

2007

Annual Report

Sierra Bancorp
The Holding Company For Bank of the Sierra



**BANK
OF THE
SIERRASM**



Our Vision

Our vision is to be the multi-community, independent bank of choice in our designated market areas by meeting the financial needs of the consumers, businesses and agri-businesses that we serve.



Mission Statement

To be responsible stewards for our shareholders by providing a superior return on equity of 18%+ and a return on average assets of 1.4%+ within a culture of discipline and ethical entrepreneurship. This is a fundamental stewardship responsibility.

Major Strategies

1. To anticipate and meet the dynamic needs of our existing and future customers by providing a broad line of competitive and innovative financial products.
2. To provide quality service on a timely, competitive basis.
3. To establish and maintain a selection and review process that employs the right people on the team.
4. To maintain a positive teamwork environment for our people which enables creativity, entrepreneurship and the opportunity for advancement.
5. To assist the communities we serve with their socioeconomic needs.
6. To be a disciplined institution of excellence.

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President's Message

James C. Holly

"Enduring great companies preserve their core values and purpose while their business strategies and operating practices endlessly adapt to a changing world."

Good to Great by Jim Collins



To summarize year 2007 I am returning to two landmark books, *Good to Great* and *Built to Last*. They are both inter-related and I recommend them to anyone in business. And I would emphasize that moving from "good to great" is not the end point. Far more difficult is the next step of "built to last" and

sustaining a high level of performance over future years by successfully competing in the ever changing and highly competitive banking market. Once the transition is made from good to great there is no time for complacency and indifference!

During the course of year 2007 we advanced our strategies and practices on several fronts. One strategy we have pursued for years is one of market density - building an ever larger share of market where we are and adding to our

marketing and operating efficiencies in our four county service area. To advance this market density strategy in 2007 we opened a new office in Delano, commenced construction of a fourth office in East Bakersfield (near Mt. Vernon and Bernard), and signed a lease on an existing banking office in the Sunnyside area of Fresno - this will be our fourth office in the Fresno/Clovis market. We are also close to a second office location in Tulare. Lastly, we opened a "Virtual Office," a branch office accessible only on the Internet, complete with on-line account opening, and by so doing opening a world-wide market! We call this the Mt. Whitney Office.

"Visionary companies do not rely on any one program, strategy, tactic, mechanism, cultural norm, symbolic gesture, or a CEO speech to preserve the core and stimulate progress. It is the whole of the mix that counts."

Built to Last by Collins and Porras

During 2007 we deployed numerous other strategies and tactics. Early in the year we launched Remote Deposit Capture (RDC) in a pilot program with two (2) customers, then enlarged the pilot group to twelve (12), and now we are ready to expand to fifty (50). RDC allows customers to transmit electronic

images of checks to the Bank from their place of business. This could dramatically change the way we conduct business. We also, in 2007, sold our credit card portfolio to Elan (a U.S. Bank subsidiary) and elected to partner with them going forward which will deliver better products and service to our customers, and a better income stream for us. The credit card market has changed and so we changed too!

"Clock building, not time telling: Technology accelerates all key parts of the clock . . . further we should shun technology fads and pioneer the application of technology."

Built to Last by Collins and Porras

On another front we launched two new account acquisition programs, one early in the year, High Performance Checking Account (HPCA) - Consumer, and another in October - High Performance Checking Account (HPCA) - Business. Both have been highly successful in acquiring deposit accounts and deposit balances well beyond anything we have ever tried. Both programs we believe are long-term strategies (and not promotions) that we expect to run indefinitely. Some banks across the country have done this for over 15 years with outstanding success.

"Clock building, not time telling: The Council mechanism is consummate clock building."

Built to Last by Collins and Porras

In a way we are indeed building a clock, a clock with literally hundreds of moving parts, all of which need to be in synch. Perhaps the most critical part is management structure. Over the years we have evolved the management structure of the Bank into two distinct Councils: The Executive Officer Committee (EOC) and the Senior Management Team (SMT). Both are pictured within this Annual Report. The SMT is pictured for the first time. Collectively, this is the most effective management structure I have ever worked with.

Briefly, the EOC handles all Human Resource matters and develops long-term strategy, and the SMT (comprised of all functional areas of the Bank) handles all operating issues, approves procedures, and develops intermediate term strategy. The structure really does work ever so well in an inter-active, open, and participative format. I personally appreciate the privilege of working with both wonderfully talented groups, and I appreciate the contribution that all have made to the success of the Bank.

