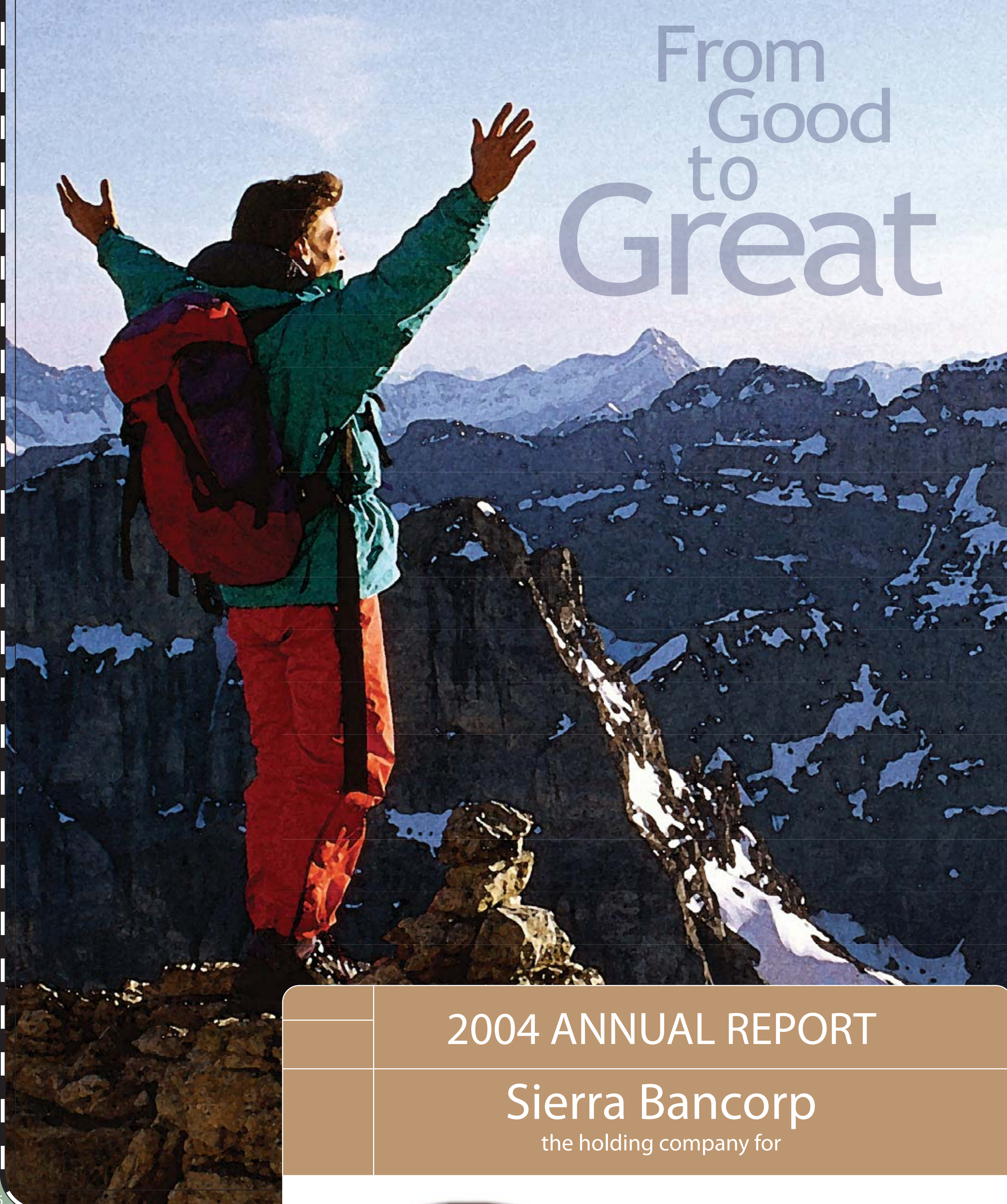
Service

From Good to Great



2004 ANNUAL REPORT

Sierra Bancorp

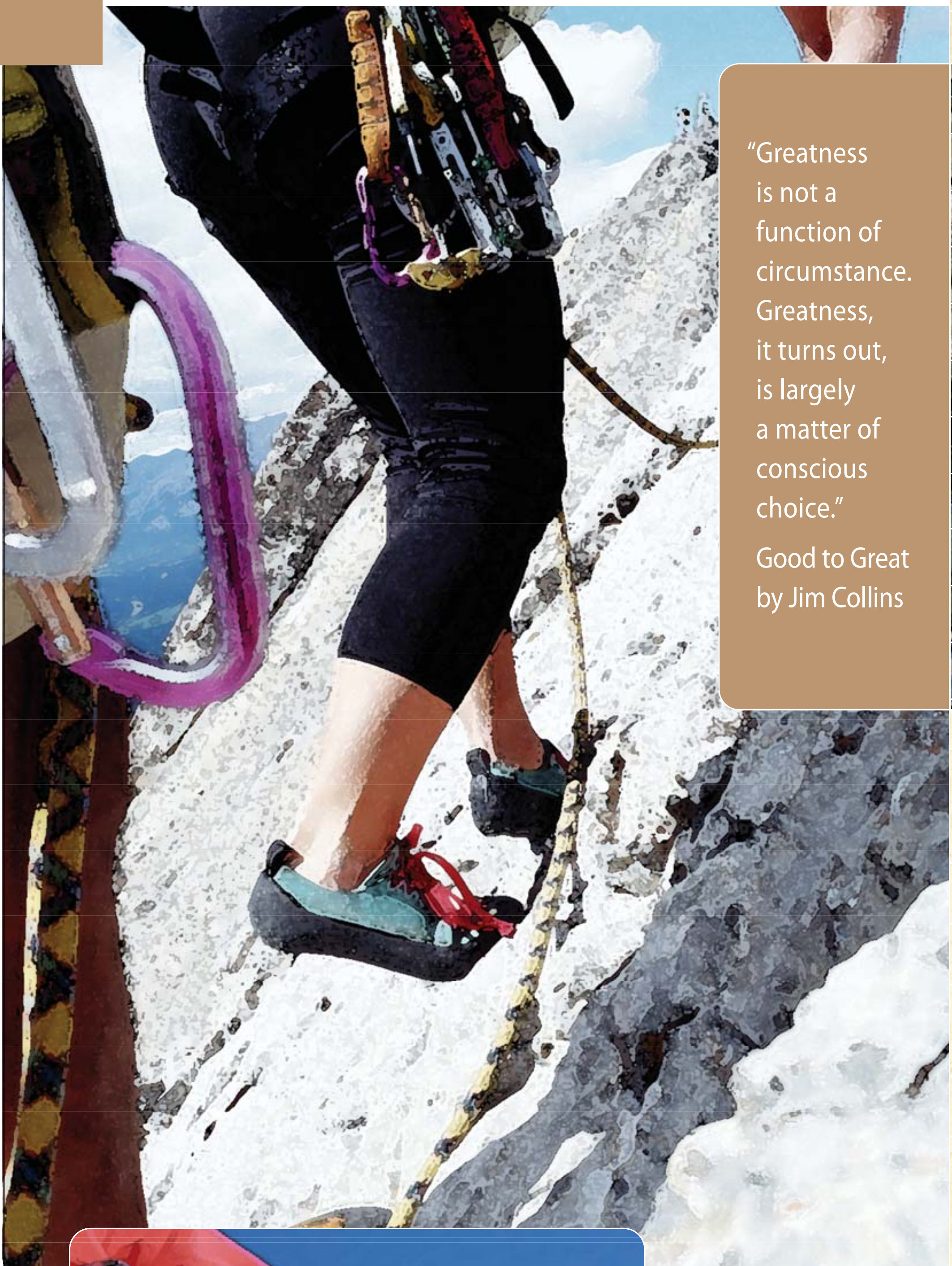
the holding company for

BANK OF THE SIERRA[SM]

ESTB. 1977

