Unobservable Inputs	Range, Weighted Average
Impaired Originated & PNCI loans	$1,318	Sales comparison approach	Adjustment for differences between comparable sales	(0.0)%-(5.0)%, (5.0)%
		Income approach	Capitalization rate	N/A
Foreclosed assets (Land & construction)	-	Sales comparison approach	Adjustment for differences between comparable sales	N/A
Foreclosed assets (residential (Residential real estate)	$1,396	Sales comparison approach	Adjustment for differences between comparable sales	(5.0)%-(5.0)%, (5.0)%
Foreclosed assets (Commercial real estate)	-	Sales comparison approach	Adjustment for differences between comparable sales	N/A

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a nonrecurring basis at December 31, 2015:

	Fair Value (in thousands)	Valuation Technique	Unobservable Inputs	Range, Weighted Average
Impaired Originated & PNCI loans	$4,649	Sales comparison approach	Adjustment for differences between comparable sales	(5.0)%-(5.0)%, (5.0)%
		Income approach	Capitalization rate	7.0%-8.0 %, 7.25%
Foreclosed assets (Land & construction)	$96	Sales comparison approach	Adjustment for differences between comparable sales	(5.0)%-(5.0)%, (5.0)%
Foreclosed assets (residential (Residential real estate)	$1,177	Sales comparison approach	Adjustment for differences between comparable sales	(5.0)%-(5.0)%, (5.0)%
Foreclosed assets (Commercial real estate)	$267	Sales comparison approach	Adjustment for differences between comparable sales	(5.0)%-(5.0)%, (5.0)%

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

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

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

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

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

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

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

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

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

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

Commitments to Extend Credit and Standby Letters of Credit - The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit worthiness of the counter parties. For fixed rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligation with the counter parties at the reporting date.

Fair values for financial instruments are management's estimates of the values at which the instruments could be exchanged in a transaction between willing parties. These estimates are subjective and may vary significantly from amounts that would be realized in actual transactions. In addition, other significant assets are not considered financial assets including, any mortgage banking operations, deferred tax assets, and premises and equipment. Further, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on the fair value estimates and have not been considered in any of these estimates.

The estimated fair values of financial instruments that are reported at amortized cost in the Corporation's consolidated balance sheets, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value, were as follows (in thousands):

	June 30, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Level 1 inputs:				
Cash and due from banks	$88,157	$88,157	$94,305	$94,305
Cash at Federal Reserve and other banks	128,629	128,629	209,156	209,156
Level 2 inputs:				
Securities held to maturity	674,412	699,599	726,530	732,208
Restricted equity securities	16,956	N/A	16,596	N/A
Loans held for sale	2,904	2,904	1,873	1,873
Level 3 inputs:				
Loans, net	2,618,121	2,712,083	2,486,926	2,555,297
Financial liabilities:				
Level 2 inputs:				
Deposits	3,741,396	3,740,956	3,631,266	3,630,129
Other borrowings	19,464	19,464	12,328	12,328
Level 3 inputs:				
Junior subordinated debt	$56,567	$49,559	$56,470	$44,527

Off-balance sheet:	Contract Amount	Fair Value	Contract Amount	Fair Value
Level 3 inputs:				
Commitments	$760,601	$7,606	$705,316	$7,053
Standby letters of credit	$9,241	$92	$8,330	$83
Overdraft privilege commitments	$99,149	$991	$94,473	$945

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

Condensed Balance Sheets	June 30, 2016	December 31, 2015
Assets	(In thousands)	
Cash and Cash equivalents	$2,467	$2,565
Investment in Tri Counties Bank	526,616	504,655
Other assets	1,725	1,714
Total assets	$530,808	$508,934
Liabilities and shareholders' equity		
Other liabilities	$373	$348
Junior subordinated debt	56,567	56,470
Total liabilities	56,940	56,818
Shareholders' equity:		
Common stock, no par value: authorized 50,000,000 shares; issued and outstanding 22,822,325 and 22,775,173 shares, respectively	249,860	247,587
Retained earnings	217,935	206,307
Accumulated other comprehensive income (loss), net	6,073	(1,778)
Total shareholders' equity	473,868	452,116
Total liabilities and shareholders' equity	$530,808	$508,934

Condensed Statements of Income	Three months ended June 30,		Six months ended June 30,	
(In thousands)	2016	2015	2016	2015
Interest expense	$(546)	$(491)	$(1,081)	$(973)
Administration expense	(241)	(263)	(390)	(416)
Loss before equity in net income of Tri Counties Bank	(787)	(754)	(1,471)	(1,389)
Equity in net income of Tri Counties Bank:				
Distributed	3,658	3,593	7,338	5,713
(Over) under distributed	6,204	8,210	13,594	14,794
Income tax benefit	330	317	618	584
Net income	$9,405	$11,366	$20,079	$19,702

Condensed Statements of Comprehensive Income	Three months ended June 30,		Six months ended June 30,	
(In thousands)	2016	2015	2016	2015
Net income	$9,405	$11,366	$20,079	$19,702
Other comprehensive income (loss), net of tax:				
Unrealized holding gains (losses) on available for sale securities arising during the period	4,157	(2,754)	7,707	(2,745)
Change in minimum pension liability	148	111	148	222
	(4)	-	(4)	-
Other comprehensive income (loss)	4,301	(2,643)	7,851	(2,523)
Comprehensive income	$13,706	$8,723	$27,930	$17,179

Condensed Statements of Cash Flows	Six months ended June 30,	
(In thousands)	2016	2015
Operating activities:		
Net income	$20,079	$19,702
Adjustments to reconcile net income to net cash provided by operating activities:		
Over (under) distributed equity in earnings of Tri Counties Bank	(13,594)	(14,794)
Equity compensation vesting expense	697	698
Equity compensation net tax expense (excess tax benefit)	182	(30)
Net change in other assets and liabilities	(587)	(463)
Net cash provided by operating activities	6,777	5,113
Investing activities: None		
Financing activities:		
Issuance of common stock through option exercise	483	30
Equity compensation net (excess tax benefit) tax expense	(182)	569
Repurchase of common stock	(335)	(31)
Cash dividends paid — common	(6,841)	(5,473)
Net cash used for financing activities	(6,875)	(4,905)
(Decrease) increase in cash and cash equivalents	(98)	208
Cash and cash equivalents at beginning of year	2,565	2,229
Cash and cash equivalents at end of year	$2,467	$2,437

Note 29 - Regulatory Matters

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

In July, 2013, the federal banking agencies approved final rules that substantially amend the regulatory risk-based capital rules applicable to TriCo and the Bank. The final rules implement the "Basel III" regulatory capital reforms and changes required by the Dodd-Frank Act. "Basel III" refers to two consultative documents released by the Basel Committee on Banking Supervision in December 2009, the rules text released in December 2010, and loss absorbency rules issued in January 2011, which include significant changes to bank capital, leverage and liquidity requirements.

The rules include new risk-based capital and leverage ratios, which will be phased in from 2015 to 2019, and will refine the definition of what constitutes "capital" for purposes of calculating those ratios. The new minimum capital level requirements applicable to TriCo and the Bank as of January 1, 2015 under the final rules are: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from previous rules); and (iv) a Tier 1 leverage ratio of 4% for all institutions. The final rules also establish a "capital conservation buffer" above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital. The capital conservation buffer will be phased-in over four years beginning on January 1, 2016, as follows: the maximum buffer will be 0.625% of risk-weighted assets for 2016, 1.25% for 2017, 1.875% for 2018, and 2.5% for 2019 and thereafter. This will result in the following minimum ratios beginning in 2019: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. Under the final rules, institutions are subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

Basel III provided discretion for regulators to impose an additional buffer, the "countercyclical buffer," of up to 2.5% of common equity Tier 1 capital to take into account the macro-financial environment and periods of excessive credit growth. However, the final rules permit the countercyclical buffer to be applied only to "advanced approach banks" (i.e., banks with $250 billion or more in total assets or $10 billion or more in total foreign exposures), which currently excludes TriCo and the Bank. The final rules also implement revisions and clarifications consistent with Basel III regarding the various components of Tier 1 capital, including common equity, unrealized gains and losses, as well as certain instruments that will no longer qualify as Tier 1 capital, some of which will be phased out over time. However, the final rules provide that small depository institution holding companies with less than $15 billion in total assets as of December 31, 2009 (such as TriCo) will be able to permanently include non-qualifying instruments that were issued and included in Tier 1 or Tier 2 capital prior to May 19, 2010 in additional Tier 1 or Tier 2 capital until they redeem such instruments or until the instruments mature. The final rules also allow banks other than advanced approach banks to make a one-time election to permanently exclude or include unrealized gains and losses on available for sale securities in accumulated other comprehensive income from Tier 1 capital. The Company has elected to exclude unrealized gains and losses on available for sale securities in accumulated other comprehensive income from Tier 1 capital.

The final rules also contain revisions to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions, including the Bank, if their capital levels begin to show signs of weakness. These revisions became effective on January 1, 2015. Under the prompt corrective action requirements, which are designed to complement the capital conservation buffer, insured depository institutions will be required to meet the following increased capital level requirements in order to qualify as "well capitalized:" (i) a new common equity Tier 1 capital ratio of 6.5%; (ii) a Tier 1 capital ratio of 8% (increased from 6%); (iii) a total capital ratio of 10% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 5% (increased from 4%).

The final rules also set forth certain changes for the calculation of risk-weighted assets, which will be phased in beginning January 1, 2015. The standardized approach final rule utilizes an increased number of credit risk exposure categories and risk weights, and also addresses: (i) an alternative standard of creditworthiness consistent with Section 939A of the Dodd-Frank Act; (ii) revisions to recognition of credit risk mitigation; (iii) rules for risk weighting of equity exposures and past due loans; (iv) revised capital treatment for derivatives and repo-style transactions; and (v) disclosure requirements for top-tier banking organizations with $50 billion or more in total assets that are not subject to the "advance approach rules" that apply to banks with greater than $250 billion in consolidated assets. We believe that we were in compliance with the requirements applicable to us as set forth in the final rules as of January 1, 2015 and June 30, 2016.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total, Tier 1, and common equity Tier 1capital to risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of June 30, 2016, that the Company meets all capital adequacy requirements to which it is subject.

The following tables present actual and required capital ratios as of June 30, 2016 and December 31, 2015 for the Company and the Bank under Basel III Capital Rules. The minimum capital amounts presented include the minimum required capital levels as of June 30, 2016 and December 31, 2015 based on the phased-in provisions of the Basel III Capital Rules and the minimum required capital levels as of January 1, 2019 when the Basel III Capital Rules have been fully phased-in. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

	Actual		Minimum Capital Required – Basel III Phase-in Schedule		Minimum Capital Required – Basel III Fully Phased In		Required to be Considered Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2016:				(dollars in thousands)				
Total Capital								
(to Risk Weighted Assets):								
Consolidated	$486,632	14.73%	$264,227	8.00%	$346,798	10.50%	N/A	N/A
Tri Counties Bank	$484,512	14.68%	$264,089	8.00%	$346,617	10.50%	$330,111	10.00%
Tier 1 Capital								
(to Risk Weighted Assets):								
Consolidated	$448,240	13.57%	$198,170	6.00%	$280,741	8.50%	N/A	N/A
Tri Counties Bank	$446,120	13.51%	$198,067	6.00%	$280,595	8.50%	$264,089	8.00%
Common equity Tier 1 Capital								
(to Risk Weighted Assets):								
Consolidated	$395,669	11.98%	$148,628	4.50%	$231,199	7.00%	N/A	N/A
Tri Counties Bank	$446,120	13.51%	$148,550	4.50%	$231,078	7.00%	$214,572	6.50%
Tier 1 Capital (to Average Assets):								
Consolidated	$448,240	10.40%	$172,473	4.00%	$172,473	4.00%	N/A	N/A
Tri Counties Bank	$446,120	10.35%	$172,467	4.00%	$172,467	4.00%	$215,584	5.00%

	Actual		Minimum Capital Required – Basel III Phase-in Schedule		Minimum Capital Required – Basel III Fully Phased In		Required to be Considered Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2015:				(dollars in thousands)				
Total Capital								
(to Risk Weighted Assets):								
Consolidated	$474,436	15.09%	$251,555	8.00%	$330,165	10.50%	N/A	N/A
Tri Counties Bank	$473,327	15.06%	$251,418	8.00%	$329,985	10.50%	$314,272	10.00%
Tier 1 Capital								
(to Risk Weighted Assets):								
Consolidated	$435,950	13.86%	$188,666	6.00%	$267,277	8.50%	N/A	N/A
Tri Counties Bank	$434,841	13.84%	$188,563	6.00%	$267,131	8.50%	$251,418	8.00%
Common equity Tier 1 Capital								
(to Risk Weighted Assets):								
Consolidated	$385,747	12.27%	$141,499	4.50%	$220,110	7.00%	N/A	N/A
Tri Counties Bank	$434,841	13.84%	$141,422	4.50%	$219,990	7.00%	$204,277	6.50%
Tier 1 Capital (to Average Assets):								
Consolidated	$435,950	10.79%	$161,562	4.00%	$161,562	4.00%	N/A	N/A
Tri Counties Bank	$434,841	10.76%	$161,601	4.00%	$161,601	4.00%	$202,002	5.00%

As of June 30, 2016, capital levels at the Company and the Bank exceed all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis. Based on the ratios presented above, capital levels as June 30, 2016 at the Company and the Bank exceed the minimum levels necessary to be considered “well capitalized”.