Another significant action in 2007 was the addition of Lynda B. Searcy to our Board of Directors, bringing the total Board to eight (8) members. Lynda has a distinguished record of professional accomplishment and community service, and she is an active partner in a highly successful

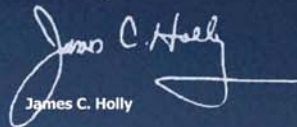
CPA firm here in Porterville. Lynda is our first Director who was not a Founder of the Bank. Her appointment is the first step in the Board approved Succession Plan.

I started this message with the thought that enduring companies preserve core values. One core value that we carry forward is maintaining a high level of financial performance. This we view as an essential stewardship responsibility. For year 2007 that is best measured by return on Equity which was 22.28%! To give a sense of relativity we were listed in the January 2008 issue of U. S. Banker magazine as the 6th most profitable publicly traded banking company nationwide. Furthermore, our CFO Ken Taylor was named one of the top 10 CFO's in the country, recognition well deserved I might add. A more thorough commentary on our financial performance is in the "Business of the Company" section of this report.

Lastly, even as 2007 was drawing to a close our national, state and regional economies were all slowing down, and all financial markets had declined significantly, bringing on

an atmosphere of economic uncertainty. We are entering 2008 and the years beyond with challenges not seen in many years. However, we will meet these challenges like we have all others, that is, a total team effort. We have not yet reached our full potential, but as a team we are well positioned to do so. I will look forward to reporting our progress.

Sincerely,


James C. Holly

"We have to shift from seeing the company as a vehicle for products to seeing products as a vehicle for the company ... the crucial difference between time telling and clock building."

Built to Last by Collins and Porras



Business of the Company

About Sierra Bancorp

Sierra Bancorp (the "Company"), headquartered in Porterville, California, is a California corporation registered as a bank holding company. The Company was incorporated in November 2000 and acquired all of the outstanding shares of Bank of the Sierra (the "Bank") in August 2001. The Company's only consolidated subsidiary is the Bank, and the Company exists primarily for the purpose of holding the stock of the Bank. At December 31, 2007, the Company had consolidated assets of \$1.2 billion, deposits of \$850 million, and shareholders' equity of \$99 million. The Company's unconsolidated subsidiaries are Sierra Capital Trust III, which was formed in June 2006 solely to facilitate the issuance capital trust pass-through securities, and Sierra Statutory Trust II, formed in March 2004 also for the purpose of issuing capital trust pass-through securities.

Sierra Bancorp's common stock has been listed on the NASDAQ Global Market (formerly the NASDAQ National Market) since August 10, 2001, the effective date of the holding company reorganization, and prior to that the Bank's common stock was listed on the NASDAQ National Market commencing June 10, 1999. The Company's common stock trades under the symbol "BSRR".

References herein to the "Company" include the Company and its consolidated subsidiary, unless the context indicates otherwise.

About Bank of the Sierra

The Bank is a California state-chartered bank headquartered in Porterville, California. It was incorporated in September 1977 and opened for business in January 1978, and it is currently in its 31st year of operations. Stability in the Board of Directors and low turnover among the officer staff have contributed to a strong foundation that serves as the underpinning for a progressive philosophy and operational flexibility, leading to consistently superior financial results. The Bank has increased net income almost every year of its existence, and has grown to be the largest independent bank headquartered in the South San Joaquin Valley.

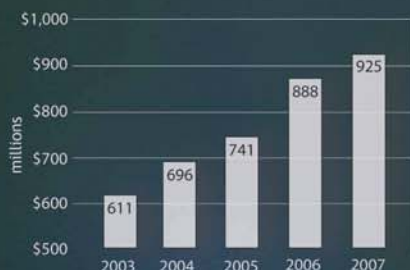
From the beginning, we have attempted to maintain a broad line of banking products and services that appeal to a wide variety of customers. We offer a full range of loans and deposits and associated services to individuals and businesses in communities throughout our service area, which is comprised primarily of Tulare, Kern, Fresno, and Kings Counties. On the southern end, our footprint extends east through the Tehachapi plateau and into the northwestern tip of the Mojave Desert. We currently operate 21 full service branch offices throughout this geographic footprint, in addition to an internet branch which provides the ability to open deposit accounts online. The Bank's two newest "brick and mortar" branches commenced operations in Delano in March 2007 and Bakersfield in February 2006. Our next office is expected to be another branch in the city of Bakersfield, with an anticipated opening in the second quarter of 2008. We have also executed a lease for a pre-existing branch building in the Sunnyside area of South Fresno. Renovation activities have commenced, and that branch could be operational as early as Summer 2008.