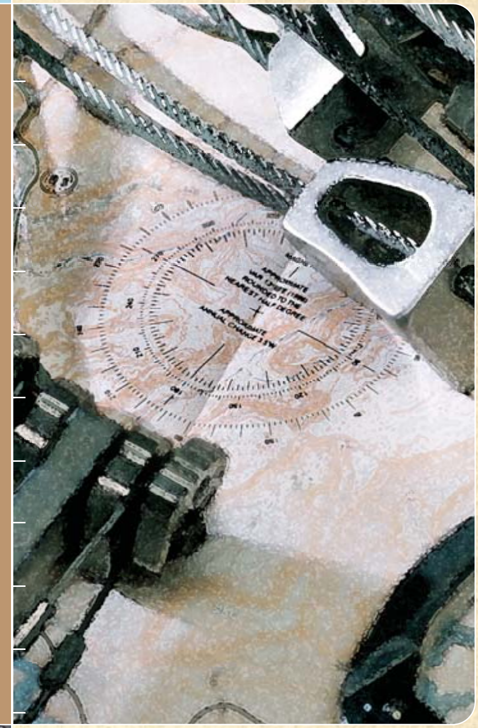
A Mountain of Experience You Can Count On

Teamwork



"Greatness is not a function of circumstance. Greatness, it turns out, is largely a matter of conscious choice."