Note 30 - Summary of Quarterly Results of Operations (unaudited)

The following table sets forth the results of operations for the periods indicated, and is unaudited; however, in the opinion of Management, it reflects all adjustments (which include only normal recurring adjustments) necessary to present fairly the summarized results for such periods.

	2016 Quarters Ended			
	December 31,	September 30,	June 30,	March 31,
	(dollars in thousands, except per share data)			
Interest and dividend income:				
Loans:				
Discount accretion PCI – cash basis			$426	$269
Discount accretion PCI – other			415	(45)
Discount accretion PNCI			1,459	868
All other loan interest income			32,038	33,646
Total loan interest income			34,338	34,738
Debt securities, dividends and interest bearing cash at Banks (not FTE)			8,252	8,056
Total interest income			42,590	42,794
Interest expense			1,430	1,392
Net interest income			41,160	41,402
(Benefit from reversal of) provision for loan losses			(773)	209
Net interest income after provision for loan losses			41,933	41,193
Noninterest income			11,245	9,790
Noninterest expense			38,267	33,751
Income before income taxes			14,911	17,232
Income tax expense			5,506	6,558
Net income			$ 9,405	$ 10,674
Per common share:				
Net income (diluted)			$ 0.41	$ 0.46
Dividends			$ 0.15	$ 0.15

	2015 Quarters Ended			
	December 31,	September 30,	June 30,	March 31,
	(dollars in thousands, except per share data)			
Interest and dividend income:				
Loans:				
Discount accretion PCI – cash basis	$302	$445	$404	$172
Discount accretion PCI – other	1,392	1,090	907	1,274
Discount accretion PNCI	573	1,590	822	1,348
All other loan interest income	32,571	30,689	29,886	28,371
Total loan interest income	34,838	33,814	32,019	31,165
Debt securities, dividends and interest bearing cash at banks (not FTE)	7,652	7,518	7,848	6,560
Total interest income	42,490	41,332	39,867	37,725
Interest expense	1,349	1,339	1,346	1,382
Net interest income	41,141	39,993	38,521	36,343
(Benefit from reversal of) provision for loan losses	(908)	(866)	(633)	197
Net interest income after provision for loan losses	42,049	40,859	39,154	36,146
Noninterest income	11,445	11,642	12,080	10,180
Noninterest expense	34,684	31,439	32,436	32,282
Income before income taxes	18,810	21,062	18,798	14,044
Income tax expense	7,388	8,368	7,432	5,708
Net income	$ 11,422	$ 12,694	$ 11,366	$ 8,336
Per common share:				
Net income (diluted)	$ 0.50	$ 0.55	$ 0.49	$ 0.36
Dividends	$ 0.15	$ 0.13	$ 0.13	$ 0.11

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

General

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

Critical Accounting Policies and Estimates

There have been no changes to the Company's critical accounting policies during the six months ended June 30, 2016.

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

On March 18, 2016, Tri Counties Bank acquired three branches from Bank of America. The branches are located in the cities of Arcata, Eureka, and Fortuna in Humboldt County, California. The Bank paid a premium of $3,204,000 for deposit relationships with balances of $161,231,000 and loans with balances of $289,000, and received $159,520,000 in cash from Bank of America. See "Results of Operations" and "Financial Condition" below and Note 2 in Item 1 of Part I of this report, for additional discussion about this transaction.

On October 3, 2014, TriCo acquired North Valley Bancorp. As part of the acquisition, North Valley Bank, a wholly-owned subsidiary of North Valley Bancorp, merged with and into Tri Counties Bank. TriCo issued an aggregate of approximately 6.58 million shares of TriCo common stock to North Valley Bancorp shareholders, which was valued at a total of approximately $151 million based on the closing trading price of TriCo common stock on October 3, 2014 of $21.73 per share. TriCo also assumed North Valley Bancorp's obligations with respect to its outstanding trust preferred securities. North Valley Bank was a full-service commercial bank headquartered in Redding, California. North Valley conducted a commercial and retail banking services which included accepting demand, savings, and money market rate deposit accounts and time deposits, and making commercial, real estate and consumer loans. North Valley Bank had $935 million in assets and 22 commercial banking offices in Shasta, Humboldt, Del Norte, Mendocino, Yolo, Sonoma, Placer and Trinity Counties in Northern California at June 30, 2014. On October 25, 2014, North Valley Bank's electronic customer service and other data processing systems were converted onto Tri Counties Bank's systems. Between January 7, 2015 and January 21, 2015, four Tri Counties Bank branches and four former North Valley Bank branches were consolidated into other Tri Counties Bank or other former North Valley Bank branches.

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.

On May 28, 2010, the Office of the Comptroller of the Currency closed Granite Community Bank, N.A. ("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.

The Company refers to loans and foreclosed assets that are covered by loss sharing agreements as "covered loans" and "covered foreclosed assets", respectively. In addition, the Company refers to loans purchased or obtained in a business combination as "purchased credit impaired" (PCI) loans, or "purchased non-credit impaired" (PNCI) loans. The Company refers to loans that it originates as "originated" loans. Additional information regarding the Citizens and Granite Bank acquisitions can be found in Note 2 in Item 1 of Part I of this report. Additional information regarding the definitions and accounting for originated, PNCI and PCI loans can be found in Notes 1, 2, 4 and 5 in Item 1 of Part I of this report, and under the heading *Asset Quality and Non-Performing Assets* below.

Geographical Descriptions
For the purpose of describing the geographical location of the Company's 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.

TRICO BANCSHARES
Financial Summary
(In thousands, except per share amounts; unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net Interest Income (FTE)	$41,745	$38,715	$83,685	$75,155
Benefit from reversal of provision for loan losses	773	633	564	436
Noninterest income	11,245	12,080	21,035	22,260
Noninterest expense	(38,267)	(32,436)	(72,018)	(64,718)
Provision for income taxes (FTE)	(6,091)	(7,626)	(13,187)	(13,431)
Net income	$9,405	$11,366	$20,079	$19,702
Earnings per share:				
Basic	$0.41	$0.50	$0.88	$0.87
Diluted	$0.41	$0.49	$0.87	$0.86
Per share:				
Dividends paid	$0.15	$0.13	$0.30	$0.24
Book value at period end	$20.76	$18.95		
Average common shares outstanding	22,803	22,745	22,793	22,736
Average diluted common shares outstanding	23,070	22,980	23,062	22,965
Shares outstanding at period end	22,822	22,750		
At period end:				
Loans, net	$2,618,121	$2,358,307		
Total assets	$4,352,492	$3,893,855		
Total deposits	$3,741,396	$3,341,682		
Other borrowings	$19,464	$6,735		
Junior subordinated debt	$56,567	$56,369		
Shareholders' equity	473,868	$431,144		
Financial Ratios:				
During the period (annualized):				
Return on assets	0.86%	1.17%	0.93%	1.01%
Return on equity	7.98%	10.56%	8.61%	9.21%
Net interest margin[1]	4.13%	4.35%	4.23%	4.22%
Efficiency ratio[2]	72.2%	63.9%	68.8%	66.4%
Average equity to average assets	10.74%	11.06%	10.85%	10.98%
At period end:				
Equity to assets	10.89%	11.07%		
Total capital to risk-adjusted assets	14.73%	15.16%		

[1] Fully taxable equivalent (FTE)
[2] Efficiency ratio is defined as the sum net interest income (FTE) and noninterest income divided by noninterest expense.

Results of Operations

Overview
The following discussion and analysis is designed to provide a better understanding of the significant changes and trends related to the Company and the Bank's financial condition, operating results, asset and liability management, liquidity and capital resources and should be read in conjunction with the Condensed Consolidated Financial Statements of the Company and the Notes thereto located at Item 1 of this report.

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net Interest Income (FTE)	$41,745	$38,715	$83,685	$75,155
Benefit from reversal of provision for loan losses	773	633	564	436
Noninterest income	11,245	12,080	21,035	22,260
Noninterest expense	(38,267)	(32,436)	(72,018)	(64,718)
Provision for income taxes (FTE)	(6,091)	(7,626)	(13,187)	(13,431)
Net income	$9,405	$11,366	$20,079	$19,702

Included in the Company's results of operations for the three and six month periods ended June 30, 2016 is the impact of the Company's acquisition, on March 18, 2016, of three branch offices from Bank of America that included the acquisition of deposit relationships with balances totaling $161,231,000. Interest expense associated with the acquired deposit relationships was $5,000 from March 18, 2016 to March 31, 2016, and interest income from the net cash received in the transaction was estimated to be $27,000, assuming it was invested in Fed funds at an annualized earnings rate of 0.50%. Direct noninterest income and expense related to these branches from March 18, 2016 to March 31, 2016 were $14,000 and $659,000, respectively. Included in the $659,000 of noninterest expense related to these branches for the three months ended March 31, 2016 was $10,000 of core deposit intangible amortization, and $622,000 of nonrecurring acquisition expenses such as system conversion and customer communication related expenses. Other (indirect) noninterest income and expenses related to these branches and associated deposits, such as, increased data processing expense, are not readily distinguishable on a branch by branch basis. On June 8, 2016, the Company consolidated a preexisting branch into one of the branches acquired from Bank of America.

Also included in the Company's results of operations for the three and six month periods ended June 30, 2016 is the impact of the sale, on March 31, 2016, of twenty-seven nonperforming loans, nine substandard performing loans, and three purchased credit impaired loans with total contractual principal balances outstanding of $31,487,000, and recorded book value, including pre-sale write downs and purchase discounts, of approximately $24,810,000. Net proceeds from the sale of these loans were $27,049,000, and resulted in additional net loan write downs of $21,000, the recovery of $1,237,000 of interest income that was previously applied to the principal balance of loans in nonaccrual status, and a gain on sale of loans of $103,000.

The twenty-seven nonperforming loans that were sold had a total recorded value of $13,058,000, and were sold for net proceeds of $14,973,000, resulting in the recovery of $575,000 of previously charged off principal balances, the recognition of $1,237,000 of interest income from interest payments previously applied to principal balances on nonaccrual loans, and a gain on sale of $103,000. The $13,058,000 recorded value of these nonperforming loans was the result of contractual principal balances outstanding of $17,169,000, less $1,578,000 of principal balances previously charged off, less $2,684,000 of interest payments previously applied to principal balances on nonaccrual loans, and the addition of $151,000 of unamortized loan purchase premiums net of unearned deferred loan fees.

The nine substandard performing loans that were sold had a total recorded value of $9,508,000, and were sold for net proceeds of $8,912,000, resulting in a net loan principal write down and charge off of $596,000. The $9,508,000 recorded value of these performing loans was the result of contractual principal balances outstanding of $10,438,000, less $930,000 of unamortized loan purchase discounts and unearned deferred loan fees.

