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

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2021

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number: 000-33063

SIERRA BANCORP
(Exact name of registrant as specified in its charter)

California	**33-0937517**
(State of incorporation)	(I.R.S. Employer Identification No.)
86 North Main Street, Porterville, California	**93257**
(Address of principal executive offices)	(Zip Code)

(559) 782-4900
Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, No Par Value	**BSRR**	**The NASDAQ Stock Market LLC (NASDAQ Global Select Market)**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☒ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☒ No

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 every Interactive Data File required to be submitted 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 such files).

☒ Yes ☐ No

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

Large accelerated filer ☐	Accelerated filer ☒
Non-accelerated filer ☐	Smaller reporting company ☐
Emerging growth company ☐	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

As of June 30, 2021, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $358 million, based on the closing price reported to the registrant on that date of $25.45 per share. Shares of Common Stock held by each officer and director and each person or control group owning more than ten percent of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of common stock of the registrant outstanding as of March 1, 2022 was 15,254,467.

Documents Incorporated by Reference: Portions of the definitive proxy statement for the 2021 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission pursuant to SEC Regulation 14A are incorporated by reference in Part III, Items 10-14.

TABLE OF CONTENTS

ITEM		PAGE
PART I		1
Item 1.	Business	1
Item 1A.	Risk Factors	14
Item 1B.	Unresolved Staff Comments	28
Item 2.	Properties	28
Item 3.	Legal Proceedings	29
Item 4.	Mine Safety Disclosures	29
PART II		30
Item 5.	Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities	30
Item 6.	Reserved	34
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	34
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	65
Item 8.	Financial Statements and Supplementary Data	66
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	129
Item 9A.	Controls and Procedures	129
Item 9B.	Other Information	130
Item 9C.	Disclosure Regarding Foreign Jurisdictions that Prevent Inspections	130
PART III		131
Item 10.	Directors, Executive Officers and Corporate Governance	131
Item 11.	Executive Compensation	131
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters	131
Item 13.	Certain Relationships and Related Transactions and Director Independence	131
Item 14.	Principal Accounting Fees and Services	131
PART IV		132
Item 15.	Exhibits and Financial Statement Schedules	132
Item 16.	Form 10-K Summary	133
SIGNATURES		134

PART I

ITEM 1. BUSINESS

General

The Company

Sierra Bancorp (the "Company") is a California corporation headquartered in Porterville, California, and is a registered bank holding company under federal banking laws. The Company was formed to serve as the holding company for Bank of the Sierra (the "Bank"), and has been the Bank's sole shareholder since August 2001. The Company exists primarily for the purpose of holding the stock of the Bank and of such other subsidiaries it may acquire or establish. As of December 31, 2021, the Company's only other subsidiaries were Sierra Statutory Trust II, Sierra Capital Trust III, and Coast Bancorp Statutory Trust II, which were formed solely to facilitate the issuance of capital trust pass-through securities ("TRUPS"). Pursuant to the Financial Accounting Standards Board ("FASB") standard on the consolidation of variable interest entities, these trusts are not reflected on a consolidated basis in the financial statements of the Company. References herein to the "Company" include Sierra Bancorp and its consolidated subsidiary, the Bank, unless the context indicates otherwise. At December 31, 2021, the Company had consolidated assets of $3.4 billion (including gross loans of $2.0 billion), liabilities totaling $3.0 billion (including deposits of $2.8 billion), and shareholders' equity of $362.0 million. The Company's liabilities include $35.3 million in debt obligations due to its trust subsidiaries, related to TRUPS issued by those entities.

The Bank

Bank of the Sierra, a California state-chartered bank headquartered in Porterville, California, offers a wide range of retail and commercial banking services via branch offices located throughout California's South San Joaquin Valley, the Central Coast, Ventura County, and neighboring communities. The Bank was incorporated in September 1977, and opened for business in January 1978 as a one-branch bank with $1.5 million in capital. Our growth in the ensuing years has largely been organic in nature but includes four whole-bank acquisitions: Sierra National Bank in 2000, Santa Clara Valley Bank in 2014, Coast National Bank in 2016, and Ojai Community Bank in October 2017.

Our recent business activity included the establishment of a Sacramento-area loan production office in January 2020, and the closure of five branches in June 2021. The Bank now maintains administrative offices, a loan production office, and operates 35 full-service branches in the following California locations:

Porterville:	Administrative Headquarters 86 North Main Street	Main Office 90 North Main Street	West Olive Branch 1498 West Olive Avenue
Bakersfield:	Bakersfield California Office 4456 California Ave	Bakersfield Riverlakes Office 4060 Coffee Road	Bakersfield Ming Office 8500 Ming Avenue
	Bakersfield East Hills Office 2501 Mt. Vernon Avenue		
California City:	California City Office 8031 California City Blvd.		
Clovis:	Clovis Office 1835 East Shaw Avenue		
Delano:	Delano Office 1126 Main Street		

Table of Contents

Dinuba:	Dinuba Office 401 East Tulare Street		
Exeter:	Exeter Office 1103 West Visalia Road		
Farmersville:	Farmersville Office 400 West Visalia Road		
Fillmore:	Fillmore Office 527 Sespe Avenue		
Fresno:	Fresno Palm Office 7391 North Palm Avenue	Fresno Shaw Office 636 East Shaw Avenue	Fresno Sunnyside Office 5775 E. Kings Canyon Rd.
Hanford:	Hanford Office 427 West Lacey Boulevard		
Lindsay:	Lindsay Office 142 South Mirage Avenue		
Lompoc:	Lompoc Office 705 West Central Avenue		
Ojai:	Ojai Office 402 West Ojai Avenue		
Paso Robles:	Paso Robles Office 1207 Spring Street		
Pismo Beach:	Pismo Beach Office 1401 Dolliver Street		
Roseville:	Loan Production Office 915 Highland Point Dr., Ste. 160		
Reedley:	Reedley Office 1095 West Manning Ave.		
San Luis Obispo:	San Luis Obispo Office 500 Marsh Street		
Santa Barbara:	Santa Barbara Office 21 East Carrillo Street		
Santa Paula:	Santa Paula Office 901 East Main Street		
Selma:	Selma Office 2450 McCall Avenue		
Tehachapi:	Tehachapi Downtown Office 224 West “F” Street		
Three Rivers:	Three Rivers Office 40884 Sierra Drive		

Tulare:	Tulare Office 246 East Tulare Avenue	Tulare Prosperity Office 1430 East Prosperity Avenue
Ventura:	Ventura Office 89 South California Street	
Visalia:	Visalia Mooney Office 2515 South Mooney Blvd.	Visalia Downtown Office 128 East Main Street
Woodlake:	Woodlake Office 232 N. Valencia Boulevard	

Complementing the Bank’s stand-alone offices are specialized lending units which include our Agricultural, SBA and Mortgage Warehouse lending divisions. We also have ATMs at all but one of our branch locations and nine non-branch locations. Furthermore, the Bank is a member of the Allpoint network, which provides our deposit customers with surcharge-free access to over 55,000 ATMs across the United States, Puerto Rico, Mexico, Canada, Australia and the United Kingdom, and customers have access to electronic point-of-sale payment alternatives nationwide via the Pulse network. To ensure that account access preferences are addressed for all customers, we provide the following options: an internet branch which provides the ability to open deposit accounts online; an online banking option with bill-pay and mobile banking capabilities, including mobile check deposit; online lending solutions for consumers and small businesses; a customer service center that is accessible by toll-free telephone during business hours; and an automated telephone banking system that is generally accessible 24 hours a day, seven days a week. We offer a variety of other banking products and services to complement and support our lending and deposit products, including remote deposit capture and payroll services for business customers.

Our chief products and services relate to extending loans and accepting deposits. Our lending activities cover real estate, commercial (including small business), mortgage warehouse, agricultural, and consumer loans. The bulk of our real estate loans are secured by commercial real estate, which includes both owner-occupied and non-owner occupied properties including office, retail, and hotel/motels, but we also offer commercial construction loans, multifamily and agricultural credit facilities among other types of real estate loans. As noted above, gross loans totaled $2.0 billion at December 31, 2021, and the percentage of our total loan and lease portfolio for each of the principal types of credit we extend was as follows: (i) loans secured by real estate (87.0%); (ii) agricultural production loans (1.7%); (iii) commercial and industrial loans and leases, including SBA loans and Paycheck Protection Program (PPP) loans (5.5%); (iv) mortgage warehouse loans (5.1%); and (v) consumer loans (0.2%). Interest, fees, and other income on real-estate secured loans, which is by far the largest segment of our portfolio, totaled $84.1 million, or 61% of net interest plus other income in 2021, and $79.2 million, or 60% of net interest plus other income in 2020.

In addition to loans, we offer a wide range of deposit products and services for individuals and businesses including checking accounts, savings accounts, money market demand accounts, time deposits, retirement accounts, and sweep accounts. The Bank’s deposit accounts are insured by the Federal Deposit Insurance Corporation (the “FDIC”) up to maximum insurable amounts. We attract deposits throughout our market area via referrals from existing customers, direct-mail campaigns, a customer-oriented product mix, and competitive pricing, and by offering convenient locations, drive-through banking, and various other delivery channels. We strive to retain our deposit customers by providing a consistently high level of service. At December 31, 2021, the Company had 123,200 deposit accounts which remained relatively flat with the number of accounts held at December 31, 2020. Although the number of accounts remained the same, total deposits were $2.8 billion at December 31, 2021, as compared to $2.6 billion at December 31, 2020.

Our officers and employees are continually searching for ways to increase public convenience, enhance customer access to payment systems, and enable us to improve our competitive position with the development of new products and services. The cost to the Bank for these development, operations, and marketing activities cannot be calculated with any degree of certainty. We hold no patents or licenses (other than licenses required by bank regulatory agencies), franchises, or concessions. Our business has a modest seasonal component due to the heavy agricultural orientation of the Central Valley, but as our branch network has expanded to include more metropolitan areas, we have become less reliant on the agriculture-related base. We are not dependent on a single customer or group of related customers for a material portion of our core

deposits. Furthermore, loan categories that could be considered to be concentrations include commercial real estate loans (67.1%); with the most concentrated segments in office space (14.8%), retail (12.8%) and loans in the hotel industry (9%).

Our efforts to comply with government and regulatory mandates on consumer protection and privacy, anti-terrorism, and other initiatives have resulted in significant ongoing expense to the Bank, including compliance staffing costs and other expenses associated with compliance-related software. However, as far as can be determined there has been no material effect upon our capital expenditures, earnings, or competitive position as a result of environmental regulation at the federal, state, or local level. The Company is not involved with chemicals or toxins that might have an adverse effect on the environment, thus its primary exposure to environmental legislation is through lending activities. The Company's lending procedures include steps to identify and monitor this exposure in an effort to avoid any related loss or liability.

Recent Accounting Pronouncements

Information on recent accounting pronouncements is contained in Note 2 to the consolidated financial statements.

Competition

The banking business in California is generally highly competitive, including in our market areas. Continued consolidation within the banking industry has heightened competition in recent periods, including many bank transactions within our market in 2021. There are also a number of unregulated companies competing for business in our markets, with financial products targeted at profitable customer segments. Many of those companies are able to compete across geographic boundaries and provide meaningful alternatives to banking products and services. These competitive trends are likely to continue.

With respect to commercial bank competitors, our business is dominated by a relatively small number of major banks that operate a large number of offices within our geographic footprint. Based on June 30, 2021, FDIC combined market share data for the 29 cities within which the Company currently maintains branches, the largest portion of deposits belongs to Wells Fargo Bank with (22.2%) of total combined deposits, followed by Bank of America (16.8%), JPMorgan Chase (12.7%), and Union Bank (7.3%). Bank of the Sierra ranks fifth on the 2021 market share list with 4.7% of total deposits.

In Tulare County, however, where the Bank was originally formed, we rank first for deposit market share with 18.9% of total deposits at June 30, 2021 and had the largest number of branch locations (13, including our online branch). The larger banks noted above have, among other advantages, the ability to finance wide-ranging advertising campaigns and allocate their resources to regions of highest yield and demand. They can also offer certain services that we do not provide directly but may offer indirectly through correspondent institutions, and by virtue of their greater capitalization those banks have legal lending limits that are substantially higher than ours. For loan customers whose needs exceed our legal lending limits, we may arrange for the sale, or participation, of some of the balances to financial institutions that are not within our geographic footprint.

In addition to other banks our competitors include savings institutions, credit unions, and numerous non-banking institutions such as finance companies, leasing companies, insurance companies, brokerage firms, asset management groups, mortgage banking firms and internet companies. Innovative technologies have lowered traditional barriers of entry and enabled many of these companies to offer services that were previously considered traditional banking products, and we have witnessed increased competition from companies that circumvent the banking system by facilitating payments via the internet, mobile devices, prepaid cards, and other means.

Strong competition for deposits and loans among financial institutions and non-banks alike affects interest rates and terms on which financial products are offered to customers. Mergers between financial institutions have created additional pressures within the financial services industry to streamline operations, reduce expenses, and increase revenues in order to remain competitive. Competition is also impacted by federal and state interstate banking laws which permit banking organizations to expand into other states. The relatively large California market has been particularly attractive to out-of-state institutions.

For years we have countered rising competition by offering a broad array of products with flexibility in structure and terms that cannot always be matched by our competitors. We also offer our customers community-oriented, personalized service, and rely on local promotional activity and personal contact by our employees. As noted above, layered onto our traditional personal-contact banking philosophy are technology-driven initiatives that improve customer access and convenience.

Human Capital

As of December 31, 2021, the Company had 435 full-time and 57 part-time employees. On a full-time equivalent ("FTE") basis staffing stood at 480 at December 31, 2021, down from 501 FTE employees at December 31, 2020.

At December 31, 2021, the population of our workforce was as follows:

Gender	% of Total
Women	76%
Men	24%

Ethnicity	% of Total
Asian	4%
Black or African American	1%
Hispanic or Latino	49%
Native Hawaiian or Other Pacific Islander	1%
Two or more races	5%
White	40%

The Company recognizes that a diverse workforce brings fresh perspectives that can help strengthen and improve how we serve our communities.

In response to the COVID-19 pandemic, in 2020 the Company established remote work arrangements with staff in an effort to consider the health and safety of its employees. At December 31, 2021, the Company had 132 employees working remotely. The Company is monitoring the current environment surrounding the pandemic and is evaluating all remote and hybrid work arrangements. It is anticipated that certain positions may continue with a remote or hybrid work arrangement once the pandemic is over due to efficiencies gained from such arrangements. There were no known adverse effects on financial reporting systems, internal controls over financial reporting and disclosure control and procedures from the remote work arrangements. No employees were terminated or suspended due directly to the COVID-19 pandemic.

The Company has long been committed to comprehensive and competitive compensation and benefits programs as the Company recognizes that it operates in intensely competitive environments for talent. On January 1, 2022, the Company increased its minimum wage to $20 per hour in an effort to attract and retain skilled and highly trained employees. Community banking is often considered a relationship banking model rather than a purely transactional banking model. The Company's employees are critical to the Company's ability to develop and grow relationships with its clients. Recruiting talent within the Company's footprint has always been a fundamental strategy whenever possible and is facilitated by actively participating in and holding community job fairs. Furthering the Company's philosophy to attract and retain a pool of talented and motivated employees who will continue to advance the purpose and contribute to the Company's overall success, compensation and benefits programs include: an equity-based compensation plan, health/dental/vision insurances, supplemental insurance, life insurance, 401(K) plan, benefits under the Family Medical Leave Act, workers' compensation, paid vacation and sick days, holiday pay, training/education, leave for bereavement, military service and jury duty.

The Company invests in its employees' future by sponsoring and prioritizing continued education throughout its employee ranks. The Company encourages and requires certain of its employees to participate in educational activities and training curriculum, which improve or maintain their skills in their current position, as well as to enhance future opportunities at the Company. The Company's employees are notified periodically of available internal course offerings and educational seminars run by outside parties, including but not limited to the American Bankers Association and Bankers Compliance

Group. Employees are also encouraged to continue their higher education at accredited colleges and universities and may receive assistance from the Company for their participation.

In order to develop a workforce that aligns with the Company's corporate values, it regularly sponsors local community events so that its employees can better integrate themselves in communities. The Company believes that employees' well-being and personal and professional development is fostered by outreach to the communities it serves. The Company's employees' desire for active community involvement enables the Company to sponsor a number of local community events and initiatives, including food drives for local food pantries during the COVID-19 pandemic.

Website Access

Copies of our Annual Report on 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge through our website (www.sierrabancorp.com) as soon as reasonably practicable after we have filed the material with, or furnished it to, the United States Securities and Exchange Commission ("SEC"). Copies can also be obtained by accessing the SEC's website (www.sec.gov).

Regulation and Supervision

Banks and bank holding companies are heavily regulated by federal and state laws and regulations. Most banking regulations are intended primarily for the protection of depositors and the deposit insurance fund and not for the benefit of shareholders. The following is a summary of certain statutes, regulations and regulatory guidance affecting the Company and the Bank. This summary is not intended to be a complete explanation of such statutes, regulations and guidance, all of which are subject to change in the future, nor does it fully address their effects and potential effects on the Company and the Bank.

Regulation of the Company Generally

The Company is a legal entity separate and distinct from the Bank and its other subsidiaries. As a bank holding company, the Company is regulated under the Bank Holding Company Act of 1956 (the "BHC Act"), and is subject to supervision, regulation and inspection by the Federal Reserve Board. The Company is also subject to certain provisions of the California Financial Code which are applicable to bank holding companies. In addition, the Company is under the jurisdiction of the SEC and is subject to the disclosure and regulatory requirements of the Securities Act of 1933 and the Securities Exchange Act of 1934, each administered by the SEC. The Company's common stock is listed on the NASDAQ Global Select market ("NASDAQ") with "BSRR" as its trading symbol, and the Company is subject to the rules of NASDAQ for listed companies.

The Company is a bank holding company within the meaning of the BHC Act and is registered as such with the Federal Reserve Board. A bank holding company is required to file annual reports and other information with the Federal Reserve regarding its business operations and those of its subsidiaries. In general, the BHC Act limits the business of bank holding companies to banking, managing or controlling banks and other activities that the Federal Reserve has determined to be so closely related to banking as to be a proper incident thereto, including securities brokerage services, investment advisory services, fiduciary services, and management advisory and data processing services, among others. A bank holding company that also qualifies as and elects to become a "financial holding company" may engage in a broader range of activities that are financial in nature or complementary to a financial activity (as determined by the Federal Reserve or Treasury regulations), such as securities underwriting and dealing, insurance underwriting and agency, and making merchant banking investments. The Company has not elected to become a financial holding company but may do so at some point in the future if deemed appropriate in view of opportunities or circumstances at the time.

The BHC Act requires the prior approval of the FRB for the direct or indirect acquisition of more than five percent of the voting shares of a commercial bank or its parent holding company. Acquisitions by the Bank are subject instead to the Bank Merger Act, which requires the prior approval of an acquiring bank's primary federal regulator for any merger with or acquisition of another bank. Acquisitions by both the Company and the Bank also require the prior approval of the California Department of Financial Protection and Innovation (the "DFPI") pursuant to the California Financial Code.

The Company and the Bank are deemed to be "affiliates" of each other and thus are subject to Sections 23A and 23B of the Federal Reserve Act as well as related Federal Reserve Regulation W which impose both quantitative and qualitative restrictions and limitations on transactions between affiliates. The Bank is also subject to laws and regulations requiring that all extensions of credit to our executive officers, directors, principal shareholders and related parties must, among other things, be made on substantially the same terms and follow credit underwriting procedures no less stringent than those prevailing at the time for comparable transactions with persons not related to the Bank.

Under certain conditions, the Federal Reserve has the authority to restrict the payment of cash dividends by a bank holding company as an unsafe and unsound banking practice, and may require a bank holding company to obtain the approval of the Federal Reserve prior to purchasing or redeeming its own equity securities. The Federal Reserve also has the authority to regulate the debt of bank holding companies.

A bank holding company is required to act as a source of financial and managerial strength for its subsidiary banks and must commit resources as necessary to support such subsidiaries. The Federal Reserve may require a bank holding company to contribute additional capital to an undercapitalized subsidiary bank and may disapprove of the holding company's payment of dividends to the shareholders in such circumstances.

Regulation of the Bank Generally

As a state chartered bank, the Bank is subject to broad federal regulation and oversight extending to all its operations by the FDIC and to state regulation by the DFPI. The Bank is also subject to certain regulations of the Federal Reserve Board.

Capital Simplification for Qualifying Community Banking Organization

The federal banking agencies published a final rule on November 13, 2019, that provided a simplified measure of capital adequacy for qualifying community banking organizations. A qualifying community banking organization that opts into the community bank leverage ratio framework and maintains a leverage ratio greater than 9 percent will be considered to have met the minimum capital requirements, the capital ratio requirements for the well capitalized category under the Prompt Corrective Action framework, and any other capital or leverage requirements to which the qualifying banking organization is subject (see below for further discussion of the requirements for well capitalized and the Prompt Corrective Action framework).

A qualifying community banking organization with a leverage ratio of greater than 9 percent may opt into the community bank leverage ratio framework if it has average consolidated total assets of less than $10 billion, has off-balance-sheet exposures of 25% or less of total consolidated assets, and has total trading assets and trading liabilities of 5 percent or less of total consolidated assets. Further, the bank must not be an advance approaches banking organization. The final rule became effective January 1, 2020 and banks that meet the qualifying criteria can elect to use the community bank leverage framework starting with the quarter ended March 31, 2020. The Company and the Bank met the criteria outlined in the final rule and opted into the community bank leverage ratio framework in the first quarter 2020.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) became law. Section 4012 of the CARES Act directs the agencies to issue an interim final rule providing that, for purposes of section 201 of Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA), the community bank leverage ratio shall be 8 percent, and a qualifying community banking organization whose leverage ratio falls below the community bank leverage ratio requirement established under the CARES Act shall have a reasonable grace period to satisfy the requirement. Section 4012 of the CARES Act specifies that the interim final rule is effective during the period beginning on the date on which the agencies issue the interim final rule and ending on the sooner of the termination date of the national emergency concerning the coronavirus disease (COVID-19) outbreak declared by the President on March 13, 2020, under the National Emergencies Act, or December 31, 2020 (termination date). Since the statutory interim final rule could cease to be effective at any time before December 31, 2020, the agencies issued a separate interim final rule pursuant to section 201(b) of EGRRCPA that provides a graduated transition from the temporary 8-percent community bank leverage ratio requirement to the 9-percent community bank leverage ratio requirement as established under the 2019 final rule (transition interim final rule). Specifically, the transition interim final rule provides that, once the statutory interim final rule ceases to apply, the community bank leverage ratio will be 8 percent in the second quarter through fourth quarter of calendar year 2020,

8.5 percent in calendar year 2021, and 9 percent thereafter. The transition interim final rule also modifies the two-quarter grace period for a qualifying community banking organization to account for the graduated increase in the community bank leverage ratio requirement. The interim final rules do not make any changes to the other qualifying criteria in the community bank leverage ratio framework. The transition interim final rule extends the 8-percent community bank leverage ratio through December 31, 2020, in the event the statutory interim final rule terminates before December 31, 2020. Thus, even if the statutory interim final rule had terminated prior to December 31, 2020, the community bank leverage ratio would have continued to be set at 8 percent for the remainder of 2020. Section 201 of EGRRCPA requires a qualifying community banking organization to exceed the community bank leverage ratio established by the agencies in order to be considered to have met the generally applicable rule, any other applicable capital or leverage requirements, and, if applicable, the “well capitalized” capital ratio requirements, whereas section 4012 of the CARES Act requires that a qualifying community banking organization meet or exceed an 8 percent community bank leverage ratio to be considered the same.

Capital Adequacy Requirements

The Company and the Bank are subject to the regulations of the Federal Reserve Board and the FDIC, respectively, governing capital adequacy. These agencies have adopted risk-based capital guidelines to provide a systematic analytical framework that imposes regulatory capital requirements based on differences in risk profiles among banking organizations, considers off-balance sheet exposures in evaluating capital adequacy, and minimizes disincentives to holding liquid, low-risk assets. Capital levels, as measured by these standards, are also used to categorize financial institutions for purposes of certain prompt corrective action regulatory provisions.

Our Common Equity Tier 1 capital includes common stock, additional paid-in capital, and retained earnings, less the following: disallowed goodwill and intangibles, disallowed deferred tax assets, and any insufficient additional capital to cover the deductions. The Company has elected to exclude accumulated other comprehensive income (“AOCI”) from regulatory capital. In addition, all of the Company’s trust preferred securities qualify for treatment as Tier 1 Capital, subject to a limit of 25% of Tier 1 capital.

Tier 1 capital is generally defined as the sum of core capital elements, less the following: goodwill and other intangible assets, accumulated other comprehensive income, disallowed deferred tax assets, and certain other deductions. The following items are defined as core capital elements: (i) common shareholders’ equity; (ii) qualifying non-cumulative perpetual preferred stock and related surplus (and, in the case of holding companies, senior perpetual preferred stock issued to the U.S. Treasury Department pursuant to the Troubled Asset Relief Program); (iii) minority interests in the equity accounts of consolidated subsidiaries; and (iv) “restricted” core capital elements (which include qualifying trust preferred securities) up to 25% of all core capital elements. Tier 2 capital includes the following supplemental capital elements: (i) allowance for loan and lease losses (but not more than 1.25% of an institution’s risk-weighted assets); (ii) perpetual preferred stock and related surplus not qualifying as core capital; (iii) hybrid capital instruments, perpetual debt and mandatory convertible debt instruments; and, (iv) term subordinated debt and intermediate-term preferred stock and related surplus. The maximum amount of Tier 2 capital is capped at 100% of Tier 1 capital.

The final rules established a regulatory minimum of 4.5% for common equity Tier 1 capital to total risk weighted assets (“Common Equity Tier 1 RBC Ratio”), a minimum of 6.0% for Tier 1 capital to total risk weighted assets (“Tier 1 Risk-Based Capital Ratio” or “Tier 1 RBC Ratio”), a minimum of 8.0% for qualifying Tier 1 plus Tier 2 capital to total risk weighted assets (“Total Risk-Based Capital Ratio” or “Total RBC Ratio”), and a minimum of 4.0% for the Leverage Ratio, which is defined as Tier 1 capital to adjusted average assets (quarterly average assets less the disallowed capital items noted above). In addition to the other minimum risk-based capital standards, the final rules also require a Common Equity Tier 1 capital conservation buffer which became fully phased in at 2.5% of risk-weighted assets beginning on January 1, 2019. Effective January 1, 2019, the buffer effectively raises the minimum required Common Equity Tier 1 RBC Ratio to 7.0%, the Tier 1 RBC Ratio to 8.5%, and the Total RBC Ratio to 10.5%. Institutions that do not maintain the required capital buffer will become subject to progressively more stringent limitations on the percentage of earnings that can be paid out in dividends or used for stock repurchases, and on the payment of discretionary bonuses to executive management.

Based on our capital levels at December 31, 2021 and 2020, the Company and the Bank met all capital adequacy requirements to which they are subject, including utilizing the Capital Simplification for Qualifying Community Bank

Organization as applicable. For more information on the Company's capital, see Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operation – Capital Resources. Risk-based capital ratio ("RBC") requirements are discussed in greater detail in the following section.