Good to Great by Jim Collins



Readiness

2004 ANNUAL REPORT

Sierra Bancorp

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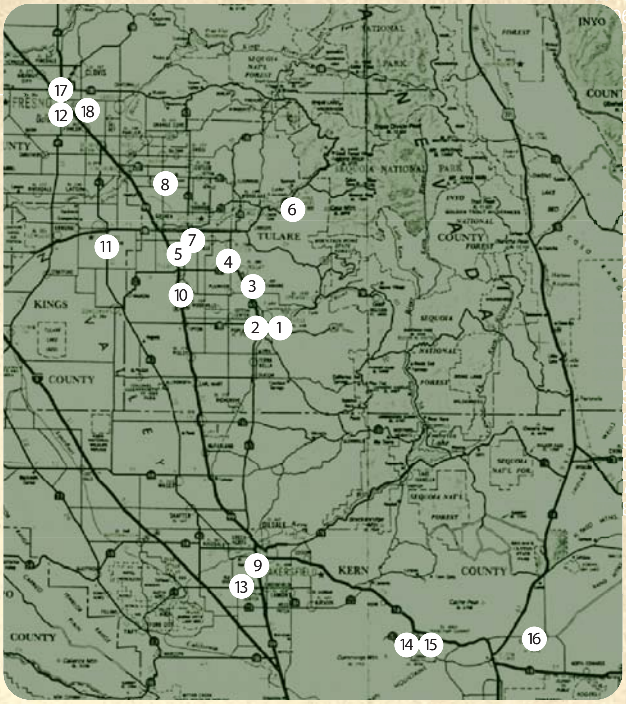
ESTB. 1977

A Mountain of Experience You Can Count On



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

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

MAJOR STRATEGIES

Purpose

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.

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.

Porterville Branch and Sierra Bancorp Corporate Headquarters

About Sierra Bancorp

Headquartered in Porterville, California, Sierra Bancorp (the "Company") is a California corporation registered as a bank holding company under the Bank Holding Company Act of 1956, as amended. 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, 2004, the Company had consolidated assets of $997 million, gross loans and leases totaling $696 million, deposits of $743 million and shareholders' equity of $71 million. The Company's unconsolidated subsidiaries are Sierra Capital Trust I, which was formed in November 2001 solely to facilitate the issuance of $15 million in capital trust pass-through securities, and Sierra Statutory Trust II, formed in March 2004 also for the purpose of issuing $15 million in capital trust pass-through securities.

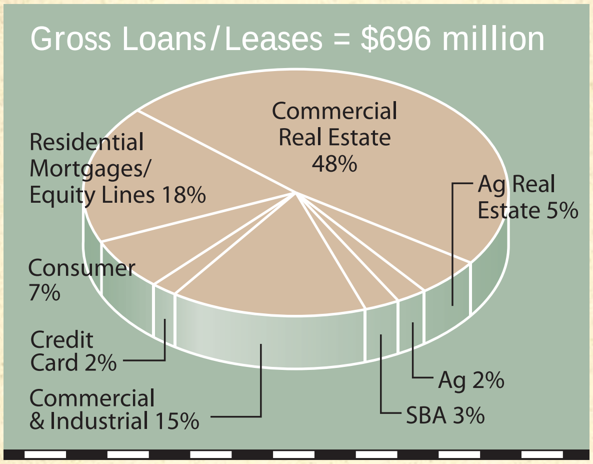
Sierra Bancorp's Common Stock has been listed on the Nasdaq National Market since August 10, 2001 (the effective date of the holding company reorganization), and the Bank's Common Stock was previously listed on the Nasdaq National Market since June 10, 1999. The Company's Common Stock trades under the symbol BSRR.

References herein to the "Company" include the Company and the Bank, 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 has grown to be the largest independent bank head- quartered in the South San Joaquin Valley. All of the Bank's directors are founding shareholders except one, and most have been directors since the Bank's inception. Further, the Bank's current president and CEO was the founding president, and the chief operating officer has also been with the Bank from the beginning. Since the early days of the Bank, staff turnover at the officer level has been comparatively low. This stability in the Board of Directors and senior staff has contributed to a strong foundation of core values, which has in turn served as the underpin- ning for a progressive philosophy and operational flexibility and has led to consistently superior financial results.

The Bank is a multi-community independent bank that offers a full range of banking services to individuals and businesses primarily in the central and



southern sections of California's San Joaquin Valley. With the opening of our most recent branch in the City of Clovis in June 2004, we now operate eighteen full service branch offices throughout this geographic footprint. We have also received regulatory approvals for new branches in the city of Reedley and in Bakersfield.

The Bank's principal retail lending services include home equity lines, consumer loans, and credit card loans. Three other significant dimensions to the Bank's lending activities are agricultural lending, real estate financing, and small business lending.

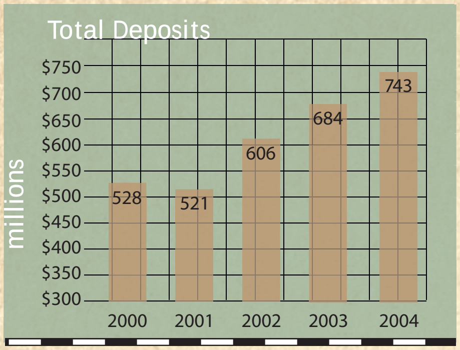
Agricultural Credit Centers located in Fresno and Porterville provide a com-plete line of credit services in support of the agricultural activities that are key to the continued economic development of the communities we serve. "Ag lending" clients include a full range of individual farming customers, small business farming organizations, and major corporate farming units.