Prior to their sale, the three loans with deteriorated credit quality acquired in a business combination were accounted for under Accounting Standards Codification Topic 310-30 using the "pooled method" of accounting for loans acquired with deteriorated credit quality. The Company classifies these types of loans in a category of loan it refers to as Purchased Credit Impaired-other (PCI-other) loans. The combined contractual principal balance of the three PCI-other loans sold on March 31, 2016 was $3,880,000, and they were sold for net proceeds of $3,164,000. The net sale proceeds of $3,164,000, along with other cash flows received on these loans during the three months ended March 31, 2016, represented a $446,000 decrease in estimated cash flows over their estimated remaining lives when compared to their previous estimated cash flows as of December 31, 2015. Previously, these three PCI-other loans were expected to be resolved by September 30, 2017. As a result of the magnitude and timing of the decrease in estimated cash flows for these three PCI-other loans, the loan pools associated with these PCI-other loans experienced an increase in interest income of $23,000 during the three months ended March 31, 2016, but are expected to realize a decrease in interest income of $469,000 over the remaining lives of the associated loan pools when compared to projected interest income under the previous (December 31, 2015) estimated cash flows for these three PCI-other loans.

Also included in the Company's results of operations for the three and six month periods ended June 30, 2016 is the impact of the purchase, on May 19, 2016, of seven single family residential real estate mortgage loans with total value of $22,503,000.

Also included in the Company's results of operations for the three and six month periods ended June 30, 2016 is a $1,450,000 litigation contingent liability expense accrual recorded during the three months ended June 30, 2016, and representing the Company's estimate of probable incurred losses associated with the legal proceedings originally brought against the Company on September 15, 2014 and January 20, 2015, and described further under the heading *"Legal Proceedings"* at Note 18 in Item 1 of Part I of this report.

Net Interest Income

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

	Three months ended June 30,		Six month ended June 30,	
	2016	2015	2016	2015
Interest income	$42,590	$39,867	$85,384	$77,592
Interest expense	(1,430)	(1,346)	(2,822)	(2,728)
FTE adjustment	585	194	1,123	291
Net interest income (FTE)	$41,745	$38,715	$83,685	$75,155
Net interest margin (FTE)	4.13%	4.35%	4.23%	4.22%
Purchased loan discount accretion	$2,300	$2,133	$3,392	$4,664
Interest income recovered from sale of loans	-	-	$1,237	-
Effect of purchased loan discount accretion on net interest margin (FTE)	0.23%	0.24%	0.17%	0.26%
Effect of interest income recovered from sale of loans on net interest margin (FTE)	-	-	0.06%	-

Net interest income (FTE) during the three months ended June 30, 2016 increased $3,030,000 (7.8%) from the same period in 2015 to $41,745,000. The increase in net interest income (FTE) was primarily due to a $223,910,000 (9.5%) increase in the average balance of loans to $2,579,774,000, and a $147,414,000 (13.9%) increase in the average balance of investments to $1,211,556,000 that were partially offset by a 12 basis point decrease in the average yield on loans from 5.44% during the three months ended June 30, 2015 to 5.32% during the three months ended June 30, 2016, and an 16 basis point decrease in the average yield on investments from 2.97% during the three months ended June 30, 2015 to 2.81% during the three months ended June 30, 2016. The decrease in average loan yields is primarily due to declines in market yields on new and renewed loans compared to yields on repricing, maturing, and paid off loans. The decrease in average investment yields is primarily due to declines in market yields on new investments compared to yields on existing investments, and to recent declines in mortgage rates that lead to a larger amount of mortgage refinancing activity that in turn lead to faster estimated mortgage prepayment speeds and an accelerated level of interest income reducing premium amortization on existing mortgage backed securities. The increases in average loan and investment balances added $3,045,000 and $1,457,000, respectively, to net interest income (FTE) while the decreases in average loan and investment yields reduced net interest income (FTE) by $726,000 and $850,000, respectively, when compared to the year-ago quarter. Included in interest income during the three months ended June 30, 2015 was a special cash dividend of $626,000 from the Company's investment in Federal Home Loan Bank stock, and $2,133,000 of discount accretion from purchased loans compared to $2,300,000 of discount accretion from purchased loans during the three months ended June 30, 2016. For more information related to loan interest income, including loan purchase discount accretion, see the *Summary of Average Balances, Yields/Rates and Interest Differential* and Note 30 to the consolidated financial statements at Part I, Item 1 of this report.

Net interest income (FTE) during the six months ended June 30, 2016 increased $8,530,000 (11.4%) from the same period in 2015 to $83,685,000. The increase in net interest income (FTE) was primarily due to a $238,931,000 (10.3%) increase in the average balance of loans to $2,558,674,000, and a $201,821,000 (20.3%) increase in the average balance of investments to $1,076,624,000 that were partially offset by a 5 basis point decrease in the average yield on loans from 5.45% during the six months ended June 30, 2015 to 5.40% during the six months ended June 30, 2016, and a 5 basis point decrease in the average yield on investments from 2.87% during the six months ended June 30, 2015 to 2.82% during the six months ended June 30, 2016. The decrease in average loan yields is primarily due to declines in market yields on new and renewed loans compared to yields on repricing, maturing, and paid off loans. The decrease in average investment yields is primarily due to declines in market yields on new investments compared to yields on existing investments, and to recent declines in mortgage rates that lead to a larger amount of mortgage refinancing activity that in turn lead to faster estimated mortgage prepayment speeds and an accelerated level of interest income reducing premium amortization on existing mortgage backed securities. The increases in average loan and investment balances added $6,511,000 and $3,714,000, respectively, to net interest income (FTE) while the decreases in average loan and investment yields reduced net interest income (FTE) by $619,000 and $1,145,000, respectively, when compared to the year-ago period. Included in interest income during the six months ended June 30, 2015 was a special cash dividend of $626,000 from the Company's investment in Federal Home Loan Bank stock, and $4,664,000 of discount accretion from purchased loans. Included in interest income during the six months ended June 30, 2016 was $3,392,000 of discount accretion from purchased loans, and, as noted above, $1,237,000 interest income recovered as the result of the loan sales on March 31, 2016. For more information related to loan interest income, including loan purchase discount accretion, see the *Summary of Average Balances, Yields/Rates and Interest Differential* and Note 30 to the consolidated financial statements at Part I, Item 1 of this report.

Summary of Average Balances, Yields/Rates and Interest Differential

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

	For the three months ended					
	June 30, 2016			June 30, 2015		
	Average Balance	Interest Income/ Expense	Rates Earned /Paid	Average Balance	Interest Income/ Expense	Rates Earned /Paid
Assets:						
Loans	$2,579,774	$34,338	5.32%	$2,355,864	$32,019	5.44%
Investment securities - taxable	1,085,230	6,945	2.56%	1,020,806	7,380	2.89%
Investment securities - nontaxable	126,326	1,560	4.94%	43,336	518	4.78%
Cash at Federal Reserve and other banks	247,398	332	0.54%	143,919	144	0.40%
Total interest-earning assets	4,038,728	43,175	4.28%	3,563,925	40,061	4.50%
Other assets	349,222			330,271		
Total assets	$4,387,950			$3,894,196		
Liabilities and shareholders' equity:						
Interest-bearing demand deposits	$886,417	120	0.05%	$796,958	116	0.06%
Savings deposits	1,354,846	423	0.12%	1,165,530	362	0.12%
Time deposits	350,215	338	0.39%	336,212	376	0.45%
Other borrowings	19,152	3	0.06%	7,894	1	0.06%
Junior subordinated debt	56,544	546	3.86%	56,344	491	3.49%
Total interest-bearing liabilities	2,667,174	1,430	0.21%	2,362,938	1,346	0.23%
Noninterest-bearing deposits	1,186,958			1,049,174		
Other liabilities	62,456			51,483		
Shareholders' equity	471,362			430,601		
Total liabilities and shareholders' equity	$4,387,950			$3,894,196		
Net interest spread(1)			4.07%			4.27%
Net interest income and interest margin(2)		$41,745	4.13%		$38,715	4.35%

	For the six months ended					
	June 30, 2016			June 30, 2015		
	Average Balance	Interest Income/ Expense	Rates Earned /Paid	Average Balance	Interest Income/ Expense	Rates Earned /Paid
Assets:						
Loans	$2,558,674	$69,076	5.40%	$2,319,743	$63,184	5.45%
Investment securities - taxable	1,076,624	13,865	2.58%	963,586	13,515	2.81%
Investment securities - nontaxable	121,207	2,995	4.94%	32,424	776	4.79%
Cash at Federal Reserve and other banks	201,252	571	0.57%	244,761	408	0.33%
Total interest-earning assets	3,957,757	86,507	4.37%	3,560,514	77,883	4.37%
Other assets	342,412			332,822		
Total assets	$4,300,169			$3,893,336		
Liabilities and shareholders' equity:						
Interest-bearing demand deposits	$866,303	236	0.05%	$794,581	241	0.06%
Savings deposits	1,314,857	820	0.12%	1,161,120	719	0.12%
Time deposits	345,531	680	0.39%	344,914	793	0.46%
Other borrowings	18,708	5	0.05%	8,754	2	0.05%
Junior subordinated debt	56,519	1,081	3.83%	56,320	973	3.46%
Total interest-bearing liabilities	2,601,918	2,822	0.22%	2,365,689	2,728	0.23%
Noninterest-bearing deposits	1,170,836			1,048,507		
Other liabilities	60,974			51,489		
Shareholders' equity	466,441			427,651		
Total liabilities and shareholders' equity	$4,300,169			$3,893,336		
Net interest spread(1)			4.15%			4.14%
Net interest income and interest margin(2)		$83,685	4.23%		$75,155	4.22%

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

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

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

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

	Three months ended June 30, 2016 compared with three months ended June 30, 2015		
	Volume	Rate	Total
Increase (decrease) in interest income:			
Loans	$3,045	$(726)	$2,319
Investment securities	1,457	(850)	607
Cash at Federal Reserve and other banks	103	85	188
Total interest-earning assets	4,605	(1,491)	3,114
Increase (decrease) in interest expense:			
Interest-bearing demand deposits	13	(9)	4
Savings deposits	57	4	61
Time deposits	16	(54)	(38)
Other borrowings	2	-	2
Junior subordinated debt	2	53	55
Total interest-bearing liabilities	90	(6)	84
Increase (decrease) in Net Interest Income	$4,515	$(1,485)	$3,030

	Six months ended June 30, 2016 compared with six months ended June 30, 2015		
	Volume	Rate	Total
Increase (decrease) in interest income:			
Loans	$6,511	$(619)	$5,892
Investment securities	3,714	(1,145)	2,569
Cash at Federal Reserve and other banks	(72)	235	163
Total interest-earning assets	10,153	(1,529)	8,624
Increase (decrease) in interest expense:			
Interest-bearing demand deposits	22	(27)	(5)
Savings deposits	92	9	101
Time deposits	1	(114)	(113)
Other borrowings	2	0	2
Junior subordinated debt	3	105	108
Total interest-bearing liabilities	120	(27)	93
Increase (decrease) in Net Interest Income	$10,033	$(1,502)	$8,531

Provision for Loan Losses

The provision for loan losses during any period is the sum of the allowance for loan losses required at the end of the period and any loan charge offs during the period, less the allowance for loan losses required at the beginning of the period, and less any loan recoveries during the period. See the Tables labeled *"Allowance for loan losses – three and six months ended June 30, 2016 and 2015"* at Note 5 in Item 1 of Part I of this report for the components that make up the provision for loan losses for the three and six months ended June 30, 2016 and 2015.

The Company recorded a benefit from reversal of provision for loan losses of $773,000 during the three months ended June 30, 2016 compared to a benefit from reversal of provision for loan losses of $633,000 during the three months ended June 30, 2015. As shown in the Table labeled *"Allowance for Loan Losses - three months ended June 30, 2016"* at Note 5 in Item 1 of Part I of this report, the loan categories of residential real estate mortgage, home equity lines, home equity loans, and C&I experienced a benefit from reversal of provision for loan losses during the three months ended June 30, 2016 while the other categories of loans experience provisions for loan losses. The level of provision, or reversal of provision, for loan losses of each loan category during the three months ended June 30, 2016 was primarily due to the increase or decrease in the required allowance for loan losses as of June 30, 2016 when compared to the required allowance for loan losses as of March 31, 2016 plus or minus net charge-offs or net recoveries during the three months ended June 30, 2016. All categories of loans except residential real estate mortgage, home equity lines, home equity loans, and C&I experienced an increase in the required allowance for loan losses during the three months ended June 30, 2016. The increase in the required allowance for loan losses for all loan categories except residential real estate mortgage, home equity lines, home equity loans, and C&I was primarily due to increased balances in those categories. The decreases in the required allowance for loan losses for residential real estate mortgage, home equity lines, home equity loans, and C&I was primarily due to principal pay downs and increases in estimated collateral values for certain impaired originated and purchased loans in these categories. Increases and decreases in estimated cash flows and collateral values, and changes in historical loss factors, in part, determine the required loan loss allowance for nonperforming and performing loans in accordance with the Company's allowance for loan losses methodology as described under the heading *"Loans and Allowance for Loan Losses"* at Note 1 in Item 1 of Part I of this report. For details of the change in nonperforming loans during the three months ended June 30, 2016 see the Tables, and associated narratives, labeled *"Changes in nonperforming assets during the three months ended June 30, 2016"* under the heading *"Asset Quality and Non-Performing Assets*" below.