Prompt Corrective Action Provisions

Federal law requires each federal banking agency to take prompt corrective action to resolve the problems of insured financial institutions, including but not limited to those that fall below one or more of the prescribed minimum capital ratios. The federal banking agencies have by regulation defined the following five capital categories: "well capitalized" (Total RBC Ratio of 10%; Tier 1 RBC Ratio of 8%; Common Equity Tier 1 RBC Ratio of 6.5%; and Leverage Ratio of 5%); "adequately capitalized" (Total RBC Ratio of 8%; Tier 1 RBC Ratio of 6%; Common Equity Tier 1 RBC Ratio of 4.5%; and Leverage Ratio of 4%); "undercapitalized" (Total RBC Ratio of less than 8%; Tier 1 RBC Ratio of less than 6%; Common Equity Tier 1 RBC Ratio of less than 4.5%; or Leverage Ratio of less than 4%); "significantly undercapitalized" (Total RBC Ratio of less than 6%; Tier 1 RBC Ratio of less than 4%; Common Equity Tier 1 RBC Ratio of less than 3%; or Leverage Ratio less than 3%); and "critically undercapitalized" (tangible equity to total assets less than or equal to 2%). A bank may be treated as though it were in the next lower capital category if, after notice and the opportunity for a hearing, the appropriate federal agency finds an unsafe or unsound condition or practice merits a downgrade, but no bank may be treated as "critically undercapitalized" unless its actual tangible equity to assets ratio warrants such treatment. As of December 31, 2021 and 2020, both the Company and the Bank qualified as well capitalized for regulatory capital purposes, including utilizing the Capital Simplification for Qualifying Community Bank Organization, as applicable.

At each successively lower capital category, an insured bank is subject to increased restrictions on its operations. For example, a bank is generally prohibited from paying management fees to any controlling persons or from making capital distributions if to do so would cause the bank to be "undercapitalized." Asset growth and branching restrictions apply to undercapitalized banks, which are required to submit written capital restoration plans meeting specified requirements (including a guarantee by the parent holding company, if any). "Significantly undercapitalized" banks are subject to broad regulatory authority, including among other things capital directives, forced mergers, restrictions on the rates of interest they may pay on deposits, restrictions on asset growth and activities, and prohibitions on paying bonuses or increasing compensation to senior executive officers without FDIC approval. Even more severe restrictions apply to "critically undercapitalized" banks. Most importantly, except under limited circumstances, not later than 90 days after an insured bank becomes critically undercapitalized the appropriate federal banking agency is required to appoint a conservator or receiver for the bank.

In addition to measures taken under the prompt corrective action provisions, insured banks may be subject to potential actions by the federal regulators for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation or any condition imposed in writing by the agency or any written agreement with the agency. Enforcement actions may include the issuance of cease and desist orders, termination of insurance on deposits (in the case of a bank), the imposition of civil money penalties, the issuance of directives to increase capital, formal and informal agreements, or removal and prohibition orders against "institution-affiliated" parties.

Safety and Soundness Standards

The federal banking agencies have also adopted guidelines establishing safety and soundness standards for all insured depository institutions. Those guidelines relate to internal controls, information systems, internal audit systems, loan underwriting and documentation, compensation, and liquidity and interest rate exposure. In general, the standards are designed to assist the federal banking agencies in identifying and addressing problems at insured depository institutions before capital becomes impaired. If an institution fails to meet the requisite standards, the appropriate federal banking agency may require the institution to submit a compliance plan and could institute enforcement proceedings if an acceptable compliance plan is not submitted or followed.

The Dodd-Frank Wall Street Reform and Consumer Protection Act

Legislation and regulations enacted and implemented since 2008 in response to the U.S. economic downturn and financial industry instability continue to impact most institutions in the banking sector. Most provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"), which was enacted in 2010, are now effective and have been fully implemented.

Some aspects of Dodd-Frank are still subject to rulemaking, making it difficult to anticipate the ultimate financial impact on the Company, its customers or the financial services industry more generally. However, many provisions of Dodd-Frank are already affecting our operations and expenses, including but not limited to changes in FDIC assessments, the permitted payment of interest on demand deposits, and enhanced compliance requirements. Some of the rules and regulations promulgated or yet to be promulgated under Dodd-Frank will apply directly only to institutions much larger than ours, but could indirectly impact smaller banks, either due to competitive influences or because certain required practices for larger institutions may subsequently become expected "best practices" for smaller institutions. We could see continued attention and resources devoted by the Company to ensure compliance with the statutory and regulatory requirements engendered by Dodd-Frank.

Deposit Insurance

The Bank's deposits are insured up to maximum applicable limits under the Federal Deposit Insurance Act (generally $250,000 per depositor), and the Bank is subject to deposit insurance assessments to maintain the FDIC's Deposit Insurance Fund (the "DIF"). In October 2010, the FDIC adopted a revised restoration plan to ensure that the DIF's designated reserve ratio ("DRR") reaches 1.35% of insured deposits by September 30, 2020, the deadline mandated by the Dodd-Frank Act. In August 2016 the FDIC announced that the DIF reserve ratio had surpassed 1.15% as of June 30, 2016 and assessment rates for most institutions were adjusted downward, but institutions with $10 billion or more in assets were assessed a quarterly surcharge which will continue until the reserve ratio reaches the statutory minimum of 1.35%. Furthermore, the restoration plan proposed an increase in the DRR to 2% of estimated insured deposits as a long-term goal for the fund. On September 30, 2018, the DIF ratio reached 1.36 %. Because the ratio exceeded 1.35 %, two deposit insurance assessment changes occurred under FDIC regulations: surcharges on large banks (total consolidated assets of $10 billion or more) ended, with the last surcharge on large banks being collected on December 28, 2018; and, banks with total consolidated assets of less than $10 billion were awarded credits for the portion of their assessments that contributed to the growth in the reserve ratio from 1.15 % to 1.35 %, to be applied when the reserve ratio is at least 1.38 percent. Bank of the Sierra received credits to reduce our FDIC assessments.

We are generally unable to control the amount of premiums that we are required to pay for FDIC deposit insurance. If there are additional bank or financial institution failures or if the FDIC otherwise determines, we may be required to pay higher FDIC premiums, which could have a material adverse effect on our earnings and/or on the value of, or market for, our common stock.

In addition to DIF assessments, banks were required to pay quarterly assessments that were applied to the retirement of Financing Corporation bonds issued in the 1980's to assist in the recovery of the savings and loan industry. The Financing Corporation bonds matured in September 2019, with a final assessment of 0.12 basis points of insured deposits in March 2019.

Community Reinvestment Act

The Bank is subject to certain requirements and reporting obligations involving Community Reinvestment Act ("CRA") activities. The CRA generally requires federal banking agencies to evaluate the record of a financial institution in meeting the credit needs of its local communities, including low and moderate income neighborhoods. The CRA further requires the agencies to consider a financial institution's efforts in meeting its community credit needs when evaluating applications for, among other things, domestic branches, mergers or acquisitions, or the formation of holding companies. In measuring a bank's compliance with its CRA obligations, the regulators utilize a performance-based evaluation system under which CRA ratings are determined by the bank's actual lending, service, and investment performance, rather than on the extent to which the institution conducts needs assessments, documents community outreach activities or complies with other

procedural requirements. In connection with its assessment of CRA performance, the FDIC assigns a rating of “outstanding,” “satisfactory,” “needs to improve” or “substantial noncompliance.” The Bank most recently received a “needs to improve” CRA assessment rating in December 2020.

On September 21, 2020, the FDIC issued an advance notice of proposed rulemaking on updating the agency’s three-decade-old CRA regulations. The objectives of the new rules include, more effectively meeting the needs of low-to-moderate-income communities and address disparities in credit access, increasing the clarity consistency and transparency of supervisory expectations and standards regarding where activities are assessed, which activities qualify and how eligible activities are assessed, while minimizing data collection burden, tailoring CRA supervision based on size, business model, local market conditions, etc., updating standards to reflect changes in banking over time, including the increased use of mobile and internet delivery channels, promoting community engagement, strengthening the special treatment of minority depository institutions, and recognizing that CRA and fair lending responsibilities are mutually reinforcing. The Company is monitoring this proposal so that our CRA efforts are in compliance with any changes to the old rules once implemented. The FDIC never finalized the proposed rule, but it is anticipated that there will be inter-agency action on a proposed and final rule related to CRA soon.

Privacy and Data Security

The Gramm-Leach-Bliley Act, also known as the Financial Modernization Act of 1999 (the “Financial Modernization Act”), imposed requirements on financial institutions with respect to consumer privacy. Financial institutions, however, are required to comply with state law if it is more protective of consumer privacy than the Financial Modernization Act. The Financial Modernization Act generally prohibits disclosure of consumer information to non-affiliated third parties unless the consumer has been given the opportunity to object and has not objected to such disclosure. The statute also directed federal regulators, including the Federal Reserve and the FDIC, to establish standards for the security of consumer information, and requires financial institutions to disclose their privacy policies to consumers annually.

Effective January 2020, the California Consumer Privacy Act (“CCPA”) added required notice about personal information we collect, use, share, and disclose for business purposes. The CCPA provides California residents rights regarding their personal information specifically related to exercising access, data portability and deletion rights. There are also California breach notification and disclosure requirements.

On November 23, 2021, the federal banking agencies issued a final rule requiring banking organizations that experience a computer-security incident to notify its primary Federal regulator of the occurrence of an event that rises to the level of a “notification incident.” Generally, a notification incident occurs when a banking organization has suffered a computer-security incident that has a reasonable likelihood of materially disrupting or degrading the banking organization or its operations. The rule requires an affected banking organization to notify its primary Federal regulator as soon as possible and no later than 36 hours after the banking organization has determined that a notification incident has occurred. The rule also requires bank service providers to notify each affected banking organization if that bank service provider experiences a computer-security incident that has caused, or is reasonably likely to cause, a material service disruption or degradation for four or more hours. The rule becomes effective on April 1, 2022, with a compliance date of May 1, 2022.

Overdrafts

The Electronic Funds Transfer Act, as implemented by the Federal Reserve’s Regulation E, governs transfers initiated through automated teller machines (“ATMs”), point-of-sale terminals, and other electronic banking services. Regulation E prohibits financial institutions from assessing an overdraft fee for paying ATM and one-time point-of-sale debit card transactions unless the customer affirmatively opts into the overdraft service for those types of transactions. The opt-in provision establishes requirements for clear disclosure of fees and terms of overdraft services for ATM and one-time debit card transactions. The rule does not apply to other types of transactions, such as check automated clearinghouse (“ACH”) and recurring debit card transactions. Additionally, in November 2010 the FDIC issued its Overdraft Guidance on automated overdraft service programs, to ensure that a bank mitigates the risks associated with offering automated

overdraft payment programs and complies with all consumer protection laws and regulations. The Company continuously evaluates its overdraft practices and monitors potential legislative and regulatory changes to overdraft rules.

Consumer Financial Protection and Financial Privacy

Dodd-Frank created the Consumer Finance Protection Bureau (the "CFPB") as an independent entity with broad rulemaking, supervisory and enforcement authority over consumer financial products and services including deposit products, residential mortgages, home-equity loans and credit cards. The CFPB's functions include investigating consumer complaints, conducting market research, rulemaking, supervising and examining bank consumer transactions, and enforcing rules related to consumer financial products and services. CFPB regulations and guidance apply to all financial institutions, including the Bank, although only banks with $10 billion or more in assets are subject to examination by the CFPB. Banks with less than $10 billion in assets, including the Bank, are examined for compliance by their primary federal banking agency.

The CFPB has broad rulemaking authority for a wide range of consumer financial laws that apply to all banks, including, among other things, the authority to prohibit "unfair, deceptive or abusive" acts and practices. Abusive acts or practices are defined as those that materially interfere with a consumer's ability to understand a term or condition of a consumer financial product or service or take unreasonable advantage of a consumer's: (i) lack of financial savvy, (ii) inability to protect himself in the selection or use of consumer financial products or services, or (iii) reasonable reliance on a covered entity to act in the consumer's interests.

The Bank continues to be subject to numerous other federal and state consumer protection laws that extensively govern its relationship with its customers. Those laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Truth in Savings Act, the Electronic Fund Transfer Act, the Expedited Funds Availability Act, the Home Mortgage Disclosure Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Fair Debt Collection Practices Act, the Right to Financial Privacy Act, the Service Members Civil Relief Act, the Americans With Disabilities Act, and respective state-law counterparts to these laws, as well as state usury laws and laws regarding unfair and deceptive acts and practices. These and other laws require disclosures including the cost of credit and terms of deposit accounts, provide substantive consumer rights, prohibit discrimination in credit transactions, regulate the use of credit report information, provide financial privacy protections, prohibit unfair, deceptive and abusive practices, restrict the Company's ability to raise interest rates and otherwise subject the Company to substantial regulatory oversight.

In addition, as is the case with all financial institutions, the Bank is required to maintain the privacy of its customers' non-public, personal information. Such privacy requirements direct financial institutions to: (i) provide notice to customers regarding privacy policies and practices; (ii) inform customers regarding the conditions under which their non-public personal information may be disclosed to non-affiliated third parties; and (iii) give customers an option to prevent disclosure of such information to non-affiliated third parties.

Identity Theft

Under the Fair and Accurate Credit Transactions Act (the "FACT Act"), the Bank is required to develop and implement a written Identity Theft Prevention Program to detect, prevent and mitigate identity theft "red flags" in connection with certain existing accounts or the opening of certain accounts. Under the FACT Act, the Bank is required to adopt reasonable policies and procedures to (i) identify relevant red flags for covered accounts and incorporate those red flags into the program; (ii) detect red flags that have been incorporated into the program; (iii) respond appropriately to any red flags that are detected to prevent and mitigate identity theft; and (iv) ensure the program is updated periodically, to reflect changes in risks to customers or to the safety and soundness of the financial institution or creditor from identity theft. The Bank maintains a program to meet the requirements of the FACT Act and the Bank believes it is currently in compliance with these requirements.

Interstate Banking and Branching

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Interstate Act"), together with Dodd-Frank, relaxed prior interstate branching restrictions under federal law by permitting, subject to regulatory approval, state

and federally chartered commercial banks to establish branches in states where the laws permit banks chartered in such states to establish branches. The Interstate Act requires regulators to consult with community organizations before permitting an interstate institution to close a branch in a low-income area. Federal banking agency regulations prohibit banks from using their interstate branches primarily for deposit production and the federal banking agencies have implemented a loan-to-deposit ratio screen to ensure compliance with this prohibition. Dodd-Frank effectively eliminated the prohibition under California law against interstate branching through de novo establishment of California branches. Interstate branches are subject to certain laws of the states in which they are located. The Bank presently does not have any interstate branches.

USA Patriot Act of 2001

The impact of the USA Patriot Act of 2001 (the “Patriot Act”) on financial institutions of all kinds has been significant and wide ranging. The Patriot Act substantially enhanced anti-money laundering and financial transparency laws, and required certain regulatory authorities to adopt rules that promote cooperation among financial institutions, regulators, and law enforcement entities in identifying parties that may be involved in terrorism or money laundering. Under the Patriot Act, financial institutions are subject to prohibitions regarding specified financial transactions and account relationships, as well as enhanced due diligence and “know your customer” standards in their dealings with foreign financial institutions and foreign customers. The Patriot Act also requires all financial institutions to establish anti-money laundering programs. The Bank expanded its Bank Secrecy Act compliance staff and intensified due diligence procedures concerning the opening of new accounts to fulfill the anti-money laundering requirements of the Patriot Act, and also implemented systems and procedures to identify suspicious banking activity and report any such activity to the Financial Crimes Enforcement Network.

Incentive Compensation

In June 2010, the FRB and the FDIC issued comprehensive final guidance on incentive compensation policies intended to help ensure that banking organizations do not undermine their own safety and soundness by encouraging excessive risk-taking. The guidance, which covers all employees who have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization’s ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization’s board of directors. The regulatory agencies will review, as part of their regular risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Company, that are not “large, complex banking organizations.” Where appropriate, the regulatory agencies will take supervisory or enforcement action to address perceived deficiencies in an institution’s incentive compensation arrangements or related risk-management, control, and governance processes. The Company believes that it is in full compliance with the regulatory guidance on incentive compensation policies.

Sarbanes-Oxley Act of 2002

The Company is subject to the Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley”) which addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. Among other things, Sarbanes-Oxley mandates chief executive and chief financial officer certifications of periodic financial reports, additional financial disclosures concerning off-balance sheet items, and accelerated share transaction reporting for executive officers, directors and 10% shareholders. In addition, Sarbanes-Oxley increased penalties for non-compliance with the Exchange Act. SEC rules promulgated pursuant to Sarbanes-Oxley impose obligations and restrictions on auditors and audit committees intended to enhance their independence from Management, and include extensive additional disclosure, corporate governance and other related rules.

Commercial Real Estate Lending Concentrations

As a part of their regulatory oversight, the federal regulators have issued guidelines on sound risk management practices with respect to a financial institution’s concentrations in commercial real estate (“CRE”) lending activities. These guidelines were issued in response to the agencies’ concerns that rising CRE concentrations might expose institutions to

unanticipated earnings and capital volatility in the event of adverse changes in the commercial real estate market. The guidelines identify certain concentration levels that, if exceeded, will expose the institution to additional supervisory analysis with regard to the institution's CRE concentration risk. The guidelines, as amended, are designed to promote appropriate levels of capital and sound loan and risk management practices for institutions with a concentration of CRE loans. In general, the guidelines, as amended, establish the following supervisory criteria as preliminary indications of possible CRE concentration risk: (1) the institution's total construction, land development and other land loans represent 100% or more of Tier 1 risk-based capital plus allowance for loan and lease losses; or (2) total CRE loans as defined in the regulatory guidelines represent 300% or more of Tier 1 risk-based capital plus allowance for loan and lease losses, and the institution's CRE loan portfolio has increased by 50% or more during the prior 36 month period. At December 31, 2021, the Bank's total construction, land development and other land loans represented 12% of Tier 1 risk-based capital plus allowance for loan and lease losses. At December 31, 2021, the Bank's total CRE loans as defined in the regulatory guidelines represented 249% of Tier 1 risk-based capital plus allowance for loan and lease losses, and the Bank's CRE loan portfolio has increased by more than 50% during the prior 36 month period. The Bank and its board of directors have discussed the guidelines and believe that the Bank's underwriting policies, management information systems, independent credit administration process, and monitoring of real estate loan concentrations are sufficient to address the risk management of CRE under the guidelines.

Other Pending and Proposed Legislation

Other legislative and regulatory initiatives which could affect the Company, the Bank and the banking industry in general are pending, and additional initiatives may be proposed or introduced before the United States Congress, the California legislature and other governmental bodies in the future. Such proposals, if enacted, may further alter the structure, regulation and competitive relationship among financial institutions, and may subject the Bank to increased regulation, disclosure and reporting requirements. In addition, the various banking regulatory agencies often adopt new rules and regulations to implement and enforce existing legislation. It cannot be predicted whether, or in what form, any such legislation or regulations may be enacted or the extent to which the business of the Company or the Bank would be affected thereby.

Article I. ITEM 1A. RISK FACTORS

You should carefully consider the following risk factors and all other information contained in this Annual Report before making investment decisions concerning the Company's common stock. The risks and uncertainties described below are not the only ones the Company faces. Additional risks and uncertainties not presently known to the Company, or that the Company currently believes are immaterial, may also adversely impact the Company's business. If any of the events described in the following risk factors occur, the Company's business, results of operations and financial condition could be materially adversely affected. In addition, the market price of the Company's common stock could decline due to any of the events described in these risks.

Section 1.01 Risks Relating to the COVID-19 Pandemic

Our business has been and may in the future be adversely affected by volatile conditions in the financial markets and unfavorable economic conditions generally, including continued impact from the ongoing COVID-19 pandemic. National and global economies are constantly in flux, as evidenced by market volatility both recently and in years past. Future economic conditions cannot be predicted, and recurrent deterioration in the economies of the nation as a whole or in the Company's markets could have an adverse effect, which could be material, on our business, financial condition, results of operations and future prospects, and could cause the market price of the Company's stock to decline.

California's San Joaquin Valley, where the Company is headquartered and has many of its branch locations, has been particularly hard hit by the COVID-19 pandemic and its effect on the economy. Unemployment levels have historically been elevated in the San Joaquin Valley, including Tulare County which is the Company's geographic center, but recessionary conditions, precipitated by the COVID-19 Great Lockdown, pushed unemployment rates to exceptionally high levels in 2020. The highest unemployment rate for Tulare County pre-pandemic was 19.3% in March 2010; the unemployment rate reached that same high of 19.3% again in April 2020. The Tulare County unemployment rate declined

to 8.4% by December 2021, an uptick from the 8.2% unemployment rate for November 2021, which was the lowest unemployment point of 2021. In addition, as discussed below in connection with challenges facing the agricultural industry, the persistence of a California drought could have a significant negative impact on unemployment rates in our market areas. Furthermore, although oil prices have recently been experiencing record highs, a drop in oil prices could also negatively impact unemployment rates, particularly in Kern County.

These conditions have impacted and are expected in the future to impact-our business, results of operations, and financial condition negatively, including through lower revenue from certain of our fee-based businesses; lower net interest income resulting from lower interest rates and increased loan delinquencies; increased provisions for credit losses; impairments on the securities we hold; and decreased demand for certain of our products and services. Additionally, our liquidity and regulatory capital could be adversely impacted by volatility and disruptions in the capital and credit markets; deposit flows; and continued client draws on lines of credit. Our business operations may also be disrupted if significant portions of our workforce are unable to work effectively, including because of illness, quarantines, government actions, or other restrictions in connection with the pandemic. Negative impacts from the ongoing COVID-19 pandemic may include:

- Collateral securing our loans may decline in value, which could increase credit losses in our loan portfolio and increase the allowance for loan and lease losses.

- Demand for our products and services may decline, and deposit balances may decrease making it difficult to grow assets and income.

- The continued low interest rate environment, including the target federal funds rate could decrease yields on our existing and new assets that exceed the decline in our cost of interest-bearing liabilities, which may reduce our net interest margin.

- The impact of the CECL standard in 2022, which is highly dependent on unemployment rate forecasts over the life of our loans, could significantly increase the allowance for credit losses and decrease net income.

While governmental authorities have taken unprecedented measures to provide economic assistance to individual households and businesses, stabilize the markets, and support economic growth, the success of these measures is unknown, and they may not be sufficient to mitigate fully the negative impact of the ongoing pandemic. Further, some measures, such as a suspension of mortgage and other loan payments and foreclosures, may have a negative impact on our business, while our participation in other measures could result in reputational harm, litigation, or regulatory and government actions, proceedings, or penalties.

The extent to which the COVID-19 pandemic impacts our business, results of operations and financial condition will depend on future developments, which are highly uncertain and are difficult to predict, including, but not limited to, the duration and spread of the outbreak, its severity, the actions to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume, particularly in California.

Our Traditional Service Delivery Channels may be Impacted by the COVID-19 Pandemic. In light of the continued external COVID-19 threat, the Board of Directors and senior management are continuously monitoring the situation, providing frequent communications, and making adjustments and accommodations for both external clients and our employees. For the most part, branches remain open to serve our customers and local communities, with modified hours and strict social distancing protocols in place as well as at times limiting certain of our branches to walk-up or drive-up visits. Our customers have been encouraged to utilize branch alternatives such as our ATMs, online banking, and mobile banking application in lieu of in-branch transactions. In addition, many employees are working remotely. Travel, as well as face-to-face meeting restrictions are in effect for Bank personnel. Further, given the increase of the risk of cyber-security incidents during the pandemic, we have enhanced our cyber-security protocols. If the pandemic worsens, resurges or lasts for an extended period of time, to protect the health of the Company's workforce and our customers, we may need to enact further precautionary measures to help minimize the risks to our employees and customers, thus potentially altering our service delivery channels and operations over a prolonged period. These changes to our traditional service delivery channels may negatively impact our customers' experience of banking with us, result in loss of service fees, and increase

costs through equipment and services needed to support a remote workforce, and therefore negatively impact our financial condition and results of operation.

Section 1.02 Risks Relating to the Bank and our Business

Our business has been and may in the future be adversely affected by volatile conditions in the financial markets and unfavorable economic conditions generally. National and global economies are constantly in flux, as evidenced by market volatility both recently and in years past. Future economic conditions cannot be predicted, and recurrent deterioration in the economies of the nation as a whole or in the Company's markets could have an adverse effect, which could be material, on our business, financial condition, results of operations and future prospects, and could cause the market price of the Company's stock to decline.

Until the recent recession caused by COVID-19, the U.S. economy had undergone a continued and gradual expansion since 2009. Financial stress on borrowers as a result of an uncertain future economic environment could still have an unfavorable effect on the ability of the Company's borrowers to repay their loans, which could adversely affect the Company's business, financial condition and results of operations.

Economic conditions are currently stressed although appear relatively stable in most of our local markets. Adverse developments, such as, among other things, health epidemics or pandemics (or expectations about them) like the novel coronavirus, international trade disputes, inflation risks, oil price volatility, the level of U.S. debt and global economic conditions, could depress business and/or consumer confidence levels, negatively impact real estate values, and otherwise lead to economic weakness which could have one or more of the following undesirable effects on our business:

- a lack of demand for loans, or other products and services offered by us;
- an inability to retain and recruit employees due to competition for labor;
- increased competition for loans or other earning assets;
- a decline in the value of our loans or other assets secured by real estate;
- a decrease in deposit balances due to increased pressure on the liquidity of our customers;
- a credit impairment of our investment securities; or
- an increase in the number of borrowers who become delinquent, file for protection under bankruptcy laws or default on their loans or other obligations to us, which in turn could result in higher levels of nonperforming assets, net charge-offs and provisions for credit losses.

Changes in interest rates could adversely affect our profitability, business and prospects. Net interest income, and therefore earnings, can be adversely affected by differences or changes in the interest rates on, or the repricing frequency of, our financial instruments. In a period of low-interest rates, yields on new investments or loans may be lower than existing yields or lower than yields on earning assets that have prepaid or matured. In addition, fluctuations in interest rates can affect the demand of customers for products and services, and an increase in the general level of interest rates may adversely affect the ability of certain borrowers to make variable-rate loan payments. The speed and absolute level of increase or decrease in interest rates can have a material impact on the net interest income and economic value of equity of the Bank depending on the asset liability profile at any point in time. In addition, different parts of the yield curve could change by different amounts causing the yield curve to steepen, flatten, or even invert. A flattening or inversion of the yield curve could have a particularly negative impact on the Company's earnings. Changes in market interest rates could have a material adverse effect on the Company's asset quality, loan origination volume, financial condition, results of operations, and cash flows. This interest rate risk can arise from Federal Reserve Board monetary policies, as well as other economic, regulatory and competitive factors that are beyond our control.

Challenges in the agricultural industry could have an adverse effect on our customers and their ability to make payments to us, particularly in view of recent drought conditions in California and disruptions involving international trade. Difficulties experienced by the agricultural industry have led to relatively high levels of nonperforming assets in previous economic cycles. This is due to the fact that a considerable portion of our borrowers are involved in, or are impacted to some extent by, the agricultural industry. While a great number of our borrowers are not directly involved in agriculture, they would likely be impacted by difficulties in the agricultural industry since many jobs in our market areas are ancillary to the regular production, processing, marketing and sale of agricultural commodities.

The markets for agricultural products can be adversely impacted by increased supply from overseas competition, a drop in consumer demand, tariffs and numerous other factors. In recent periods in particular, retaliatory tariffs levied by certain countries in response to tariffs imposed by the US Government on imports from those countries have created a high degree of uncertainty and disruption in the agricultural community in California, due to the level of goods that are exported. The ripple effect of any resulting drop in commodity prices could lower borrower income and depress collateral values. Weather patterns are also of critical importance to row crop, tree fruit, and citrus production. A degenerative cycle of weather has the potential to adversely affect agricultural industries as well as consumer purchasing power, and could lead to higher unemployment throughout the San Joaquin Valley. In recent years, the state of California experienced the worst drought in its recorded history, and it is difficult to predict if the drought will resume and how long it might last. Another looming issue that could have a major impact on the agricultural industry involves water availability and distribution rights. If the amount of water available to agriculture becomes increasingly scarce as a result of diversion to other uses, farmers may not be able to continue to produce agricultural products at a reasonable profit, which has the potential to force many out of business. Such conditions have affected and may continue to adversely affect our borrowers and, by extension, our business, and if general agricultural conditions decline our level of nonperforming assets could increase.