In addition, we staff our Fresno, Visalia, Porterville, and Bakersfield offices with real estate lending specialists. These officers are responsible for a complete line of land acquisition and development loans, construction loans for residential and commercial development, and multi-family credit facilities. Secondary market services are provided though the Bank's affiliations with Freddie Mac, Fannie Mae and various non-governmental programs. In addition, we have an arrangement with Moneyline Lending Services, Inc. ("Moneyline"), whereby Moneyline underwrites single-family mortgage loans for qualifying Bank customers referred to them via Bank- branded delivery channels (i.e., Bank branches, the Bank's internet site, and a dedicated telephone line).

We also engage in Small Business Administration lending and have been designated as an SBA Preferred Lender since 1999. Bank of the Sierra is a participant in the SBA's innovative "Community Express" program, and was fifth in the nation from 1999 through 2003 for the volume of loans produced, behind the likes of banks such as Wells Fargo, Bank One, and J.P. Morgan.

In addition to loans, we offer a wide range of deposit products for the retail and business banking markets including checking accounts, interest bearing transaction accounts, savings accounts, time deposit accounts and retirement accounts. Telephone banking and internet banking with bill-pay are options for our deposit

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

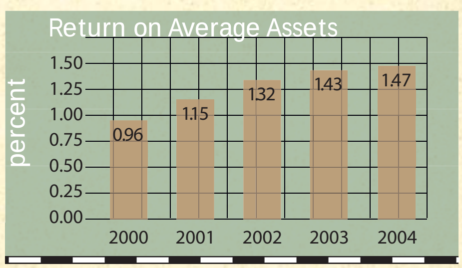


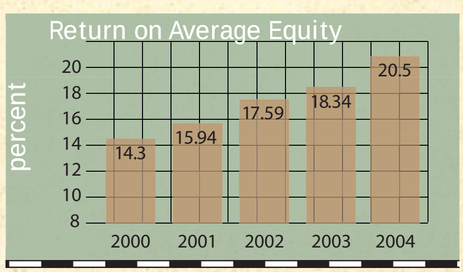
customers. We attract deposits through our customer-oriented product mix, competitive pricing, convenient locations, and drive-up banking, all provided with the highest level of customer service. At December 31, 2004 we had 55,833 deposit accounts.

We offer a multitude of other products and services to our customers to complement lending and deposit services. These include installment note collection, cashier's checks, traveler's checks, bank-by-mail, ATM, night depository, safe deposit boxes, direct deposit, automated payroll services, electronic funds transfers, on-line banking, and other customary banking services. During the past few years we have added offsite ATMs, thereby increasing consumer convenience by facilitating cash advances and deposit capabilities not otherwise available at non-branch locations. The most recently opened kiosk-style offsite ATMs commenced operations in late 2003 and October 2004 in Visalia and Tehachapi, respectively. We currently operate seven offsite ATMs, and also utilize a mobile ATM unit at fairs, exhibitions, and various other community functions within our market area. We have a Spanish language option on our own network of ATMs, and shared ATM and Point of Sale (POS) networks allow our customers access to national and international funds transfer networks. In addition, we have estab- lished a convenient customer service group accessible by toll-free telephone to answer questions and assure a high level of customer satisfaction.

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 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, Fresno, Tehachapi, Tulare and Visalia branches.

Our officers and employees are continually searching for ways to increase public convenience, enhance public





access to the electronic payments system, and enable us to improve our competitive position. In January of 2004, for example, we converted our core bank processing and online banking systems to increase efficiency and improve customer service. During 2003 we began offering lease financing as an alternative to loans and implemented an extensive customer service training program, among other things.

Results of Operations

The Company achieved record earnings in 2004. In fact, net income has increased in 21 of the last 22 years. Net income in 2004 was $13.3 million, an increase of almost $3.0 million, or 29%, over the $10.4 million in net earnings recognized in 2003. Net income per basic share was $1.41 for 2004, as compared to $1.12 during 2003. The Company's Return on Average Assets was 1.47% and Return on Average Equity was 20.50% in 2004, as compared to 1.43% and 18.34%, respectively in 2003.

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 loan sales, bank-owned life insurance ("BOLI"), and gains on sales from the Company's investment portfolio. The majority of the Company's non-interest expenses are operating costs that relate to providing a full range of banking services to our customers.