The Company recorded a benefit from reversal of provision for loan losses of $564,000 during the six months ended June 30, 2016 compared to a benefit from reversal of provision for loan losses of $436,000 during the six months ended June 30, 2015. As shown in the Table labeled *"Allowance for Loan Losses - six months ended June 30, 2016"* at Note 5 in Item 1 of Part I of this report, the loan categories of home equity lines, home equity loans, and C&I experienced a benefit from reversal of provision for loan losses during the six months ended June 30, 2016 while the other categories of loans experience provisions for loan losses. The level of provision, or reversal of provision, for loan losses of each loan category during the six months ended June 30, 2016 was primarily due to the increase or decrease in the required allowance for loan losses as of June 30, 2016 when compared to the required allowance for loan losses as of December 31, 2015 plus or minus net charge-offs or net recoveries during the six months ended June 30, 2016. All categories of loans except home equity lines, home equity loans, and C&I experienced an increase in the required allowance for loan losses during the six months ended June 30, 2016. The increase in the required allowance for loan losses for all loan categories except home equity lines, home equity loans, and C&I was primarily due to increased balances in those categories. The decreases in the required allowance for loan losses for home equity lines, home equity loans, and C&I was primarily due to principal pay downs and increases in estimated collateral values for certain impaired originated and purchased loans in these categories. Increases and decreases in estimated cash flows and collateral values, and changes in historical loss factors, in part, determine the required loan loss allowance for nonperforming and performing loans in accordance with the Company's allowance for loan losses methodology as described under the heading *"Loans and Allowance for Loan Losses"* at Note 1 in Item 1 of Part I of this report. For details of the change in nonperforming loans during the six months ended June 30, 2016 see the Tables, and associated narratives, labeled *"Changes in nonperforming assets during the three months ended June 30, 2016"* under the heading *"Asset Quality and Non-Performing Assets*" below.

The provision for loan losses related to originated and PNCI loans is based on management's evaluation of inherent risks in these loan portfolios and a corresponding analysis of the allowance for loan losses. The provision for loan losses related to PCI loan portfolio is based on changes in estimated cash flows expected to be collected on PCI loans. Additional discussion on loan quality, our procedures to measure loan impairment, and the allowance for loan losses is provided under the heading *"Asset Quality and Non-Performing Assets*" below.

Management re-evaluates the loss ratios and other assumptions used in its calculation of the allowance for loan losses for its originated and PNCI loan portfolios on a quarterly basis and makes changes as appropriate based upon, among other things, changes in loss rates experienced, collateral support for underlying loans, changes and trends in the economy, and changes in the loan mix. Management also re-evaluates expected cash flows used in its accounting for its PCI loan portfolio, including any required allowance for loan losses, on a quarterly basis and makes changes as appropriate based upon, among other things, changes in loan repayment experience, changes in loss rates experienced, and collateral support for underlying loans.

Noninterest Income

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Service charges on deposit accounts	$3,543	$3,637	$6,908	$7,237
ATM and interchange fees	3,892	3,383	7,285	6,385
Other service fees	849	779	1,577	1,493
Mortgage banking service fees	516	528	1,033	1,062
Change in value of mortgage servicing rights	(701)	521	(1,399)	15
Total service charges and fees	8,099	8,848	15,404	16,192
Gain on sale of loans	889	837	1,692	1,459
Commissions on sale of non-deposit investment products	611	784	1,143	1,749
Increase in cash value of life insurance	681	675	1,377	1,350
Change in indemnification asset	(149)	(57)	(264)	(122)
Gain (loss) on sale of foreclosed assets	57	115	149	426
Sale of customer checks	70	121	189	249
Lease brokerage income	235	245	430	382
(Loss) gain on disposal of fixed assets	(8)	1	(39)	(83)
Other	760	511	954	658
Total other noninterest income	3,146	3,232	5,631	6,068
Total noninterest income	$11,245	$12,080	$21,035	$22,260
Mortgage loan servicing fees, net of change in fair value of mortgage loan servicing rights	$(185)	$1,049	$(366)	$1,077

Noninterest income decreased $835,000 (6.9%) to $11,245,000 during the three months ended June 30, 2016 when compared to the three months ended June 30, 2015. The decrease in noninterest income was primarily due to a $1,222,000 decrease in change in value of mortgage servicing rights (MSRs) to a negative $701,000 from a positive $521,000 in the year-ago quarter. A decrease in interest rates during the three months ended June 30, 2016 resulted in an increase in estimated prepayment speeds of serviced loans, that in turn resulted in a decrease in expected servicing cash flows, and thus, a lower value of such servicing rights. In the year-ago quarter, an increase in interest rates resulted in a decrease in estimated prepayment speeds of serviced loans that in turn resulted in an increase in expected servicing cash flows, and thus, a higher value of such servicing rights. Partially offsetting the decrease in change in value of mortgage servicing rights was a $509,000 (15.0%) increase in ATM fees and interchange revenue. The increase in ATM fees and interchange revenue was primarily due to the Company's increased focus in this area, including the introduction of new services in this area during the quarter ended March 31, 2016.

Other noninterest interest income increased $249,000 (48.7%) to $760,000 due to life insurance death benefits in excess of cash value of $238,000 during the three months ended June 30, 2016. The changes in noninterest income include the effects from the operation of three branches from Bank of America, including $161,231,000 of deposits, from their acquisition on March 18, 2016 to June 30, 2016.

Noninterest income decreased $1,225,000 (5.5%) to $21,035,000 during the six months ended June 30, 2016 when compared to the six months ended June 30, 2015. The decrease in noninterest income was primarily due to a $1,414,000 decrease in change in value of mortgage servicing rights (MSRs) of to a negative $1,399,000 from a positive $15,000 during the six months ended June 30, 2015, a $606,000 (34.6%) decrease in commissions on sale of non-deposit investment products to $1,143,000, and a $329,000 (4.5%) decrease in service charges on deposit accounts that were partially offset by a $900,000 (14.1%) increase in ATM fees and interchange revenue to $7,285,000, and a $296,000 (45.0%) increase in other noninterest income. The decrease in change in value of mortgage servicing rights was primarily due to a decrease in interest rates at June 30, 2016 compared to December 31, 2015 resulted in an increase in estimated prepayment speeds of serviced loans, that in turn resulted in a decrease in expected servicing cash flows, and thus, a lower value of such servicing rights at June 30, 2016 when compared to December 31, 2015. A relative minor increase in interest rates at June 30, 2015 compared to December 31, 2014 resulted in a small decrease in estimated prepayment speeds of serviced loans, that in turn resulted in a small increase in expected servicing cash flows, and thus, a $15,000 increase in the value of such servicing rights at June 30, 2015 when compared to December 31, 2014. The decrease in service charges on deposits was primarily due to decreases in monthly service charges and nonsufficient fund fees. The increase in ATM fees and interchange revenue was primarily due to the Company's increased focus in this area, including the introduction of new services in this area during the quarter ended March 31, 2016. Other noninterest interest income increased $296,000 (45.0%) to $954,000 due to life insurance death benefits in excess of cash value of $238,000 during the six months ended June 30, 2016.

Noninterest Expense

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Base salaries, overtime and temporary help, net of deferred loan origination costs	$12,968	$11,502	$25,676	$23,246
Incentive compensation	2,471	1,390	4,210	2,986
Benefits and other compensation costs	4,606	4,350	9,424	9,110
Total salaries and benefits expense	20,045	17,242	39,310	35,342
Occupancy	2,529	2,541	4,837	4,958
Equipment	1,844	1,527	3,230	2,941
Data processing and software	2,355	1,834	4,198	3,786
ATM network charges	1,002	985	2,008	1,755
Telecommunications	698	785	1,383	1,671
Postage	342	330	805	642
Courier service	265	253	536	501
Advertising	1,077	1,002	1,972	1,810
Assessments	578	694	1,210	1,345
Operational losses	345	149	509	273
Professional fees	1,356	1,035	2,165	2,154
Foreclosed assets expense	114	102	160	200
Provision for foreclosed asset losses	43	174	32	241
Change in reserve for unfunded commitments	408	110	408	(20)
Intangible amortization	359	289	658	578
Merger expense	162	-	784	586
Litigation contingent liability	1,450	-	1,450	-
Other	3,295	3,384	6,363	5,955
Total other noninterest expense	18,222	15,194	32,708	29,376
Total noninterest expense	$38,267	$32,436	$72,018	$64,718
Merger expense:				
Base salaries (temporary help)	-	-	$187	-
Data processing and software	-	-	-	$108
Professional fees	$162	-	342	120
Advertising and marketing	-	-	114	-
Other	-	-	141	358
Total merger expense	$162	-	$784	$586
Average full time equivalent staff	1,001	944	983	955
Noninterest expense to revenue (FTE)	72.2%	63.9%	68.8%	66.4%

Salary and benefit expenses increased $2,803,000 (16.3%) to $20,045,000 during the three months ended June 30, 2016 compared to $17,242,000 during the three months ended June 30, 2015. Base salaries, overtime and temporary help, net of deferred loan origination costs increased $1,466,000 (12.7%) to $12,968,000 of which base salaries and overtime, net of deferred loan origination costs increased $1,276,000 (11.1%) to $12,774,000 primarily due to annual merit increases, and an increase in average full-time equivalent employees of 57 (6.0%) to 1,001 for the three months ended June 30, 2016. Temporary help expense increased $189,000 to $194,000 during the three months ended June 30, 2016. The increase in temporary help was primarily due to the use of temporary help in the Company's customer service call center during the three months ended June 30, 2016. Incentive compensation increased 1,081,000 (77.8%) to $2,471,000 during the three months ended June 30, 2016. All categories of incentive compensation expense were higher than the year-ago quarter except commission expense related to the sale of nondeposit investment products. The increases in the other categories of incentive compensation, compared to the year-ago quarter, were primarily due to increased loan production, and the financial performance measures of the Company to which incentive compensation is tied compared to such measures in the year-ago quarter. Benefits & other compensation expense increased 256,000 (5.9%) to $4,606,000 during the three months ended June 30, 2016 primarily due to the increases in average full-time equivalent employees and salaries expense, and their effects on group insurance and employer payroll tax expenses.

Salary and benefit expenses increased $3,968,000 (11.2%) to $39,310,000 during the six months ended June 30, 2016 compared to $35,342,000 during the six months ended June 30, 2015. Base salaries, overtime and temporary help, net of deferred loan origination costs increased $2,430,000 (10.5%) to $25,676,000 of which base salaries and overtime, net of deferred loan origination costs increased $1,710,000 (7.4%) to $24,935,000 primarily due to annual merit increases, and an increase in average full-time equivalent employees of 28 (2.9%) to 983 for the six months ended June 30, 2016. Temporary help expense increased $719,000 to $740,000 during the six months ended June 30, 2016. The increase in temporary help was primarily due to the use of temporary help in the Company's customer service call center during the six months ended June 30, 2016, and included temporary call center staffing related to the acquisition of three branches from Bank of America on March 18, 2016. Incentive compensation increased 1,224,000 (41.0%) to $4,210,000 during the six months ended June 30, 2016. All categories of incentive compensation expense were higher than the year-ago period except commission expense related to the sale of nondeposit investment products. The increases in the other categories of incentive compensation, compared to the year-ago period, were primarily due to increased loan production, and the financial performance measures of the Company to which incentive compensation is tied compared to such measures in the year-ago period. Benefits & other compensation expense increased 314,000 (3.5%) to $9,424,000 during the six months ended June 30, 2016 primarily due to the increases in average full-time equivalent employees and salaries expense, and their effects on group insurance and employer payroll tax expenses.

