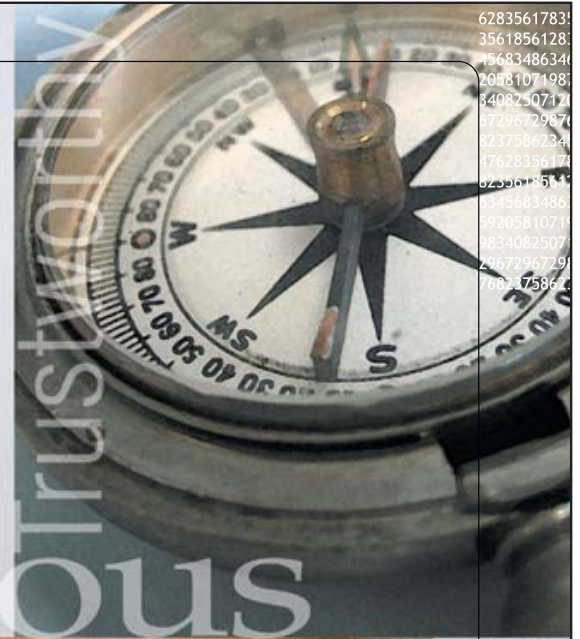


Service



courteous



friendly



help

LOYAL

2003 ANNUAL REPORT

Sierra Bancorp

THE HOLDING COMPANY FOR



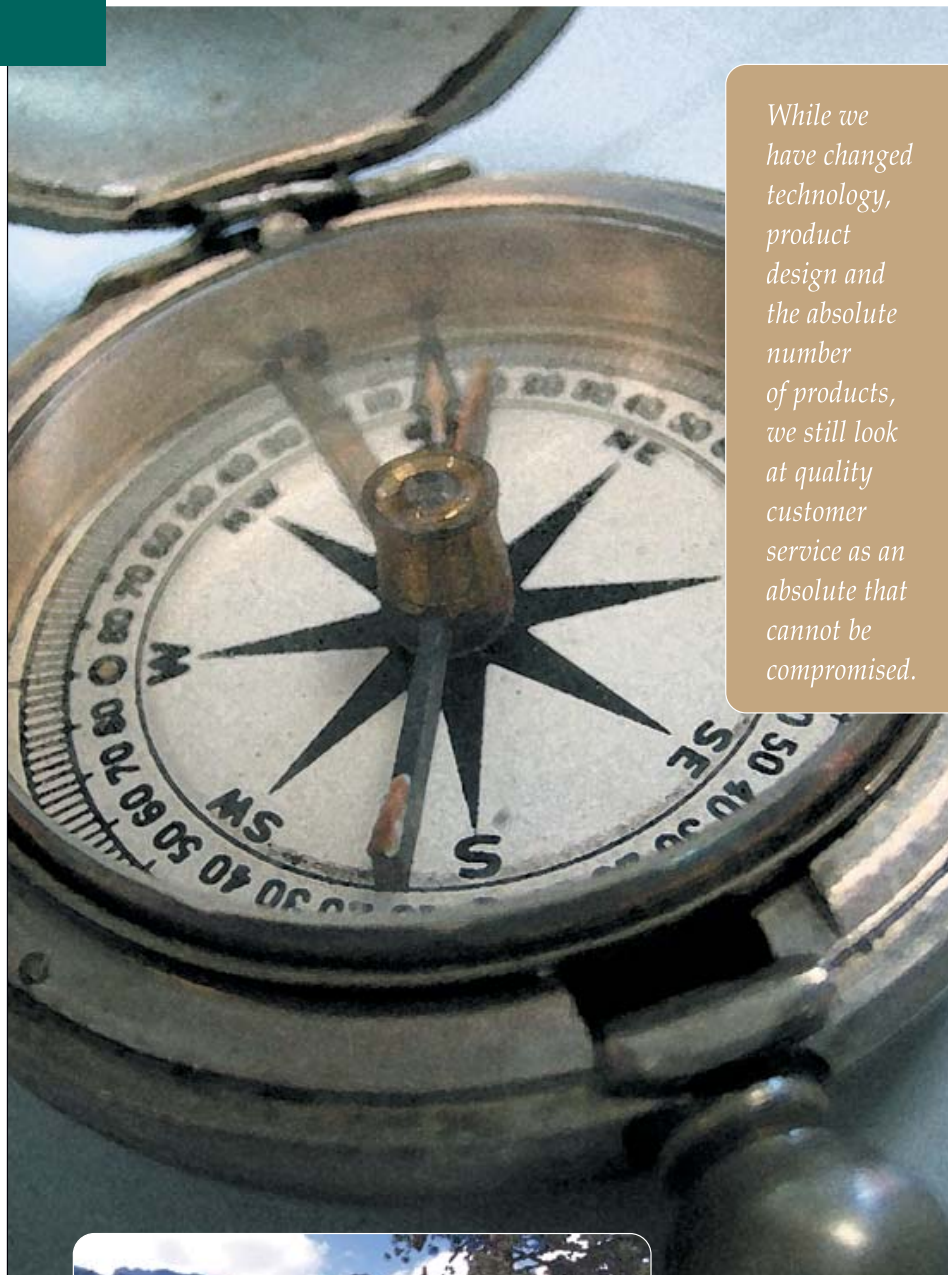
**BANK
OF THE
SIERRASM**



A Mountain of Experience You Can Count On

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While we have changed technology, product design and the absolute number of products, we still look at quality customer service as an absolute that cannot be compromised.



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2003 ANNUAL REPORT

Sierra Bancorp

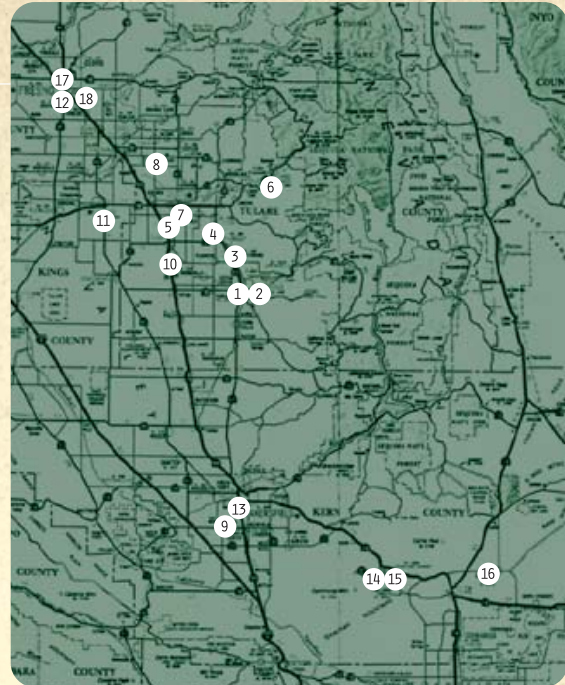
THE HOLDING COMPANY FOR



**BANK
OF THE
SIERRA** SM

A Mountain of Experience You Can Count On

- 1978 ① N. 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 provide the highest return on equity to our shareholders consistent with sound banking practices.

MAJOR STRATEGIES

- To anticipate and meet the changing needs of those we serve and will serve.
- To provide financial products and customer service of the highest quality on a timely, competitive basis.
- To provide an environment of challenge and security to our employees.
- To assist the communities we serve in their economic and cultural development.
- To be an institution of excellence.



Porterville Branch and Sierra Bancorp Corporate Headquarters

OUR VISION

To be the dominant and preeminent multi-community, independent bank in our designated market areas by meeting the financial needs of consumers and businesses.

"As soon as you find the keys to success, someone always changes the locks."

Tracy Ullman,
British Actress

President's Message

As we conclude our 25th Anniversary we can reflect on the many keys to success we have had to find to open the many locks we encountered along the way. As the above quote indicates, someone is always changing the locks. That is what makes the banking world interesting and challenging. The commitment, dedication, and ability to find new keys for new locks is what separates one bank from another—it is the difference between success and mediocrity.



Some locks, however, do not change. One of these is our second major strategy of "providing financial products and customer service of the highest quality on a timely, competitive basis." Specifically it is the customer service of the highest quality element that needs emphasis. While we have changed technology, product design and the absolute number of products, we still look at quality customer service as an absolute that cannot be compromised. To the extent we have the key to that lock, we can continue to prosper.