Another significant drop in oil prices could have an adverse impact on our customers and their ability to make payments to us, particularly in areas such as Kern County where oil production is a key economic driver. As we have experienced in the past, a drop in oil prices could lead to declines in property values and property taxes, particularly in Kern County, which is home to about three quarters of California's oil production. The Company does not have direct exposure to oil producers, and our exposure via loans outstanding to borrowers involved in servicing oil companies totaled only $5.3 million at December 31, 2021. However, if cash flows are disrupted for our energy-related borrowers, or if other borrowers are indirectly impacted and/or non-oil property values decline, our level of nonperforming assets and loan charge-offs could increase. Furthermore, economic multipliers to a contracting oil industry include the prospects of a depressed residential housing market and a drop in commercial real estate values.

We may not be able to continue to attract and retain banking customers, and our efforts to compete may reduce our profitability. The banking business in our market areas is highly competitive with respect to virtually all products and services, which may limit our ability to attract and retain banking customers. In California generally, and in our service areas specifically, major banks dominate the commercial banking industry. Such banks have substantially greater lending limits than we have, offer certain services we cannot offer directly, and often operate with economies of scale that result in relatively low operating costs. We also compete with numerous financial and quasi-financial institutions for deposits and loans, including providers of financial services via the internet. Recent advances in technology and other changes have allowed parties to effectuate financial transactions that previously required the involvement of banks. For example, consumers can maintain funds in brokerage accounts or mutual funds that would have historically been held as bank deposits. Additionally, the use of blockchain and related technology may cause further disintermediation away from banks. Consumers can also complete transactions such as paying bills and transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as disintermediation, could result in the loss of customer deposits and the fee income generated by those deposits. The loss of these revenue streams and access to lower cost deposits as a source of funds could have a material adverse effect on our financial condition and results of operations.

Moreover, some customers continue to be concerned about the extent to which their deposits are insured by the FDIC. Customers may withdraw deposits in an effort to ensure that the amount they have on deposit with their bank is fully insured. At December 31, 2021, the Bank estimates it had uninsured deposits of $930 million. Decreases in deposits may adversely affect our funding costs and net income. Ultimately, competition can and does increase our cost of funds, reduce loan yields and drive down our net interest margin, thereby reducing profitability. It can also make it more difficult for us

to continue to increase the size of our loan portfolio and deposit base, and could cause us to rely more heavily on wholesale borrowings which are generally more expensive than retail deposits.

We may not be able to continue to attract and retain employees, and our efforts to compete for talent may reduce our profitability. The Company recognizes that community banking is based on relationships and a core part of the Company's service strategy is to recruit and develop employees that build these relationships with customers, vendors, and other employees. In addition to offering a competitive base salary or wage, the company offers comprehensive benefits, including training. Due to continued turnover, the Company increased its minimum wage to $20 per hour effective January 1, 2022, in an effort to attract and retain employees at all levels. The Company's employees are critical to the Company's ability to develop and grow relationships with its clients. Recruiting talent within the Company's footprint has always been a fundamental strategy whenever possible but has been recently complemented with offering existing and new employee's opportunities for remote and/or hybrid work arrangements if possible. However, it is recognized that competition for talent by both banks and non-banks is fierce and that overall expenses may be negatively affected by higher per employee costs or could result in lower staffing levels which would result in a reduced ability to serve our customers, could result in gaps of experience in certain areas, or cause the Company to engage higher cost temporary staff or consultants.

The value of the securities in our investment portfolio may be negatively affected by market disruptions, adverse credit events or fluctuations in interest rates, which could have a material adverse impact on capital levels. Our available-for-sale investment securities are reported at their estimated fair values, and fluctuations in fair values can result from changes in market interest rates, rating agency actions, issuer defaults, illiquid markets and limited investor demand, among other things. Under current accounting rules we directly increase or decrease accumulated other comprehensive income in shareholders' equity by the amount of the change in fair value, net of the tax effect. Because of the size of our fixed income bond portfolio relative to total assets, a relatively large increase in market interest rates, in particular, could result in a material drop in fair values and, by extension, our capital. The Company has a significant amount of Collateralized Loan Obligations; a change in credit events, demand or other factors could decrease the spread to the index which could have a negative impact in the value of those bonds. Non-government and non-US agency investment securities that have an amortized cost in excess of their current fair value at the end of a reporting period are also evaluated for potential credit impairment. If such credit impairment is indicated, the difference between the amortized cost and the fair value of those securities will be recorded as a charge in our income statement, which could also have a material adverse effect on our results of operations and capital levels.

We are exposed to the risk of environmental liabilities with respect to properties to which we obtain title. Approximately 87.5% of our loan portfolio at December 31, 2021, consisted of real estate loans. In the normal course of business we may foreclose and take title to real estate collateral, and could be subject to environmental liabilities with respect to those properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. These costs and claims could adversely affect our business and prospects.

Section 1.03 Risks Related to our Loans

Concentrations of real estate loans have negatively impacted our performance in the past, and could subject us to further risks in the event of another real estate recession or natural disaster. Our loan portfolio is heavily concentrated in real estate loans, particularly commercial real estate. At December 31, 2021, 87.5% of our loan portfolio consisted of real estate loans, and a sizeable portion of the remaining loan portfolio had real estate collateral as a secondary source of repayment or as an abundance of caution. Loans on commercial buildings represented approximately 61.2% of all real estate loans, while construction/development and land loans were 1.3%, loans secured by residential properties accounted for 19.6%, and loans secured by farmland were 5.4% of real estate loans. The Company's $4.6 million balance of

nonperforming assets at December 31, 2021, includes nonperforming real estate loans totaling $3.1 million, and $0.1 million in OREO.

In past recessionary periods, the residential real estate market experienced significant deflation in property values and foreclosures occurred at relatively high rates during and after the recession. While residential real estate values in our market areas appear to have stabilized, if they were to slide again, or if commercial real estate values were to decline materially, the Company could experience additional migration into nonperforming assets. An increase in nonperforming assets could have a material adverse effect on our financial condition and results of operations by reducing our income and increasing our expenses. Deterioration in real estate values might also further reduce the amount of loans the Company makes to businesses in the construction and real estate industry, which could negatively impact our organic growth prospects. Similarly, the occurrence of more natural disasters like those California has experienced recently, including fires, flooding, and earthquakes, could impair the value of the collateral we hold for real estate secured loans and negatively impact our results of operations.

Our concentration of commercial real estate, construction and land development, and commercial and industrial loans exposes us to increased lending risks. Commercial and agricultural real estate, commercial construction and land development, and commercial and industrial loans and leases (including agricultural production loans but excluding mortgage warehouse loans), which comprised approximately 75.0% of our total loan portfolio as of December 31, 2021, expose the Company to a greater risk of loss than residential real estate and consumer loans, which were a smaller percentage of the total loan portfolio. Commercial real estate and land development loans typically involve relatively large balances to a borrower or a group of related borrowers, and an adverse development with respect to a larger commercial loan relationship would expose us to greater risk of loss than would issues involving a smaller residential mortgage loan or consumer loan.

Moreover, banking regulators give commercial real estate loans extremely close scrutiny due to risks relating to the cyclical nature of the real estate market and risks for lenders with high concentrations of such loans. The regulators require banks with relatively high levels of CRE loans to implement enhanced underwriting standards, internal controls, risk management policies and portfolio stress testing. If the CRE concentration risk is not properly managed, it could result in higher allowances for possible loan and lease losses. Expectations for higher capital levels have also emerged. Any required increase in our allowance for loan and lease losses could adversely affect our net income, and any requirement that we maintain higher capital levels could adversely impact financial performance measures including earnings per share and return on equity.

If the Company grows commercial real estate loans, it could be limited based on levels of regulatory capital. Therefore, the ability to grow loans significantly is dependent upon the Company's ability to diversify its loan portfolio through recruitment of lending teams, hiring of specialized support personnel including underwriters and portfolio managers, and the ability to monitor new risks in the loan portfolio.

Repayment of our commercial loans is often dependent on the cash flows of the borrowers, which may be unpredictable, and the collateral securing these loans may fluctuate in value. At December 31, 2021, we had $143.8 million, or 7.2% of total loans, in commercial loans and leases (including SBA PPP loans, agricultural production loans but excluding mortgage warehouse loans). Commercial lending involves risks that are different from those associated with real estate lending. Real estate lending is generally considered to be collateral based lending with loan amounts based on predetermined loan to collateral values, and liquidation of the underlying real estate collateral being viewed as the primary source of repayment in the event of borrower default. Our commercial loans are primarily extended based on the cash flows of the borrowers, and secondarily on any underlying collateral provided by the borrowers. A borrower's cash flows may be unpredictable, and collateral securing those loans may fluctuate in value. Although commercial loans are often collateralized by equipment, inventory, accounts receivable, or other business assets, the liquidation of such collateral in the event of default is often an insufficient source of repayment for a number of reasons, including uncollectible accounts receivable and obsolete or special-purpose inventories, among others.

Nonperforming assets adversely affect our results of operations and financial condition, and can take significant time to resolve. Our nonperforming loans may return to elevated levels, which would negatively impact earnings, possibly in a material way depending on the severity. We do not record interest income on non-accrual loans, thereby adversely

affecting income levels. Furthermore, when we receive collateral through foreclosures and similar proceedings, we are required to record the collateral at its fair market value less estimated selling costs, which may result in charges against our allowance for loan and lease losses if that value is less than the book value of the related loan. Additionally, our noninterest expense has risen materially in adverse economic cycles due to the costs of reappraising adversely classified assets, write-downs on foreclosed assets resulting from declining property values, operating costs related to foreclosed assets, legal and other costs associated with loan collections, and various other expenses that would not typically be incurred in a normal operating environment. A relatively high level of nonperforming assets also increases our risk profile and may impact the capital levels our regulators believe is appropriate in light of such risks. We have utilized various techniques such as loan sales, workouts and restructurings to manage our problem assets. Deterioration in the value of these problem assets, the underlying collateral, or in the borrowers' performance or financial condition, could adversely affect our business, results of operations and financial condition. In addition, the resolution of nonperforming assets requires a significant commitment of time from Management and Staff, which can be detrimental to their performance of other responsibilities. There can be no assurance that we will avoid increases in nonperforming loans in the future.

We may experience credit losses in excess of our allowance for such losses. We endeavor to limit the risk that borrowers might fail to repay; nevertheless, losses can and do occur. At December 31, 2021, we established an allowance for estimated loan and lease losses in our accounting records based on:

- historical experience with our loans;
- our evaluation of economic conditions;
- regular reviews of the quality, mix and size of the overall loan portfolio;
- a detailed cash flow analysis for nonperforming loans;
- regular reviews of delinquencies; and
- the quality of the collateral underlying our loans.

As of January 1, 2022, we adopted the provisions of ASU 2016-13 (commonly referred to as "CECL") with an adjustment to equity, net of taxes for the difference between the allowance for loan and lease losses and the allowance for credit losses. Therefore, on January 1, 2022, the Company recorded a $10.4 million increase in the allowance for credit losses, which includes a $0.9 million reserve for unfunded commitments as an adjustment to equity, net of deferred taxes. See Note 2 to the consolidated financial statements under "Recent Accounting Pronouncements" for additional details on ASU 2016-13 and its expected impact on the Company.

The allowance for credit losses can be affected by changes in economic forecasts, especially national employment rates; changes in actual loan prepayment speeds, actual levels of charge-offs, changes to the level of nonaccrual loans, and changes to management's estimate of items not otherwise considered as part of the quantitative calculation of the allowance. At any given date, we maintain an allowance for loan and lease losses that we believe is adequate to absorb specifically identified probable losses as well as any other losses inherent in our loan portfolio as of that date. While we strive to carefully monitor credit quality and to identify loans that may become nonperforming, at any given time there may be loans in our portfolio that could result in losses but have not been identified as nonperforming or potential problem loans. We cannot be sure that we will identify deteriorating loans before they become nonperforming assets, or that we will be able to limit losses on loans that have been so identified. In addition, the FDIC and the DFPI, as part of their supervisory functions, periodically review our allowance for loan and lease losses. Such agencies may identify additional considerations for us to address with respect to our allowance for credit losses which may cause us to increase our allowance for credit losses.

Our use of appraisals in deciding whether to make a loan on or secured by real property does not ensure the value of the collateral. In considering whether to make a loan secured by real property, we generally require an appraisal of the property. However, an appraisal is only an estimate of the value of the property at the time the appraisal is made, and an

error in fact or judgment could adversely affect the reliability of the appraisal. In addition, events occurring after the initial appraisal may cause the value of the real estate to decrease. As a result of any of these factors the value of the collateral backing a loan may be less than supposed, and if a default occurs we may not recover the entire outstanding balance of the loan via the liquidation of such collateral.

Section 1.04 Risks Related to our Management

We depend on our executive officers and key personnel to implement our business strategy, and could be harmed by the loss of their services. We believe that our continued growth and success depends in large part upon the skills of our executive management team and other key personnel. The competition for qualified personnel in the financial services industry is intense, and the loss of key personnel or an inability to attract, retain or motivate key personnel could adversely affect our business. If we are not able to retain our existing key personnel or attract additional qualified personnel, our business operations could be impaired.

We may incur significant losses as a result of ineffective risk management processes and strategies. We seek to monitor and control our risk exposure through a comprehensive enterprise risk framework. While we employ a broad and diversified set of risk monitoring and risk mitigation techniques, those techniques and the judgements that accompany their application may not be effective and may not anticipate every economic and financial outcome in all market environments or the specifics and timing of such outcomes.

Section 1.05 Risks Related to our Other Accounting Estimates

We may experience future goodwill impairment. In accordance with GAAP, we record assets acquired and liabilities assumed at their fair value with the excess of the purchase consideration over the net assets acquired resulting in the recognition of goodwill. We perform a goodwill evaluation at least annually to test for potential impairment. As part of our testing, we assess quantitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If we determine that the fair value of a reporting unit is less than its carrying amount using these quantitative factors, we must record a goodwill impairment charge based on that difference. Adverse conditions in our business climate, including a significant decline in future operating cash flows, a significant change in our stock price or market capitalization, or a deviation from our expected growth rate and performance may significantly affect the fair value of the Company and may trigger goodwill impairment losses, which could be materially adverse to our operating results and financial position. We cannot provide assurance that we will not be required to take an impairment charge in the future. Any impairment charge would have an adverse effect on our shareholders' equity and financial results and could cause a decline in our stock price.

Changes in accounting standards may affect our performance. Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time the FASB and SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be difficult to predict and can materially impact how we report and record our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in a retrospective adjustment to prior financial statements.

There are risks resulting from the extensive use of models. We rely on quantitative models to measure risks and estimate certain financial values. Models may be used to measure interest rate and other market risks, predicting or estimating losses, assessing capital adequacy, assisting with identifying compliance risk, as well as to estimate the value of financial instruments and balance sheet items. Poorly designed or implemented models could result in business decisions made based on the use of models being adversely affected due to the inaccuracy of that information. Models are often based on historical experience to predict future outcome and new experiences or events which are not part of historical experience could significantly increase model imprecision and reliability. Model inputs can also include information provided by third parties, such as economic forecasts or macroeconomic variables upon which we rely. Our reliance on models continues to increase as rules, guidance and expectations change including the additional model used in the determination of our allowance for credit losses, which we adopted on January 1, 2022.

Section 1.06 Risks Related to our Growth Strategy

Growing by acquisition entails integration and certain other risks, and our financial condition and results of operations could be negatively affected if our expansion efforts are unsuccessful or we fail to manage our growth effectively. In addition to organic growth and the establishment of de novo branches, over the past several years we have engaged in expansion through acquisitions of branches and whole institutions. We may reestablish this growth strategy, within our current footprint and/or via geographic expansion, but there are risks associated with any such expansion. Those risks include, among others, incorrectly assessing the asset quality of a bank acquired in a particular transaction, encountering greater than anticipated costs in integrating acquired businesses, facing resistance from customers or employees, being unable to profitably deploy assets acquired in the transaction, and regulatory compliance risks. To the extent we issue capital stock in connection with additional transactions, if any, these transactions and related stock issuances may have a dilutive effect on earnings per share and share ownership. The subsidiary's CRA rating could also negatively affect the Company's acquisition strategy as the CRA requires the banking agencies to consider a financial institution's efforts in meeting its community credit needs when evaluating applications for, among other things, domestic branches, mergers or acquisitions, or the formation of holding companies.

Our earnings, financial condition, and prospects after a merger or acquisition depend in part on our ability to successfully integrate the operations of the acquired company. We may be unable to integrate operations successfully or to achieve expected cost savings. Any cost savings which are realized may be offset by losses in revenues or other charges to earnings. There also may be business disruptions that cause us to lose customers or cause customers to remove their accounts from us and move their business to competing financial institutions. In addition, our ability to grow may be limited if we cannot make acquisitions. We compete with other financial institutions with respect to potential acquisitions. We cannot predict if or when we will be able to identify and attract acquisition candidates or make acquisitions on favorable terms.

Section 1.07 Legislative and Regulatory Risks

We are subject to extensive government regulation that could limit or restrict our activities which may include crypto currency and legalized marijuana business activities, which in turn may adversely impact our ability to increase our assets and earnings. We operate in a highly regulated environment and are subject to supervision and regulation by a number of governmental regulatory agencies, including the Federal Reserve, the DFPI and the FDIC. Regulations adopted by these agencies, which are generally intended to provide protection for depositors and customers rather than for the benefit of shareholders, govern a comprehensive range of matters relating to ownership and control of our shares, our acquisition of other companies and businesses, permissible activities for us to engage in, maintenance of adequate capital levels, and other aspects of our operations. These bank regulators possess broad authority to prevent or remedy unsafe or unsound practices or violations of law. The laws and regulations applicable to the banking industry, or the regulatory enforcement of new and existing laws could change at any time and we cannot predict the effects of these changes on our business, profitability or growth strategy. Increased regulation could increase our cost of compliance and adversely affect profitability.

Moreover, certain of these regulations contain significant punitive sanctions for violations, including monetary penalties, as well as imposing limitations on a bank's ability to implement components of its business plan, such as expansion through mergers and acquisitions or the opening of new branch offices. In addition, changes in regulatory requirements may add costs associated with compliance efforts. Furthermore, government policy and regulation, particularly as implemented through the Federal Reserve, significantly affect credit conditions. Negative developments in the financial industry and the impact of new legislation and regulation in response to those developments could negatively impact our business operations and adversely impact our financial performance.

Our expenses could increase as a result of increases in FDIC insurance premiums or other regulatory assessments. The FDIC charges insured financial institutions a premium to maintain the DIF at a certain level. In the event that deteriorating economic conditions increase bank failures, the FDIC ensures payments of deposits up to insured limits from the DIF. Although the Bank's FDIC insurance assessments have not increased as a result of changes in recent periods, and could possibly even be reduced in the near term, there can be no assurance that the FDIC will not increase assessment rates

in the future or that the Bank will not be subject to higher assessment rates as a result of a change in its risk category, either of which could have an adverse effect on the Bank's earnings.

Previously enacted and potential future regulations could have a significant impact on our business, financial condition and results of operations. Dodd-Frank, which was enacted in 2010, is having a broad impact on the financial services industry, including significant regulatory and compliance changes. Many of the requirements called for in Dodd-Frank will be implemented over time, and most will be facilitated by the enactment of regulations over the course of several years. Given the uncertainty associated with the manner in which the provisions of Dodd-Frank will be implemented, the full extent to which they will impact our operations is unclear. The changes resulting from Dodd-Frank may impact the profitability of business activities, require changes to certain business practices, impose more stringent capital, liquidity and leverage requirements or otherwise adversely affect our business. In particular, the potential impact of Dodd-Frank on our operations and activities, both currently and prospectively, include, among others:

- an increase in our cost of operations due to greater regulatory oversight, supervision and examination of banks and bank holding companies, and higher deposit insurance premiums;
- the limitation of our ability to expand consumer product and service offerings due to more stringent consumer protection laws and regulations;
- a negative impact on our cost of funds in a rising interest rate environment, since financial institutions can now pay interest on business checking accounts;
- a potential reduction in fee income, due to limits on interchange fees applicable to larger institutions which could ultimately lead to a competitive-driven reduction in the fees we receive; and
- a potential increase in competition due to the elimination of the remaining barriers to de novo interstate branching.

Further, we may be required to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements under the Dodd-Frank Act, which could negatively impact our results of operations and financial condition. We cannot predict whether there will be additional laws or reforms that would affect the U.S. financial system or financial institutions, when such changes may be adopted, how such changes may be interpreted and enforced or how such changes may affect us. However, the costs of complying with any additional laws or regulations could have a material adverse effect on our financial condition and results of operations.

Federal and state regulators periodically examine our business, and we may be required to remediate adverse examination findings. The Federal Reserve, the FDIC and the DFPI periodically examine our business, including our compliance with laws and regulations. If, as a result of an examination, a banking agency were to determine that our financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that we were in violation of any law or regulation, they may take a number of different remedial actions as they deem appropriate. These actions include the power to enjoin "unsafe or unsound" practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to assess civil money penalties, to fine or remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance and place us into receivership or conservatorship. Any regulatory action against us could have an adverse effect on our business, financial condition and results of operations.

We are subject to numerous laws designed to protect consumers, including the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions. The CRA, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations prohibit discriminatory lending practices by financial institutions. The U.S. Department of Justice, federal banking agencies and other federal agencies are responsible for enforcing these laws and regulations. A challenge to an institution's compliance with fair lending laws and regulations, receiving a less than satisfactory CRA rating, or challenges related to other consumer protection laws could

result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion and restrictions on entering new business lines.

Private parties may also challenge an institution's performance under consumer compliance laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

In addition, federal, state and local laws have been adopted that are intended to eliminate certain lending practices considered "predatory." These laws prohibit practices such as steering borrowers away from more affordable products, selling unnecessary insurance to borrowers, repeatedly refinancing loans and making loans without a reasonable expectation that the borrowers will be able to repay the loans irrespective of the value of the underlying property. It is our policy not to make predatory loans, but these laws create the potential for liability with respect to our lending and loan investment activities. They increase our cost of doing business and, ultimately, may prevent us from making certain loans and cause us to reduce the average percentage rate or the points and fees on loans that we do make.

We derive fee income from charging customers for fees that could be subject to increased scrutiny by the regulators. There has been increased scrutiny of certain fees charged to consumers, including overdrafts in recent years. Changes to the Company's overdraft practices as a result of changes in regulations or rules impact the collection of overdraft or insufficient fund fees could negatively impact the Company's earnings. In 2021, the Company recognized $4.9 million of income from overdraft fees which could be impacted due to changes in the way overdraft fees are charged. In addition, the Company has a significant level of income from money service businesses. In 2021, the Company recognized approximately $1.9 million in fees related to money service businesses. Changes in regulatory oversight of money service businesses could negatively impact the Company's number of money service businesses it serves and the related income from such customers.

Section 1.08 Risks Related to our Common Stock

You may not be able to sell your shares at the times and in the amounts you want if the price of our stock fluctuates significantly or the trading market for our stock is not active. The market price of our common stock could be impacted by a number of factors, many of which are outside our control. Although our stock has been listed on NASDAQ for many years and our trading volume has increased in recent periods, trading in our stock does not consistently occur in high volumes and the market for our stock cannot always be characterized as active. Thin trading in our stock may exaggerate fluctuations in the stock's value, leading to price volatility in excess of that which would occur in a more active trading market. In addition, the stock market in general is subject to fluctuations that affect the share prices and trading volumes of many companies, and these broad market fluctuations could adversely affect the market price of our common stock. Factors that could affect our common stock price in the future include but are not necessarily limited to the following:

- actual or anticipated fluctuations in our operating results and financial condition;
- changes in revenue or earnings estimates or publication of research reports and recommendations by financial analysts;
- failure to meet analysts' revenue or earnings estimates;
- speculation in the press or investment community;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- actions by shareholders;
- sales of our equity or equity-related securities, or the perception that such sales may occur;
- fluctuations in the trading volume of our common stock;

- fluctuations in the stock prices, trading volumes, and operating results of our competitors;
- market conditions in general and, in particular, for the financial services industry;
- proposed or adopted regulatory changes or developments;
- regulatory action against us;
- actual, anticipated or pending investigations, proceedings, or litigation that involve or affect us; and
- domestic and international economic factors unrelated to our performance.

The stock market and, more specifically, the market for financial institution stocks, has experienced significant volatility in the past including all of 2020 and 2021 and the first quarter of 2022. As a result, the market price of our common stock has at times been unpredictable and could be in the future, as well. The capital and credit markets have also experienced volatility and disruption over the past several years, at times reaching unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and adversely impacted credit availability for certain issuers without regard to the issuers' underlying financial strength.

We could pursue additional capital in the future, which may or may not be available on acceptable terms, could dilute the holders of our outstanding common stock, and may adversely affect the market price of our common stock. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at the time, which are outside of our control, and our financial performance. Furthermore, any capital raising activity could dilute the holders of our outstanding common stock, and may adversely affect the market price of our common stock and performance measures such as return on equity and earnings per share.

Future acquisitions may dilute shareholder ownership and value, especially tangible book value per share. We periodically evaluate opportunities to acquire other financial institutions and/or bank branches, and could incorporate such acquisitions as part of our future growth strategy. Such acquisitions may involve cash, debt, and/or equity securities. Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of our tangible book value per common share may occur in connection with any future acquisitions. To the extent we issue capital stock in connection with such transactions, the share ownership of our existing shareholders may be diluted.

The Company relies heavily on the payment of dividends from the Bank. Other than $20.1 million in cash available at the holding company level at December 31, 2021, the Company's ability to meet debt service requirements and pay dividends depends on the Bank's ability to pay dividends to the Company, as the Company has no other source of significant income. However, the Bank is subject to regulations limiting the amount of dividends it may pay. For example, the payment of dividends by the Bank is affected by the requirement to maintain adequate capital pursuant to the capital adequacy guidelines issued by the Federal Deposit Insurance Corporation. If (i) any capital requirements are increased; and/or (ii) the total risk-weighted assets of the Bank increase significantly; and/or (iii) the Bank's income declines significantly, the Bank's Board of Directors may decide or be required to retain a greater portion of the Bank's earnings to achieve and maintain the required capital or asset ratios. This would reduce the amount of funds available for the payment of dividends by the Bank to the Company. Further, one or more of the Bank's regulators could prohibit the Bank from paying dividends if, in their view, such payments would constitute unsafe or unsound banking practices. The Bank's ability to pay dividends to the Company is also limited by the California Financial Code. Whether dividends are paid, and the frequency and amount of such dividends will also depend on the financial condition and performance of the Bank and the decision of the Bank's Board of Directors. Information concerning the Company's dividend policy and historical dividend practices is set forth in Item 5 below under "Dividends." However, no assurance can be given that our future performance will justify the payment of dividends in any particular year.

Your investment may be diluted because of our ability to offer stock to others, and from the exercise of stock options or issuance of restricted stock. The shares of our common stock do not have preemptive rights, which means that you may not be entitled to buy additional shares if shares are offered to others in the future. We are authorized to issue up to

24,000,000 shares of common stock, and as of December 31, 2021, we had 15,270,010 shares of common stock outstanding. Except for certain limitations imposed by NASDAQ, nothing restricts our ability to offer additional shares of stock for fair value to others in the future. Any issuances of common stock would dilute our shareholders' ownership interests and may dilute the per share book value of our common stock. Furthermore, when our directors and officers exercise in-the-money stock options or receive restricted stock units, your ownership in the Company is diluted. As of December 31, 2021, there were outstanding options to purchase an aggregate of 415,870 shares of our common stock with an average exercise price of $24.15 per share. There were also 165,131 shares of restricted stock units outstanding which vest over periods ranging from 1 year to 5 years from initial issuance. At the same date there were an additional 408,909 shares available to grant under our 2017 Stock Incentive Plan.