Other noninterest expense increased $3,028,000 (19.9%) to $18,222,000 during the three months ended June 30, 2016 compared to the three months ended June 30, 2015. Included in other noninterest expense for the three months ended June 30, 2016 was a litigation contingent liability expense of $1,450,000 associated with the matters described under the heading *"Legal Proceedings"* at Note 18 in Item 1 of Part I of this report. Also contributing to the increase in other noninterest expense during the three months ended June 30, 2016 compared to the three months ended June 30, 2015 were a $521,000 (28.4%) increase in data processing and software expense, a $321,000 (31.0%) increase in professional fees, a $317,000 (20.8%) increase in equipment expense, and a $298,000 (271%) increase in provision for losses on unfunded commitments. The increase in data processing and software expense was primarily due to increased use of outside data processing services. The increase in professional fees was primarily due to increased consulting expense. The increase in equipment expense was primarily due to increase maintenance and repair expense associated with facilities maintenance. The increase in provision for losses on unfunded commitments was primarily due to a larger increase in unfunded construction loan commitments from March 31, 2016 to June 30, 2016 than from March 31, 2015 to June 30, 2015. Merger related expenses during the three months ended June 30, 2016 were $162,000, and consisted of consulting expenses related to the acquisition of three bank branches from B of A on March 18, 2016. There were no merger related expenses during the three months ended June 30, 2015.

Other noninterest expense increased $3,332,000 (11.3%) to $32,708,000 during the six months ended June 30, 2016 compared to the six months ended June 30, 2015. Included in other noninterest expense for the six months ended June 30, 2016 was a litigation contingent liability expense of $1,450,000 associated with the matters described under the heading *"Legal Proceedings"* at Note 18 in Item 1 of Part I of this report. Also included in the results of the Company for the six months ended June 30, 2016 was $784,000 of nonrecurring noninterest expense related to the Company's acquisition of three bank branches from Bank of America on March 18, 2016. Included in the results of the Company for the six months ended June 30, 2015 was $586,000 of nonrecurring noninterest expense related to the Company's merger with, and integration of, North Valley Bancorp that occurred on October 3, 2014. Also contributing to the increase in other noninterest expense during the six months ended June 30, 2016 compared to the six months ended June 30, 2015 were a $412,000 (10.9%) increase in data processing and software expense, a $289,000 (9.8%) increase in equipment expense, a $428,000 increase in provision for losses on unfunded commitments, and a $253,000 (14.4%) increase in ATM network charges. The increase in data processing and software expense was primarily due to increased use of outside data processing services. The increase in equipment expense was primarily due to increase maintenance and repair expense associated with facilities maintenance. The increase in provision for losses on unfunded commitments was primarily due to a larger increase in unfunded construction loan commitments from December 31, 2015 to June 30, 2016 than from December 31, 2014 to June 30, 2015. The increase in ATM network charges was primarily due to increased customer usage of the Company's ATM and interchange services.

Income Taxes

The following tables show the items that reconcile the Company's effective tax rate to the Federal statutory tax rate for the periods indicated:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Federal statutory income tax rate	35.0%	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefit	7.0	6.7	6.6	6.8
Tax-exempt interest on municipal obligations	(2.3)	(0.6)	(2.0)	(0.5)
Increase in cash value of insurance policies	(2.2)	(1.3)	(1.8)	(1.4)
Low income housing tax credits	(1.4)	-	(0.7)	-
Other	0.8	(0.3)	0.4	0.1
Effective Tax Rate	36.9%	39.5%	37.5%	40.0%

Financial Condition

Investment Securities

Investment securities available for sale increased $124,132,000 to $529,017,000 as of June 30, 2016, as compared to December 31, 2015. This increase is attributable to purchases of $138,372,000, maturities and principal repayments of $26,359,000, an increase in fair value of investments securities available for sale of $13,298,000 and amortization of net purchase price premiums of $1,179,000.

The following table presents the available for sale investment securities portfolio by major type as of June 30, 2016 and December 31, 2015:

(In thousands)	June 30, 2016		December 31, 2015	
Securities available for sale:	Fair Value	%	Fair Value	%
Obligations of U.S. government corporations and agencies	$408,986	77.3%	$313,682	77.5%
Obligations of states and political subdivisions	116,984	22.1%	88,218	21.8%
Marketable equity securities	3,047	0.6%	2,985	0.7%
Total securities available for sale	$529,017	100.0%	$404,885	100.0%

Investment securities held to maturity decreased $52,118,000 to $674,412,000 as of June 30, 2016, as compared to December 31, 2015. This decrease is attributable to principal repayments of $50,963,000, and amortization of net purchase price premiums of $1,155,000.

The following table presents the held to maturity investment securities portfolio by major type as of June 30, 2016 and December 31, 2015:

(In thousands)	June 30, 2016		December 31, 2015	
Securities held to maturity:	Cost Basis	%	Cost Basis	%
Obligations of U.S. government corporations and agencies	$659,867	97.8%	$711,994	98.0%
Obligations of states and political subdivisions	14,545	2.2%	14,536	2.0%
Total securities held to maturity	$674,412	100.0%	$726,530	100.0%

Additional information about the investment portfolio is provided in Note 3 of the Notes to Unaudited Condensed Consolidated Financial Statements at Iem 1 of Part I of this report.

Restricted Equity Securities

Restricted equity securities were $16,956,000 at June 30, 2016 and $16,956,000 at December 31, 2015. The entire balance of restricted equity securities at June 30, 2015 and December 31, 2014 represent the Bank's investment in the Federal Home Loan Bank of San Francisco ("FHLB").

Additional information about the restricted equity securities is provided in Note 1 of the Notes to Unaudited Condensed Consolidated Financial Statements at Item 1 of Part I of this report.

Loans

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

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

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

(In thousands)	June 30, 2016	December 31, 2015
Real estate mortgage	$1,913,024	$1,811,832
Consumer	381,114	395,283
Commercial	209,840	194,913
Real estate construction	149,652	120,909
Total loans	$2,653,630	$2,522,937

At June 30, 2016 loans, including net deferred loan costs, totaled $2,653,630,000 which was a $130,693,000 (5.18%) increase over the balances at December 31, 2015. The increase in loan balances from December 31, 2015 to June 30, 2016 was primarily due to organic loan growth, but included the sale of $24,810,000 of nonperforming loans on March 31, 2016, and the purchase of seven performing multifamily commercial real estate loans valued at $22,503,000 on May 19, 2016. Demand for all categories of loans was strong during the six months ended June 30, 2016.

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

	June 30, 2016	December 31, 2015
Real estate mortgage	72.1%	71.8%
Consumer	14.4%	15.7%
Commercial	7.9%	7.7%
Real estate construction	5.6%	4.8%
Total loans	100.0%	100.0%

Assets Quality and Nonperforming Assets

Nonperforming Assets

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

Credit risk is inherent in the business of lending. As a result, the Company maintains an allowance for loan losses to absorb 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.

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 the acquisition of certain assets and liabilities of Granite and Citizens.

Acquired loans that are not PCI loans are referred to as purchased not credit impaired (PNCI) loans. PNCI loans are accounted for under FASB ASC Topic 310-20, *Receivables – Nonrefundable Fees and Other Costs,* in which interest income is accrued on a level-yield basis for performing loans. For income recognition purposes, this method assumes that all contractual cash flows will be collected, and no allowance for loan losses is established at the time of acquistion. 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 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 FDIC loss sharing agreement. Noncovered loans refer to loans not covered by a FDIC loss sharing agreement.

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

Interest income on originated nonaccrual loans that would have been recognized during the three months ended June 30, 2016 and 2015, if all such loans had been current in accordance with their original terms, totaled $181,000 and $266,000, respectively. Interest income actually recognized on these originated loans during the three months ended June 30, 2016 and 2015 was $10,000 and $11,000, respectively. Interest income on PNCI nonaccrual loans that would have been recognized during the three months ended June 30, 2016 and 2015, if all such loans had been current in accordance with their original terms, totaled $92,000 and $144,000, respectively. Interest income actually recognized on these PNCI loans during the three months ended June 30, 2016 and 2015 was $1,000 and $76,000.

Interest income on originated nonaccrual loans that would have been recognized during the six months ended June 30, 2016 and 2015, if all such loans had been current in accordance with their original terms, totaled $467,000 and $964,000, respectively. Interest income actually recognized on these originated loans during the six months ended June 30, 2016 and 2015 was $29,000 and $59,000, respectively. Interest income on PNCI nonaccrual loans that would have been recognized during the six months ended June 30, 2016 and 2015, if all such loans had been current in accordance with their original terms, totaled $179,000 and $224,000. Interest income actually recognized on these PNCI loans during the six months ended June 30, 2016 and 2015 was $1,000 and $85,000.

The Company's policy is to place originated loans and PNCI loans 90 days or more past due on nonaccrual status. In some instances when an originated loan is 90 days past due Management does not place it on nonaccrual status because the loan is well secured and in the process of collection. A loan is considered to be in the process of collection if, based on a probable specific event, it is expected that the loan will be repaid or brought current. Generally, this collection period would not exceed 30 days. Loans where the collateral has been repossessed are classified as foreclosed assets. Management considers both the adequacy of the collateral and the other resources of the borrower in determining the steps to be taken to collect nonaccrual loans. Alternatives that are considered are foreclosure, collecting on guarantees, restructuring the loan or collection lawsuits.

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

(In thousands)	June 30, 2016	December 31, 2015
Performing nonaccrual loans	$17,888	$31,033
Nonperforming nonaccrual loans	2,089	6,086
Total nonaccrual loans	19,977	37,119
Originated and PNCI loans 90 days past due and still accruing	-	-
Total nonperforming loans	19,977	37,119
Noncovered foreclosed assets	3,842	5,369
Covered foreclosed assets	-	-
Total nonperforming assets	$23,819	$42,488
U.S. government, including its agencies and its government-sponsored agencies, guaranteed portion of nonperforming loans	$5	$28
Indemnified portion of covered foreclosed assets	-	-
Nonperforming assets to total assets	0.55%	1.01%
Nonperforming loans to total loans	0.75%	1.47%
Allowance for loan losses to nonperforming loans	178%	97%
Allowance for loan losses, unamortized loan fees, and discounts to loan principal balances owed	2.43%	2.69%

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

	June 30, 2016				
(dollars in thousands)	Originated	PNCI	PCI – cash basis	PCI - other	Total
Performing nonaccrual loans	$8,308	$3,414	$4,216	$1,950	$17,888
Nonperforming nonaccrual loans	1,714	375	-	-	2,089
Total nonaccrual loans	10,022	3,789	4,216	1,950	19,977
Originated and PNCI loans 90 days past due and still accruing	-	-	-	-	-
Total nonperforming loans	10,022	3,789	4,216	1,950	19,977
Noncovered foreclosed assets	2,857	-	-	985	3,842
Covered foreclosed assets	-	-	-	-	-
Total nonperforming assets	$12,879	$3,789	$4,216	$2,935	$23,819
U.S. government, including its agencies and its government-sponsored agencies, guaranteed portion of nonperforming loans	$5	-	-	-	$5
Indemnified portion of covered foreclosed assets	-	-	-	-	-
Nonperforming assets to total assets	0.30%	0.09%	0.10%	0.07%	0.55%
Nonperforming loans to total loans	0.46%	0.85%	100.00%	7.46%	0.75%
Allowance for loan losses to nonperforming loans	303%	62%	0%	143%	178%
Allowance for loan losses, unamortized loan fees, and discounts to loan principal balances owed	1.68%	3.10%	61.90%	24.60%	2.43%

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

	December 31, 2015				
(dollars in thousands)	Originated	PNCI	PCI – cash basis	PCI - other	Total
Performing nonaccrual loans	$18,483	$3,747	$5,055	$3,748	$31,033
Nonperforming nonaccrual loans	4,341	1,651	24	70	6,086
Total nonaccrual loans	22,824	5,398	5,079	3,818	37,119
Originated loans 90 days past due and still accruing	-	-	-	-	-
Total nonperforming loans	22,824	5,398	5,079	3,818	37,119
Noncovered foreclosed assets	4,195	-	-	1,174	5,369
Covered foreclosed assets	-	-	-	-	-
Total nonperforming assets	$27,019	$5,398	$5,079	$4,992	$42,488
U.S. government, including its agencies and its government-sponsored agencies, guaranteed portion of nonperforming loans	$28	-	-	-	$28
Indemnified portion of covered foreclosed assets	-	-	-	-	-
Nonperforming assets to total assets	0.64%	0.13%	0.12%	0.12%	1.01%
Nonperforming loans to total loans	1.15%	1.09%	100.00%	10.87%	1.47%
Allowance for loan losses to nonperforming loans	137%	34%	2%	73%	97%
Allowance for loan losses, unamortized loan fees, and discounts to loan principal balances owed	1.90%	3.11%	60.92%	18.49%	2.69%