Another key and lock combination is assisting the communities we serve in their economic and cultural development, our fourth major strategy. We do that by using our unique powers as a commercial bank marshalling deposits and facilitating the payment system and then investing these funds back into our communities in business expansion, housing development

and consumer credit. To complete our strategy in this area, all our branches have a community support budget and soon we will announce a Bank of the Sierra Grant Program.

A President's Message would not be complete without a brief commentary on our financial performance for 2003. This is chronicled in great detail in the 10-K Report within this report, but in summary fashion our return on equity for 2003 was 18.34%, one of the strongest performances by any bank in California, and total assets exceeded \$800 million at year-end for the first time. More importantly 2003 continued our record of strong financial performance and there is every indication this can continue going forward.

To enable this kind of financial performance we continue to enhance our banking operations. In June 2003 we opened a new office in Fresno (Fresno/Herndon), in December we commenced construction of a new office in Clovis, and we have several others in the planning stages. In August 2003 we launched SierraLease, a full line leasing operation, to complement our overall financing program. Our new leasing program should be a strong contributor in the future.

Most fundamental of all, in December we completed the final planning and preparation to change our core processing system and our internet banking products. There was an enormous effort in terms of personal energy and capital expense, but the result was improved customer service and lower costs. The technology is provided by nationally acclaimed companies with the resources to maintain a state-of-the-art environment going forward. All of this is a part of our fifth major strategy, and that is "to be an institution of excellence."

And finally I would comment briefly on our third major strategy of providing an environment of challenge and security to our employees. We now have 350 team members who care about this area, because they and their families live here, too. The Bank of the Sierra team is perhaps the single most critical key to our success. Today we have the best staffing ever and we plan to keep it, just that way.

The year 2003 is now closed and we view it as one more step in a journey that never ends. While at year-end we paused to celebrate a good year, we also began developing our next five-year plan for 2004-2008. We have done well through 2003 but we have not yet realized our full potential. We need to keep finding new keys for all the new locks, and we need to be fanatic about that!

"There is no strong performance without a little fanaticism in the performer."

Ralph Waldo Emerson

Sincerely,

James C. Holly
James C. Holly
March 17, 2004



About Sierra Bancorp

Sierra Bancorp (the "Company") is a California corporation registered as a bank holding company under the Bank Holding Company Act of 1956, as amended, and is headquartered in Porterville, California. 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 principal subsidiary is the Bank, and the Company exists primarily for the purpose of holding the stock of the Bank and of such other subsidiaries it may acquire or establish. The Company's only other direct subsidiaries are Sierra Capital Trust I, which was formed in November 2001 solely to facilitate the issuance of 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.

At December 31, 2003, the Company had consolidated assets of \$802 million, loans of \$611 million, deposits of \$684 million and shareholders' equity of \$60 million. The Company's liabilities include \$15 million in obligations due to Sierra Capital Trust I, related to capital trust pass-through securities issued by Sierra Capital Trust I in November 2001.

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 its consolidated subsidiaries, unless the context indicates otherwise.

About Bank of the Sierra

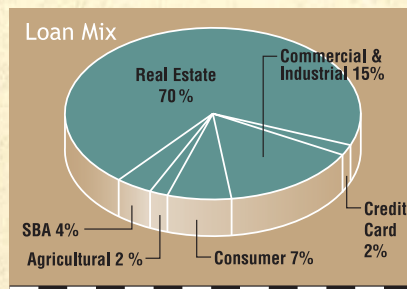
The Bank is a California state-chartered bank headquartered in Porterville, California. It was incorporated in September 1977 and opened for business in January



Bank of the Sierra's eighteenth branch in Clovis is expected to commence operations in the second quarter of 2004.

1978, and has grown to be the largest independent bank headquartered in the South San Joaquin Valley. 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. We operate seventeen full service branch offices throughout this geographic footprint, and have received regulatory approval for an eighteenth branch in the City of Clovis. The Clovis Branch is expected to commence operations in the second quarter of 2004.

The Bank's principal retail lending services include home equity lines, consumer loans, and credit card loans. The Bank Card Center, headquartered in Porterville, provides credit, debit, and ATM card services to all qualified Bank customers. 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 complete 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.