The holders of our debentures have rights that are senior to those of our shareholders. In 2004 we issued $15,464,000 of junior subordinated debt securities due March 17, 2034, and in 2006 we issued an additional $15,464,000 of junior subordinated debt securities due September 23, 2036, in order to supplement regulatory capital. Moreover, the Coast Bancorp acquisition included $7,217,000 of junior subordinated debt securities due December 15, 2037. All of these junior subordinated debt securities are senior to the shares of our common stock. As a result, we must make interest payments on the debentures before any dividends can be paid on our common stock, and in the event of our bankruptcy, dissolution or liquidation, the holders of debt securities must be paid in full before any distributions may be made to the holders of our common stock. In addition, we have the right to defer interest payments on the junior subordinated debt securities for up to five years, during which time no dividends may be paid to holders of our common stock. In the event that the Bank is unable to pay dividends to us, we may be unable to pay the amounts due to the holders of the junior subordinated debt securities and thus would be unable to declare and pay any dividends on our common stock.

Provisions in our articles of incorporation could delay or prevent changes in control of our corporation or our management. Our articles of incorporation contain provisions for staggered terms of office for members of the board of directors; no cumulative voting in the election of directors; and the requirement that our board of directors consider the potential social and economic effects on our employees, depositors, customers and the communities we serve as well as certain other factors, when evaluating a possible tender offer, merger or other acquisition of the Company. These provisions make it more difficult for another company to acquire us, which could cause our shareholders to lose an opportunity to be paid a premium for their shares in an acquisition transaction and reduce the current and future market price of our common stock.

Shares of any preferred stock issued in the future could have dilutive and other effects on our common stock. Our Articles of Incorporation authorize us to issue 10,000,000 shares of preferred stock, none of which is presently outstanding. Although our Board of Directors has no present intention to authorize the issuance of shares of preferred stock, such shares could be authorized in the future. If such shares of preferred stock are made convertible into shares of common stock, there could be a dilutive effect on the shares of common stock then outstanding. In addition, shares of preferred stock may be provided a preference over holders of common stock upon our liquidation or with respect to the payment of dividends, in respect of voting rights, or in the redemption of our common stock. The rights, preferences, privileges and restrictions applicable to any series or preferred stock would be determined by resolution of our Board of Directors.

Section 1.09 Risks Related to the Business of Banking in General

If we are not able to successfully keep pace with technological changes in the industry, our business could be hurt. The financial services industry is constantly undergoing technological change, with the frequent introduction of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve clients and reduce costs. Our future success depends, in part, upon our ability to respond to the needs of our clients by using technology to provide desired products and services and create additional operating efficiencies. Some of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our clients. Failure to keep pace with technological change in the financial services industry could have a material adverse impact on our business and, in turn, on our financial condition and results of operations.

Unauthorized disclosure of sensitive or confidential customer information, whether through a cyber-attack, other breach of our computer systems or any other means, could severely harm our business. In the normal course of business we collect, process and retain sensitive and confidential customer information. Despite the security measures we have in place, our facilities and systems may be vulnerable to cyber-attacks, security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming and/or human errors, or other similar events.

In recent periods there has been a rise in fraudulent electronic activity, security breaches, and cyber-attacks, including in the banking sector. Some financial institutions have reported breaches of their websites and systems which have involved sophisticated and targeted attacks intended to misappropriate sensitive or confidential information, destroy or corrupt data, disable or degrade service, disrupt operations and/or sabotage systems. These breaches can remain undetected for an extended period of time. Furthermore, our customers and employees have been, and will continue to be, targeted by parties using fraudulent e-mails and other communications that may appear to be legitimate messages sent by the Bank, in attempts to misappropriate passwords, card numbers, bank account information or other personal information or to introduce viruses or malware to personal computers. Information security risks for financial institutions have increased in part because of new technologies, mobile services and other web-based products used to conduct financial and other business transactions, as well as the increased sophistication and activities of organized crime, perpetrators of fraud, hackers, terrorists and others. The secure maintenance and transmission of confidential information, as well as the secure and reliable execution of transactions over our systems, are essential to protect us and our customers and to maintain our customers' confidence. Despite our efforts to identify, contain and mitigate these threats through detection and response mechanisms, product improvement, the use of encryption and authentication technology, and customer and employee education, such attempted fraudulent activities directed against us, our customers, and third party service providers remain a serious issue. The pervasiveness of cyber security incidents in general and the risks of cyber-crime are complex and continue to evolve.

We also face risks related to cyber-attacks and other security breaches in connection with debit card transactions, which typically involve the transmission of sensitive information regarding our customers through various third parties. Some of these parties have in the past been the target of security breaches and cyber-attacks, and because the transactions involve third parties and environments that we do not control or secure, future security breaches or cyber-attacks affecting any of these third parties could impact us through no fault of our own, and in some cases we may have exposure and suffer losses for breaches or attacks relating to them. We also rely on third party service providers to conduct certain other aspects of our business operations, and face similar risks relating to them. While we require regular security assessments from those third parties, we cannot be sure that their information security protocols are sufficient to withstand a cyber-attack or security breach.

Any cyber-attack or other security breach involving the misappropriation or loss of Company assets or those of its customers, or unauthorized disclosure of confidential customer information, could severely damage our reputation, erode confidence in the security of our systems, products and services, expose us to the risk of litigation and liability, disrupt our operations, and have a material adverse effect on our business.

If our information systems were to experience a system failure, our business and reputation could suffer. We rely heavily on communications and information systems to conduct our business. The computer systems and network infrastructure we use could be vulnerable to unforeseen problems. Our operations are dependent upon our ability to minimize service disruptions by protecting our computer equipment, systems, and network infrastructure from physical damage due to fire, power loss, telecommunications failure or a similar catastrophic event. We have protective measures in place to prevent or limit the effect of the failure or interruption of our information systems, and will continue to upgrade our security technology and update procedures to help prevent such events. However, if such failures or interruptions were to occur, they could result in damage to our reputation, a loss of customers, increased regulatory scrutiny, or possible exposure to financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

We are subject to a variety of operational risks, including reputational risk, legal risk, compliance risk, the risk of fraud or theft by employees or outsiders, and the risk of clerical or record-keeping errors, which may adversely affect our business and results of operations. If personal, non-public, confidential or proprietary customer information in our possession were to be mishandled or misused, we could suffer significant regulatory consequences, reputational damage and financial loss. This could occur, for example, if information was erroneously provided to parties who are not

permitted to have the information, either by fault of our systems, employees, or counterparties, or where such information is intercepted or otherwise inappropriately taken by third parties.

Because the nature of the financial services business involves a high volume of transactions, certain errors may be repeated or compounded before they are discovered and successfully remediated. Our necessary dependence upon automated systems to record and process transactions and our large transaction volume may further increase the risk that technical flaws or employee tampering or manipulation of those systems could result in losses that are difficult to detect. We also may be subject to disruptions of our operating systems arising from events that are wholly or partially beyond our control (for example, computer viruses or electrical or telecommunications outages, or natural disasters, disease pandemics or other damage to property or physical assets) which may give rise to disruption of service to customers and to financial loss or liability. We are further exposed to the risk that our external vendors may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors by their employees) and to the risk that our (or our vendors') business continuity and data security efforts might prove to be inadequate.

In addition, the Company is named as a defendant in lawsuits from time-to-time. Even if the case has no basis, there are costs to defend, and the Company may determine that it should settle certain suits even if there is no liability. The costs of lawsuits, whether merited or not, have a negative impact on the Company's expenses.

The occurrence of any of these risks could result in a diminished ability to operate our business (for example, by requiring us to expend significant resources to correct the defect), as well as potential liability to clients, reputational damage and regulatory intervention, which could adversely affect our business, financial condition and results of operations, perhaps materially.

We are subject to claims and litigation which could adversely affect our profitability or cause us reputational harm. The company, and certain of our directors or officers, may be involved, from time to time in litigation or investigations. If claims or legal actions, whether founded or unfounded, are not resolved favorably, they may result in significant financial liability. Although we establish accruals for legal matters as required and certain expenses and liabilities may be covered by insurance, the amount of any loss ultimately incurred in relation to legal claims and litigation may be substantially higher than the amounts accrued and/or insured.

We may be adversely affected by the financial stability of other financial institutions. Our ability to engage in routine transactions could be adversely affected by the actions and liquidity of other financial institutions. Financial institutions are often interconnected as a result of trading, clearing, counterparty, or other business relationships. We have exposure to many different industries and counterparties, and routinely execute transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks, and other institutional clients. Many of these transactions expose us to credit risk in the event of a default by a counterparty or client. Even if the transactions are collateralized, credit risk could exist if the collateral held by us cannot be liquidated at prices sufficient to recover the full amount of the credit or derivative exposure due to us. Any such losses could adversely affect our business, financial condition or results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

The Company's administrative headquarters is housed in a 37,000 square foot, three-story office building located at 86 North Main Street, Porterville, California, and our main office consists of a one-story brick building located at 90 N. Main Street, Porterville, California, adjacent to our administrative headquarters. Both of those buildings are situated on unencumbered property owned by the Company. The Company also owns unencumbered property on which 17 of our

other offices are located, namely the following branches: Bakersfield Ming, California City, Dinuba, Exeter, Farmersville, Fresno Shaw, Hanford, Lindsay, Lompoc, Porterville West Olive, San Luis Obispo, Santa Paula, Tehachapi Downtown, Three Rivers, Tulare, Visalia Mooney and Woodlake. The remaining branches, as well as our technology center, loan production office in Roseville, and remote ATM locations, are leased from unrelated parties. Management believes that existing back-office facilities are adequate to accommodate the Company's operations for the immediately foreseeable future.

ITEM 3. LEGAL PROCEEDINGS

For information on litigation matters, see Note 14, Commitments and Contingencies, in Item 8 of this report.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a) Market Information

Sierra Bancorp’s Common Stock trades on the NASDAQ Global Select Market under the symbol BSRR, and the CUSIP number for our stock is #82620P102. Trading in the Company’s Common Stock has not consistently occurred in high volumes, and such trading activity may not consistently be characterized as an active trading market.

The following table summarizes trades of the Company’s Common Stock, setting forth the approximate high and low sales prices and volume of trading for the periods indicated, based upon information available via public sources:

Calendar Quarter End	Sale Price Of The Company's Common Stock		Approximate Trading Volumes
	High	Low	Shares
March 31, 2020	29.37	13.05	2,721,500
June 30, 2020	21.87	14.86	3,491,600
September 30, 2020	20.13	15.84	2,434,100
December 31, 2020	24.72	16.47	2,416,100
March 31, 2021	29.42	21.48	2,290,300
June 30, 2021	28.85	24.26	2,324,800
September 30, 2021	26.99	22.40	1,969,700
December 31, 2021	28.00	24.09	2,030,700

(b) Holders

As of January 31, 2022 there were an estimated 7,301 shareholders of the Company’s Common Stock. There were 783 registered holders of record on that date, and per Broadridge, an investor communication company, there were 6,518 beneficial holders with shares held under a street name, including “objecting beneficial owners” whose names and addresses are unavailable. Since some holders maintain multiple accounts, it is likely that the above numbers overstate the actual number of the Company’s shareholders.

(c) Dividends

The Company paid cash dividends totaling $13.2 million, or $0.87 per share in 2021 and $12.2 million, or $0.80 per share in 2020, which represents 31% of annual net earnings for 2021 and 34% for 2020. The Company’s general dividend policy is to pay cash dividends within the range of typical peer payout ratios, provided that such payments do not adversely affect the Company’s financial condition and are not overly restrictive to its growth capacity. However, in the past when many of our peers elected to suspend dividend payments, the Company’s Board determined that we should continue to pay a certain level of dividends without regard to peer payout ratios, as long as our core operating performance was adequate and policy or regulatory restrictions did not preclude such payments. That said, no assurance may be given that our financial performance in any given year will justify the continued payment of a certain level of cash dividend, or any cash dividend at all.

As a bank holding company that currently has no significant assets other than its equity interest in the Bank, the Company’s ability to declare dividends depends upon cash on hand as supplemented by dividends from the Bank. The Bank’s dividend practices in turn depend upon the Bank’s earnings, financial position, regulatory standing, ability to meet current and anticipated regulatory capital requirements, and other factors deemed relevant by the Bank’s Board of Directors. The authority of the Bank’s Board of Directors to declare cash dividends is also subject to statutory restrictions. Under California banking law, the Bank may at any time declare a dividend in an amount not to exceed the lesser of (i) its retained earnings, or (ii) its net income for the last three fiscal years reduced by distributions to the Bank’s shareholder during such

period. However, with the prior approval of the California Commissioner of Department of Financial Protection and Innovation, the Bank may declare a larger dividend, in an amount not exceeding the greatest of (i) the retained earnings of the Bank, (ii) the net income of the Bank for its last fiscal year, or (iii) the net income of the Bank for its current fiscal year.

The Company's ability to pay dividends is also limited by state law. California law allows a California corporation to pay dividends if its retained earnings equal at least the amount of the proposed dividend plus any preferred dividend arrears amount. If a California corporation does not have sufficient retained earnings available for the proposed dividend, it may still pay a dividend to its shareholders if immediately after the dividend the value of the company's assets would equal or exceed the sum of its total liabilities plus any preferred dividend arrears amount. In addition, during any period in which the Company has deferred the payment of interest otherwise due and payable on its subordinated debt securities, it may not pay any dividends or make any distributions with respect to its capital stock (see "Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital Resources").

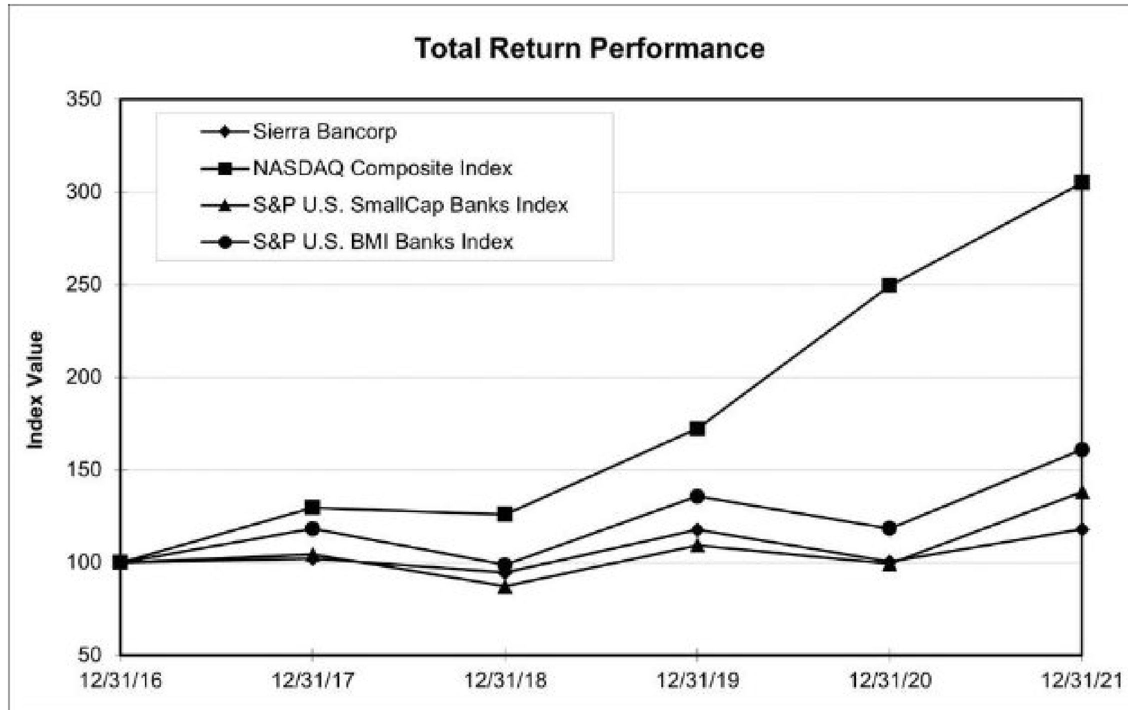
(d) Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information as of December 31, 2021 with respect to stock options and restricted stock units outstanding, and available under our 2017 Stock Incentive Plan and the now-terminated 2007 Stock Incentive Plan, which are our only equity compensation plans other than an employee benefit plan meeting the qualification requirements of Section 401(a) of the Internal Revenue Code:

Plan Category	Number of Securities to be Issued Upon Vesting of Restricted Stock Units	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted-Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance
Equity compensation plans approved by security holders	165,131	415,870	$ 24.15	408,909

(e) Performance Graph

Below is a five-year performance graph comparing the cumulative total return on the Company's common stock to the cumulative total returns of the NASDAQ Composite Index (a broad equity market index), the SNL Bank Index, and the SNL $1 billion to $5 billion Bank Index (the latter two qualifying as peer bank indices), assuming a $100 investment on December 31, 2016 and the reinvestment of dividends.



	Period Ending					
Index	**12/31/2016**	**12/31/2017**	**12/31/2018**	**12/31/2019**	**12/31/2020**	**12/31/2021**
Sierra Bancorp	100.00	102.02	94.44	117.65	100.36	117.97
NASDAQ Composite	100.00	129.64	125.96	172.18	249.51	304.85
SNL Bank $1B-$5B	100.00	104.33	87.06	109.22	99.19	138.09
SNL Bank	100.00	118.21	98.75	135.64	118.33	160.89

Source: S&P Global Market Intelligence

(f) Stock Repurchases

The Company approved a new share repurchase program (the 2021 Share Repurchase Plan) on October 21, 2021 and authorized one million shares to be repurchased under this plan. The previous 2003 Share Repurchase Plan was cancelled and the 268,301 shares remaining in that plan were incorporated into the 2021 Share Repurchase Plan. The following table provides information concerning the Company's stock repurchase transactions during the fourth quarter of 2021:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plan at the End of the Period
October 1, 2021 - October 31, 2021	—	$ —	—	1,000,000
November 1, 2021 - November 30, 2021	69,425	$ 26.25	69,425	930,575
December 1, 2021 - December 31, 2021	118,013	$ 26.20	187,438	812,562
Total	187,438			

ITEM 6. [RESERVED]

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion presents Management's analysis of the Company's financial condition as of December 31, 2021 and 2020, and the results of operations for each year in the three-year period ended December 31, 2021. The discussion is best read in conjunction with the Company's consolidated financial statements and the notes related thereto presented elsewhere in this Form 10-K Annual Report (see Item 8 below).

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATMENTS

Statements contained in this report or incorporated by reference that are not purely historical are forward looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 as amended, including the Company's expectations, intentions, beliefs, or strategies regarding the future. These forward-looking statements include, but are not limited to, statements about the Company's plans, objectives, expectations and intentions that are not historical facts, and other statements identified by words such as "expects", "anticipates", "intends", "plans", "believes", "should", "projects", "seeks", "estimates", or the negative version of those words or other comparable words or phrases of a future or forward-looking nature. All forward-looking statements concerning economic conditions, growth rates, income, expenses, or other values which are included in this document are based on information available to the Company on the date noted, and the Company assumes no obligation to correct, revise, or update any such forward-looking statements. It is important to note that the Company's actual results could materially differ from those in such forward-looking statements and you should not place undue reliance on these forward-looking statements. Risk factors and the Company's ability to manage that risk could cause actual results to differ materially from those in forward-looking statements include but are not limited to those outlined previously in Item 1A.

Critical Accounting Estimates

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States. The financial information and disclosures contained within those statements are significantly impacted by Management's estimates and judgments, which are based on historical experience and incorporate various assumptions that are believed to be reasonable under current circumstances. Actual results may differ from those estimates under divergent conditions.

Critical accounting estimates are those that involve the most complex and subjective decisions and assessments and have the greatest potential impact on the Company's stated results of operations. In Management's opinion, the Company's critical accounting estimates deal primarily with the following areas: the establishment of an allowance for loan and lease losses, as explained in detail in Note 2 to the consolidated financial statements and in the "Provision for Loan and Lease Losses" and "Allowance for Loan and Lease Losses" sections of this discussion and analysis; the valuation of impaired loans and foreclosed assets, as discussed in Note 2 to the consolidated financial statements; income taxes and deferred tax assets and liabilities, especially with regard to the ability of the Company to recover deferred tax assets as discussed in the "Provision for Income Taxes" and "Other Assets" sections of this discussion and analysis; and goodwill and other intangible assets, which are evaluated annually for impairment and for which we have determined that no impairment exists, as discussed in Note 2 to the consolidated financial statements and in the "Other Assets" section of this discussion and analysis. Critical accounting areas are evaluated on an ongoing basis to ensure that the Company's financial statements incorporate the most recent expectations with regard to those areas.

Table of Contents

The following table presents selected historical financial information concerning the Company, which should be read in conjunction with our audited consolidated financial statements, including the related notes, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere herein.

Selected Financial Data
(dollars in thousands, except per share data)

	As of and for the years ended December 31,		
Operating Data	**2021**	**2020**	**2019**
Provision for income taxes	14,187	11,079	11,757
Net income	43,012	35,444	35,961
Selected Balance Sheet Summary			
Total loans and leases, net	1,973,605	2,442,226	1,755,538
Total assets	3,371,014	3,220,742	2,593,819
Total deposits	2,781,572	2,624,606	2,168,374
Total liabilities	3,008,520	2,876,846	2,284,534
Total shareholders' equity	362,494	343,896	309,285
Net loans to total deposits	70.95%	93.05%	80.96%
Per Share Data			
Net income per basic share	2.82	2.33	2.35
Net income per diluted share	2.80	2.32	2.33
Book value	23.74	22.35	20.24
Cash dividends	0.87	0.80	0.74
Weighted average common shares outstanding basic	15,241,957	15,216,749	15,311,113
Weighted average common shares outstanding diluted	15,353,445	15,280,325	15,437,111
Key Operating Ratios:			
Performance Ratios: (1)			
Return on average equity	12.05%	10.80%	12.23%
Return on average assets	1.29%	1.22%	1.40%
Average equity to average assets ratio	10.72%	11.28%	11.44%
Net interest margin (tax-equivalent)	3.56%	3.95%	4.19%
Efficiency ratio (tax-equivalent)	59.92%	57.18%	57.46%
Asset Quality Ratios: (1)			
Non-performing loans to total loans (2)	0.23%	0.31%	0.33%
Non-performing assets to total loans and other real estate owned (2)	0.23%	0.35%	0.37%
Net (recoveries) charge-offs to average loans	(0.01)%	0.04%	0.14%
Allowance for loan and lease losses to total loans at period end	0.72%	0.72%	0.56%
Allowance for loan and lease losses to nonaccrual loans	315.26%	233.46%	172.96%
Regulatory Capital Ratios: (3)			
Tier 1 capital to adjusted average assets (leverage ratio)	10.43%	10.50%	11.91%

(1) Asset quality ratios are end of period ratios. Performance ratios are based on average daily balances during the periods indicated.
(2) Performing TDR's are not included in nonperforming loans and are therefore not included in the numerators used to calculate these ratios.
(3) For definitions and further information relating to regulatory capital requirements, see "Item 1, Business - Supervision and Regulation - Capital Adequacy Requirements" herein.

Overview of the Results of Operations and Financial Condition

Results of Operations Summary

The Company recognized net income of $43.0 million in 2021 relative to $35.4 million in 2020 and $36.0 million in 2019. Net income per diluted share was $2.80 in 2021, as compared to $2.32 in 2020 and $2.33 for 2019. The Company's return on average assets and return on average equity were 1.29% and 12.05%, respectively, in 2021, as compared to 1.22% and 10.80%, respectively, in 2020 and 1.40% and 12.23%, respectively, for 2019. Our financial results reached record levels over the past year due to a lower level of loan and lease loss provisioning, higher average volume of loans, and a strong base of lower cost core deposits, and a higher level of noninterest income, as discussed in greater detail in the applicable sections below. The following is a summary of the major factors that impacted the Company's results of operations for the years presented in the consolidated financial statements.

- **Net interest income improved by 4% in 2021 over 2020 and 8% in 2020 over 2019, due primarily to a lower cost of interest-bearing liabilities and growth in earning assets.** The increase in average earning

assets in 2021 over 2020 was due primarily to a $207.7 million increase in average balance of real estate loans, partially offset by decreases in all of the other loan categories. We experienced a $73.3 million decline in average mortgage warehouse line utilization, and a $26.0 million decline in commercial loans mostly due to the forgiveness of SBA PPP loans. The increase in real estate loans was primarily driven by the purchase of $208.0 million in 1-4 family residential real estate loans during the second half of 2021. These loan purchases were designed as a bridge to organic loan growth as the Company recruits new lending teams across the footprint. The positive impact of average asset growth in 2021 was augmented by a 10 bps decrease in yield on interest bearing liabilities. These two favorable impacts on margin were partially offset by a 46 basis point decline in yield on interest earning assets. The net interest margin in 2021 was 39 bps lower than 2020.

The increase in average earning assets in 2020 over 2019 was due primarily to a $170.2 million increase in average balance of real estate loans, a $62.2 million increase in average balances of commercial loans, and a $87.1 million increase in average balances of mortgage warehouse loans, partially offset by decreases in other loan categories. The increase in real estate loans was organic, driven by concerted business development efforts by our loan production offices in 2020. The increase in commercial loans was due to the Company's participation in the SBA Paycheck Protection Program (PPP) lending initiative, in order to assist our customers impacted by the COVID-19 Pandemic. The increase in average mortgage warehouse loans throughout 2020 was primarily a result of increased demand for housing and refinancing due to low rates in 2020 coupled with proactive mortgage warehouse pricing and marketing to mortgage lenders. The positive impact of average asset growth in 2020 was augmented by a 54 bps decrease in yield on interest bearing liabilities but was partially offset by a 60 basis point decline in yield on interest earning assets. The net interest margin in 2020 was 24 bps lower than 2019.

Net interest income has also been impacted by nonrecurring interest items, which added $3.5 million to interest income in 2021 relative to $1.2 million in 2020 and $1.5 million in 2019.

- **We recorded a loan and lease loss benefit of $3.7 million in 2021, as compared to a $8.6 million provision in 2020 and $2.6 million provision in 2019.** The 2021 loan and lease loss benefit arose from our determination of the appropriate level for our allowance for loan and lease losses and was driven by declines in loan balances coupled with improved credit quality of existing loan balances and the influence of lower historical loan and lease losses. We considered the continued uncertainty surrounding the estimated impact that COVID-19 has had on the economy and our loan customers overall, making appropriate changes to the qualitative loss factors governing these areas. The 2020 and 2019 provisions were deemed necessary subsequent to our determination of the appropriate level for our allowance for loan and lease losses, taking into consideration overall credit quality, growth in outstanding loan balances, and reserves required for specifically identified impaired loan balances (including reserves in 2019 for a $2.8 million loan that was placed on non-accrual status shortly before the end of the third quarter and partially charged off in the fourth quarter of 2019.)

- **Noninterest income increased by $1.9 million, or 7%, in 2021, and by $2.7 million or 11%, in 2020 over 2019.** The increase in 2021 was primarily due to a $1.5 million increase in debit card interchange income, a $0.3 million increase in life insurance proceeds, a decrease of $0.7 million in low-income housing tax credit fund amortization, an increase of $0.4 million in the valuation gain of restricted equity investments owned by the Company, partially offset by a $0.4 million decrease in the net gain on the sale of debt securities and a $1.3 million negative variance caused by the sale of certain real estate assets in our low income housing tax credit funds that have reached their life expectancy. Fluctuations in BOLI associated with deferred compensation plans contributed $0.2 million of the increase. The increase in 2020 was primarily due to a $1.5 million gain from the wrap up of low-income housing tax credit fund investments, a decrease of $0.9 million in low-income housing tax credit fund expenses, an increase of $0.2 million in the valuation gain of restricted equity investments owned by the Company and a $0.6 million increase in the net gain on the sale of debt securities. Fluctuations in BOLI associated with deferred compensation plans contributed $0.2 million to the increase.