Changes in nonperforming assets during the three months ended June 30, 2016

(In thousands):	Balance at June 30, 2016	New NPA	Advances/ Capitalized Costs	Pay-downs /Sales /Upgrades	Charge-offs/ Write-downs	Transfers to Foreclosed Assets	Category Changes	Balance at March 31, 2016
Real estate mortgage:								
Residential	$3,164	$306	$1	$(925)	$(124)	-	-	$3,906
Commercial	7,137	729	-	(1,153)	-	-	-	7,561
Consumer								
Home equity lines	7,636	193	120	(1,036)	(115)	(307)	(21)	8,802
Home equity loans	1,568	429	63	(228)	(93)	(130)	21	1,506
Other consumer	17	58	-	(26)	(58)	-	-	43
Commercial (C&I)	444	95	-	(1,779)	(76)	-	-	2,204
Construction:								
Residential	11	-	-	(1)	-	-	-	12
Commercial	-	-	-	-	-	-	-	-
Total nonperforming loans	19,977	1,810	184	(5,148)	(466)	(437)	-	24,034
Foreclosed assets	3,842	-	-	(1,023)	(43)	437	-	4,471
Total nonperforming assets	$23,819	$1,810	$184	$(6,171)	$(509)	-	-	$28,505

Nonperforming assets decreased during the second quarter of 2016 by $4,686,000 (16.4%) to $23,819,000 at June 30, 2016 compared to $28,505,000 at March 31, 2016. The decrease in nonperforming assets during the second quarter of 2016 was primarily the result of new nonperforming loans of $1,810,000, advances on existing nonperforming loans and capitalized costs on foreclosed assets of $184,000, less pay-downs, sales or upgrades of nonperforming loans to performing status totaling $5,148,000, less dispositions of foreclosed assets totaling $1,023,000, less loan charge-offs of $466,000, and less write-downs of foreclosed assets of $43,000.

The $1,810,000 in new nonperforming loans during the second quarter of 2016 was comprised of increases of $306,000 on two residential real estate loans, $729,000 on three commercial real estate loans, 622,000 on 10 home equity lines and loans, 58,000 on 12 other consumer loans, and $95,000 on three C&I loans.

The $306,000 in new nonperforming residential real estate loans was primarily comprised of one loan in the amount of $258,000 secured by a single family residence in northern California. Related charge-offs are discussed below.

The $729,000 in new nonperforming commercial real estate loans was primarily made up of one loan in the amount of $286,000 secured by a commercial restaurant property in central California. Related charge-offs are discussed below.

The $5,148,000 in pay-downs, sales or upgrades of loans in the second quarter of 2016 was comprised of decreases of $925,000 on 35 residential real estate loans, $1,153,000 on 18 commercial real estate loans, $1,264,000 on 128 home equity lines and loans, $26,000 on eight consumer loans, $1,779,000 on seven C&I loans, and $1,000 on a single residential construction loan.

The $1,153,000 reduction in nonperforming commercial real estate loans was primarily made up of one payoff in the amount of $491,000 on one loan secured by a commercial manufacturing property in northern California, and a payoff on one loan secured by a commercial retail property in northern California in the amount of $478,000.

The $1,779,000 in reduction in nonperforming C&I loans was primarily made up of the payoff of one loan in northern
California in the amount of $1,273,000 secured by crop proceeds and a pay-down in the amount of $498,000 on a single loan in northern California secured by general business assets.

Loan charge-offs during the three months ended June 30, 2016

In the second quarter of 2016, the Company recorded $466,000 in loan charge-offs and $176,000 in deposit overdraft charge-offs less $456,000 in loan recoveries and $80,000 in deposit overdraft recoveries resulting in $106,000 of net charge-offs. Primary causes of the loan charges taken in the second quarter of 2016 were gross charge-offs of $124,000 on one residential real estate loan, $208,000 on seven home equity lines and loans, $58,000 on 12 other consumer loans, and $95,000 on two C&I loans. During the second quarter of 2016, there were no individual charges greater than $250,000.

Changes in nonperforming assets during the three months ended March 31, 2016

(In thousands):	Balance at March 31, 2016	New NPA	Advances/ Capitalized Costs	Pay-downs /Sales /Upgrades	Charge-offs/ Write-downs	Transfers to Foreclosed Assets	Category Changes	Balance at December 31, 2015
Real estate mortgage:								
Residential	$3,906	$380	$1	$(140)	$(37)	-	-	$3,702
Commercial	7,561	1,038	39	(13,974)	(793)	-	-	21,251
Consumer								
Home equity lines	8,802	460	253	(423)	(214)	(416)	(74)	9,216
Home equity loans	1,506	60	-	(42)	-	-	74	1,414
Other consumer	43	79	1	(6)	(86)	-	-	55
Commercial (C&I)	2,204	1,310	-	(47)	(38)	-	-	979
Construction:								
Residential	12	-	-	-	-	-	-	12
Commercial	-	-	-	(490)	-	-	-	490
Total nonperforming loans	24,034	3,327	294	(15,122)	(1,168)	(416)	-	37,119
Foreclosed assets	4,471	-	-	(1,325)	11	416	-	5,369
Total nonperforming assets	$28,505	$3,327	$294	$(16,447)	$(1,157)	-	-	$42,488

Nonperforming assets decreased during the first quarter of 2016 by $13,983,000 (32.9%) to $28,505,000 at March 31, 2016 compared to $42,488,000 at December 31, 2015. The decrease in nonperforming assets during the first quarter of 2016 was primarily the result of sales or upgrades of nonperforming loans to performing status totaling $15,122,000, dispositions of foreclosed assets totaling $1,325,000, and loan charge-offs of $1,168,000, that were partially offset by new nonperforming loans of $3,327,000, advances on existing nonperforming loans and capitalized costs on foreclosed assets of $294,000, and an increase in foreclosed asset valuation of $11,000, the net result of $60,000 of write-downs and $71,000 of positive adjustments to foreclosed asset valuations.

On March 31, 2016, the Company sold 27 nonperforming loans with total recorded value of $13,058,000 for net proceeds of $14,973,000, resulting in the recovery of $575,000 of previously charged off principal balances, the recognition of $1,237,000 of interest income from interest payments previously applied to principal balances on nonaccrual loans, and a gain on sale of $103,000. The $13,058,000 recorded value of these nonperforming loans was the result of contractual principal balances outstanding of $17,169,000, less $1,578,000 of principal balances previously charged off, less $2,684,000 of interest payments previously applied to principal balances on nonaccrual loans, and the addition of $151,000 of unamortized loan purchase premiums net of unearned deferred loan fees.

Of the 27 nonperforming loans sold during the quarter, one was a commercial real estate loan with a recorded value of $94,000 secured by unimproved real estate in northern California, one was a commercial real estate loan with a recorded value of $630,000 secured by multifamily real estate in northern California, one was a commercial real estate loan with a recorded value of $78,000 secured by a commercial office building in central California, six were commercial real estate loans with a total recorded value of $5,897,000 secured by commercial retail buildings in northern California, seven were commercial real estate loans with a total recorded value of $4,393,000 secured by commercial warehouse buildings in central California, three were commercial real estate loans with a total recorded value of $478,000 secured by commercial manufacturing buildings in central California, one was a commercial real estate loan with a recorded value of $162,000 secured by a commercial manufacturing building in northern California, one was a commercial real estate loan with a recorded value of $516,000 secured by a fitness center in northern California, two were commercial real estate loans with a total recorded value of $659,000 secured by hospitality real estate in northern California, two were commercial real estate loans with a total recorded value of $144,000 secured by multi-use properties in northern California, one was a home equity line of credit with a recorded value of $1,000 secured by a single family residence in central California, and one was a commercial and industrial loan with a recorded value of $6,000 secured by miscellaneous non real estate business assets in central California.

The $3,327,000 in new nonperforming loans during the first quarter of 2016 was comprised of increases of $380,000 on three residential real estate loans, $1,038,000 on seven commercial real estate loans, $520,000 on seven home equity lines and loans, $79,000 on 10 consumer loans, and $1,310,000 on four C&I loans.

The $380,000 in new nonperforming residential real estate loans was primarily comprised of a single loan in the amount of $343,000 secured by a single family residence in northern California.

The $1,038,000 in new nonperforming commercial real estate loans was primarily made up of one loan in the amount of $491,000 secured by a commercial manufacturing property in northern California.

The $1,310,000 in new nonperforming commercial and industrial loan was primarily comprised of a single loan in the amount of $1,273,000 secured by various non-real estate business assets in northern California. Related charge-offs are discussed below.

Loan charge-offs during the three months ended March 31, 2016

In the first quarter of 2016, the Company recorded $1,168,000 in loan charge-offs and $120,000 in deposit overdraft charge-offs less $1,364,000 in loan recoveries and $92,000 in deposit overdraft recoveries resulting in $168,000 of net recoveries. Primary causes of the loan charges taken in the first quarter of 2016 were gross charge-offs of $37,000 on two residential real estate loans, $793,000 on 14 commercial real estate loans, $214,000 on four home equity lines and loans, $86,000 on 12 other consumer loans, and $38,000 on five C&I loans.

The $793,000 in charge-offs the bank incurred in its commercial real estate portfolio was primarily the result of $495,000 in charge-offs incurred on a single relationship secured by commercial office and single family real estate properties in central California. The remaining $298,000 was spread over 10 loans spread throughout the Company's footprint.

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

Allowance for Loan Losses
The Company's allowance for loan losses is comprised of allowances for originated, PNCI and PCI loans. All such allowances are established through a provision for loan losses charged to expense.

Originated and PNCI loans, and deposit related overdrafts are charged against the allowance for originated loan losses when Management believes that the collectability of the principal is unlikely or, with respect to consumer installment loans, according to an established delinquency schedule. The allowances for originated and PNCI loan losses are amounts that Management believes will be adequate to absorb probable losses inherent in existing originated loans, based on evaluations of the collectability, impairment and prior loss experience of those loans and leases. The evaluations take into consideration such factors as changes in the nature and size of the portfolio, overall portfolio quality, loan concentrations, specific problem loans, and current economic conditions that may affect the borrower's ability to pay. The Company defines an originated or PNCI 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 and PNCI 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 and PNCI loans where, for economic or legal reasons related to a borrower's financial difficulties, the Company grants a concession for other than an insignificant period of time to the borrower that the Company would not otherwise consider, the related loan is classified as a troubled debt restructuring (TDR). The Company strives to identify borrowers in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where the Company grants the borrower new terms that provide for a reduction of either interest or principal, the Company measures any impairment on the restructuring as noted above for impaired loans. TDR loans are classified as impaired until they are fully paid off or charged off. Loans that are in nonaccrual status at the time they become TDR loans, remain in nonaccrual status until the borrower demonstrates a sustained period of performance which the Company generally believes to be six consecutive months of payments, or equivalent. Otherwise, TDR loans are subject to the same nonaccrual and charge-off policies as noted above with respect to their restructured principal balance.

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

The Company formally assesses the adequacy of the allowance for originated and PNCI loan losses on a quarterly basis. Determination of the adequacy is based on ongoing assessments of the probable risk in the outstanding originated and PNCI loan portfolios, and to a lesser extent the Company's originated and PNCI 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 or acquired. 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 and PNCI loan losses includes specific allowances for impaired loans and leases, formula allowance factors for pools of credits, and allowances for changing environmental factors (e.g., interest rates, growth, economic conditions, etc.). Allowance factors for loan pools are based on historical loss experience by product type and prior risk rating. 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 or PNCI loan portfolio as a whole. The allowances for originated and PNCI loans are included in the allowance for loan losses.