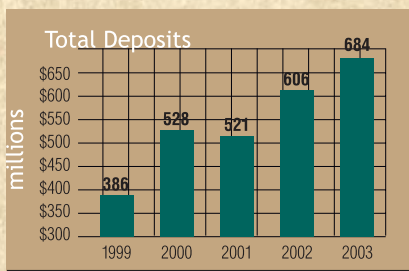
In addition, we staff our Fresno, Visalia, Porterville, and Bakersfield offices with real estate lending specialists. These officers are responsible for a complete line of land acquisition and development loans, construction loans for residential and commercial development, and multi-family credit facilities. Secondary market services are provided through 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. For the SBA's fiscal year ended September 30, 2003 the Bank originated 99 loans totaling \$11.6 million. This placed the Bank as third in the SBA's Fresno California District for the dollar volume of SBA loans, and fourth for the number of SBA loans. Further, 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 customers. We attract deposits through our customer-oriented product mix, competitive pricing, convenient locations, and drive-up banking, all

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

Business of the Company



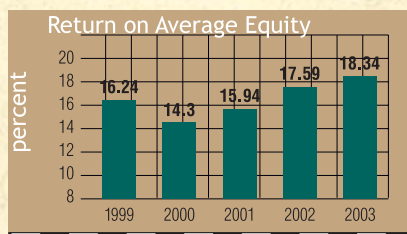
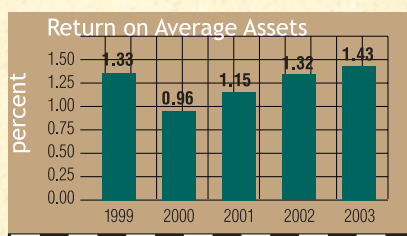
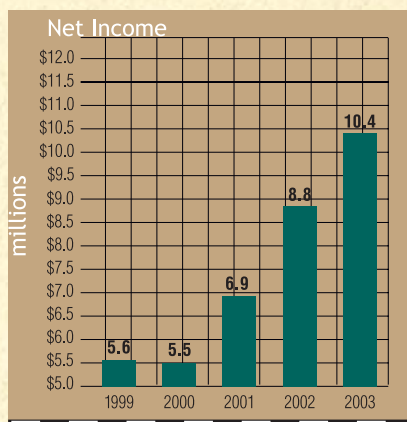
provided with the highest level of customer service. At December 31, 2003 we had 53,737 deposit accounts.

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 recent addition is a Kiosk-style drive-through ATM, which commenced operations in a parking lot on the corner of a high-traffic intersection in Visalia during the fourth quarter of 2003. We currently operate six offsite ATM's, and also utilize a mobile ATM unit at fairs, exhibitions, and various other community functions within our market areas. 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 established 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, Visalia, Tulare and Tehachapi 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 again achieved record earnings in 2003. In fact, net income has increased in 19 of the last 20 years. Net income in 2003 was \$10.4 million, an increase of more than \$1.5 million, or 17.3%, over the \$8.8 million in net earnings recognized in 2002. Net income per diluted share was \$1.03 for 2003, as compared to \$0.91 during 2002. The Company's return on average assets was 1.43% and return on average equity was 18.34% in 2003, as compared to 1.32% and 17.59%, respectively in 2002.

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.

In 2003, net interest income experienced the largest dollar increase of the chief income statement components and can thus be characterized as the major contributor to the increase in net income. The \$2.7 million, or 8.3%, increase in net interest income was primarily the result of 6.3% growth in average earning assets and a 7 basis point improvement in the net interest margin. Relatively strong growth in average core deposits was the most significant driver of the net interest margin improvement.

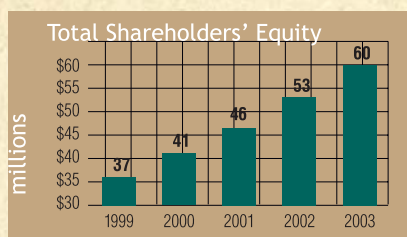
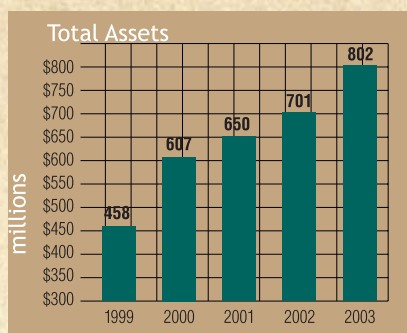
Other core income components also showed healthy improvement in 2003, with total non-interest income increasing by \$1.9 million. While service charges on deposits increased by \$702,000, or 13.3%, due to the increase in demand deposit accounts, the main contributor to the increase in non-interest income was a \$759,000 increase in the net cash surrender value of BOLI. The bulk of the Company's BOLI investments were made in September and October of 2002.