A significant event impacting the Company's net interest income and asset size in 2004 was the implementation of a leverage strategy. This involved the purchase of over $100 million in mortgage-backed securities that are guaranteed by agencies of the Federal Government, with the bulk of the purchase occurring on April 20, 2004. The purchase was financed primarily with collateralized borrowings from the Federal Home Loan Bank ("FHLB"),

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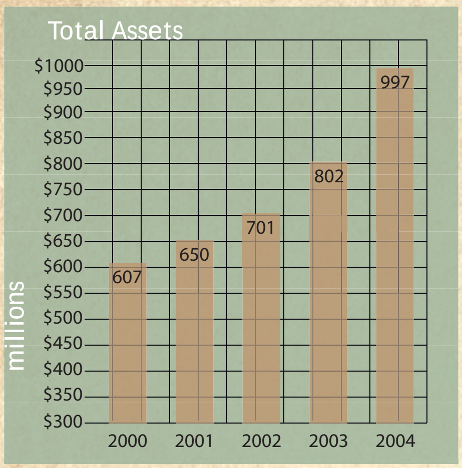


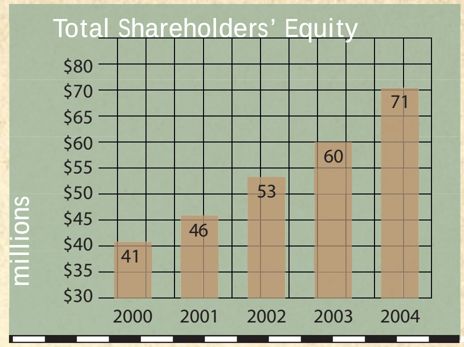
with original maturities ranging from overnight to five years. The leverage transaction also included the purchase of more than $4 million in FHLB stock, a dividend-yielding investment that was necessary to facilitate the increased level of borrowings from that institution. Based on the expected average life of the mortgage-backed securities, we anticipate the return of the majority of invested principal within five years and thus effectively view this as a five-year strategy.

The net interest margin for this transaction averaged an annualized 175 basis points during 2004, although it fluctuates with variances in the amortization of purchase premiums caused by changes in the level of prepayments on the mortgage-backed securities. Net interest income generated by the transaction in 2004 was $1.2 million, which boosted the Company's return on average equity by almost 100 basis points. Because of the addition of a significant level of assets, however, our return on average assets for 2004 was slightly lower than it otherwise would have been.

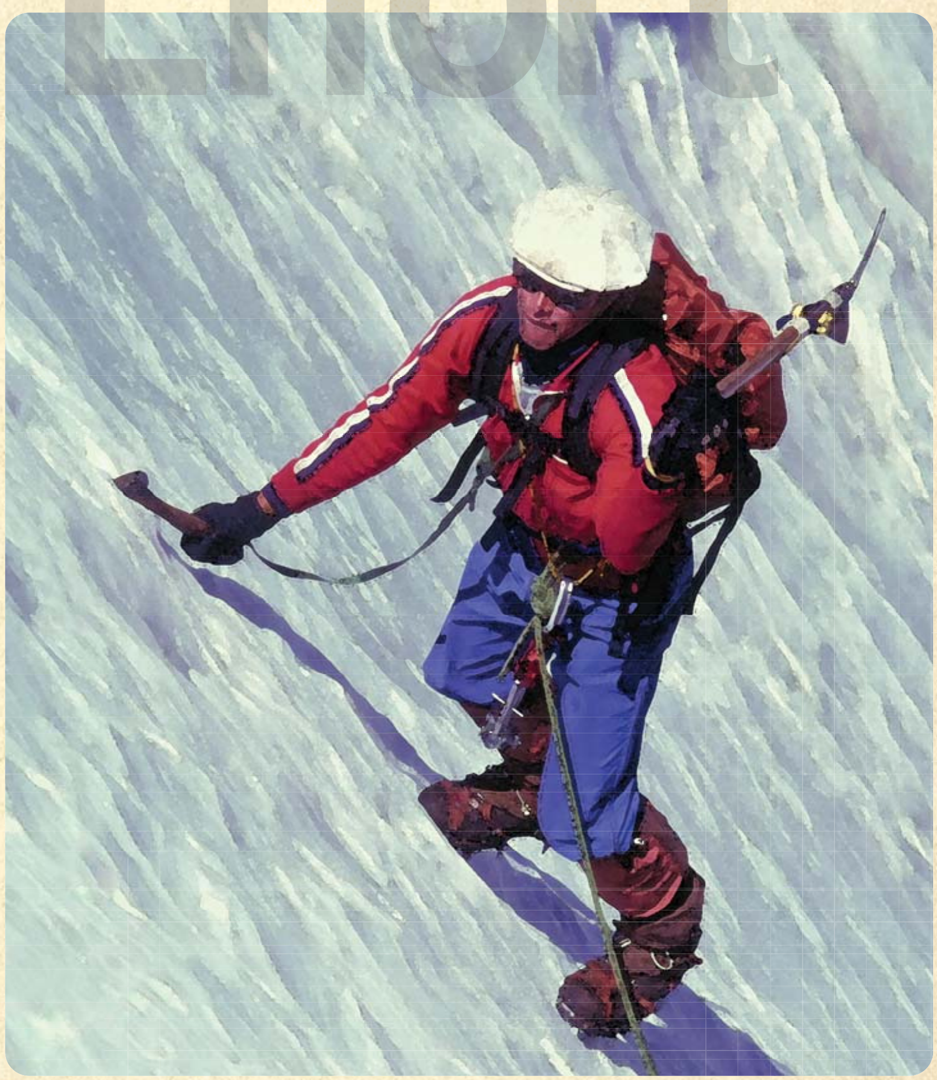
Net interest income was a major contributor to the increase in net income in 2004. Net interest income grew by $7.9 million, or 22%, in 2004 relative to 2003. Average investment balances grew by $83 million, or 96%, primarily due to the leverage strategy, and net of funding costs added $1.2 million to net interest income as noted above.