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

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

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

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

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

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

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

- with respect to the economy, management considered the effects of changes in GDP, unemployment, CPI, debt statistics, housing starts, housing sales, auto sales, agricultural prices, home affordability, and other economic factors which serve as indicators of economic health and trends and which may have an impact on the performance of our borrowers, and
- with respect to changes in the interest rate environment, management considered the recent changes in interest rates and the resultant economic impact it may have had on borrowers with high leverage and/or low profitability; and
- with respect to changes in energy prices, management considered the effect that increases, decreases or volatility may have on the performance of our borrowers, and
- with respect to loans to borrowers in new markets and growth in general, management considered the relatively short seasoning of such loans and the lack of experience with such borrowers, and
- with respect to loans that have not yet been identified as impaired, management considered the volume and severity of past due loans.

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

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

The Components of the Allowance for Loan Losses
The following table sets forth the allowance for loan losses as of the dates indicated:

(dollars in thousands)	June 30, 2016	December 31, 2015
Allowance for originated and PNCI loan losses:		
Specific allowance	$2,170	$2,890
Formula allowance	21,019	20,603
Environmental factors allowance	9,512	9,625
Allowance for originated and PNCI loan losses	32,701	33,118
Allowance for PCI loan losses	2,808	2,893
Allowance for loan losses	$35,509	$36,011
Allowance for loan losses to loans	1.34%	1.43%

For additional information regarding the allowance for loan losses, including changes in specific, formula, and environmental factors allowance categories, see *"Provision for Loan Losses"* at *"Results of Operations"* and *"Allowance for Loan Losses"* above. Based on the current conditions of the loan portfolio, management believes that the $35,509,000 allowance for loan losses at June 30, 2016 is adequate to absorb probable losses inherent in the Bank's loan portfolio. No assurance can be given, however, that adverse economic conditions or other circumstances will not result in increased losses in the portfolio.

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

(in thousands)	June 30, 2016	December 31, 2015
Real estate mortgage	$15,052	$13,950
Consumer	12,919	15,079
Commercial	5,265	5,271
Real estate construction	2,273	1,711
Total allowance for loan losses	$35,509	$36,011

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

	June 30, 2016	December 31, 2015
Real estate mortgage	42.4%	38.7%
Consumer	36.4%	41.9%
Commercial	14.8%	14.6%
Real estate construction	6.4%	4.8%
Total allowance for loan losses	100.0%	100.0%

The following table summarizes the allocation of the allowance for loan losses as a percentage of the total loans for each loan category as of the dates indicated:

	June 30, 2016	December 31, 2015
Real estate mortgage	0.79%	0.77%
Consumer	3.39%	3.81%
Commercial	2.51%	2.70%
Real estate construction	1.52%	1.42%
Total allowance for loan losses	1.34%	1.43%

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Allowance for loan losses:				
Balance at beginning of period	$36,388	$36,055	$36,011	$36,585
Provision for loan losses	(773)	(633)	(564)	(436)
Loans charged off:				
Real estate mortgage:				
Residential	(125)	(128)	(162)	(209)
Commercial	-	-	(793)	-
Consumer:				
Home equity lines	(114)	(84)	(328)	(425)
Home equity loans	(93)	(117)	(93)	(128)
Auto indirect	-	(4)	-	(4)
Other consumer	(233)	(176)	(440)	(444)
Commercial	(76)	(5)	(114)	(539)
Construction:				
Residential	-	-	-	-
Commercial	-	-	-	-
Total loans charged off	(641)	(514)	(1,930)	(1,749)
Recoveries of previously charged-off loans:				
Real estate mortgage:				
Residential	225	-	227	1
Commercial	65	53	882	149
Consumer:				
Home equity lines	60	230	341	349
Home equity loans	23	6	72	9
Auto indirect	-	16	-	36
Other consumer	101	107	231	259
Commercial	61	121	238	208
Construction:				
Residential	-	-	-	11
Commercial	-	14	1	33
Total recoveries of previously charged off loans	535	547	1,992	1,055
Net recoveries (charge-offs)	(106)	33	62	(694)
Balance at end of period	$35,509	$35,455	$35,509	$35,455

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Reserve for unfunded commitments:				
Balance at beginning of period	$2,475	$2,015	$2,475	$2,145
Provision for losses – unfunded commitments	160	110	160	(20)
Balance at end of period	$2,635	$2,125	$2,635	$2,125
Balance at end of period:				
Allowance for loan losses			$35,509	$35,455
Reserve for unfunded commitments			2,635	2,125
Allowance for loan losses and Reserve for unfunded commitments			$38,144	$37,580
As a percentage of total loans at end of period:				
Allowance for loan losses			1.34%	1.48%
Reserve for unfunded commitments			0.10%	0.09%
Allowance for loan losses and Reserve for unfunded commitments			1.44%	1.57%
Average total loans	$2,579,774	$2,355,864	$2,558,674	$2,319,743
Ratios (annualized):				
Net charge-offs during period to average loans outstanding during period	0.02%	(0.01)%	0.00%	0.06%
(Benefit from) provision for loan losses to average loans outstanding	(0.12)%	(0.11)%	(0.04)%	(0.04)%

Foreclosed Assets, Net of Allowance for Losses

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

(dollars in thousands):	Balance at June 30, 2016	New NPA	Advances/ Capitalized Costs	Sales	Valuation Adjustments	Transfers from Loans	Category Changes	Balance at March 31, 2016
Noncovered:								
Land & Construction	$1,602	-	-	-	-	-	-	$1,602
Residential real estate	1,563	-	-	$(783)	$(17)	$437	-	1,926
Commercial real estate	677	-	-	(240)	(26)	-	-	943
Total noncovered	3,842	-	-	(1,023)	(43)	437	-	4,471
Covered:								
Land & Construction	-	-	-	-	-	-	-	-
Residential real estate	-	-	-	-	-	-	-	-
Commercial real estate	-	-	-	-	-	-	-	-
Total covered	-	-	-	-	-	-	-	-
Total foreclosed assets	$3,842	-	-	$(1,023)	$(43)	$437	-	$4,471

(dollars in thousands):	Balance at March 31, 2016	New NPA	Advances/ Capitalized Costs	Sales	Valuation Adjustments	Transfers from Loans	Category Changes	Balance at December 31, 2015
Noncovered:								
Land & Construction	$1,602	-	-	$(889)	-	-	-	$2,491
Residential real estate	1,926	-	-	(288)	$11	$416	-	1,787
Commercial real estate	943	-	-	(148)	-	-	-	1,091
Total noncovered	4,471	-	-	(1,325)	11	416	-	5,369
Covered:								
Land & Construction	-	-	-	-	-	-	-	-
Residential real estate	-	-	-	-	-	-	-	-
Commercial real estate	-	-	-	-	-	-	-	-
Total covered	-	-	-	-	-	-	-	-
Total foreclosed assets	$4,471	-	-	$(1,325)	$11	$416	-	$5,369

Premises and Equipment

Premises and equipment were comprised of:

(In thousands)	June 30, 2016	December 31, 2015
Land & land improvements	$10,785	$8,909
Buildings	45,868	38,643
Furniture and equipment	32,972	31,081
	89,625	78,633
Less: Accumulated depreciation	(38,606)	(35,518)
	51,019	43,115
Construction in progress	709	696
Total premises and equipment	$51,728	$43,811

During the six months ended June 30, 2016, premises and equipment increased $7,917,000 due to purchases of $10,643,000, that were partially offset by depreciation of $2,686,000 and disposals of premises and equipment with net book value of $40,000.

Intangible Assets

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

(In thousands)	June 30, 2016	December 31, 2015
Core-deposit intangible	$7,282	$5,894
Goodwill	64,311	63,462
Total intangible assets	$71,593	$69,356

The core-deposit intangible assets resulted from the Bank's acquisition of three bank branches from Bank of America on March 18, 2016, North Valley Bancorp in 2014, Citizens in 2011, and Granite in 2010. The goodwill intangible asset includes $849,000 from the acquisition of three bank branches from Bank of America on March 18, 2016, $47,943,000 from the North Valley Bancorp acquisition in 2014, and $15,519,000 from the North State National Bank acquisition in 2003. Amortization of core deposit intangible assets amounting to $299,000 and $289,000 was recorded during the three months ended March 31, 2016 and 2015, respectively.

Investment in Low Income Housing Tax Credit Funds
During the six months ended June 30, 2016, the Company's investment in low income housing tax credit funds, recorded in other assets, increased $9,707,000 to $13,930,000 as the Company made three new investments in low income housing tax credit funds bringing the total number of such investment to four. Associated with these new investments in low income housing tax credit funds was a $8,340,000 increase in low income housing tax credit fund commitments to $11,670,000. This commitment for low income housing tax credit funds is recorded in other liabilities.

Deposits
During the six months ended June 30, 2016, the Company's deposits increased $110,130,000 to $3,741,396,000, and included $161,231,000 of deposits from the acquisition of three branches from Bank of America on March 18, 2016. See Note 13 to the condensed consolidated financial statements at Item 1 of Part I of this report for information about the Company's deposits.

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

Junior Subordinated Debt
See Note 17 to the condensed consolidated financial statements at Item 1 of Part I of this report for information about the Company's junior subordinated debt.

Off-Balance Sheet Arrangements
See Note 18 to the condensed consolidated financial statements at Item 1 of Part I of this report for information about the Company's commitments and contingencies including off-balance-sheet arrangements.

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

The Company adopted and announced a stock repurchase plan on August 21, 2007 for the repurchase of up to 500,000 shares of the Company's common stock from time to time as market conditions allow. The 500,000 shares authorized for repurchase under this plan represented approximately 3.2% of the Company's approximately 15,815,000 common shares outstanding as of August 21, 2007. During the six months ended June 30, 2016, the Company did not repurchase any shares under this plan. This plan has no stated expiration date for the repurchases. As of June 30, 2016, the Company had repurchased 166,600 shares under this plan, which left 333,400 shares available for repurchase under the plan. Shares that are repurchased in accordance with the provisions of a Company stock option plan or equity compensation plan are not counted against the number of shares repurchased under the repurchase plan adopted on August 21, 2007.

The Company's primary capital resource is shareholders' equity, which was $473,868,000 at June 30, 2016. This amount represents an increase of $21,752,000 (4.8%) from December 31, 2015, the net result of comprehensive income for the period of $27,930,000, and the effect of equity compensation vesting and tax benefits of $515,000, and the exercise of stock options of $2,814,000, that were partially offset by dividends paid of $6,841,000 and the repurchase of common stock of $2,666,000. The Company's ratio of equity to total assets was 10.9% and 10.7% as of June 30, 2016 and December 31, 2015, respectively. We believe that we were in compliance with the requirements applicable to us as set forth in the final rules as of January 1, 2015 and June 30, 2016.

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

	June 30, 2016		December 31, 2015	
	Ratio	Minimum Regulatory Requirement	Ratio	Minimum Regulatory Requirement
Total capital	14.73%	8.00%	15.09%	8.00%
Tier I capital	13.57%	6.00%	13.86%	4.00%
Common equity Tier 1 capital	11.98%	4.50%	12.27%	4.50%
Leverage	10.40%	4.00%	10.79%	4.00%

See Note 19 and Note 29 to the condensed consolidated financial statements at Item 1 of Part I of this report for additional information about the Company's capital resources.