Non-interest expenses were held to a 7.8% increase in 2003, despite increases of almost 19% in salaries and employee benefits, and occupancy and fixed asset expenses. Those increases, which were in part the result of a conversion to in-house item processing in September of 2002 and the addition of a branch in 2003, were partially offset by savings from the elimination of outsourced item processing costs in 2003. Outsourced item processing costs totaled \$1.4 million in 2002. The provision for loan losses was \$245,000 lower despite significant growth in the Company's loan portfolio, since most of the growth is comprised of loans secured by real estate which have a lower historical loss factor and because net loan charge-offs were substantially lower in 2003 than in 2002.

Additionally, while pre-tax income increased by \$2.8 million, or 23.7%, from 2002 to 2003, the Company's provision for income taxes increased by \$1.3 million, or 42.3%, for the same periods. The disproportionate increase in the tax provision in 2003 was due to the Company's decision in the fourth quarter of 2003 to reverse all tax benefits derived during the year from the Company's real estate investment trust, pursuant to a last-minute legal interpretation released by the California Franchise Tax Board. The increase in the Company's tax provision would have been even higher in 2003 if not for higher BOLI income, which is tax-exempt, and additional low-income housing investment tax credits.

Financial Condition

The Company's total assets grew by \$100 million, or 14.3%, from \$702 million at the end of 2002 to \$802 million at the end of 2003. Most of this increase came from growth in loan balances, and most of the loan expansion occurred in the latter half of 2003 thus muting the impact on annual average balances. Gross loan and lease balances increased by \$97.2 million, mainly from growth in real-estate secured loans. The majority of the increase in loan balances was

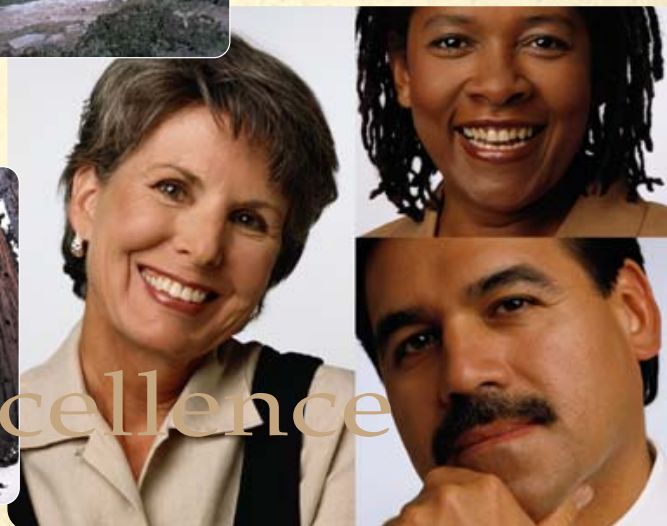


generated in high growth markets located within the Company's geographic footprint, however net loan participations added approximately \$13 million from outside our primary service area. An important shift in the composition of

the Company's balance sheet was seen in loans and leases, which increased to 75.1% of total assets at December 31, 2003 from 72.1% at the end of 2002.

The most notable change in deposits from the end of 2002 to the end of 2003 was a \$32 million, or 19.2%, increase in demand deposit balances. Non-interest bearing demand deposits increased to 28.7% of total deposits at the end of 2003 as compared to 27.2% at the end of 2002. And, despite historically low interest rates, interest-bearing components of core deposits increased by a combined \$34.8 million, or 10.8%. These increases were the result of focused marketing and increased cross-selling efforts. Short-term borrowings increased from 3.0% to 4.5% of total liabilities. The increase in short-term funding balances was mainly the result of overnight borrowings that were being used as an interim measure to fund the rapid loan growth that occurred in the latter half of the year.