- **Noninterest expense increased by $7.6 million, or 10%, in 2021 as compared to 2020, and increased by $5.3 million, or 8%, in 2020 over 2019.** The increase in noninterest expense in 2021 was due mostly to a $2.3 million increase in salaries and benefits expense, a $3.8 million increase in professional services and a $1.2 million increase in data processing costs. Deposit services and premises expense also contributed to the difference. The increase in noninterest expense in 2020 was due mostly to a $4.2 million increase in salaries and benefits expense.

- **The Company recorded income tax provisions of $14.2 million, or 24% of pre-tax income in 2021; $11.1 million, or 24% of pre-tax income in 2020; and $11.8 million, or 25% of pre-tax income in 2019.** As expected, the overall tax rate remained relatively stable throughout 2021, 2020 and 2019.

Financial Condition Summary

The Company's assets totaled $3.4 billion at December 31, 2021 as compared to $3.2 billion at December 31, 2020. Total liabilities were $3.0 billion at December 31, 2021 as compared to $2.9 billion at the end of 2020, and shareholders' equity totaled $362.5 million at December 31, 2021 compared to $343.9 million at December 31, 2020. The following is a summary of key balance sheet changes during 2021.

- **Total assets increased by $150.3 million, or 5%.** The increase resulted primarily from a $429.3 million increase in investment securities and a $186.1 million increase in cash and due from banks, partially offset by a $468.6 million decrease in net loan and lease balances.

- **Loans and leases (net of deferred fees) declined $468.6 million, or 19%.** The decline in loan balances during 2021 was due mostly to lower utilization of mortgage warehouse lines resulting in a $206.5 million decline in overall mortgage warehouse outstanding balances due primarily to reduced refinancing activity. Other significant declines included a $155.7 million decline in real estate loans mostly due to lower commercial real estate and construction loan balances, and a $99.3 million decrease in commercial and industrial loans, which was predominately due to Small Business Administration Paycheck Protection Program ("SBA PPP") loan forgiveness.

- **Deposit balances reflect net growth of $157.0 million, or 6%.** Deposit growth in 2021 was primarily a result of organic growth of noninterest bearing or low-cost core transaction accounts, including savings accounts, while higher-cost time and wholesale brokered deposits decreased by $159.0 million, or 31%.

- **Total capital increased by $18.6 million, or 5%, ending the year with a balance of $362.5 million.** The increase in capital is due mostly to the addition of net income and capital from stock options exercised, net of $13.2 million in dividends paid, $5.2 million in stock repurchases, and a $7.2 million unfavorable swing in accumulated other comprehensive income.

IMPACT OF CORONAVIRUS DISEASE 2019 (COVID-19) PANDEMIC ON THE COMPANY'S OPERATIONS

Overview

On January 31, 2020, the United States Department of Health and Human Services declared a public health emergency with respect to the Coronavirus Disease 2019 (COVID-19). Subsequent to this date, federal, state, and local governmental agencies, regulatory agencies, and the Federal Reserve Board took many actions impacting the Company. These actions included, among other things, the Federal Open Market Committee (FOMC) reducing the federal funds rate; California issuing a state-wide shelter-in-place order and various other orders at the state and local levels restricting business operations, closing schools, and thereafter prescribing requirements for reopening; and various pieces of federal legislation were passed to attempt to address the impact of COVID-19 on the economy.

Impact of COVID-19 on the Company's Operations

- Starting in April 2020, the Company took actions to mitigate the impact on credit losses including permitting short-term payment deferrals to current customers, as well as providing bridge loans and SBA Paycheck Protection Program (PPP) loans. The Company had $10.4 million in classified assets to one borrower at December 31, 2021, from loans modified under the CARES Act, as amended, that were either not expected to make all principal and interest payments in a timely manner, or would need further modifications or assistance. For further information on the principal and interest deferrals, please see the "Nonperforming Assets" section below.

- The uncertainty of national and local economic conditions had an impact on our provision for loan and lease losses in both 2021 and 2020. The Company elected to defer the adoption of the Current Expected Credit Loss ("CECL") accounting method under FASB Accounting Standards Update 2016-03 and related amendments, *Financial Instruments – Credit Losses (Topic 326)* to January 1, 2022. The Company's decision to defer the adoption of CECL was done primarily to provide additional time to better assess the impact of the COVID-19 pandemic on the expected lifetime credit losses. At the time the decision was made, there was a significant change in economic uncertainty on the local, regional, and national levels as a result of local and state stay-at-home orders, as well as relief measures provided at a national, state, and local level. Further, the Company has taken actions to serve our communities during the pandemic, including permitting short-term payment deferrals to current customers, as well as originating bridge loans and SBA PPP loans. Upon adoption of CECL on January 1, 2022, the Company recorded a $10.4 million increase in the reserve for credit losses, which includes a $0.9 million reserve for unfunded commitments as an adjustment to equity, net of deferred taxes.

- The Company expects that net interest income will continue to be adversely impacted given pressure on the net interest margin as a result of the current interest rate environment. As described above, in March 2020, the FOMC cut short-term rates by 150 basis points to near zero. The uncertainty with COVID-19 and the lower targeted fed funds rates also impacted other rates including the Prime Rate and treasury yields, which the Company uses to price many of its loans. These lower rates impacted our net interest margin. Our net interest margin for the year ended December 31, 2021, was 3.56%, compared to a net interest margin of 3.95% for the same period in 2020. Additional liquidity from significant deposit growth in 2021 coupled with lower loan balances has negatively impacted our net interest margin. This additional liquidity was mostly deployed in overnight funding and lower yielding investment securities. The average balance of overnight cash was $269.9 million in 2021, earning an average yield of 14 bps. The average balance of investment securities was $665.3 million for 2021 yielding 2.22% which is down 50 bps from 2020. The overall impact of a lower net interest margin was more than offset by higher earning assets in 2021 as compared to 2020. Additionally, the FOMC has indicated it is likely to raise interest rates in 2022, in an effort to fight inflation, which should help our net interest margin.

- The COVID-19 pandemic has not adversely affected our capital or financial resources as of December 31, 2021. During the year ending 2021, total shareholders' equity increased by $18.6 million, or 5%, to $362.5 million. The Company earned $43.0 million in net income during 2021 but had a decrease of $7.2 million in accumulated other comprehensive income as a result of decreases in the value of our investment portfolio due to higher interest rates. If interest rates continue to rise, this component of equity would be expected to further decline. In addition, during 2021, the Company repurchased stock for $5.2 million and paid dividends of $13.2 million. The Company also paid a twenty-three cent per share dividend on February 14, 2022. Although presently not expected, if the Company were to incur significant credit losses as a result of COVID-19's impact on our customers' ability to repay loans, capital could be adversely impacted. With respect to liquidity, the Company maintains strong primary and secondary liquidity sources as further described under "Liquidity and Market Risk Management" below.

- The Company continues to serve its customers. Several of our branch locations, were closed during the height of the pandemic, but have since re-opened. Most recently due to the surge of the Omicron variant, some branches have had to temporarily close their lobbies due to staffing issues, however walk-up or drive-up access is still available for the customers use. Five branch locations were permanently closed in June 2021. This

decision to close these branches was made as a result of a change in customer behaviors brought about by the COVID-19 pandemic along with an efficiency review. All of the five closed locations were located outside of Tulare County, the Bank's primary market area. Many of our customers have found an added convenience and ease of transacting business through online and mobile banking services which precipitated our decision to close locations where in-person transaction volumes no longer warranted a traditional brick-and-mortar branch. Overall deposits at these five closed branches increased during the period of time from announcement to closure and consolidation into a nearby branch. The acceleration of amortization of leasehold improvements for these locations increased depreciation expense by $0.5 million year-to-date 2021. Most of the staff at these five locations were relocated to existing branches with position vacancies however, four individuals elected to leave the Company. It is projected that closing these five branch locations in June 2021 will result in annual noninterest expense savings of between $0.8 and $1.0 million.

- All of our back office and corporate office staff have returned to normal work arrangements, although remote and hybrid work provisions are now defined as "normal" work arrangements for certain corporate and back office employees, depending on the nature of the position. In addition, none of our internal controls have changed or are expected to change as a result of these work arrangements other than the use of remote approvals.

- To date, the Company did not experience any challenges in implementing its business continuity plans. The Company's Risk Management team began preparing in early 2020, with ordering of supplies such as hand sanitizer, masks cleaning supplies, as well as laptops for those who did not have one. This enabled the Company to immediately communicate and implement plans to continue operations in our banking facilities while enabling those non-customer facing employees to immediately begin working remotely. The Company did not face any material resource constraints in implementing these plans.

- As a financial institution providing essential services, the Company expects consistent demand for loans and deposits. It is expected that SBA PPP loans will continue to be forgiven, with most of the remaining $31.8 million expected to be forgiven in 2022. 1-4 family residential real estate loan purchases of $208.0 million in the last half of 2021 were designed to bridge the gap until organic loan growth improves the Bank's core pipeline. The recent hiring of strategic lending team lift-outs are expected to expand the Bank's agricultural and commercial and industrial (C&I) lending capabilities as well as refreshing mortgage warehouse loan programs and complementing existing commercial real estate lending initiatives.

- The Company loosened its vacation and sick-time policies to accommodate our employees who were affected by COVID-19. The Company hired an additional 28 temporary employees throughout the pandemic related to higher demand for SBA PPP loan processing and forgiveness, and to provide enhanced customer service. Those temporary assignments ended in the second quarter of 2021, although many of those employees have been redeployed within other areas of the Company.

Results of Operations

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 deposits and other borrowed money. The second is noninterest income, which primarily consists of customer service charges and fees but also comes from non-customer sources such as BOLI and investment gains. The majority of the Company's noninterest expense is comprised of operating costs that facilitate offering a full range of banking services to our customers.

Net Interest Income and Net Interest Margin

Net interest income was $109.0 million in 2021 as compared to $104.8 million in 2020 and $97.4 million in 2019. This equates to increases of 4% in 2021 and 8% in 2020. The level of net interest income we recognize in any given period depends on a combination of factors including the average volume and yield for interest-earning assets, the average volume and cost of interest-bearing liabilities, and the mix of products which comprise the Company's earning assets, deposits, and other interest-bearing liabilities. Net interest income is also impacted by the acceleration of net deferred loan fees and

costs for loans paid off early (including SBA PPP loans forgiven), reversal of interest for loans placed on non-accrual status, and the recovery of interest on loans that had been on non-accrual and were paid off, sold, or returned to accrual status.

The following table shows average balances for significant balance sheet categories and the amount of interest income or interest expense associated with each category for each of the past three years. The table also displays calculated yields on each major component of the Company's investment and loan portfolios, average rates paid on each key segment of the Company's interest-bearing liabilities, and our net interest margin for the noted periods.

AVERAGE BALANCES AND RATES
(Dollars in Thousands, Unaudited)

	Year Ended December 31,								
	2021			2020			2019		
Assets	Average Balance(1)	Income/ Expense	Yield/ Rate(2)	Average Balance(1)	Income/ Expense	Yield/ Rate(2)	Average Balance(1)	Income/ Expense	Yield/ Rate(2)
Investments:									
Federal funds sold/due from banks	$ 269,932	$ 370	0.14%	$ 25,228	$ 156	0.62%	$ 16,346	$ 376	2.30%
Taxable	406,790	7,239	1.78%	379,024	8,199	2.16%	423,453	10,139	2.39%
Non-taxable	258,472	6,218	3.05%	216,387	5,707	3.34%	160,787	4,534	3.57%
Total investments	935,194	13,827	1.66%	620,639	14,062	2.51%	600,586	15,049	2.71%
Loans and Leases: (3)									
Real estate	1,818,362	84,074	4.62%	1,610,686	79,175	4.92%	1,440,465	79,777	5.54%
Agricultural	42,866	1,598	3.73%	47,299	1,887	3.99%	50,042	2,973	5.94%
Commercial	153,880	7,828	5.09%	179,924	6,738	3.74%	117,679	5,918	5.03%
Consumer	4,993	831	16.64%	6,584	1,069	16.24%	8,497	1,340	15.77%
Mortgage warehouse	147,996	4,807	3.25%	221,319	7,135	3.22%	134,171	5,695	4.24%
Other	1,485	111	7.47%	2,878	177	6.15%	2,894	195	6.74%
Total loans and leases	2,169,582	99,249	4.57%	2,068,690	96,181	4.65%	1,753,748	95,898	5.47%
Total interest earning assets (4)	3,104,776	113,076	3.70%	2,689,329	110,243	4.16%	2,354,334	110,947	4.76%
Other earning assets	15,043			13,103			12,421		
Non-earning assets	208,665			207,590			202,810		
Total assets	$ 3,328,484			$ 2,910,022			$ 2,569,565		
Liabilities and shareholders' equity									
Interest bearing deposits:									
Demand deposits	$ 143,171	$ 331	0.23%	$ 121,867	$ 278	0.23%	$ 106,849	$ 316	0.30%
NOW	597,992	444	0.07%	497,984	388	0.08%	444,619	524	0.12%
Savings accounts	427,803	240	0.06%	336,620	221	0.07%	289,727	308	0.11%
Money market	140,365	111	0.08%	124,755	128	0.10%	124,625	181	0.15%
Time deposits	333,204	1,039	0.31%	436,806	2,687	0.62%	485,257	8,931	1.84%
Brokered deposits	81,041	225	0.28%	36,071	246	0.68%	48,392	1,120	2.31%
Total interest bearing deposits	1,723,576	2,390	0.14%	1,554,103	3,948	0.25%	1,499,469	11,380	0.76%
Borrowed funds:									
Federal funds purchased	1,561	1	0.06%	1,918	4	0.21%	313	1	0.32%
Repurchase agreements	70,443	210	0.30%	34,614	137	0.40%	22,090	88	0.40%
Short term borrowings	3,625	2	0.06%	54,244	102	0.19%	13,229	273	2.06%
Long term debt	13,351	468	3.51%	—	—	—	—	—	—
TRUPS	35,208	979	2.78%	35,031	1,217	3.47%	34,853	1,836	5.27%
Total borrowed funds	124,188	1,660	1.34%	125,807	1,460	1.16%	70,485	2,198	3.12%
Total interest bearing liabilities	1,847,764	4,050	0.22%	1,679,910	5,408	0.32%	1,569,954	13,578	0.86%
Noninterest bearing demand deposits	1,064,119			862,274			664,061		
Other liabilities	59,723			39,510			41,563		
Shareholders' equity	356,878			328,328			293,987		
Total liabilities and shareholders' equity	$ 3,328,484			$ 2,910,022			$ 2,569,565		
Interest income/interest earning assets			3.70%			4.15%			4.76%
Interest expense/interest earning assets			0.14%			0.20%			0.58%
Net interest income and margin(5)		$ 109,026	3.56%		$ 104,835	3.95%		$ 97,369	4.19%

(1) Average balances are obtained from the best available daily or monthly data and are net of deferred fees and related direct costs.
(2) Yields and net interest margin have been computed on a tax equivalent basis.
(3) Loans are gross of the allowance for possible loan and lease losses. Net loan fees have been included in the calculation of interest income. Net loan fees (costs) and loan acquisition FMV amortization were $4.2 million, $1.9 million, and $(0.4) million for the years ended December 31, 2021, 2020, and 2019 respectively.
(4) Non-accrual loans are slotted by loan type and have been included in total loans for purposes of total interest earning assets.
(5) Net interest margin represents net interest income as a percentage of average interest-earning assets (tax-equivalent).

The Volume and Rate Variances table below sets forth the dollar difference for the comparative periods in interest earned or paid for each major category of interest-earning assets and interest-bearing liabilities, and the amount of such change attributable to fluctuations in average balances (volume) or differences in average interest rates. Volume variances are equal to the increase or decrease in average balances multiplied by prior period rates, and rate variances are equal to the

change in rates multiplied by prior period average balances. Variances attributable to both rate and volume changes, calculated by multiplying the change in rates by the change in average balances, have been allocated to the mix variance.

Volume & Rate Variances
(dollars in thousands)

	Years Ended December 31,							
	2021 over 2020				2020 over 2019			
		Increase(decrease) due to				Increase(decrease) due to		
Assets:	**Volume**	**Rate**	**Mix**	**Net**	**Volume**	**Rate**	**Mix**	**Net**
Investments:								
Federal funds sold/due from time	$ 1,513	$ (121)	$ (1,178)	$ 214	$ 205	$ (276)	$ (149)	$ (220)
Taxable	601	(1,454)	(107)	(960)	(1,064)	(979)	103	(1,940)
Non-taxable	1,110	(501)	(98)	511	1,568	(293)	(102)	1,173
Total investments	3,224	(2,076)	(1,383)	(235)	709	(1,548)	(148)	(987)
Loans and leases:								
Real estate	10,209	(4,703)	(607)	4,899	9,427	(8,969)	(1,060)	(602)
Agricultural	(177)	(124)	12	(289)	(163)	(977)	54	(1,086)
Commercial	(975)	2,415	(350)	1,090	3,130	(1,511)	(799)	820
Consumer	(258)	27	(7)	(238)	(302)	40	(9)	(271)
Mortgage warehouse	(2,364)	54	(18)	(2,328)	3,699	(1,370)	(889)	1,440
Other	(86)	38	(18)	(66)	(1)	(17)	—	(18)
Total loans and leases	6,349	(2,293)	(988)	3,068	15,790	(12,804)	(2,703)	283
Total interest earning assets	$ 9,573	$ (4,369)	$ (2,371)	$ 2,833	$ 16,499	$ (14,352)	$ (2,851)	$ (704)
Liabilities:								
Interest bearing deposits:								
Demand	$ 49	$ 4	$ —	$ 53	$ 44	$ (72)	$ (10)	$ (38)
NOW	78	(18)	(4)	56	63	(178)	(21)	(136)
Savings accounts	60	(32)	(9)	19	50	(118)	(19)	(87)
Money market	16	(29)	(4)	(17)	—	(53)	—	(53)
Time deposits	(637)	(1,325)	314	(1,648)	(892)	(5,946)	594	(6,244)
Brokered deposits	307	(146)	(182)	(21)	(285)	(790)	201	(874)
Total interest bearing deposits	(127)	(1,546)	115	(1,558)	(1,020)	(7,157)	745	(7,432)
Borrowed funds:								
Borrowed funds:								
Federal funds purchased	(1)	(3)	1	(3)	5	—	(2)	3
Repurchase agreements	142	(34)	(35)	73	50	(1)	—	49
Short term borrowings	(95)	(72)	67	(100)	846	(248)	(769)	(171)
Long term debt	—	—	468	468	—	—	—	—
TRUPS	6	(243)	(1)	(238)	9	(625)	(3)	(619)
Total borrowed funds	52	(352)	500	200	910	(874)	(774)	(738)
Total interest bearing liabilities	(75)	(1,898)	615	(1,358)	(110)	(8,031)	(29)	(8,170)
Net interest income	$ 9,648	$ (2,471)	$ (2,986)	$ 4,191	$ 16,609	$ (6,321)	$ (2,822)	$ 7,466

Net interest income in 2021 as compared to 2020 was impacted by a favorable volume variance of $9.6 million partially offset by an unfavorable rate variance of $2.5 million and an unfavorable mix variance of $3.0 million. For 2020 relative to 2019, net interest income reflects a favorable volume variance of $16.6 million partially offset by an unfavorable rate variance of $6.3 million and an unfavorable mix variance of $2.8 million.

The 2021 volume variance is due mostly to increases in average balances, resulting from the organic growth in commercial real estate loans, as well as increased investment portfolio balances. The 2020 volume variance is due mostly to increases

in average balances, resulting from the organic growth in commercial real estate loans, growth in commercial loans due to our participation in the SBA PPP program and higher utilization of mortgage warehouse lines. Given the low rate environment, loan demand for our mortgage warehouse lines had increased, as demonstrated by the $3.7 million favorable volume variance. The Company's net interest margin, which is tax-equivalent net interest income as a percentage of average interest-earning assets declined by 39 basis points to 3.56% in 2021, and declined by 24 basis points to 3.95% in 2020 as compared to 2019. There was an unfavorable rate variance of $2.5 million since the weighted average yield on interest-earning assets fell by 46 basis points and the weighted average cost of interest-bearing liabilities decreased by 10 basis points. The change in the yield on interest-earning assets representing a much larger base than that of the interest-bearing liabilities. There was also an unfavorable mix variance of $3.0 million primarily from the origination of real estate secured loan volumes at lower interest rates and a decline in new commercial and industrial loan volumes, albeit at higher rates due to the forgiveness of SBA PPP loans. The rate and mix variance was negatively impacted by the following factors: A shift in our earning asset mix into lower-yielding loans and investments, including cash invested overnight; $75.3 million in average balances of low-yielding SBA PPP loans; partially offset by lower costs of time-deposits and other interest-bearing liabilities. The 2020 unfavorable rate and mix variance is due to a shift in our earning asset mix into lower-yielding loans and investments; increased line utilization of mortgage warehouse lines; $54.3 million in average balances of low-yielding SBA PPP loans; partially offset by lower costs of time-deposits and other interest-bearing liabilities. Investment yields have continued to decrease in all three years presented. The decrease in 2021 and 2020 was due to the lower rate environment and its impact on all debt securities. Net interest margin is expected to be affected by the overall rate environment. A continued relatively low rate environment will result in lower earning asset yields, although there are indications of interest rates increasing in 2022 which would slow the negative impact that was experienced over the past two years, however no assurance can be given in this regard.

Rates paid on non-maturity deposits were approximately the same in 2021 but declined for 2020 over 2019. There was a 2 basis point decrease on money market accounts in 2021 and a 5 basis points decrease in 2020 over 2019. The weighted average cost of interest-bearing liabilities went down 10 bps in 2021 and 54 bps in 2020. Since the Federal Open Markets Committee of the Federal Reserve System kept the federal funds target rate at historical lows throughout 2021 and 2020, customer time deposit rates in 2021 dropped 31 bps and 122 bps in 2020 due to the relatively short duration of our time deposit portfolio. The 2019 increase was primarily because of higher rates paid on time deposits (including brokered deposits added in the last half of 2018). Overnight borrowings and adjustable-rate trust-preferred securities ("TRUPS") are also tied to short-term rates which began lowering in the second half of 2019, but still remained lower overall in 2020 as compared to 2019 and remained low throughout 2021. During the year, adjustments to interest income occur due to the following adjustments: interest income recovered upon the resolution of nonperforming loans, the reversal of interest income when a loan is placed on non-accrual status, and accelerated fees or prepayment penalties recognized for early payoffs of loans. Such adjustments totaled $3.5 million in 2021, $1.2 million in 2020, and $1.5 million in 2019. Further, discount accretion on loans from whole-bank acquisitions enhanced our net interest margin by approximately two basis points in 2021, two basis points in 2020, and four basis points in 2019.

Provision for Loan and Lease Losses and Provision for Credit Losses

Credit risk is inherent in the business of making loans. The Company sets aside an allowance for loan and lease losses, a contra-asset account, through periodic charges to earnings which are reflected in the income statement as the provision for loan and lease losses. The Company recorded a loan and lease loss benefit of $3.7 million in 2021; a loan and lease loss provision of $8.6 million in 2020, and $2.6 million in 2019. The Company is subject to the adoption of the Current Expected Credit Loss ("CECL") accounting method under FASB Accounting Standards Update 2016-03 and related amendments, *Financial Instruments – Credit Losses (Topic 326)* in 2020. However, in March 2020, the Company elected to defer the adoption of the CECL accounting method under FASB Update 2016-03 and related amendments, *Financial Instruments – Credit Losses (Topic 326)* to January 1, 2022. The Company's decision to defer the adoption of CECL was done primarily to provide additional time to better assess the impact of the COVID-19 pandemic on the expected lifetime credit losses. At the time the decision was made, there was a significant change in economic uncertainty on the local, regional, and national levels as a result of local and state stay-at-home orders, as well as relief measures provided at a national, state, and local level. Further, the Company has taken actions to serve our communities during the pandemic, including permitting short-term payment deferrals to current customers, as well as originating bridge loans and SBA PPP loans. Upon adoption of CECL, the Company was required to make an adjustment to equity, net of taxes, equal to the difference between the allowance for credit losses calculated under the CECL method and the allowance for loan and lease

losses as calculated under the incurred loss method as of December 31, 2021. Therefore, on January 1, 2022, the Company recorded a $10.4 million increase in the allowance for credit losses, which includes a $0.9 million reserve for unfunded commitments as an adjustment to equity, net of deferred taxes.

The Company's $12.2 million, favorable decline in provision for loan and lease losses for the year ending 2021 compared to the same period in 2020 is due mostly to lower historical loan loss rates, a decline in outstanding balances on loans, a change in the mix of loans, and net year-to-date 2021 recoveries of previously charged-off loan balances. During 2021, management adjusted its qualitative risk factors under our current incurred loss model for improved economic conditions, improvements in the severity and volume of past due loans, and a reduction in the level of concentrations of credit in non-owner occupied real estate loans.

The growth in the provision for loan and lease losses in 2020, was due to the strong organic non-owner occupied commercial real estate loan growth generated in the second half of 2020 and the continued uncertainty surrounding the estimated impact that COVID-19 has had on the economy. The provision was also impacted by downgrades of certain loans deferred under section 4013 of the CARES Act, including 10 loans for $1.4 million placed on non-accrual at the end of the deferral period. Management evaluated its qualitative risk factors under the current incurred loss model and adjusted these factors for economic conditions, changes in the mix of the portfolio due to loans subject to a payment deferral, potential changes in collateral values due to reduced cash flows, and external factors such as government actions and the impact that COVID-19 may have on our customers.

In 2019, an additional reserve was booked in the third quarter 2019 for a $2.8 million loan placed on nonaccrual status resulting in a $1.2 million charge-off.

With the loan and lease loss benefit recorded in 2021 we were able to maintain our allowance for loan and lease losses at a level that, in Management's judgment, is adequate to absorb probable loan and lease losses related to specifically identified impaired loans as well as probable incurred losses in the remaining loan portfolio. Specifically identifiable and quantifiable loan and lease losses are immediately charged off against the allowance. The Company recorded net loan and lease recoveries of $0.2 million in 2021. The Company experienced net loan and lease losses of $0.7 million in 2020 and $2.4 million in 2019, including a $1.2 million charge-off on the loan placed on nonaccrual status in the third quarter 2019 as mentioned above The loan and lease loss (benefit) provision for 2021, 2020 and 2019 has been favorably impacted by the following factors: most charge-offs were recorded against pre-established reserves, which alleviated what otherwise might have been a need for reserve replenishment; loss rates for most loan types have been declining, thus having a positive impact on general reserves required for performing loans; and, new loans booked have been underwritten using continued tighter credit standards. As mentioned previously the loan and lease loss benefit for 2021 was also positively impacted by $0.2 million in net recoveries.

The Company's policies for monitoring the adequacy of the allowance and determining loan amounts that should be charged off, and other detailed information with regard to changes in the allowance, are discussed in Note 2 to the consolidated financial statements and below under "Allowance for Loan and Lease Losses." The process utilized to establish an appropriate allowance for loan and lease losses can result in a high degree of variability in the Company's loan and lease loss provision, and consequently in our net earnings.