The Bank's lending activities are well-diversified and include real estate, commercial (including small business), agricultural, and consumer loans. The bulk of our real estate loans are secured by commercial or professional office properties which are predominantly owner-occupied. In addition, we staff our Fresno, Visalia, Porterville, and Bakersfield offices with real estate lending specialists who are responsible for a complete line of land acquisition and development loans, construction loans for residential and commercial development, and multifamily credit facilities.

An Agricultural Credit Center located in Porterville provides credit services in support of the agricultural activities that are key to the continued economic development of the communities we serve. We also actively engage in Small Business Administration ("SBA") lending. We have been designated as an SBA Preferred Lender since 1999, and Bank of the Sierra is a participant in the SBA's innovative "Community Express" program. Another service we provide to business customers is equipment leasing, including both direct finance and operating leases. Our principal retail lending services include home equity lines, consumer loans, and credit card loans.

Deposit products we make available to our retail and business banking markets include a broad array of checking accounts, savings accounts, money market demand accounts, time deposits, retirement accounts, and sweep accounts. Sweep products facilitate more efficient cash management for our business customers, by automatically sweeping idle cash from demand deposit accounts into interest-bearing repos or money market deposit accounts. We attract deposits from throughout our market area with a customer-oriented product mix, competitive pricing, convenient locations, and drive-up banking, all provided with the highest level of customer service. At December 31, 2007 we had 69,075 deposit accounts.

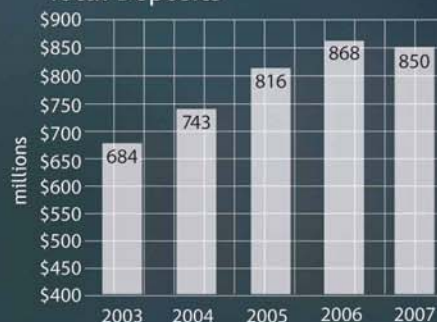
Total Loans



We offer a multitude of other products and services to complement our lending and deposit services. These include installment note collection, cashier's checks, traveler's checks, gift cards, bank-by-mail, night depository, safe deposit boxes, direct deposit, automated payroll services, electronic funds transfers, online banking, ATMs, and other customary banking services. In addition to onsite ATMs at all of our branches, we operate our own offsite ATM's at seven different non-branch locations. We also joined the Allpoint network in 2007, which provides our customers with surcharge-free access to over 32,000 ATMs across the nation, including 3,900 in California. Allpoint ATM locations include National and regional retailers such as Target and Costco. Our conversion to the Pulse EFT network in the fourth quarter of 2007 also provides our customers with access to electronic point-of-sale payment alternatives nationwide. Online banking, including bill-pay functionality, was introduced in late 1999 and has steadily grown in popularity since then, with active users doubling during 2007 to almost 15,000 individual and business customers. In 2007 we added the ability to open deposit accounts online. We also recently implemented remote deposit capture capabilities, to allow our business customers to send their check deposits to us electronically. Furthermore, to ensure that the accessibility preferences of all customers are addressed, we operate a telephone banking system that is accessible 24 hours a day seven days a week, and we have established a convenient customer service group accessible by toll-free telephone.

In order to provide non-deposit investment options we have developed a strategic alliance with Investment Centers of America, Inc. of Bismarck, North Dakota ("ICA"). Through

Total Deposits



this arrangement, registered and licensed representatives of ICA provide our customers with convenient access to annuities, insurance products, mutual funds, and a full range of investment products. They conduct business from offices located in our Porterville, Visalia, Tulare, and Fresno branches.

Recent Developments

On March 15, 2007, the Board of Directors of Bank of the Sierra approved the sale of the Bank's credit card portfolio, consisting of \$8.2 million in consumer card balances and \$2.6 million in commercial loan balances. This decision was reached because of the financial benefits of a sale, as well as the expanded credit card options and superior service that the purchaser can provide to our customers. The sale of our credit card portfolio to Elan Financial Services, a wholly owned subsidiary of U.S. Bancorp, took place effective June 1, 2007.