Liquidity

The Bank's principal source of asset liquidity is cash at Federal Reserve and other banks and marketable investment securities available for sale. At June 30, 2016, cash at Federal Reserve and other banks in excess of reserve requirements and investment securities available for sale totaled $668,555,000, or 15.4% of total assets, representing an increase of $30,869,000 (4.8%) from 637,686,000, or 15.1% of total assets at December 31, 2015. This increase in cash and securities available for sale is due mainly to an increase in deposits, cash from the maturities of securities held for sale, and cash provided by operating activities that were in excess of an increase in loans during the six months ended June 30, 2016. During the six months ended June 30, 2016, the Company generated cash flows from operations of $23,618,000 compared to $25,567,000 during the six months ended June 30, 2015. Maturities of investment securities produced cash inflows of $77,322,000 during the six months ended June 30, 2016 compared to $59,019,000 for the six months ended June 30, 2015. During the six months ended June 30, 2016, the Company invested in securities totaling $155,444,000 and net loan increases of $131,092,000 compared to $366,483,000 invested in securities and $112,372,000 net loan increases, respectively, during the first six months of 2015. Proceeds from the sale of foreclosed assets accounted for $2,497,000 and $1,033,000 of investing sources of funds during the six months ended June 30, 2016 and 2015, respectively. The acquisition of three bank branches, and the assumption of $161,231,000 of associated deposit balances, from Bank of America on March 18, 2016, accounted for $156,316,000 of investing sources of funds during the six months ended June 30, 2016. These changes in investment and loan balances, proceeds from sale of foreclosed assets, and the acquisition of branches and associated deposits, contributed to net cash used by investing activities of 59,453,000 during the six months ended June 30, 2016, compared to net cash used by investing activities of $420,605,000 during the six months ended June 30, 2015. Financing activities used net cash of $50,840,000 during the six months ended June 30, 2016, compared to net cash used by financing activities of $46,187,000 during the six months ended June 30, 2015. Deposit balance decreases, net of the deposits assumed in the acquisition of bank branches on March 18, 2016, accounted for $51,101,000 of financing uses of funds during the six months ended June 30, 2016, compared to $38,741,000 of financing uses of funds during the six months ended June 30, 2015. Net changes in other borrowings provided $7,136,000 of financing sources of funds during the six months ended June 30, 2016, compared to $2,541,000 of financing uses of funds during the six months ended June 30, 2015. Dividends paid used $6,841,000 and $5,473,000 of cash during the six months ended June 30, 2016 and 2015, respectively. The Company’s liquidity is dependent on dividends received from the Bank. Dividends from the Bank are subject to certain regulatory restrictions.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company’s assessment of market risk as of June 30, 2016 indicates there are no material changes in the quantitative and qualitative disclosures from those in our Annual Report on Form 10-K for the year ended December 31, 2015.

Item 4. Controls and Procedures

The Company’s management, including its Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company’s disclosure controls and procedures as of June 30, 2016. Disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), are controls and procedures designed to reasonably assure that information required to be disclosed in the Company’s reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported on a timely basis. Disclosure controls are also designed to reasonably assure that such information is accumulated and communicated to the Company’s management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based upon their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2016.

During the six months ended June 30, 2016, there were no changes in our internal controls or in other factors that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

PART II – OTHER INFORMATION

Item 1 – Legal Proceedings

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

See Note 18 to the condensed consolidated financial statements at Item 1 of Part I of this report, for a discussion of the Company's involvement in litigation.

Item 1A – Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed under "Part I—Item 1A—Risk Factors" in our Form 10-K for the year ended December 31, 2015 which are incorporated by reference herein. These factors could materially adversely affect our business, financial condition, liquidity, results of operations and capital position, and could cause our actual results to differ materially from our historical results or the results contemplated by the forward-looking statements contained in this report.

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

The following table shows the repurchases made by the Company or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Exchange Act) during the three months ended June 30, 2016:

Period	(a) Total number of shares purchased(1)	(b) Average price paid per share	(c) Total number of shares purchased as of part of publicly announced plans or programs	(d) Maximum number shares that may yet be purchased under the plans or programs(2)
Apr. 1-30, 2016	20,000	$24.90	-	333,400
May 1-31, 2016	58,450	$26.81	-	333,400
Jun. 1-30, 2016	38,546	$28.50	-	333,400
Total	116,996	$27.04	-	333,400

(1) Includes shares purchased by the Company's Employee Stock Ownership Plan and pursuant to various other equity incentive plans. See Note 19 to the condensed consolidated financial statements at Item 1 of Part I of this report, for a discussion of the Company's stock repurchased under equity compensation plans.

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

Item 6 – Exhibits

Exhibit No.	Exhibit
2.1	Purchase and Assumption Agreement Whole Bank All Deposits, among the Federal Deposit Insurance Corporation, receiver of Granite Community Bank, N.A., Granite Bay, California, the Federal Deposit Insurance Corporation and Tri Counties Bank, dated as of May 28, 2010, and related addendum (incorporated by reference to Exhibit 2.1 to TriCo's Current Report on Form 8-K filed June 3, 2010).
2.2	Purchase and Assumption Agreement Whole Bank All Deposits, among the Federal Deposit Insurance Corporation, receiver of Citizens Bank of Northern California, Nevada City, California, the Federal Deposit Insurance Corporation and Tri Counties Bank, dated as of September 23, 2011, and related addendum (incorporated by reference to Exhibit 2.1 to TriCo's Current Report on Form 8-K filed September 27, 2011).
2.3	Agreement and Plan of Merger and Reorganization by and between TriCo and North Valley Bancorp dated January 21, 2014 (incorporated by reference to Exhibit 2.1 to TriCo's Current Report on Form 8-K filed January 21, 2014).
3.1	Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to TriCo's Current Report on Form 8-K filed on March 17, 2009).
3.2	Bylaws of TriCo, as amended (incorporated by reference to Exhibit 3.1 to TriCo's Current Report on Form 8-K filed February 17, 2011).
4.1	Instruments defining the rights of holders of the long-term debt securities of the TriCo and its subsidiaries are omitted pursuant to section (b)(4)(iii)(A) of Item 601 of Regulation S-K. TriCo hereby agrees to furnish copies of these instruments to the Securities and Exchange Commission upon request.
10.1*	Form of Change of Control Agreement dated as of July 17, 2013, among TriCo, Tri Counties Bank and each of Dan Bailey, Craig Carney, Richard O'Sullivan, Thomas Reddish, and Ray Rios (incorporated by reference to Exhibit 10.2 to TriCo's Current Report on Form 8-K filed on July 23, 2013).
10.2*	TriCo's 1995 Incentive Stock Option Plan (incorporated by reference to Exhibit 4.1 to TriCo's Form S-8 Registration Statement dated August 23, 1995 (No. 33-62063)).
10.3*	TriCo's 2001 Stock Option Plan, as amended (incorporated by reference to Exhibit 10.7 to TriCo's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005).
10.4*	TriCo's 2009 Equity Incentive Plan, as amended (incorporated by reference to Exhibit 10.2 to TriCo's Current Report on Form 8-K filed April 3, 2013).
10.5*	Amended Employment Agreement between TriCo and Richard Smith dated as of March 28, 2013 (incorporated by reference to Exhibit 10.1 to TriCo's Current Report on Form 8-K filed April 3, 2013).
10.6*	Transaction Bonus Agreement between TriCo Bancshares and Richard P. Smith dated as of August 7, 2014 (incorporated by reference to Exhibit 10.4 to TriCo's Form 8-K filed on August 13, 2014).
10.7*	Tri Counties Bank Executive Deferred Compensation Plan restated April 1, 1992, and January 1, 2005 (incorporated by reference to Exhibit 10.9 to TriCo's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005).
10.8*	Tri Counties Bank Deferred Compensation Plan for Directors effective January 1, 2005 (incorporated by reference to Exhibit 10.10 to TriCo's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005).
10.9*	2005 Tri Counties Bank Deferred Compensation Plan for Executives and Directors effective January 1, 2005 (incorporated by reference to Exhibit 10.11 to TriCo's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005).
10.10*	Tri Counties Bank Supplemental Retirement Plan for Directors dated September 1, 1987, as restated January 1, 2001, and amended and restated January 1, 2004 (incorporated by reference to Exhibit 10.12 to TriCo's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004).
10.11*	2004 TriCo Bancshares Supplemental Retirement Plan for Directors effective January 1, 2004 (incorporated by reference to Exhibit 10.13 to TriCo's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004).
10.12*	Tri Counties Bank Supplemental Executive Retirement Plan effective September 1, 1987, as amended and restated January 1, 2004 (incorporated by reference to Exhibit 10.14 to TriCo's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004).
10.13*	2004 TriCo Bancshares Supplemental Executive Retirement Plan effective January 1, 2004 (incorporated by reference to Exhibit 10.15 to TriCo's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004).
10.14*	Form of Joint Beneficiary Agreement effective March 31, 2003 between Tri Counties Bank and each of George Barstow, Dan Bay, Ron Bee, Craig Carney, Robert Elmore, Greg Gill, Richard Miller, Richard O'Sullivan, Thomas Reddish, Jerald Sax, and Richard Smith (incorporated by reference to Exhibit 10.14 to TriCo's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).
10.15*	Form of Joint Beneficiary Agreement effective March 31, 2003 between Tri Counties Bank and each of Don Amaral, William Casey, Craig Compton, John Hasbrook, Michael Koehnen, Donald Murphy, Carroll Taresh, and Alex Vereschagin (incorporated by reference to Exhibit 10.15 to TriCo's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).
10.16*	Form of Tri Counties Bank Executive Long Term Care Agreement effective June 10, 2003 between Tri Counties Bank and each of Craig Carney, Richard Miller, Richard O'Sullivan, and Thomas Reddish (incorporated by reference to Exhibit 10.16 to TriCo's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).
10.17*	Form of Tri Counties Bank Director Long Term Care Agreement effective June 10, 2003 between Tri Counties Bank and each of Don Amaral, William Casey, Craig Compton, John Hasbrook, Michael Koehnen, Donald Murphy, Carroll Taresh, and Alex Vereschagin (incorporated by reference to Exhibit 10.17 to TriCo's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).
10.18*	Form of Indemnification Agreement between TriCo and its directors and executive officers (incorporated by reference to Exhibit 10.1 to TriCo's Current Report on Form 8-K filed September 10, 2013).

Item 6 – Exhibits (continued)

10.19* Form of Indemnification Agreement between Tri Counties Bank its directors and executive officers (incorporated by reference to Exhibit 10.2 to TriCo's Current Report on Form 8-K filed September 10, 2013).
10.20* Form of Stock Option Agreement and Grant Notice pursuant to TriCo's 2009 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to TriCo's Current Report on Form 8-K filed May 25, 2010).
10.21* Form of Restricted Stock Unit Agreement and Grant Notice for Non-Employee Executives pursuant to TriCo's 2009 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to TriCo's Current Report on Form 8-K filed November 14, 2014).
` 10.22* Form of Restricted Stock Unit Agreement and Grant Notice for Directors pursuant to TriCo's 2009 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to TriCo's Current Report on Form 8-K filed November 14, 2014).
10.23* Form of 2014 Performance Award Agreement and Grant Notice pursuant to TriCo's 2009 Equity Incentive Plan (incorporated by reference to Exhibit 10.3 to TriCo's Current Report on Form 8-K filed August 13, 2014).
31.1 Rule 13a-14(a)/15d-14(a) Certification of CEO
31.2 Rule 13a-14(a)/15d-14(a) Certification of CFO
32.1 Section 1350 Certification of CEO
32.2 Section 1350 Certification of CFO
101.INS XBRL Instance Document
101.SCH XBRL Taxonomy Extension Schema Document
101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB XBRL Taxonomy Extension Label Linkbase Document
101.PRE XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF XBRL Taxonomy Extension Definition Linkbase Document

* Management contract or compensatory plan or arrangement

SIGNATURES

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

TRICO BANCSHARES
(Registrant)

Date: August 9, 2016 /s/ Thomas J. Reddish
Thomas J. Reddish
Executive Vice President and Chief Financial Officer
(Principal accounting and financial officer)

EXHIBITS

Exhibit 31.1

Rule 13a-14(a)/15d-14(a) Certification of CEO

I, Richard P. Smith, certify that;

1. I have reviewed this report on Form 10-Q of TriCo Bancshares;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2016

/s/ Richard P. Smith
Richard P. Smith
President and Chief Executive Officer

Exhibit 31.2

Rule 13a-14(a)/15d-14(a) Certification of CFO

I, Thomas J. Reddish, certify that;

1. I have reviewed this report on Form 10-Q of TriCo Bancshares;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2016

/s/ Thomas J. Reddish
Thomas J. Reddish
Executive Vice President and Chief Financial Officer

Exhibit 32.1

Section 1350 Certification of CEO

In connection with the Quarterly Report of TriCo Bancshares (the “Company”) on Form 10-Q for the period ended June 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Richard P. Smith, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 9, 2016 /s/ Richard P. Smith
Richard P. Smith
President and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to TriCo Bancshares and will be retained by TriCo Bancshares and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

Section 1350 Certification of CFO

In connection with the Quarterly Report of TriCo Bancshares (the “Company”) on Form 10-Q for the period ended June 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Thomas J. Reddish, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 9, 2016 /s/ Thomas J. Reddish
Thomas J. Reddish
Executive Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to TriCo Bancshares and will be retained by TriCo Bancshares and furnished to the Securities and Exchange Commission or its staff upon request.