Noninterest Revenue and Operating Expense

The table below sets forth the major components of the Company's noninterest revenue and operating expense for the years indicated, along with relevant ratios:

Non-Interest Income/Expense
(dollars in thousands)

	Year Ended December 31,		
	2021	2020	2019
NONINTEREST INCOME:			
Service charges on deposit accounts	$ 11,846	$ 11,765	$ 12,742
Checkcard fees	8,485	7,023	6,584
Other service charges and fees	4,797	4,084	4,231
Bank owned life insurance income	2,648	2,412	2,184
Gain on sale of securities	11	390	(198)
Loss on tax credit investment	(524)	(1,189)	(2,079)
Other	816	1,665	13
Total noninterest income	28,079	26,150	23,477
As a % of average interest-earning assets	0.90%	0.97%	1.00%
OTHER OPERATING EXPENSES:			
Salaries and employee benefits	42,431	40,178	35,978
Occupancy costs			
Furniture and equipment	1,720	2,028	2,141
Premises	8,117	7,814	7,704
Advertising and promotion costs	1,521	1,889	2,568
Data processing costs	5,890	4,661	4,564
Deposit services costs	9,049	8,483	7,962
Loan services costs			
Loan processing	501	880	675
Foreclosed assets	72	253	35
Other operating costs			
Telephone and data communications	2,013	1,775	1,529
Postage and mail	308	321	436
Other	2,176	1,647	1,798
Professional services costs			
Legal and accounting	4,794	1,989	2,072
Acquisition costs	—	—	22
Other professional services costs	4,015	2,990	2,492
Stationery and supply costs	345	446	318
Sundry & tellers	604	558	284
Total other operating expense	$ 83,556	$ 75,912	$ 70,578
As a % of average interest-earning assets	2.69%	2.82%	3.00%
Net noninterest income as a % of average interest-earning assets	(1.79)%	(1.85)%	(2.00)%
Efficiency ratio (1) (2)	59.92%	57.18%	57.5%

(1) Tax Equivalent

(2) Noninterest expense as a percentage of the sum of net interest income and noninterest income excluding net gains (losses) from securities and bank owned life insurance income.

Noninterest income in 2021 increased $1.9 million, or 7%, as compared to an increase of $2.7 million, or 11%, in 2020. Total noninterest income was 0.90% of average interest-earning assets in 2021 as compared to a ratio of 0.97% in 2020 and 1.0% in 2019. The ratio declined in 2021 due to a 15% increase in average interest-earning assets.

The principal component of the Company's noninterest revenue, service charges on deposit accounts, increased by $0.1 million, or 1%, in 2021 as compared to 2020. The same line item declined by $1.0 million, or 8%, in 2020 over 2019. This line item is primarily driven by the volume of transaction accounts. As a percent of average transaction account balances, service charge income was 1.0% in 2021, 1.9% in 2020 and 1.0% in 2019. This line item consists of a variety of fees including service charges on corporate accounts, treasury management fees, charges on corporate and consumer accounts including treasury management fees, ATM fees, overdraft income, and monthly service charges on certain accounts. Overdraft income on both consumer and corporate accounts totaled $4.9 million in 2021; $5.1 million in 2020 and $6.9 million in 2019.

Checkcard fees consists of interchange fees from our customers' use of debit cards for electronic funds transactions. This category increased by $1.5 million, or 21%, in 2021 as compared to 2020, and increased by $0.4 million, or 7%, in 2020 over 2019. The increases in 2021 and 2020 are primarily a result of increased usage of debit cards by our customers.

Other service charges and fees increased by $0.7 million, or 17%, in 2021 over 2020, and declined by $0.1 million, or 3%, in 2020 over 2019. This account includes certain transaction related fees including merchant income, currency orders, safe deposit box fees, wire fees, as well as dividends and changes in values related to our bank equity investments such as FHLB and Pacific Coast Bankers Bank ("PCBB"). The increase in 2021, was due largely to a $0.9 million write-up of our investment in PCBB, due to Accounting Standards Update 2016-01 which required the Company to write the investment to fair value through earnings.

BOLI income generally fluctuates based on the market. In both comparative years ending 2021 over 2020, and 2020 over 2019, BOLI income increased by $0.2 million or 10%. BOLI income is derived from two types of policies owned by the Company, namely "separate account" and "general account" life insurance, and the year over year variances are due in large part to fluctuations in income on separate account BOLI. The Company had $11.0 million invested in separate account BOLI at December 31, 2021, which produces income that helps offset expense accruals for deferred compensation accounts the Company maintains on behalf of certain directors and senior officers. Those accounts have returns pegged to participant-directed investment allocations that can include equity, bond, or real estate indices, and are thus subject to gains or losses which often contribute to significant fluctuations in income (and associated expense accruals). Gains on separate account BOLI totaled $1.7 million in 2021 as compared to $1.4 million in 2020, and net losses of $1.2 million in 2019. This resulted in favorable variances of $0.2 million for both comparative years ending 2021 as compared to 2020 and 2020 as compared to 2019. As noted, gains and losses on separate account BOLI are related to expense accruals or reversals associated with participant gains and losses on deferred compensation balances, thus the overall net impact on taxable income tends to be minimal. The Company's books also reflect a net cash surrender value for general account BOLI of $43.2 million at December 31, 2021 and 2020. General account BOLI produces income that is used to help offset expenses associated with executive salary continuation plans, director retirement plans and other employee benefits. Interest credit rates on general account BOLI do not change frequently so the income has typically been fairly consistent with $1.0 million, of general account BOLI income recorded for all three years ending December 31, 2021, 2020, and 2019.

The Company recognized a nominal gain on the sale of investment securities in 2021 as compared to a $0.4 million gain in 2020, and a $0.2 million loss in 2019. The gain in 2020 was due to a net gain on the sale of debt securities, in an effort to restructure the portfolio primarily to eliminate small residual balances and reduce potential credit risk on certain municipal holdings. The loss in 2019 was taken in order to sell several small balance and low-yielding bonds in order to replace them with fewer higher-yielding bonds. The earn back of the transaction was less than a year.

Loss on tax credit investment reflects pass-through expenses associated with our investments in low-income housing tax credit funds and other limited partnerships. Those expenses, which are netted out of revenue, decreased by $0.7 million, or 56%, in 2021 as compared to 2020. In 2020 as compared to 2019, these expenses decreased by $0.9 million, or 43%. The favorable variances in both 2021 and 2020 is due to the expiration of expense amortization on several funds which had reached the end of their useful tax benefit life. The largest contribution to the favorable variance in 2019 came from a

$0.91 million adjustment to accelerate expense amortization on our tax credit investments, to ensure that the book value of each investment does not exceed its projected remaining tax benefits.

The other category, decreased to $0.8 million from $1.7 million in 2021. The primary reason for the decrease was from a 2020 non- recurring gain as discussed in the prior year comparison, but was partially offset by a gain from life insurance proceeds and the sale of fixed assets. In 2020 as compared to 2019 the other category increased to $1.7 million from $0.01 million. The primary reason for this increase is due to a $1.5 million gain from the wrap up of low-income housing tax credit fund investments and a $0.2 million valuation gain on restricted equity investments owned by the Company. There was a nominal increase in this category in 2019 as compared to 2018.

Total operating expense, or noninterest expense, increased by $7.6 million, or 10%, in 2021 as compared to 2020, and increased by $5.3 million, or 8%, in 2020 over 2019. The primary increase in 2021 was in legal and accounting costs as discussed in further detail below. In 2020 the largest increase was in salaries and benefits. Noninterest expense as a percent of average interest-earning assets trended down each year. This ratio was 2.7% in 2021, 2.8% in 2020 and 3.0% in 2019.

The largest component of noninterest expense, salaries, and employee benefits increased $2.3 million, or 6% in 2021 as compared to 2020. The reason for the increase was mostly due to the $2.3 million decrease in deferred loan origination salaries associated with successful loan originations are accounted for in accordance with FASB guidelines on the recognition and measurement of non-refundable fees and origination costs for lending activities, and accruals associated with employee deferred compensation plans. Loan origination salaries that were deferred from current expense for recognition over the life of related loans totaled $1.1 million in 2021, $3.3 million in 2020, and $3.7 million for 2019.

The $4.2 million increase, or 12%, in salaries and employee benefits in 2020 as compared to 2019 is due to several factors, including merit increases for employees due to annual performance evaluations, new loan production teams for the northern and southern California markets, and a focus on hiring additional senior-level staff and management. Employee deferred compensation expense accruals totaled $0.2 million in 2021, 2020, and 2019. As noted above in our discussion of BOLI income, employee deferred compensation plan accruals are related to separate account BOLI income and losses, as are directors deferred compensation accruals that are included in “other professional services,” and the net income impact of all income/expense accruals related to deferred compensation is usually minimal. Salaries and benefits were 51% of total operating expense in 2021, relative to 53% in 2020 and 51% in 2019. The number of full-time equivalent staff employed by the Company totaled 480 at the end of 2021, as compared to 501 at December 31, 2020 and 513 at December 31, 2019. Staff attrition throughout 2021 and 2020, without the need for immediate replacements due to temporary branch lobby closures or limited branch lobby hours attributed to the COVID-19 pandemic, was the primary reason for the FTE decline. As branch lobbies resumed normal operating hours and public access, during the summer of 2021, full-time equivalent staff were expected to increase, however finding talent was extremely challenging not only for the Company but for the entire industry. 2021 was the year of the “Great Resignation” with over 4.4 million people leaving their jobs according to the Bureau of Labor Statistics, with the recent surge in the Omicron variant is exacerbating the current talent shortage.

Total rent and occupancy expense, including furniture and equipment costs, were approximately the same in 2021, 2020 and 2019. With the closure of five branch facilities in mid-2021, it is expected that rent and occupancy expense should decline in 2022, although no assurances can be given in that regard.

Advertising and promotion costs decreased by 19% to $1.5 million in 2021 as compared to 2019, and decreased by $0.7 million, or 26%, in 2020 over 2019. The decrease in 2021 came from the cessation of special events and in-branch marketing campaigns necessitated by the COVID-19 pandemic.

Data processing costs increased by $1.2 million, or 26%, in 2021 as compared to 2020 and increased by $0.1 million, or 2%, in 2020 over 2019. The increase in 2021 was due to higher disaster recovery and data back-up costs as a result of outsourcing this work in late 2020 rather than performing it in-house, higher core processing costs as we expand our data warehousing capabilities, and higher loan management software costs for the expansion of digital loan Platform. Although as a whole the increase in 2020 was minimal, the Company did experience increases in loan management software expenses due to participation in the SBA PPP program and other costs incurred to implement remote working arrangements for staff; which was offset by lower core software provider costs and other data processing costs.

Deposit services costs increased by $0.6 million, or 7%, in 2021 as compared to 2020, and increased by $0.5 million, or 7%, in 2020 over 2019. Deposit costs have been impacted in both 2021 and 2020, by increases in debit card processing due to higher customer activity levels and increased utilization of armored car services. These increases were partially offset by decreases in ATM servicing costs as we replaced most of our ATMs throughout 2021 with newer models that require less maintenance.

Loan services costs are comprised of loan processing costs, and net costs associated with foreclosed assets. Loan processing costs, which include expenses for property appraisals and inspections, loan collections, demand and foreclosure activities, loan servicing, loan sales, and other miscellaneous lending costs, decreased by $0.6 million, or 49%, in 2021 as compared to 2020 and increased by $0.4 million, or 60%, in 2020 over 2019. The decrease in 2021 as well as the increase in 2020 was due to smaller amounts in nearly every category of loan servicing. The decrease in 2021 was also due to the reduction in the volume of loans made by the Company. Foreclosed assets costs are comprised of write-downs taken subsequent to reappraisals, OREO operating expense (including property taxes), and losses on the sale of foreclosed assets, net of rental income on OREO properties and gains on the sale of foreclosed assets. There were expenses of $0.1 million in 2021 as compared to $0.03 million in 2020 and nominal expenses in 2019. These costs fluctuate based on market conditions of OREO relative to our holding value, the nature of the underlying properties and the volume of OREO properties in inventory. At the end of 2021, the Company had only one OREO property remaining in inventory.

The "other operating costs" category includes telecommunications expense, postage, and other miscellaneous costs. Telecommunications expense increased by 13% to $2.0 million in 2021, as compared to $1.8 million in 2020. The telecommunications increase in 2021 was due to the improvement of our data infrastructure and a certain amount of redundancy during the transition. The increase in 2020 was also due to an upgrade of telecommunications circuits, as well as additional costs from work-at-home arrangements during the COVID-19 pandemic. Postage expense was slightly lower in 2021 as compared to 2020, but decreased by $0.1 million, or 26%, in 2020 as compared to 2019. The decrease in 2021 and 2020 was due to concentrated efforts to decrease our utilization of overnight mail services and increase usage of digital technologies. The "Other" category under other operating costs increased by $0.5 million, or 32% in 2021 as compared to 2020, and decreased by $0.2 million, or 8%, in 2020 as compared to 2019. The increases in 2021 were mostly due to higher consulting costs and expenses on discontinued branch leases. The decrease in 2020 is due to the lack of participation in offsite conferences and training due to the COVID-19 pandemic.

Total Professional Services costs increased by $3.8 million, or 77%, in 2021 as compared to 2020, and by $0.4 million, or 9%, in 2020 as compared to 2019. Professional Services costs consists of legal and accounting, acquisition, and other professional services costs. Legal and Accounting costs increased by $2.8 million, or 141% in 2021 as compared to 2020, and decreased by $0.1 million, or 4%, in 2020 as compared to 2019. The increase in 2021 was mostly due to an increase in legal costs, related legal reserves, and additional costs related to the outsourcing of certain audit functions. The decrease in 2020 was due to lower internal audit costs as a result of moving some third-party branch reviews inhouse. Other professional services costs include FDIC assessments and other regulatory expenses, directors' costs, and certain insurance costs among other things. This category increased by $1.0 million or 34%, in 2021 as compared to 2020, and increased by $0.5 million, or 20%, in 2020 as compared to 2019. The increase in 2021 was due to an increase in FDIC assessment expenses, increased director's equity compensation expense, and professional services costs. The increase in 2020 is primarily from an increase in FDIC assessment expenses as we utilized all of the available small bank assessment credits after the first quarter of 2020. There was also a favorable swing in the director's deferred compensation expense for both 2021 and 2020, which is mostly offset by higher BOLI income, as described above under the separate account BOLI.

Stationery and supply costs decreased by $0.1 million, or 23%, in 2021 as compared to 2020 and increased by $0.1 million, or 40%, in 2020 as compared to 2019.The decrease in 2021 over 2020, is mostly due to efficiencies gained as a result of movement towards a digital working environment and less reliance on paper. The increase in 2020 as compared to 2019 was attributed to specialized supplies due to the COVID-19 pandemic.

Sundry and teller costs of $0.6 million in 2021 were essentially the same in 2020, and were $0.3 million in 2019. In 2021, as well as 2020 and 2019, debit card losses are elevated and trending upwards consistent with the higher volume of debit card transactions. These costs were $0.3 million higher in 2020 over 2019, mainly because of two large operational losses.

The Company's tax-equivalent overhead efficiency ratio was 59.9% in 2021, 57.2% in 2020, and 57.5% in 2019. The overhead efficiency ratio represents total noninterest expense divided by the sum of fully tax-equivalent net interest and noninterest income, with the provision for loan and lease losses and investment gains/losses excluded from the equation. The ratio trended downward in 2020, due to continued efforts to control costs, as well as higher income which is the denominator of the equation but spiked higher in 2021 due mainly to elevated nonrecurring noninterest expense.

Income Taxes

Our income tax provision was $14.2 million, or 24.8% of pre-tax income in 2021 as compared to 2020 and $11.1 million, or 23.8% of pre-tax income in 2020 as compared to $11.8 million, or 24.6% of pre-tax income in 2019. The tax accrual rate was higher in 2021 due to a lower proportion of non-taxable income, and slightly lower in 2020 due to a higher proportion of non-taxable income.

The Company sets aside a provision for income taxes on a monthly basis. The amount of that provision is determined by first applying the Company's statutory income tax rates to estimated taxable income, which is pre-tax book income adjusted for permanent differences, and then subtracting available tax credits. Permanent differences include but are not limited to tax-exempt interest income, BOLI income, and certain book expenses that are not allowed as tax deductions. The Company's investments in state, county and municipal bonds provided $6.2 million of federal tax-exempt income in 2021, $5.7 million in 2020, and $4.5 million in 2019. Moreover, in addition to life insurance proceeds of $0.4 million in 2021, and $0.07 million in 2020, net increases in the cash surrender value of bank-owned life insurance added $2.6 million to tax-exempt income in 2021; $2.4 million in 2020; and $2.2 million in 2019.

Our tax credits consist primarily of those generated by investments in low-income housing tax credit funds, and California state employment tax credits. We had a total of $2.9 million invested in low-income housing tax credit funds as of December 31, 2021 and $3.5 million as of December 31, 2020, which are included in other assets rather than in our investment portfolio. Those investments have generated substantial tax credits over the past few years, with about $0.5 million in credits available for the 2021 tax year; $0.5 million for the 2020 tax year, and $0.5 million in 2019. The credits are dependent upon the occupancy level of the housing projects and income of the tenants and cannot be projected with certainty. Furthermore, our capacity to utilize them will continue to depend on our ability to generate sufficient pre-tax income. We plan to invest in additional tax credit funds in the future, but if the economics of such transactions do not justify continued investments, then the level of low-income housing tax credits will taper off in future years until they are substantially utilized by the end of 2028. That means that even if taxable income stayed at the same level through 2028, our tax accrual rate would gradually increase.

Financial Condition

Assets totaled $3.4 billion at December 31, 2021, an increase of $150.3 million, or 5%, for the year. Assets increased in 2021 primarily a result of increases in cash and due from banks and investments securities of $186.1 million and $429.3 million, respectively, net of a $468.6 million decrease in net loan balances. Deposits were up $157.0 million, or 6%. Total capital increased by $18.6 million, or 5%. The major components of the Company's balance sheet are individually analyzed below, along with information on off-balance sheet activities and exposure.

Loan and Lease Portfolio

The Company's loan and lease portfolio represents the single largest portion of invested assets, substantially greater than the investment portfolio or any other asset category, and the quality and diversification of the loan and lease portfolio are important considerations when reviewing the Company's financial condition.

The Loan and Lease Distribution table that follows sets forth by loan type the Company's gross loans and leases outstanding, and the percentage distribution in each category at the dates indicated. The balances for each loan type include nonperforming loans, if any, but do not reflect any deferred or unamortized loan origination, extension, or commitment fees, or deferred loan origination costs. Although not reflected in the loan totals below and not currently comprising a

material part of our lending activities, the Company also occasionally originates and sells, or participates out portions of, loans to non-affiliated investors.

Loan and Lease Distribution
(dollars in thousands)

	As of December 31,				
	2021	2020	2019	2018	2017
Real estate:					
1-4 family residential construction	$ 21,369	$ 48,565	$ 105,979	$ 105,676	$ 74,256
Other construction/land	25,299	71,980	91,413	109,023	58,779
1-4 family - closed-end	289,457	139,836	200,181	236,825	204,766
Equity lines	26,588	38,075	49,599	56,320	62,590
Multi-family residential	53,458	61,865	54,457	54,877	42,930
Commercial real estate - owner occupied	334,446	343,199	343,883	301,324	263,447
Commercial real estate - non-owner occupied	882,888	1,062,498	412,569	438,344	379,432
Farmland	106,706	129,905	144,033	151,541	140,516
Total real estate	1,740,211	1,895,923	1,402,114	1,453,930	1,226,716
Agricultural	33,990	44,872	48,036	49,103	46,796
Commercial and industrial	109,791	209,048	115,532	128,220	135,662
Mortgage warehouse lines	101,184	307,679	189,103	91,813	138,020
Consumer loans	4,550	5,589	7,780	8,862	10,626
Total loans and leases	$ 1,989,726	$ 2,463,111	$ 1,762,565	$ 1,731,928	$ 1,557,820
Percentage of Total Loans and Leases					
Real estate:					
1-4 family residential construction	1.07%	1.97%	6.01%	6.10%	4.77%
Other construction/land	1.27%	2.92%	5.19%	6.29%	3.77%
1-4 family - closed-end	14.55%	5.68%	11.36%	13.67%	13.14%
Equity lines	1.34%	1.55%	2.81%	3.25%	4.02%
Multi-family residential	2.69%	2.51%	3.09%	3.17%	2.76%
Commercial real estate - owner occupied	16.81%	13.93%	19.51%	17.40%	16.91%
Commercial real estate - non-owner occupied	44.37%	43.14%	23.41%	25.32%	24.36%
Farmland	5.36%	5.27%	8.17%	8.75%	9.02%
Total real estate	87.46%	76.97%	79.55%	83.95%	78.75%
Agricultural	1.71%	1.82%	2.73%	2.84%	3.00%
Commercial and industrial	5.51%	8.49%	6.55%	7.40%	8.71%
Mortgage warehouse lines	5.09%	12.49%	10.73%	5.30%	8.86%
Consumer loans	0.23%	0.23%	0.44%	0.51%	0.68%
	100.00%	100.00%	100.00%	100.00%	100.00%

The Company’s loan and lease balances declined in 2021 due to management actions to reduce non-owner occupied commercial real estate concentrations after a period of strong growth in 2020, a decline in utilization of mortgage warehouse lines, and SBA PPP loan forgiveness. Conversely, the Company experienced net growth in each of the four years from 2017 through 2020, despite fluctuations caused by variability in outstanding balances on mortgage warehouse lines, reductions associated with the resolution of impaired loans, weak loan demand in some years, tightened underwriting standards, and intense competition. This growth over these four years was due in part to acquisitions, including Coast National Bank in 2016 and Ojai Community Bank in 2017, as well as whole loan purchases and participations, and participation in the SBA PPP loan program in 2020.

For 2021, gross loans were down by $473.4 million, or 19%, primarily as a result of a $206.5 million decline in mortgage warehouse line utilization, an $87.6 million decline in SBA PPP loans due mostly to forgiveness of such loans, and a net decrease of $155.7 million in real estate secured loans, primarily from construction and other commercial real estate loans.

The overall decline in real estate secured loans during 2021 was partially offset by an increase of $149.6 million in 1-4 family residential real estate loans due to the $208.0 million purchase of jumbo mortgage loans during the second half of 2021. These mortgage loan purchases in 2021 and additional purchases in 2022, were designed as a bridge to organic loan growth with the Bank's recent hiring of strategic lending team lift-outs as detailed below:

- The Bank's mortgage warehouse team program will be refreshed and rebuilt under the direction and leadership of a new Mortgage Warehouse Market President, who was hired for this role in the fourth quarter of 2021.

- The Real Estate Industries Group (REIG) hired two new commercial real estate loan officers who are expected to continue the Bank's commitment to serving the commercial real estate markets. Commercial Loan Officers were appointed to complement the REIG. In addition, further lending teams are currently being recruited along with additional underwriters to support the REIG.

- Expansion of the agricultural lending and commercial & industrial (C&I) lending capabilities of the Bank is a key third element. In December 2021, the Company hired a new Agricultural and Commercial Lending President. We are actively recruiting additional lenders to expand the Agricultural and C&I teams with key lender lift outs across our footprint. Like the other groups, these relationship managers will be complemented with a team of portfolio managers who will assist with underwriting support, portfolio management, and identification of opportunities for additional credit extensions. It is recognized that we are unable to rely upon relationship managers alone for loan growth. Instead, a full team to support prudently underwritten loans is needed to minimize risk.

As demonstrated by the expansion of the lending teams, management remains focused on organic loan growth. No assurance can be provided with regard to future net growth in aggregate loan balances given occasional surges in prepayments, continued forgiveness of PPP loans; fluctuations in mortgage warehouse lending; and maintaining concentrations in certain sectors within our risk management parameters.

For 2020, gross loans were up by $700.5 million, or 40%, due largely to $649.9 million of organic growth in commercial real estate non-owner occupied loans. This growth was a deliberate effort of our Northern and Southern market loan production teams and was facilitated by the opening of a loan production office in Northern California (Roseville, California) and an expansion of the loan team in Southern California. This growth was complimented by an increase of $118.6 million, or 63% in mortgage warehouse lines and an increase of $93.5 million, or 82% in commercial and industrial loans due to our participation in the SBA PPP loan program. Multi-family residential loans increased $7.4 million or 14%. These increases were partially offset by declines in all other loan categories.

As a part of their regulatory oversight, the federal regulators have issued guidelines on sound risk management practices with respect to a financial institution's concentrations in commercial real estate ("CRE") lending activities. These guidelines were issued in response to the agencies' concerns that rising CRE concentrations might expose institutions to unanticipated earnings and capital volatility in the event of adverse changes in the commercial real estate market. The guidelines identify certain concentration levels that, if exceeded, will expose the institution to additional supervisory analysis with regard to the institution's CRE concentration risk. The guidelines, as amended, are designed to promote appropriate levels of capital and sound loan and risk management practices for institutions with a concentration of CRE loans. In general, the guidelines, as amended, establish the following supervisory criteria as preliminary indications of possible CRE concentration risk: (1) the institution's total construction, land development and other land loans represent 100% or more of Tier 1 risk-based capital plus allowance for loan and lease losses; or (2) total CRE loans as defined in the regulatory guidelines represent 300% or more of Tier 1 risk-based capital plus allowance for loan and lease losses, and the institution's CRE loan portfolio has increased by 50% or more during the prior 36 month period. This ratio was 378% at December 31, 2020 and declined to 249% at December 31, 2021. At December 31, 2021, the Bank's total construction, land development and other land loans represented 12% of Tier 1 risk-based capital plus allowance for loan and lease losses. The Bank believes as indicated by the guidelines that it does not have a concentration in CRE loans at December 31, 2021. However, given that the Bank has recently had a CRE concentration ratio in excess of 300%, the Bank and its board of directors have discussed the guidelines and believe that the Bank's underwriting policies, management information systems, independent credit administration process, and monitoring of real estate loan concentrations are sufficient to address the risk management of CRE under the guidelines.

Table of Contents

Loan and Lease Maturities

The following table shows the maturity distribution for total loans and leases outstanding as of December 31, 2021, including non-accruing loans, grouped by remaining scheduled principal payments:

Loans and Lease Maturity
(dollars in thousands)

	As of December 31, 2021						
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Fifteen Years	Due after Fifteen Years	Total	Floating rate: due after one year	Fixed rate: due after one year
Real estate	$ 46,348	$ 122,077	$ 175,961	$ 1,395,825	$ 1,740,211	$ 628,530	$ 943,256
Agricultural	29,640	1,556	2,794	—	33,990	291	2,503
Commercial and industrial	26,709	56,088	26,450	544	109,791	10,987	16,007
Mortgage warehouse lines	101,184	—	—	—	101,184	—	—
Consumer loans	1,116	1,647	305	1,482	4,550	143	1,644
Total	$ 204,997	$ 181,368	$ 205,510	$ 1,397,851	$ 1,989,726	$ 639,951	$ 963,410

Generally, the Company's contractual life of loans matches the loan's amortization period, which is generally 25 years. Rates on loans longer than five years typically adjust starting before ten years and each five years thereafter. For a comprehensive discussion of the Company's liquidity position, balance sheet repricing characteristics, and sensitivity to interest rates changes, refer to the "Liquidity and Market Risk" section of this discussion and analysis.

Off-Balance Sheet Arrangements

The Company maintains commitments to extend credit in the normal course of business, as long as there are no violations of conditions established in the outstanding contractual arrangements. Unused commitments to extend credit totaled $561 million at December 31, 2021, and $450 million at December 31, 2020, although it is not likely that all of those commitments will ultimately be drawn down. The increase in 2021 is due in part to a lower utilization of mortgage warehouse lines in 2021. Unused commitments represented approximately 22% of gross loans outstanding at December 31, 2021 and 18% at December 31, 2020. The Company also had undrawn letters of credit issued to customers totaling $6.7 million and $8.2 million at December 31, 2021 and 2020, respectively. Off-balance sheet obligations pose potential credit risk to the Company, and a $0.2 million reserve for unfunded commitments is reflected as a liability in our consolidated balance sheet at December 31, 2021, down $0.1 million from the previous year. The unused commitments related to mortgage warehouse are unconditionally cancellable at any time. The effect on the Company's revenues, expenses, cash flows and liquidity from the unused portion of the commitments to provide credit cannot be reasonably predicted because there is no guarantee that the lines of credit will ever be used. However, the "Liquidity" section in this Form 10-K outlines resources available to draw upon should we be required to fund a significant portion of unused commitments.