In June 2007 the Company entered into new contracts for debit and ATM networks, as well as for processing debit and ATM transactions. The actual conversion took place in mid-November, 2007. The new contracts will allow us to enhance customer service by implementing new programs and technologies such as "debit rewards," contactless debit cards, and improved fraud detection capabilities.

Other developments in 2007 include the implementation of a marketing initiative aimed at increasing consumer checking account balances. This initiative includes the formulation of a new deposit account line-up, multiple direct mail campaigns, and extensive training for front-line personnel. The training commenced in late 2006, and the initial marketing pieces were mailed and the new account line-up debuted in January 2007. The program was expanded to include commercial deposit accounts in the fourth quarter of 2007.

Results of Operations*

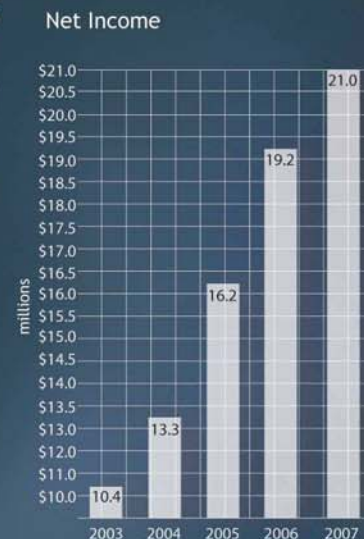
The Company has increased net income in 24 of the last 25 years. Net income in 2007 was \$21.0 million, an increase of \$1.8 million, or 10%, over the \$19.2 million in net earnings achieved in 2006. Net income per basic share was \$2.17 for 2007, as compared to \$1.96 in 2006. The Company's Return on Average Assets was 1.74% and Return on Average Equity was 22.28% in 2007, as compared to 1.70% and 22.75%, respectively, for 2006.

The Company earns income from two primary sources. The first is net interest income, which is interest income generated by earning assets less interest expense on interest-bearing liabilities. The second is non-interest income, which primarily consists of customer service charges and fees but also comes from non-customer sources such as bank-owned life insurance. The majority of the Company's non-interest expense consists of operating costs that relate to providing a full range of banking services to our customers.

The increase in net interest income was minimal in 2007. Average interest-earning assets were 7% higher in 2007 than in 2006, but the lift in net interest income that was created by higher earning assets was almost completely offset by net interest margin compression, thus net interest income increased by less than 1%. Our net interest margin was 33 basis points lower in 2007 than in 2006, primarily because average non-interest bearing deposits were \$21 million lower, and because our cost of interest-bearing liabilities was negatively impacted by market interest rate fluctuations, a shift to higher-cost deposits, and a more competitive market for deposits.

Our provision for loan losses was \$599,000 lower in 2007 than in 2006, a decline of 16%. A significant increase in non-performing assets and a higher level of charge-offs are factors that might lead to expectations of a higher loan loss provision in 2007, but the provision declined due to the sale of our credit card portfolio and release of the associated loan loss allowance, significantly slower growth in loans, and a higher level of recoveries in 2007.

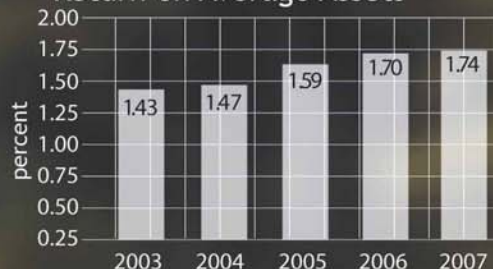
Non-interest income increased by \$3.7 million, or 33%, in 2007 relative to 2006. The most significant factor in the Company's profit improvement in 2007 is service charges on deposits, which increased by \$1.7 million, or 29%, relative to 2006. The increase is primarily attributable to 19% net growth in the number of transaction accounts during 2007. A one-time gain on the sale of our credit card portfolio in the second quarter of 2007 also had a major impact on the Company's financial results, causing loan sale income to increase by over \$1.5 million in 2007 relative to 2006.



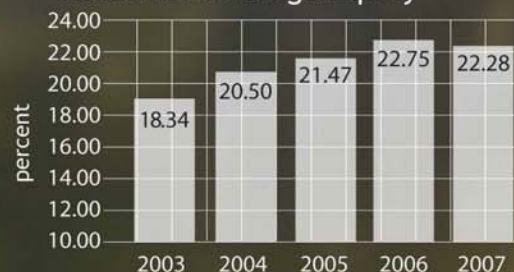
*Complete financial information is contained in the Company's Form 10-K included herewith.