However, it should not be overlooked that average loan and lease balances increased by $86 million, or 16%. This increase was funded primarily by corresponding growth in non-interest bearing and low-cost deposits and thus contributed approximately $6.7 million to net interest income in 2004.

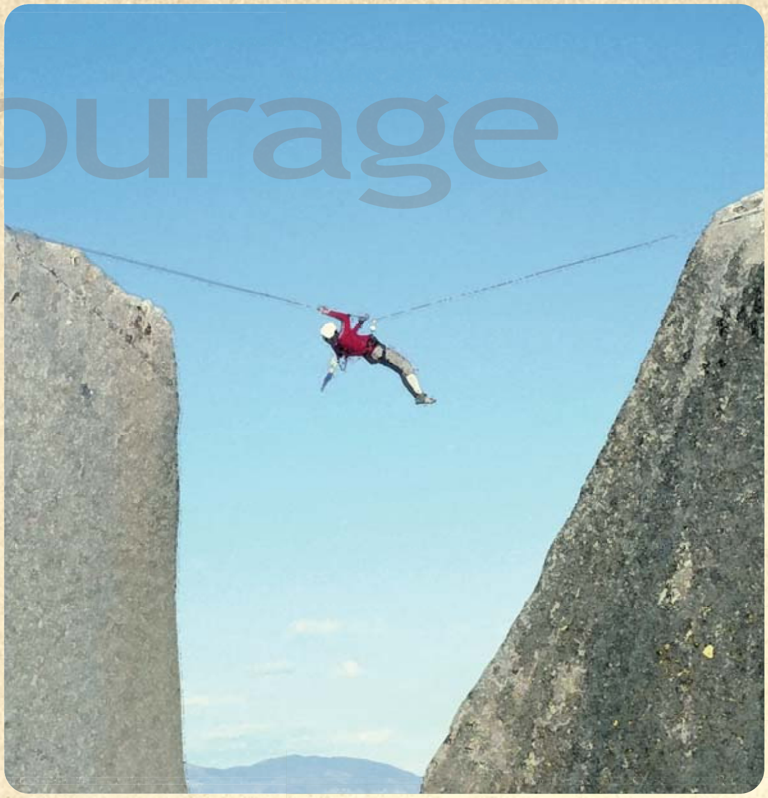
Non-interest income declined by 2% in 2004, because of a drop in referral fees on mortgage loans due to declining activity, a decline in income from bank-owned life insurance ("BOLI"), and lower investment gains. The decrease in BOLI income was due to a fourth quarter 2004 adjustment related to potential surrender charges, and a lower overall earnings credit rate.



Effort



Courage



Non-interest expenses were limited to a 6% increase in 2004, despite the addition of a branch and various technology upgrades during the year. This is mainly because salaries and employee benefits, the largest component of non-interest expense, increased by only $33,000, or 0.2%, due to a $1.2 million increase in salaries that were directly related to loan originations and were deferred pursuant to FAS 91. These deferred costs are amortized over the life of the related loans as a reduction in yield.

The provision for loan losses was $368,000 higher in 2004 than in 2003. The provision increased for the year despite lower loan charge-offs and a significant drop in non-performing assets, mainly due to loan growth and additional economic considerations, including the recent relatively rapid increase in real estate prices.

For the second year in a row our income tax accrual rate increased as the result of issues related to the Company's Real Estate Investment Trust, (the "REIT," a consolidated subsidiary of the Bank).

In 2004 the Company added $400,000 to its regular tax provision, due to a payment necessitated by the removal of REIT benefits from amended 2002 income tax returns filed in the first quarter of 2004. The increase in the tax provision in 2003 was due to our decision in the fourth quarter of 2003 to reverse all tax benefits derived during the year from the REIT, pursuant to a last-minute adverse legal interpretation released by the California Franchise Tax Board.

Financial Condition

Total assets grew by $196 million, or 24%, to $997 million at the end of 2004 from $802 million at the end of 2003. As previously discussed, much of the increase came in investment securities, which were $113 million higher due mostly to the leverage strategy. Gross loan and lease balances increased by $86 million, mainly from growth in loans secured by commercial properties and home equity lines secured by residential properties. The majority of the net increase in loan balances was organic growth in markets located within the Company's geographic footprint.

Cash and due from banks was $16 million lower at December 31, 2004 than at December 31, 2003, primarily due to timing differences in the collection of cash items. The annual average balance of cash and due from banks was $38 million in 2004 relative to $37 million in 2003. "Other assets" increased by $14 million, or 39%, due mainly to an additional investment in FHLB stock, an increase in low-income housing tax credit fund investments, and an increase in prepaid income taxes.