In addition to unused commitments to provide credit, the Company holds two letters of credit with the Federal Home Loan Bank of San Francisco totaling $128.6 million as security for certain deposits and to facilitate certain credit arrangements with the Company's customers. That letter of credit is backed by loans which are pledged to the FHLB by the Company. For more information regarding the Company's off-balance sheet arrangements, see Note 14 to the consolidated financial statements in Item 8 herein.

Contractual Obligations

At the end of 2021, the Company had contractual obligations for the following payments, by type and period due:

Contractual Obligations
(dollars in thousands)

	Payments Due by Period				
	Total	Less Than 1 Year	2-3 Years	4-5 Years	More Than 5 Years
Subordinated debentures	$ 35,302	$ —	$ —	$ —	$ 35,302
Long term debt	49,141	—	—	—	49,141
Operating leases	7,352	1,909	2,460	1,261	1,722
Other long-term obligations	1,222	60	13	30	1,119
Total	$ 93,017	$ 1,969	$ 2,473	$ 1,291	$ 87,284

Nonperforming Assets

Nonperforming assets ("NPAs") are comprised of loans for which the Company is no longer accruing interest, and foreclosed assets which primarily consists of OREO. If the Company grants a concession to a borrower in financial difficulty, the loan falls into the category of a troubled debt restructuring ("TDR"), which may be designated as either nonperforming or performing depending on the loan's accrual status.

The following table presents comparative data for the Company's NPAs and performing TDRs as of the dates noted:

Nonperforming Assets and Performing TDRs
(dollars in thousands)

	As of December 31,				
	2021	2020	2019	2018	2017
Real estate:					
Other construction/land	$ —	$ —	$ 31	$ 82	$ 77
1-4 family - closed-end	1,023	1,193	741	799	871
Equity lines	892	2,403	480	408	922
Commercial real estate - owner occupied	1,234	1,678	1,440	605	236
Commercial real estate - non-owner occupied	—	582	2,105	49	123
Farmland	—	442	258	1,642	293
TOTAL REAL ESTATE	3,149	6,298	5,055	3,585	2,522
Agricultural	378	250	—	—	—
Commercial and industrial	973	1,026	651	1,425	1,301
Consumer loans	22	24	31	146	140
TOTAL NONPERFORMING LOANS (1) (2)	$ 4,522	$ 7,598	$ 5,737	$ 5,156	$ 3,963
Foreclosed assets	93	971	800	1,082	5,481
Total nonperforming assets	$ 4,615	$ 8,569	$ 6,537	$ 6,238	$ 9,444
Performing TDRs (1)	$ 4,910	$ 11,382	$ 8,415	$ 10,920	$ 12,413
Loans deferred under CARES Act (2)	$ 10,411	$ 29,500	$ —	$ —	$ —
Nonperforming loans as a % of total gross loans and leases	0.23%	0.31%	0.33%	0.30%	0.25%
Nonperforming assets as a % of total gross loans and leases and foreclosed assets	0.23%	0.35%	0.37%	0.36%	0.60%

(1) Performing TDRs are not included in nonperforming loans above, nor are they included in the numerators used to calculate the ratios disclosed in this table.

(2) Loans deferred under the CARES act are not included in nonperforming loans above, nor are they included in the numerators used to calculate the ratios disclosed in the table.

NPAs totaled $4.6 million, or 0.2% of gross loans and leases plus foreclosed assets at the end of 2021, down from $8.6 million, or 0.4% of gross loans and leases plus foreclosed assets at the end of 2020. NPAs increased $2.0 million in 2020, of which $1.4 million was a result of 10 loans previously deferred under section 4013 of the CARES Act, that were unable to resume their scheduled payments at the end of the deferral period.

Nonperforming loans secured by real estate comprised $3.1 million of total nonperforming loans at December 31, 2021, a decrease of $3.1 million, or 50%, since December 31, 2020. There was also an increase of $0.1 million in agricultural production loans but a decrease of $0.1 million in commercial and industrial loans. Consumer nonperforming loans were mostly unchanged during 2021. Nonperforming loan balances at December 31, 2021 include $3.0 million in TDRs and other loans that were paying as agreed, but which met the technical definition of nonperforming and were classified as such. We also had $10.4 million in loans deferred under the CARES Act, which are not treated as TDRs and were still accruing interest at December 31, 2021, and $4.9 million in loans classified as performing TDRs for which we were still accruing interest at December 31, 2021, a decrease of $6.5 million, or 57%, relative to December 31, 2020. Notes 2 and 4 to the consolidated financial statements provide a more comprehensive disclosure of TDR balances and activity within recent periods.

Loan modifications not treated as TDRs were $10.4 million at December 31, 2021 and are made to one borrower. Of the total loans modified at year end, 100%, are lessors of non-residential buildings. All of the loans currently under modification have maturities within 90 days. All loans are well secured based on the most recent appraisal.

The balance of foreclosed assets had a carrying value of $0.1 million at December 31, 2021, comprised of one property classified as OREO. At the end of 2020 foreclosed assets totaled $1.0 million, consisting of 7 properties classified as OREO. All foreclosed assets are periodically evaluated and written down to their fair value less expected disposition costs, if lower than the then-current carrying value.

Allowance for Loan and Lease Losses/Allowance for Credit Losses

The allowance for loan and lease losses, a contra-asset, is established through a provision for loan and lease losses. It is maintained at a level that is considered adequate to absorb probable losses on specifically identified impaired loans, as well as probable incurred losses inherent in the remaining loan portfolio. Specifically identifiable and quantifiable losses are immediately charged off against the allowance; recoveries are generally recorded only when sufficient cash payments are received subsequent to the charge off. Note 2 to the consolidated financial statements provides a more comprehensive discussion of the accounting guidance we conform to and the methodology we use to determine an appropriate allowance for loan and lease losses, including information regarding the Company's decision to defer implementation of Current Expected Credit Loss ("CECL") accounting method. The Company's allowance for loan and lease losses was $14.3 million, or 0.7% of gross loans at December 31, 2021, relative to $17.7 million, or 0.7% of gross loans at December 31, 2020. The decrease in the allowance resulted from the release of $3.7 million in loan and lease loss reserves in 2021, plus $0.2 million in net loan recoveries. Reserves were established for losses inherent in incremental loan balances and unanticipated charge-offs in 2021. The net decrease in the allowance might have resulted in an increase if not for the following circumstances: charge-offs were recorded against pre-established reserves, which alleviated what otherwise might have been a need for reserve replenishment; all acquired loans were booked at their fair values, and thus did not initially require a loan and lease loss allowance; and loan and lease loss rates have been declining, having a positive impact on general reserves established for performing loans. The ratio of the allowance to nonperforming loans was 315% at December 31, 2021, relative to 233% at December 31, 2020, and 173% at December 31, 2019. As described above, a separate allowance of $0.2 million for potential losses inherent in unused commitments is included in other liabilities at December 31, 2021.

The Company recorded a loan and lease loss benefit of $3.7 million in 2021 compared to a loan and lease loss provision of $8.6 million in 2020, and $2.6 million in 2019. Our allowance for probable losses on specifically identified impaired loans decreased $0.2 million, or 20%, during 2021, whereas it increased $0.2 million, or 20%, during 2020. The allowance for probable losses inherent in non-impaired loans decreased by $3.3 million, or 20%, as a result of continued improvements in the overall economy, a reduction in historical loss rates, net loan recoveries in 2021, a change in the mix of loans, and lower outstanding balances of net loans and leases.

The following table sets forth the Company's net charge-offs as a percentage to the average loan balances in each loan category, as well as other credit related ratios at or for the periods indicated:

Credit Ratios
(dollars in thousands, unaudited)

	As of and for the years ended December 31,								
	2021			2020			2019		
	Net Charge-offs (Recoveries)	Average Loan Balance	Percentage	Net Charge-offs (Recoveries)	Average Loan Balance	Percentage	Net Charge-offs (Recoveries)	Average Loan Balance	Percentage
Real estate:									
1-4 family residential construction	$ —	$ 36,245	0.00%	$ —	$ 85,934	0.00%	$ —	$ 111,533	0.00%
Other construction/land	(328)	35,906	(0.91)%	(40)	86,363	(0.05)%	(2)	101,480	(0.00)%
1-4 family - closed-end	67	160,522	0.04%	(13)	175,776	(0.01)%	(148)	221,505	(0.07)%
Equity lines	(13)	33,484	(0.04)%	(34)	44,306	(0.08)%	(150)	53,186	(0.28)%
Multi-family residential	—	57,318	0.00%	—	58,666	0.00%	—	53,514	0.00%
Commercial real estate - owner occupied	—	350,197	0.00%	—	322,460	0.00%	—	324,575	0.00%
Commercial real estate - non-owner occupied	(82)	1,021,759	(0.01)%	—	701,422	0.00%	843	425,292	0.20%
Farmland	—	122,931	0.00%	—	135,759	0.00%	—	149,380	0.00%
Total real estate	(356)	1,818,362	(0.02)%	(87)	1,610,686	(0.01)%	543	1,440,465	0.04%
Agricultural	50	42,866	0.12%	—	47,299	0.00%	—	50,042	0.00%
Commercial and industrial	(64)	155,365	(0.04)%	307	182,802	0.17%	584	120,573	0.48%
Mortgage warehouse lines	—	147,996	0.00%	—	221,319	0.00%	—	134,171	0.00%
Consumer loans	202	4,993	4.05%	515	6,584	7.82%	1,250	8,497	14.71%
Total	$ (168)	$ 2,169,582	(0.01)%	$ 735	$ 2,068,690	0.04%	$ 2,377	$ 1,753,748	0.14%
Allowance for loan and lease losses to gross loans and leases at end of period			0.72%			0.72%			0.56%
Nonaccrual loans to gross loans and leases at end of period			0.23%			0.31%			0.33%
Allowance for loan and lease losses to nonaccrual loans			315.26%			233.46%			172.96%

Provided below is a summary of the allocation of the allowance for loan and lease losses for specific loan categories at the dates indicated. The allocation presented should not be viewed as an indication that charges to the allowance will be incurred in these amounts or proportions, or that the portion of the allowance allocated to a particular loan category represents the total amount available for charge-offs that may occur within that category.

Allocation of Allowance for Loan and Lease Losses
(dollars in thousands)

	As of December 31,									
	2021		2020		2019		2018		2017	
	Amount	%Total [(1)] Loans	Amount	%Total [(1)] Loans	Amount	%Total [(1)] Loans	Amount	%Total [(1)] Loans	Amount	%Total [(1)] Loans
Real Estate	$ 11,586	87.46%	$ 11,766	76.97%	$ 5,635	79.55%	$ 5,831	83.95%	$ 4,786	78.75%
Agricultural	464	1.71%	482	1.82%	193	2.73%	256	2.84%	208	3.00%
Commercial and industrial [(2)]	1,559	10.60%	4,721	20.98%	2,685	17.28%	2,394	12.70%	2,772	17.57%
Consumer loans	510	0.23%	720	0.23%	1,278	0.44%	1,239	0.51%	1,231	0.68%
Unallocated	137	—	49	—	132	—	30	—	46	—
Total	$ 14,256	100.00%	$ 17,738	100.00%	$ 9,923	100.00%	$ 9,750	100.00%	$ 9,043	100.00%

(1) Represents percentage of loans in category to total loans

(2) Includes mortgage warehouse lines

The Company's allowance for loan and lease losses at December 31, 2021 represents Management's best estimate of probable losses in the loan portfolio as of that date, but no assurance can be given that the Company will not experience substantial losses relative to the size of the allowance. Furthermore, fluctuations in credit quality, changes in economic conditions, updated accounting, or regulatory requirements, and/or other factors could induce us to augment or reduce the allowance. The Company adopted the current expected credit losses methodology on January 1, 2020, under FASB Accounting Standards Update 2016-03 and related amendments, *Financial Instruments – Credit Losses (Topic 326)* to January 1, 2022. However, as previously noted under the Allowance for Loan and Lease Losses section above in March 2020, the Company elected under Section 4014 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act to defer the implementation of CECL. At the time the decision was made, there was a significant change in economic uncertainty on the local, regional, and national levels as a result of local and state stay-at-home orders, as well as relief measures provided at a national, state, and local level. Further, the Company has taken actions to serve our communities during the pandemic, including permitting short-term payment deferrals to current customers, as well as originating bridge loans and SBA PPP loans. Upon adoption of CECL, the Company was required to make an adjustment to equity, net of taxes, equal to the difference between the allowance for credit losses calculated under the CECL method and the allowance for loan and lease losses as calculated under the incurred loss method as of December 31, 2021. Therefore, on January 1, 2022, the Company recorded a $10.4 million increase in the allowance for credit losses, which includes a $0.9 million reserve for unfunded commitments as an adjustment to equity, net of deferred taxes.

Investments

The Company's investments may at any given time consist of debt securities and marketable equity securities (together, the "investment portfolio"), investments in the time deposits of other banks, surplus interest-earning balances in our Federal Reserve Bank ("FRB") account, and overnight fed funds sold. Surplus FRB balances and fed funds sold to correspondent banks typically represent the temporary investment of excess liquidity. The Company's investments serve several purposes: 1) they provide liquidity to even out cash flows from the loan and deposit activities of customers; 2) they provide a source of pledged assets for securing public deposits, bankruptcy deposits and certain borrowed funds which require collateral; 3) they constitute a large base of assets with maturity and interest rate characteristics that can be changed more readily than the loan portfolio, to better match changes in the deposit base and other funding sources of the Company; 4) they are another interest-earning option for surplus funds when loan demand is light; and 5) they can provide partially tax exempt income. Aggregate investments totaled $1.2 billion, or 35% of total assets at December 31, 2021, as compared to $547.5 million, or 17% of total assets at December 31, 2020.

We had no fed funds sold at the end of the reporting periods, and interest-bearing balances held primarily in our Federal Reserve Bank account totaled $193.3 million at December 31, 2021, as compared to $3.5 million at December 31, 2020. The average rate on the interest-bearing balances was 0.14% for 2021. Due to the low rate on this investment, the Company worked diligently to identify earning assets for purchase. With respect to the investment portfolio, the Company purchased $332.8 million of AAA and AA-rated Collateralized Loan Obligations ("CLOs"). These structured investments complement our fixed-rate earning assets as CLOs have rates that adjust quarterly. In addition, certain loan purchases The Company's investment securities portfolio had a book balance of $973.3 million at December 31, 2021, compared to $544.0 million at December 31, 2020, reflecting a net increase of $429.3 million, or 79%. The Company carries investments at their fair market values. We currently have the intent and ability to hold our investment securities to maturity, but the securities are all marketable and are classified as "available for sale" to allow maximum flexibility with regard to interest rate risk and liquidity management. The expected average life for bonds in our investment portfolio was 5.7 years and their average effective duration was 3.2 years at December 31, 2021, as compared to an expected average life of 4.2 years and an average effective duration of 2.4 years at year-end 2020.

The following Investment Portfolio table reflects the amortized cost and fair market values for each primary category of investment securities for the past three years:

Investment Portfolio-Available for Sale
(dollars in thousands)

	As of December 31,					
	2021		2020		2019	
	Amortized Cost	Fair Market Value	Amortized Cost	Fair Market Value	Amortized Cost	Fair Market Value
U.S. government agencies	$ 1,546	$ 1,574	$ 1,725	$ 1,800	$ 12,125	$ 12,145
Mortgage-backed securities	303,912	306,727	304,108	314,435	398,353	400,389
State and political subdivisions	290,729	304,268	212,011	227,739	181,900	188,265
Corporate bonds	28,436	28,529	—	—	—	—
Collateralized loan obligations	332,836	332,216	—	—	—	—
Total securities	$ 957,459	$ 973,314	$ 517,844	$ 543,974	$ 592,378	$ 600,799

The net unrealized gain on our investment portfolio, or the amount by which aggregate fair market values exceeded the amortized cost, was $15.9 million at December 31, 2021 as compared to $26.1 million at December 31, 2020, a decrease of $10.2 million. The change in 2021 was caused by higher market interest rates on fixed-rate bond values. The balance of U.S. Government agency securities in our portfolio declined by $0.2 million, or 13%, during 2021 due primarily to bond maturities. Similarly, mortgage-backed securities decreased by $7.7 million, or 2% due to prepayments not being reinvested. Municipal bond balances increased by $76.5 million, or 34% due to purchases. Municipal bonds purchased in recent periods have strong underlying ratings, and all municipal bonds in our portfolio undergo a detailed quarterly review for potential impairment. CLOs, all AAA or AA rated, were purchased during 2021 for $332.2 million as an asset class diversification strategy as management continues to utilize available liquidity and improve asset sensitivity, as described above.

Investment securities that were pledged as collateral for Federal Home Loan Bank borrowings, repurchase agreements, public deposits and other purposes as required or permitted by law totaled $167.2 million at December 31, 2021 and $232.0 million at December 31, 2020, leaving $806.1 million in unpledged debt securities at December 31, 2021 and $312.0 million at December 31, 2020. Securities that were pledged in excess of actual pledging needs and were thus available for liquidity purposes, if needed, totaled $47.0 million at December 31, 2021 and $52.9 million at December 31, 2020.

Cash and Due from Banks

Interest-earning cash balances were discussed above in the “Investments” section, but the Company also maintains a certain level of cash on hand in the normal course of business as well as non-earning deposits at other financial institutions. Our balance of cash and due from banks depends on the timing of collection of outstanding cash items (checks), the amount of cash held at our branches and our reserve requirement, among other things, and is subject to significant fluctuations in the normal course of business. While cash flows are normally predictable within limits, those limits are fairly broad and the Company manages its short-term cash position through the utilization of overnight loans to, and borrowings from, correspondent banks, including the Federal Reserve Bank and the Federal Home Loan Bank. Should a large “short” overnight position persist for any length of time, the Company typically raises money through focused retail deposit gathering efforts or by adding brokered time deposits. If a “long” position is prevalent, we will let brokered deposits or other wholesale borrowings roll off as they mature, or we might invest excess liquidity into longer-term, higher-yielding bonds. The Company’s balance of noninterest earning cash and balances due from correspondent banks totaled $63.1 million, or 2% of total assets at December 31, 2021, and $67.9 million, or 2% of total assets at December 31, 2020. The average balance of non-earning cash and due from banks, which can be used to determine trends, was $75.7 million for 2021 and $72.0 million for 2020 and 2019.

Premises and Equipment

Premises and equipment are stated on our books at cost, less accumulated depreciation, and amortization. The cost of furniture and equipment is expensed as depreciation over the estimated useful life of the related assets, and leasehold

improvements are amortized over the term of the related lease or the estimated useful life of the improvements, whichever is shorter.

The following premises and equipment table reflects the original cost, accumulated depreciation and amortization, and net book value of fixed assets by major category, for the years noted:

Premises and Equipment
(dollars in thousands)

	As of December 31,								
	2021			2020			2019		
	Cost	Accumulated Depreciation and Amortization	Net Book Value	Cost	Accumulated Depreciation and Amortization	Net Book Value	Cost	Accumulated Depreciation and Amortization	Net Book Value
Land	$ 4,823	$ —	$ 4,823	$ 5,751	$ —	$ 5,751	$ 5,751	$ —	$ 5,751
Buildings	21,006	11,284	9,722	21,580	11,005	10,575	21,526	10,407	11,119
Furniture and equipment	19,242	14,925	4,317	20,705	15,474	5,231	17,798	14,365	3,433
Leasehold improvements	14,682	9,973	4,709	15,226	9,278	5,948	15,357	8,269	7,088
Construction in progress	—	—	—	—	—	—	44	—	44
Total	$ 59,753	$ 36,182	$ 23,571	$ 63,262	$ 35,757	$ 27,505	$ 60,476	$ 33,041	$ 27,435

The net book value of the Company’s premises and equipment was 1% of total assets at both December 31, 2021, and December 31, 2020. Depreciation and amortization included in occupancy and equipment expense totaled $3.1 million in 2021 and $2.8 million in 2020.

Other Assets

Goodwill totaled $27.4 million at December 31, 2021, unchanged for the year and other intangible assets were $3.3 million, a decrease of $1.0 million, or 24%, as a result of amortization expense recorded on core deposit intangibles. The Company’s goodwill and other intangible assets are evaluated annually for potential impairment following FASB guidelines and based on those analytics Management has determined that no impairment exists as of December 31, 2021.

The net cash surrender value of bank-owned life insurance policies increased to $54.2 million at December 31, 2021 from $52.5 million at December 31, 2020, due to the addition of BOLI income to net cash surrender values. Refer to the “Noninterest Revenue and Operating Expense” section above for a more detailed discussion of BOLI and the income it generates.

The remainder of other assets consists primarily of right-of-use assets tied to operating leases, accrued interest receivable, deferred taxes, investments in bank stocks, other real estate owned, prepaid assets, investments in low-income housing credits, investments in SBA loan funds, and other miscellaneous assets. The total operating lease right-of-use asset recorded on the books is $10.0 million less accumulated amortization of $4.6 million. The bank stocks include Pacific Coast Bankers Bank stock and restricted stock related to the Federal Home Loan Bank of San Francisco stock held in conjunction with our FHLB borrowings and is not deemed to be marketable or liquid. Our net deferred tax asset is evaluated as of every reporting date pursuant to FASB guidance, and we have determined that no impairment exists.

Deposits

Deposits represent another key balance sheet category impacting the Company’s net interest margin and profitability metrics. Deposits provide liquidity to fund growth in earning assets, and the Company’s net interest margin is improved to the extent that growth in deposits is concentrated in less volatile and typically less costly non-maturity deposits such as demand deposit accounts, NOW accounts, savings accounts, and money market demand accounts. Information concerning average balances and rates paid by deposit type for the past three fiscal years is contained in the Distribution, Rate, and Yield table located in the previous section under “Results of Operations–Net Interest Income and Net Interest Margin.” A

distribution of the Company's deposits showing the period-end balance and percentage of total deposits by type is presented as of the dates noted in the following table:

Deposit Distribution
(dollars in thousands)

	Year Ended December 31,				
	2021	2020	2019	2018	2017
Interest bearing demand deposits	$ 129,783	$ 109,938	$ 91,212	$ 101,243	$ 118,533
Noninterest bearing demand deposits	1,084,544	943,664	690,950	662,527	635,434
NOW	614,770	558,407	458,600	434,483	405,057
Savings	450,785	368,420	294,317	283,953	283,126
Money market	147,793	131,232	118,933	123,807	171,611
Customer time deposits	293,897	412,945	464,362	460,327	374,625
Brokered deposits	60,000	100,000	50,000	50,000	—
Total deposits	$ 2,781,572	$ 2,624,606	$ 2,168,374	$ 2,116,340	$ 1,988,386
Percentage of Total Deposits					
Interest bearing demand deposits	4.67%	4.19%	4.21%	4.78%	5.96%
Noninterest bearing demand deposits	38.99%	35.95%	31.86%	31.31%	31.96%
NOW	22.10%	21.28%	21.15%	20.53%	20.37%
Savings	16.21%	14.04%	13.57%	13.42%	14.24%
Money market	5.31%	5.00%	5.48%	5.85%	8.63%
Customer time deposits	10.57%	15.73%	21.42%	21.75%	18.84%
Brokered deposits	2.16%	3.81%	2.31%	2.36%	—
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Deposit balances reflect net growth of $157.0 million, or 6%, in 2021 and $456.2 million, or 21%, during 2020. The increase in 2021 and 2020 is primarily due to organic growth as both consumer and commercial existing customers increased their deposit account balances.

Noninterest bearing demand deposit balances were up $140.9 million, or 15%; NOW and interest-bearing demand accounts increased by $16.1 million, or 1% in 2021. Overall non-maturity deposits increased by $316.0 million, or 15%, to $2.4 billion at December 31, 2021.

Management is of the opinion that a relatively high level of core customer deposits is one of the Company's key strengths, and we continue to strive for core deposit retention and growth.

The following table presents the estimated deposits exceeding the FDIC insurance limit:

Uninsured Deposits
(dollars in thousands)

	Year Ended December 31,	
	2021	2020
Uninsured deposits	$ 929,583	$ 878,086

The estimated aggregate amount of time deposits in excess of the FDIC insurance limit is $58.2 million. The following table presents the maturity distribution of the estimated uninsured time deposits:

Uninsured Time Deposit Maturity Distribution
(dollars in thousands)

	As of December 31, 2021				
	Three months or less	Over three months through six months	Over six months through twelve months	Over twelve months	Total
Uninsured time deposits	$ 48,051	$ 4,517	$ 5,064	$ 558	$ 58,190

Other Borrowings

The Company's non-deposit borrowings may, at any given time, include fed funds purchased from correspondent banks, borrowings from the Federal Home Loan Bank, advances from the FRB, securities sold under agreements to repurchase, and/or junior subordinated debentures. The Company uses short-term FHLB advances and fed funds purchased on uncommitted lines to support liquidity needs created by seasonal deposit flows, to temporarily satisfy funding needs from increased loan demand, and for other short-term purposes. The FHLB line is committed, but the amount of available credit depends on the level of pledged collateral.

Total non-deposit interest-bearing liabilities decreased $25.8 million, or 12%, in 2021, due primarily to decreases in overnight fed funds purchased, and FHLB advances. The decreases were partially offset by increases in customer repurchase agreements and long-term debt. Non-deposit interest-bearing liabilities increased $136.5 million, or 298%, in 2020, due to increases in overnight fed funds purchased, FHLB advances, and customer repurchase agreements. These increases were primarily to fund fluctuations in our mortgage warehouse loan balances. The Company had no overnight fed funds purchased, overnight FHLB advances or short-term borrowings from the FHLB at December 31, 2021, as compared to $100.0 million in overnight fed funds purchased, $37.9 million in overnight FHLB advances and $5.0 million in short-term borrowings from the FHLB at December 31, 2020. Repurchase agreements totaled $106.9 million at year-end 2021 relative to a balance of $39.1 million at year-end 2020. Repurchase agreements represent "sweep accounts", where commercial deposit balances above a specified threshold are transferred at the close of each business day into non-deposit accounts secured by investment securities. The Company had junior subordinated debentures totaling $35.3 million at December 31, 2021 and $35.1 million December 31, 2020, in the form of long-term borrowings from trust subsidiaries formed specifically to issue trust preferred securities. The small increase resulted from the amortization of discount on junior subordinated debentures that were part of our acquisition of Coast Bancorp in 2016. Long term debt increased to $49.1 million for the year ended December 31, 2021, from the issuance of $50 million in 3.25% fixed – floating subordinated debt with a ten-year maturity in the third quarter of 2021. The Company contributed $25 million of additional capital to the Bank in the fourth quarter of 2021 and is utilizing the remainder of the funds for general corporate purposes, which includes repurchasing shares of common stock, among other things.

The details of the Company's short-term borrowings are presented in the table below, for the years noted:

Short-term Borrowings
(dollars in thousands)

	Year Ended December 31,		
	2021	2020	2019
Repurchase Agreements			
Balance at December 31	$ 106,937	$ 39,138	$ 25,711
Average amount outstanding	70,443	34,614	22,090
Maximum amount outstanding at any month end	106,937	41,449	27,712
Average interest rate for the year	0.30%	0.40%	0.40%
Fed funds purchased			
Balance at December 31	$ —	$ 100,000	$ —
Average amount outstanding	1,561	1,918	313
Maximum amount outstanding at any month end	—	100,000	—
Average interest rate for the year	0.06%	0.21%	0.32%
FHLB advances			
Balance at December 31	$ —	$ 42,900	$ 20,000
Average amount outstanding	3,625	54,244	13,229
Maximum amount outstanding at any month end	5,000	195,100	63,700
Average interest rate for the year	0.06%	0.19%	2.06%

Other Noninterest Bearing Liabilities

Other liabilities are principally comprised of accrued interest payable, other accrued but unpaid expenses, and certain clearing amounts. The Company's balance of other liabilities increased by $0.5 million, or 1%, during 2021.