Total shareholders' equity increased to \$60 million at December 31, 2003 from \$53 million at December 31, 2002, due primarily to the retention of earnings less dividends paid. This is an increase of \$7 million, or about 13.0%. The Company's total risk-based capital ratio at December 31, 2003 was 10.88%.



Excellence

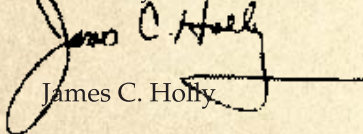
Reflections on our 25th Anniversary

Our 25th Anniversary year is now past, but a few parting comments would be in order. Traditionally we have celebrated anniversaries from the day we opened for business on January 19, 1978. But that really was not the beginning of Bank of the Sierra. For the very beginning we would have to look back to early 1976 when a dedicated and visionary group of Porterville area businessmen began a series of meetings to discuss the possibility of a new bank for the area. Ultimately they raised \$17,500 in seed money, money which was completely at risk, and with that money they commissioned an economic feasibility study to support an application for a charter from the State Banking Department. It was this group that became the Proponent Group as listed below in alphabetical order.

The charter application was submitted in November 1976, and ultimately approved in July 1977. With that approval the formal organization could go forward with the actual incorporation of the Bank taking place on September 21, 1977. Quickly following was the actual sale of the initial \$1.5 million of stock, the approval of FDIC Insurance, and then all of the logistics needed to open the Bank on January 19, 1978.

The point here is that without the dedicated and visionary Proponent Group and the efforts they expended and the risks they took there would be no Bank of the Sierra and no 25th Anniversary celebration. This group should be recognized, applauded, and thanked for enabling the creation of Bank of the Sierra.

Sincerely,



James C. Holly
President and CEO

The Proponent Group (in alphabetical order)

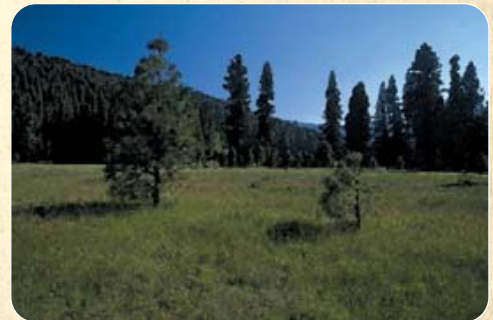
Fred R. Berger, Jr.*
Albert L. Berra
Robert L. Fields
Vernon Gill*

Walter Hooper*
Ray P. Hutchinson*
Vince Jurkovich
Donald McGregor*
Fred Reisig

Robert Reisig*
Leland Sweetser*
Howard H. Smith
E. M. Tharp

Mike Tharp
Morris Tharp
Robert Tienken
Gordon T. Woods

*deceased



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



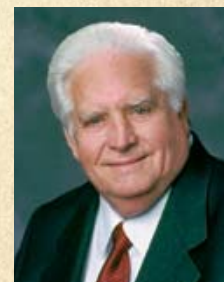
Robert L. Fields
Director
Retired, Investor



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

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

Directory of Offices

Porterville & Lindsay Service Area

Arthur T. Cardell, Sr. Vice President, Area Manager
Porterville Main & West Olive Offices

George D. Davis, Vice President, Manager
Lindsay Office

Visalia & Dinuba Service Area

Richard Wehmueller, 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 Service Area

J. Frank Oliver, Vice President, Area Manager

Tulare Service Area

John Thomas, Vice President, Branch Manager

Hanford Service Area

Kevin McPhail, Vice President, Branch Manager

Ag Credit Centers

Ronald H. Paternoster, Vice President, Manager

Bank Card Center

Randy P. Mahre, 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

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/Herndon • 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 82 N. Main • 559/782-4432

Fresno 636 E. Shaw Ave. • 559/248-2580

Bank Card Center

Porterville 80 N. Main • 559/782-4450

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
Kenneth R. Taylor	Senior V.P. & Chief Financial Officer
Charlie C. Glenn	Senior V.P. & Chief Credit Officer
Hope Attenhofer	V.P./Director of Marketing
Mona M. Carr	V.P./Director of Operations
Rick Davis	V.P./Director of MIS
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
Donald L. Sowers	V.P./Director of Human Resources
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, Senior V.P. & Chief Credit Officer



A Mountain of Experience You Can Count On

A copy of the Holding Company's 2003 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.