Operating expense increased by \$2.1 million, or 6%, in 2007 in comparison to 2006. Salaries and benefits accounted for more than half of the 2007 increase in operating expense, rising by \$1.1 million, or 7%, mainly because of normal annual salary adjustments and staffing costs associated with our new Delano branch. Occupancy expense actually dropped slightly for 2007 due to lower depreciation expense on furniture, fixtures and equipment, and a reduction in property taxes stemming from one-time refunds received in 2007. Marketing expense was up by \$700,000, or 68%, due to deposit-focused initiatives put in place at the beginning of 2007.

Return on Average Assets



Return on Average Equity



Total Assets



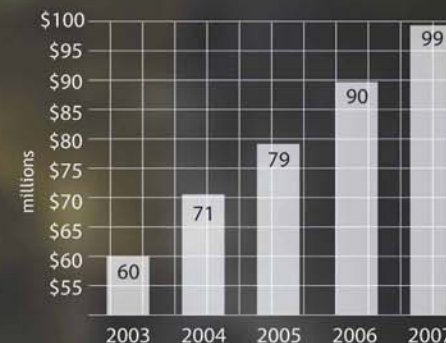
Financial Condition*

Total assets increased by only \$19 million, or 2%, during 2007. Gross loans and leases increased by \$37 million for the year, an increase of 4% due primarily to organic growth in real estate loans and commercial loans and leases. Loan growth for the year was negatively impacted by the aforementioned sale of our credit card portfolio in June 2007. The net increase in loans was partially offset by a drop of \$9 million, or 16%, in cash and due from banks; a drop of \$5 million, or 3%, in investment securities; and a decline of over \$6 million in fed funds sold, which fell to zero. The lower balance of cash and due from banks is the result of a reduction in cash items in process of collection, while the drop in investment securities is due to prepayments and maturing balances.

Non-performing assets increased by almost \$9 million during 2007, ending the year at \$9.6 million. Foreclosed assets represent \$556,000 of the balance at December 31, 2007. The remaining \$9.1 million of the year-end 2007 non-performing balance is in the form of non-accruing loans, with \$7.6 million of that balance secured by real estate and \$895,000 guaranteed by the U.S. Government. Specific reserves have been allocated for all non-accruing loans based on a detailed analysis of expected cash flows for each loan, and all non-performing and substandard assets are being actively managed.

Total deposits declined by \$18 million, or 2%, in 2007, inclusive of a \$25 million drop in wholesale-sourced brokered deposits. We experienced a difficult year for deposits in 2007, with branch-generated deposits increasing by only \$7 million and lower-cost deposits migrating into higher-cost deposits. Core deposits, which includes all deposits except time deposits over \$100,000, actually declined by \$6 million during the year. A positive development during 2007 was a net increase of close to 7,000 transaction accounts, which contributed to the rise in non-interest income.

Total Shareholders' Equity



Total non-deposit borrowings grew by \$28 million in 2007, increasing to 24% of total liabilities at the end of 2007 from 21% at the end of 2006. Federal Home Loan Bank borrowings were used to replace maturing brokered deposits in the fourth quarter of 2007 because of a change in pricing dynamics, and were also used to fund that portion of annual asset growth not covered by the increase in branch deposits. Our net loans to total deposits ratio rose to 107% at the end of 2007 from 101% at the end of 2006 due to the runoff of brokered deposits and the increase in wholesale funding. Despite this development, we feel that we still have ample sources of liquidity to fund expected loan growth even if anticipated retail deposit increases don't materialize.

*Complete financial information is contained in the Company's Form 10-K included herewith.