The composition of deposits continued to shift in a positive manner during 2004, with non-interest bearing deposits growing by close to $40 million and climbing to 32% of total deposits at the end of 2004 from 29% at the end of 2003. Interest-bearing core deposits increased by $20 million, or 6%, despite historically low interest rates. Core deposits, defined as all deposits except brokered deposits and time deposits in denominations over $100,000, experienced strong growth as the result of focused marketing and improved cross-selling efforts.

Non-deposit borrowings, including junior subordinated debentures, increased from 7% to 19% of total liabilities. Most of this increase is directly attributable to FHLB borrowings obtained pursuant to the leverage strategy, however the increase in subordinated debentures was due to the Company's issuance of an additional $15 million in trust preferred securities in the first quarter of 2004.

Total shareholders' equity increased to $71 million at December 31, 2004 from $60 million at December 31, 2003, due primarily to the retention of earnings less dividends paid. The Company's total risk-based capital ratio at December 31, 2004 was 13.3%.

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EQUAL HOUSING LENDER
MEMBER FDIC

Directory of Offices

Porterville & LIndsay Service Area
Arthur T. Cardell, Sr. Vice President, Area Manager

Visalia Service Area
Richard Wehmueller, Vice President, Area Manager

Dinuba & Reedley Service Area
Rachel Uyeda, Vice President, Area Manager

Exeter & Three Rivers Service Area
Arthur W. Zschau, Vice President, Area Manager

Bakersfield Service Area
Gordon Jones, Vice President, Area Manager

Tehachapi & California City Service Area
Bruce Hamlin, Vice President, Area Manager

Fresno & Clovis Service Area
J. Frank Oliver, Vice President, Area Manager

Tulare Service Area
John Thomas, Vice President, Area Manager

Hanford Service Area
Kevin McPhaill, Vice President, Area Manager

Ag Credit Centers
Ronald H. Paternoster, Vice President, Manager

SBA Loan Center
Janice Castle, Vice President, Manager

Branch Offices

Porterville	90 N. Main • 559/782-4300 1498 W. Olive • 559/782-4500
Bakersfield	5060 California Ave. • 661/325-0101 8500 Ming Ave.• 661/663-3400
California City	8031 California City Blvd.•760/373-8602
Clovis	1710 Clovis Ave.• 559/297-3391
Dinuba	401 E. Tulare St.• 559/591-6921
Exeter	1103 W. Visalia Rd. • 559/592-4134
Fresno	636 E. Shaw Ave. • 559/248-0112 7029 N. Ingram Ave. • 559/449-8145
Hanford	427 W. Lacey Blvd.• 559/585-6700
Lindsay	142 S. Mirage • 559/562-6311
Tehachapi	224 W. F St. • 661/822-6801 21000 Mission St.• 661/822-9191
Three Rivers	40884 Sierra Drive • 559/561-5910
Tulare	246 E. Tulare Ave. • 559/686-4900
Visalia	2515 S. Mooney Blvd. • 559/636-0100

128 E. Main • 559/740-4200

Ag Credit Centers

Porterville 86 N. Main · 559/782-4432
Fresno 636 E. Shaw Ave. · 559/248-2580

SBA Loan Center

Porterville 86 N. Main · 559/782-4900

Corporate Office

Porterville 86 N. Main · 559/782-4900
E-mail address info@bankofthesierra.com
Websites www.bankofthesierra.com · www.sierrabancorp.com

Administrative Officers

James C. Holly	President & Chief Executive Officer
Diane Rotondo	AVP/Corporate Secretary
Kenneth E. Goodwin	Executive V.P. & Chief Operating Officer
Charlie C. Glenn	Executive V.P. & Chief Credit Officer
Kenneth R. Taylor	Senior V.P. & Chief Financial Officer
Hope Attenhofer	V.P./Director of Marketing
Mona M. Carr	V.P./Director of Operations
Rick Davis	V.P./Director of Information Technology
Ronda Day	V.P./Director of Compliance
Jeri L. Eubanks	V.P./General Credit Administrator
Cindy L. Herron	V.P./Controller
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
Larry J. Mueller	V.P./General Credit Administrator
Joe L. Ruiz, Jr.	V.P./Support Operations Administrator
Richard H. Schmid	V.P./Chief Appraiser
Judi Singer	V.P./Consumer Credit Administrator
Donald L. Sowers	V.P./Director of Human Resources
James Stewart	V.P./Manager, Leasing
Frank W. Wittich, Jr.	V.P./Manager, Special Assets Center
Thomas Y. Yamaguchi	V.P./Treasurer

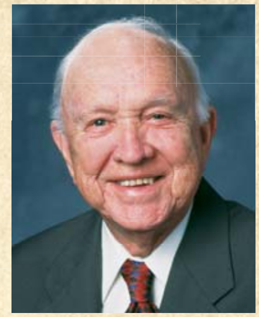
Left to Right:

James C. Holly, President & Chief Executive Officer
Kenneth E. Goodwin, Executive V.P. & Chief Operating Officer Kenneth R. Taylor, Senior V.P. & Chief Financial Officer
Charlie C. Glenn, Executive V.P. & Chief Credit Officer

Board of Directors

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

James C. Holly
President
President, Bank of the Sierra

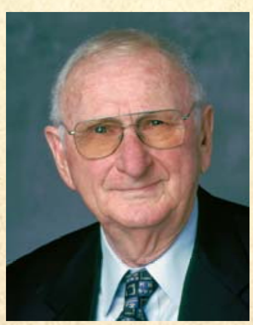


Robert H. Tienken
Director
Retired (formerly Realtor/Farmer)

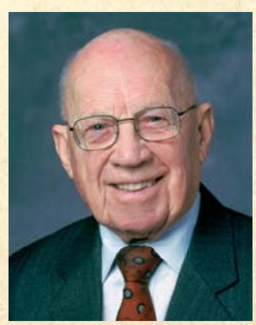
Albert L. Berra
Director
Orthodontist/Rancher

Gregory A. Childress
Director
Rancher, CPG Ranch

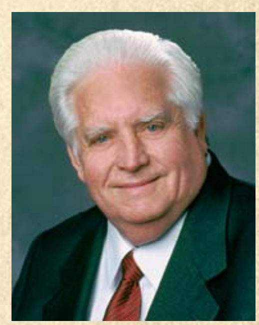
Robert L. Fields
Director
Retired, Investor



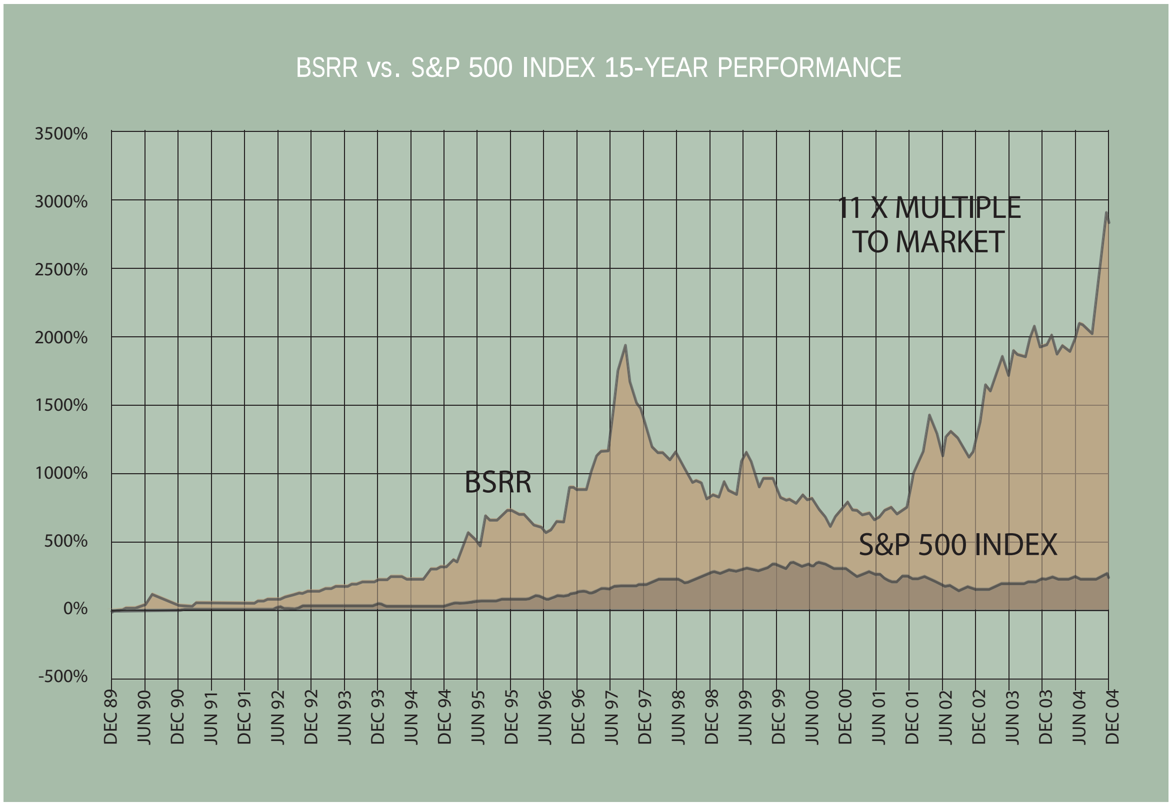
Vince L. Jurkovich
Director
President, Porterville Concrete Pipe Company



Howard H. Smith
Director
General Partner
Smith's Enterprises



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



Sierra Bancorp

the holding company for

BANK OF THE SIERRA[SM]

ESTB. 1977

A Mountain of Experience You Can Count On

A Mountain of Experience You Can Count On

A copy of the Company's 2004 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.