2007

Administrative Officers

Arthur T. Cardell, Senior V.P., Area Manager
Richard Wehmueller, Senior V.P., Area Manager
Rachel Uyeda, Senior V.P., Area Manager
Arthur W. Zschau, Senior V.P., Area Manager
Gordon Jones, Senior V.P., Area Manager
Bruce Hamlin, Senior V.P., Area Manager
Keith Pretzer, Senior V.P., Area Manager
John Thomas, Senior V.P., Area Manager
Philip Smith, Senior V.P., Area Manager
Ronald H. Paternoster, Senior V.P., Manager
Janice Castle, Senior V.P., Manager

Porterville & Lindsay Service Area
 Visalia Service Area
 Dinuba & Reedley Service Area
 Exeter & Three Rivers Service Area
 Bakersfield & Delano Service Area
 Tehachapi & California City Service Area
 Fresno & Clovis Service Area
 Tulare Service Area
 Hanford Service Area
 Ag Credit Centers
 SBA Loan Center

James C. Holly President & Chief Executive Officer
L. Diane Rotondo AVP/Corporate Secretary
Kevin J. McPhaill Executive V.P. & Chief Banking Officer
James F. Gardunio Executive V.P. & Chief Credit Officer
Kenneth R. Taylor Executive V.P. & Chief Financial Officer

Mona M. Carr Senior V.P./Director of Operations
Rick Davis Senior V.P./Director of Information Technology
Thomas Y. Yamaguchi Senior V.P./Treasurer
Jeri L. Eubanks Senior V.P./General Credit Administrator
Cindy L. Dabney Senior V.P./Controller
Larry J. Mueller Senior V.P./General Credit Administrator
Donald L. Sowers Senior V.P./Director of Human Resources
Ronda Day V.P./Director of Compliance
Linda S. Hudspeth V.P./Director of Loan Operations
Sherri Jackson V.P./Director of Real Estate Operations
Kathy Lostetter V.P./Director of Training
Joe L. Ruiz, Jr. V.P./Support Operations Administrator
Richard H. Schmid V.P./Chief Appraiser
Judi Singer V.P./Consumer Credit Administrator
James Stewart V.P./Manager, Leasing
Frank W. Wittich, Jr. V.P./Manager, Special Assets Center
Matthew P. Hessler Marketing Coordinator, CFMP

Senior Management Team

Top row, left to right:
 Cindy L. Dabney, Rick Davis, Jim C. Holly, Mona M. Carr, Matthew P. Hessler

Bottom row, left to right:
 James F. Gardunio, Kenneth R. Taylor, Donald L. Sowers, Kevin J. McPhaill



Board of Directors

"We welcome Lynda B. Searcy to the Board of Directors. Lynda has a distinguished record of professional accomplishment and community service, and she is an active partner in a highly successful CPA firm here in Porterville. Lynda is our first Director who was not a Founder of the Bank. Her appointment is the first step in the Board approved Succession Plan."

James Holly
President and CEO



James C. Holly
President
President, Bank of the Sierra



Robert H. Tienken
Director
Retired (formerly Realtor/Farmer)



Robert L. Fields
Director
Retired, Investor



Gordon T. Woods
Director
Owner, G.T. Woods Construction



Morris A. Tharp
Chairman
President & Owner, E.M. Tharp, Inc.



Albert L. Berra
Director
Orthodontist/Rancher



Vince L. Jurkovich
Director
President, Porterville Concrete
Pipe Company



Lynda B. Searcy
Director
CPA, McKinley Searcy Associates

Branch Locations



- 1978 1 Main St., Porterville Branch
- 1981 2 West Olive, Porterville Branch
- 1981 3 Lindsay Branch
- 1988 4 Exeter Branch
- 1991 5 Mooney Blvd, Visalia Branch
- 1994 6 Three Rivers Branch
- 1995 7 Main St., Visalia Branch
- 1997 8 Dinuba Branch
- 1997 9 California Ave., Bakersfield Branch
- 1998 10 Tulare Branch
- 1998 11 Hanford Branch
- 1999 12 Shaw Ave., Fresno Branch
- 2000 13 Ming Ave., Bakersfield Branch
- 2000 14 F St., Tehachapi Branch
- 2000 15 Old Town, Tehachapi Branch
- 2000 16 California City Branch
- 2003 17 N. Ingram/Herndon, Fresno Branch
- 2004 18 Clovis Branch
- 2005 19 Reedley Branch
- 2006 20 Riverlakes, Bakersfield Branch
- 2007 21 Delano Branch

Sierra Bancorp
The Holding Company For Bank of the Sierra



**BANK
OF THE
SIERRA**

2007 Annual Report

A copy of the Company's 2007 Annual Report Form 10-K, including financial statements but without exhibits filed with the Securities and Exchange Commission, is enclosed herewith. Quarterly financial reports and other news releases may also be obtained by visiting www.sierrabancorp.com.

Sierra Bancorp - The Holding Company for Bank of the Sierra
www.SierraBancorp.com