Capital Resources

The Company had total shareholders' equity of $362.5 million at December 31, 2021 as compared to $343.9 million at December 31, 2020. The increase of $18.6 million, or 5%, is due to $43.0 million in net income and approximately $1.2 million in additional capital related to equity compensation, net of a $7.2 million decrease in our accumulated other comprehensive income, $13.2 million in dividends paid and $5.2 million in stock repurchased.

The federal banking agencies published a final rule on November 13, 2019, that provided a simplified measure of capital adequacy for qualifying community banking organizations. A qualifying community banking organization that opts into the community bank leverage ratio framework and maintains a leverage ratio greater than 9 percent will be considered to have met the minimum capital requirements, the capital ratio requirements for the well capitalized category under the Prompt Corrective Action framework, and any other capital or leverage requirements to which the qualifying banking organization is subject. A qualifying community banking organization with a leverage ratio of greater than 9 percent may opt into the community bank leverage ratio framework if it has average consolidated total assets of less than $10 billion, has off-balance-sheet exposures of 25% or less of total consolidated assets, and has total trading assets and trading liabilities of 5 percent or less of total consolidated assets. Further, the bank must not be an advance approaches banking organization.

The final rule became effective January 1, 2020 and banks that met the qualifying criteria were able to elect to use the community bank leverage framework starting with the quarter ended March 31, 2020. The CARES Act reduced the required community bank leverage ratio to 8% until the earlier of December 31, 2020, or the national emergency is declared over. The federal bank regulatory agencies adopted an interim final rule to implement this change from the CARES Act. The Company and the Bank meet the criteria outlined in the final rule and the interim final rule and adopted the community bank leverage ratio framework in the first quarter 2020.The Company uses a variety of measures to evaluate its capital adequacy, including the community bank leverage ratio, which the Company adopted in 2020, and risk-based capital and

leverage ratios in preceding years, that are calculated separately for the Company and the Bank. Management reviews these capital measurements on a quarterly basis and takes appropriate action to help ensure that they meet or surpass established internal and external guidelines. As permitted by the regulators for financial institutions that are not deemed to be "advanced approaches" institutions, the Company has elected to opt out of the Basel III requirement to include accumulated other comprehensive income in risk-based capital.

The following table sets forth the Company's and the Bank's regulatory capital ratios at the dates indicated:

	December 31,	To Be Well Capitalized Under Prompt Corrective Action Regulations (CBLR Framework)
2021		
Tier 1 (Core) Capital to average total assets		
Sierra Bancorp and subsidiary	10.43%	8.50%
Bank of the Sierra	11.31%	8.50%
2020		
Tier 1 (Core) Capital to average total assets		
Sierra Bancorp and subsidiary	10.50%	8.00%
Bank of the Sierra	10.12%	8.00%

(1) The community bank leverage ratio minimum requirement is 8% as of December 31, 2020, 8.5% for calendar year 2021, and 9% for calendar year 2022 and beyond

At the end of 2021, as our Community Bank Leverage Ratio exceeded 8.5%, the Company and the Bank were both classified as "well capitalized," the highest rating of the categories defined under the Bank Holding Company Act and the Federal Deposit Insurance Corporation Improvement Act of 1991, and our regulatory capital ratios remained above the median for peer financial institutions. We do not foresee any circumstances that would cause the Company or the Bank to be less than "well capitalized", although no assurance can be given that this will not occur. A more detailed table of regulatory capital ratios, which includes the capital amounts and ratios required to qualify as "well capitalized" as well as minimum capital ratios, appears in Note 16 to the Consolidated Financial Statements in Item 8 herein. For additional details on risk-based and leverage capital guidelines, requirements, and calculations and for a summary of changes to risk-based capital calculations which were recently approved by federal banking regulators, see "Item 1, Business – Supervision and Regulation – Capital Adequacy Requirements" and "Item 1, Business – Supervision and Regulation – Prompt Corrective Action Provisions" herein.

Liquidity and Market Risk Management

Liquidity

Liquidity management refers to the Company's ability to maintain cash flows that are adequate to fund operations and meet other obligations and commitments in a timely and cost-effective manner. Detailed cash flow projections are reviewed by Management on a monthly basis, with various stress scenarios applied to assess our ability to meet liquidity needs under unusual or adverse conditions. Liquidity ratios are also calculated and reviewed on a regular basis. While those ratios are merely indicators and are not measures of actual liquidity, they are closely monitored, and we are committed to maintaining adequate liquidity resources to draw upon should unexpected needs arise.

The Company, on occasion, experiences cash needs as the result of loan growth, deposit outflows, asset purchases or liability repayments. To meet short-term needs, we can borrow overnight funds from other financial institutions, draw advances via Federal Home Loan Bank lines of credit, or solicit brokered deposits if customer deposits are not immediately

obtainable from local sources. Availability on lines of credit from correspondent banks and the FHLB totaled $1.1 billion at December 31, 2021. The Company was also eligible to borrow approximately $51.0 million at the Federal Reserve Discount Window based on pledged assets at December 31, 2021. Furthermore, funds can be obtained by drawing down excess cash that might be available in the Company's correspondent bank deposit accounts, or by liquidating unpledged investments or other readily saleable assets. In addition, the Company can raise immediate cash for temporary needs by selling under agreement to repurchase those investments in its portfolio which are not pledged as collateral. As of December 31, 2021, unpledged debt securities plus pledged securities in excess of current pledging requirements comprised $853.2 million of the Company's investment balances, as compared to $364.9 million at December 31, 2020. Other sources of potential liquidity include but are not necessarily limited to any outstanding fed funds sold and vault cash. The Company has a higher level of actual balance sheet liquidity than might otherwise be the case, since we utilize a letter of credit from the FHLB rather than investment securities for certain pledging requirements. That letter of credit, which is backed by loans pledged to the FHLB by the Company, totaled $128.6 million at December 31, 2021. Management is of the opinion that available investments and other potentially liquid assets, along with standby funding sources it has arranged, are more than sufficient to meet the Company's current and anticipated short-term liquidity needs.

At December 31, 2021 and December 31, 2020, the Company had the following sources of primary and secondary liquidity (dollars in thousands):

Primary and Secondary Liquidity Sources	December 31, 2021	December 31, 2020
Cash and due from banks	$ 257,528	$ 71,417
Unpledged investment securities	806,132	311,983
Excess pledged securities	47,024	52,892
FHLB borrowing availability	787,519	535,404
Unsecured lines of credit	305,000	230,000
Funds available through fed discount window	50,608	58,127
Totals	**$ 2,253,811**	**$ 1,259,823**

The Company did not experience a change in its ability to access traditional funding sources due to the COVID-19 pandemic. The Company had adequate sources of cash to accommodate pandemic related cash needs over the past two years such as the ability to defer $424.0 million in loans under the CARES act and to fund $177.9 million in SBA PPP loans. There were no material operational expenditures related to the COVID-19 pandemic, other than $0.1 million for software purchased to accommodate the processing of SBA PPP loans.

The Company's net loans to assets and available investments to assets ratios were 59% and 31%, respectively, at December 31, 2021, as compared to internal policy guidelines of "less than 78%" and "greater than 3%." Other liquidity ratios reviewed periodically by Management and the Board include net loans to total deposits and wholesale funding to total assets (including ratios and sub-limits for the various components comprising wholesale funding), which were all well within policy guidelines at December 31, 2021.

The holding company's primary uses of funds include operating expenses incurred in the normal course of business, shareholder dividends, and stock repurchases. Its primary source of funds is dividends from the Bank since the holding company does not conduct regular banking operations. Management anticipates that the Bank will have sufficient earnings to provide dividends to the holding company to meet its funding requirements for the foreseeable future and the Bank is not subject to any regulatory restrictions for paying dividends to the holding company, other than the legal and regulatory limitations on dividend payments, as outlined in Item 5(c) Dividends in this Form 10-K.

Interest Rate Risk Management

Market risk arises from changes in interest rates, exchange rates, commodity prices and equity prices. The Company does not engage in the trading of financial instruments, nor does it have exposure to currency exchange rates. Our market risk exposure is primarily that of interest rate risk, and we have established policies and procedures to monitor and limit our earnings and balance sheet exposure to changes in interest rates. The principal objective of interest rate risk management

is to manage the financial components of the Company's balance sheet in a manner that will optimize the risk/reward equation for earnings and capital under a variety of interest rate scenarios.

To identify areas of potential exposure to interest rate changes, we utilize commercially available modeling software to perform monthly earnings simulations and calculate the Company's market value of portfolio equity under varying interest rate scenarios. The model imports relevant information for the Company's financial instruments and incorporates Management's assumptions on pricing, duration, and optionality for anticipated new volumes. Various rate scenarios consisting of key rate and yield curve projections are then applied in order to calculate the expected effect of a given interest rate change on interest income, interest expense, and the value of the Company's financial instruments. The rate projections can be shocked (an immediate and parallel change in all base rates, up or down), ramped (an incremental increase or decrease in rates over a specified time period), economic (based on current trends and econometric models) or stable (unchanged from current actual levels).

In addition to a stable rate scenario, which presumes that there are no changes in interest rates, we typically use at least eight other interest rate scenarios in conducting our rolling 12-month net interest income simulations: upward shocks of 100, 200, 300, and 400 basis points, and downward shocks of 100, 200, and 300 basis points. Those scenarios may be supplemented, reduced in number, or otherwise adjusted as determined by Management to provide the most meaningful simulations in light of economic conditions and expectations at the time. Given the current near zero interest rate environment it is unlikely that rates could decline much further beyond the downward shock of 100 basis points, therefore the downward shock scenarios of 200 and 300 basis points are temporarily being suspended after concurrence by the Company's Board of Directors. Pursuant to policy guidelines, we generally attempt to limit the projected decline in net interest income relative to the stable rate scenario to no more than 5% for a 100 basis point (bp) interest rate shock, 10% for a 200 bp shock, 15% for a 300 bp shock, and 20% for a 400 bp shock.

The Company had the following estimated net interest income sensitivity profiles over one-year, without factoring in any potential negative impact on spreads resulting from competitive pressures or credit quality deterioration (dollars in thousands):

	December 31, 2021		December 31, 2020	
Immediate change in Interest Rates (basis points)	% Change in Net Interest Income	$ Change in Net Interest Income	% Change in Net Interest Income	$ Change in Net Interest Income
+400	16.59%	$ 16,974	(1.56)%	$ (1,746)
+300	13.69%	$ 14,009	(0.77)%	$ (861)
+200	9.98%	$ 10,214	0.03%	$ 38
+100	5.64%	$ 5,772	0.51%	$ 567
Base				
-100	(10.29)%	$ (10,529)	(7.67)%	$ (8,583)

The simulation for the period ending December 31, 2021, indicates that the Company is asset sensitive, with sizeable increases in net interest income in rising rate scenarios, however a continued drop in interest rates could have a substantial negative impact. The change in the magnitude of the Company's asset sensitivity based on its interest rate risk model at December 31, 2021, as compared to December 31, 2020, is due mostly to the level of overnight cash held as an interest bearing deposit at the Federal Reserve Bank. At December 31, 2021, the Company had $193.2 million in overnight cash with the Federal Reserve Bank compared to $2.4 million at December 31, 2020. As this cash is held overnight, any change in interest rate in the model would increase the yield on such overnight cash immediately, therefore, increasing the Company's asset sensitivity.

For the prior year ending December 31, 2020 the simulations indicate that the Company's net interest income will remain relatively flat over the next 12 months in the up 100 and 200 basis point scenarios but declines after that in a rising rate environment, indicating that the Company was potentially liability sensitive; furthermore, a drop in interest rates could have had a substantial negative impact on earnings. If there were an immediate and sustained upward adjustment of 100 basis points in interest rates, all else being equal, net interest income over the next 12 months is projected to improve by $5.8 million, or 6%, relative to a stable interest rate scenario, with the favorable variance increasing as interest rates rise higher. If interest rates were to decline by 100 basis points, however, net interest income would likely be around $10.5 million lower than in a stable interest rate scenario, for a negative variance of 10%.

In addition to the net interest income simulations shown above, we run stress scenarios for the unconsolidated Bank modeling the possibility of no balance sheet growth, the potential runoff of "surge" core deposits which flowed into the Bank in the most recent economic cycle, and unfavorable movement in deposit rates relative to yields on earning assets (i.e., higher deposit betas). When no balance sheet growth is incorporated and a stable interest rate environment is assumed, projected annual net interest income is about $9.5 million lower, or 9% than in our standard simulation. However, the stressed simulations reveal that the Company's greatest potential pressure on net interest income would result from excessive non-maturity deposit runoff and/or unfavorable deposit rate changes in rising rate scenarios.

The economic value (or "fair value") of financial instruments on the Company's balance sheet will also vary under the interest rate scenarios previously discussed. The difference between the projected fair value of the Company's financial assets and the fair value of its financial liabilities is referred to as the economic value of equity ("EVE"), and changes in EVE under different interest rate scenarios are effectively a gauge of the Company's longer-term exposure to interest rate fluctuations. Fair values for financial instruments are estimated by discounting projected cash flows (principal and interest) at anticipated replacement interest rates for each account type, while the fair value of non-financial accounts is assumed to equal their book value for all rate scenarios. An economic value simulation is a static measure utilizing balance sheet accounts at a given point in time, and the measurement can change substantially over time as the Company's balance sheet evolves and interest rate and yield curve assumptions are updated.

The change in economic value under different interest rate scenarios depends on the characteristics of each class of financial instrument, including stated interest rates or spreads relative to current or projected market-level interest rates or spreads, the likelihood of principal prepayments, whether contractual interest rates are fixed or floating, and the average remaining time to maturity. As a general rule, fixed-rate financial assets become more valuable in declining rate scenarios

and less valuable in rising rate scenarios, while fixed-rate financial liabilities gain in value as interest rates rise and lose value as interest rates decline. The longer the duration of the financial instrument, the greater the impact a rate change will have on its value. In our economic value simulations, estimated prepayments are factored in for financial instruments with stated maturity dates, and decay rates for non-maturity deposits are projected based on historical patterns and Management's best estimates. The table below shows estimated changes in the Company's EVE as of December 31, 2021, and 2020, under different interest rate scenarios relative to a base case of current interest rates (dollars in thousands):

	December 31, 2021		December 31, 2020	
Immediate change in Interest Rates (basis points)	% Change in Fair Value of Equity	$ Change in Fair Value of Equity	% Change in Fair Value of Equity	$ Change in Fair Value of Equity
+400	36.40%	$ 210,185	32.19%	$ 163,713
+300	32.66%	$ 188,603	28.81%	$ 146,533
+200	26.21%	$ 151,341	23.69%	$ 120,513
+100	15.54%	$ 89,711	14.60%	$ 74,251
Base				
-100	(22.25)%	$ (128,469)	(7.26)%	$ (36,919)

The table shows that our EVE will generally deteriorate in declining rate scenarios but should benefit from a parallel shift upward in the yield curve. The increase in value of the Company's large volume of stable DDA balances is expected to outweigh the decrease in value of the fixed rate assets, causing the overall net increase in EVE in the up-shock scenarios. Our EVE deltas have increased given the relative starting points of our non-maturity deposits in the current rate environment. Specifically, as the current rates are very low, the value of the non-maturity deposits is lower than it has been historically. The impact of an increase in rates has an expected greater magnitude impact on the value of such deposits.

We also run stress scenarios for the unconsolidated Bank's EVE to simulate the possibility of slower loan prepayment speeds in the up-shock scenarios and faster prepayment speeds in the down-shock scenarios as well as unfavorable changes in deposit rates, and higher deposit decay rates. Model results are highly sensitive to changes in assumed decay rates for non-maturity deposits, in particular, with material unfavorable variances occurring relative to the standard simulations shown above as decay rates are increased. Furthermore, while not as extreme as the variances produced by increasing non-maturity deposit decay rates, EVE also displays a relatively high level of sensitivity to unfavorable changes in deposit rate betas in rising interest rate scenarios.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information concerning quantitative and qualitative disclosures of market risk called for by Item 305 of Regulation S-K is included as part of Item 7 above. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Market Risk Management".

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following financial statements and independent auditors' report listed below are included herein:

		Page
I.	Report of Independent Registered Public Accounting Firm (Eide Bailly LLP San Ramon, California PCAOB ID 286)	67
II.	Consolidated Balance Sheets – December 31, 2021 and 2020	70
III.	Consolidated Statements of Income – Years Ended December 31, 2021, 2020, and 2019	71
IV.	Consolidated Statements of Comprehensive Income – Years Ended December 31, 2021, 2020, and 2019	72
V.	Consolidated Statements of Changes in Shareholders' Equity – Years Ended December 31, 2021, 2020, and 2019	73
VI.	Consolidated Statements of Cash Flows – Years Ended December 31, 2021, 2020, and 2019	74
VII.	Notes to Consolidated Financial Statements	76

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
Sierra Bancorp and Subsidiary
Porterville, California

Opinion on the Financial Statements and Internal Control Over Financial Reporting
We have audited the accompanying consolidated balance sheets of Sierra Bancorp and Subsidiary (the Company) as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2021, and the related notes (collectively referred to as the "consolidated financial statements").

We also have audited the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control —Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control—Integrated Framework: (2013) issued by COSO.

Basis for Opinion
The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting
A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. A company's internal control

over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Loan and Lease Losses

As discussed in Note 4 to the Company's consolidated financial statements, the Company has a gross loan and lease portfolio of $2.0 billion and related allowance for loan and lease losses of $14.3 million as of December 31, 2021. The determination of the allowance for loan and lease losses is a material and complex estimate requiring significant management's judgment in the evaluation of the credit quality and the estimation of inherent losses within the loan and lease portfolio. The allowance for loan and lease losses includes a general reserve which is determined based on the results of a quantitative and a qualitative analysis of all loans not measured for impairment at the reporting date.

The Company's general reserves cover non-impaired loans and are based on historical net loss rates for each portfolio segment by call report code, adjusted for the effects of qualitative or environmental factors that are likely to cause estimated credit losses as of the evaluation date to differ from the portfolio segment's historical loss experience. Qualitative factors include consideration of the following: changes in lending policies and procedures; changes in international, national, regional, and local economic and business conditions and developments; changes in the nature and volume of the portfolio; changes in the experience, ability and depth of lending management and staff; changes in the volume and severity of past due, nonaccrual and other adversely graded loans; changes in quality of the loan review system; changes in the value of the underlying collateral for collateral-dependent loans; concentrations of credit; and the effect of the other external factors such as competition and legal and regulatory requirements.

We identified the allowance for loan and lease losses as a critical matter. Auditing these complex judgments and assumptions involves especially challenging auditor judgment due to the nature and extent of audit evidence and effort required to address these matters, including the extent of specialized skill or knowledge needed.

The primary procedures we performed to address this critical audit matter included:

- Testing the design and operating effectiveness of controls relating to management's timely identification of problem loans, appropriate application of loan rating policy, consistency of application of accounting policies and appropriateness of assumptions used in the allowance for loan and lease losses calculation.

- Evaluating the reasonableness of assumptions and sources of data used by management in forming the loss factors by performing retrospective review of historic loan and lease loss experience and

analyzing historical data used in developing the assumptions.

- Evaluating the appropriateness of inputs and factors that the Company used in forming the qualitative loss factors and assessing whether such inputs and factors were relevant, reliable, and reasonable for the purpose used.
- Testing the mathematical accuracy and computation of the allowance for loan and lease losses.
- Evaluating the period to period consistency with which qualitative loss factors are determined and applied.

/s/ Eide Bailly LLP

San Ramon, California
March 10, 2022

We have served as the Company's auditor since 2019. Vavrinek, Trine, Day & Co., LLP, who joined Eide Bailly LLP in 2019, had served as the Company's auditor since 2004.

SIERRA BANCORP AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 31, 2021 and 2020
(dollars in thousands)

	2021	2020
ASSETS		
Cash and due from banks	$ 63,147	$ 67,908
Interest bearing deposits in banks	194,381	3,509
Cash and cash equivalents	257,528	71,417
Securities available-for-sale	973,314	543,974
Loans and leases:		
Gross loans and leases	1,989,726	2,463,111
Allowance for loan and lease losses	(14,256)	(17,738)
Deferred loan and lease (fees) costs, net	(1,865)	(3,147)
Net loans and leases	1,973,605	2,442,226
Foreclosed assets	93	971
Premises and equipment, net	23,571	27,505
Goodwill	27,357	27,357
Other intangible assets, net	3,275	4,307
Company owned life insurance	54,242	52,539
Other assets	58,029	50,446
	$ 3,371,014	$ 3,220,742
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest bearing	$ 1,084,544	$ 943,664
Interest bearing	1,697,028	1,680,942
Total deposits	2,781,572	2,624,606
Repurchase agreements	106,937	39,138
Short-term borrowings	—	142,900
Long-term debt	49,141	—
Subordinated debentures, net	35,302	35,124
Other liabilities	35,568	35,078
Total liabilities	3,008,520	2,876,846
Commitments and contingent liabilities (Notes 6 & 14)		
Shareholders' equity		
Serial Preferred stock, no par value; 10,000,000 shares authorized; none issued; Common stock, no par value; 24,000,000 shares authorized; 15,270,010 and 15,388,423 shares issued and outstanding in 2021 and 2020, respectively	113,007	113,384
Additional paid-in capital	3,910	3,736
Retained earnings	234,410	208,371
Accumulated other comprehensive gain, net of taxes of $(4,687) in 2021 and $(7,725) in 2020	11,167	18,405
Total shareholders' equity	362,494	343,896
	$ 3,371,014	$ 3,220,742

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

SIERRA BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2021, 2020 and 2019
(dollars in thousands, except per share data)

	2021	2020	2019
Interest and dividend income			
Loans and leases, including fees	$ 99,249	$ 96,181	$ 95,898
Taxable securities	7,239	8,199	10,139
Tax-exempt securities	6,218	5,707	4,534
Federal funds sold and other	370	156	376
Total interest income	113,076	110,243	110,947
Interest expense			
Deposits	2,390	3,948	11,380
Short-term borrowings	213	243	362
Long-term debt	468	—	—
Subordinated debentures	979	1,217	1,836
Total interest expense	4,050	5,408	13,578
Net interest income	109,026	104,835	97,369
(Benefit) provision for loan and lease losses	(3,650)	8,550	2,550
Net interest income after provision for loan and lease losses	112,676	96,285	94,819
Noninterest income			
Service charges on deposits	11,846	11,765	12,742
Checkcard fees	8,485	7,023	6,584
Net gains (losses) on sale of securities available-for-sale	11	390	(198)
Increase in cash surrender value of life insurance	2,648	2,412	2,184
Other income	5,089	4,560	2,165
Total noninterest income	28,079	26,150	23,477
Noninterest expense			
Salaries and employee benefits	42,431	40,178	35,978
Occupancy and equipment	9,837	9,842	9,845
Acquisition costs	—	—	22
Other	31,288	25,892	24,733
Total noninterest expense	83,556	75,912	70,578
Income before income taxes	57,199	46,523	47,718
Provision for income taxes	14,187	11,079	11,757
Net income	$ 43,012	$ 35,444	$ 35,961
Earnings per share			
Basic	$ 2.82	$ 2.33	$ 2.35
Diluted	$ 2.80	$ 2.32	$ 2.33
Weighted average shares outstanding, basic	15,241,957	15,216,749	15,311,113
Weighted average shares outstanding, diluted	15,353,445	15,280,325	15,437,111

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

SIERRA BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31, 2021, 2020 and 2019
(dollars in thousands, except footnotes)

	2021	2020	2019
Net income	$ 43,012	$ 35,444	$ 35,961
Other comprehensive income, before tax			
Unrealized gain (loss) on securities:			
Unrealized holding gain (loss) arising during period	(10,265)	18,099	17,686
Reclassification adjustment for (gains) losses included in net income [1]	(11)	(390)	198
Other comprehensive gain (loss), before tax	(10,276)	17,709	17,884
Income tax (expense) benefit related to items of other comprehensive income	3,038	(5,236)	(5,286)
Total other comprehensive gain (loss), net of tax	(7,238)	12,473	12,598
Comprehensive income	$ 35,774	$ 47,917	$ 48,559

(1) Amounts are included in net (gains) losses on securities available-for-sale on the Consolidated Statements of Income in noninterest income. Income tax (expense) benefit associated with the reclassification adjustment for the years ended 2021, 2020 and 2019 was $(3,000), $(115,000), and $59,000 respectively.

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

Table of Contents

SIERRA BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the Three Years Ended December 31, 2021
(dollars in thousands, except per share data)

	Common Stock					
	Shares	Amount	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Gain (Loss)	Shareholders' Equity
Balance, January 1, 2019	15,300,460	$ 112,507	$ 3,066	$ 164,117	$ (6,666)	$ 273,024
Net Income	—	—	—	35,961	—	35,961
Other comprehensive loss, net of tax	—	—	—	—	12,598	12,598
Exercise of stock options	82,681	1,337	(249)	—	—	1,088
Stock based compensation expense	—	—	490	—	—	490
Stock repurchase	(98,603)	(665)	—	(1,879)	—	(2,544)
Cash dividends - $.74 per share	—	—	—	(11,332)	—	(11,332)
Balance, December 31, 2019	15,284,538	113,179	3,307	186,867	5,932	309,285
Net Income	—	—	—	35,444	—	35,444
Other comprehensive gain, net of tax	—	—	—	—	12,473	12,473
Exercise of stock options	67,050	1,034	(259)	—	—	775
Stock based compensation expense	148,885	—	688	—	—	688
Stock repurchase	(112,050)	(829)	—	(1,733)	—	(2,562)
Cash dividends - $.80 per share	—	—	—	(12,207)	—	(12,207)
Balance, December 31, 2020	15,388,423	113,384	3,736	208,371	18,405	343,896
Net Income	—	—	—	43,012	—	43,012
Other comprehensive loss, net of tax	—	—	—	—	(7,238)	(7,238)
Stock options exercised; net of shares surrendered for cashless exercises	25,452	422	(141)	—	—	281
Restricted stock granted	73,912	680	(680)	—	—	—
Restricted stock surrendered due to employee tax liability	(12,122)	(89)	—	(203)	—	(292)
Restricted stock forfeited / cancelled	(18,217)	—	—	—	—	—
Stock based compensation - stock options	—	—	118	—	—	118
Stock based compensation - restricted stock	—	—	877	—	—	877
Stock repurchase	(187,438)	(1,390)	—	(3,538)	—	(4,928)
Cash dividends - $.87 per share	—	—	—	(13,232)	—	(13,232)
Balance, December 31, 2021	15,270,010	$ 113,007	$ 3,910	$ 234,410	$ 11,167	$ 362,494

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

SIERRA BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2021, 2020, and 2019
(dollars in thousands)

	2021	2020	2019
Cash flows from operating activities:			
Net income	$ 43,012	$ 35,444	$ 35,961
Adjustments to reconcile net income to net cash provided by operating activities:			
(Gain) loss on sales of securities	(11)	(390)	198
(Gain) loss on disposal of fixed assets	(180)	—	28
Gain on sale of foreclosed assets	(153)	(10)	(107)
Writedown of foreclosed assets	174	124	77
Stock based compensation expense	995	688	490
(Benefit) provision for loan and lease losses	(3,650)	8,550	2,550
Depreciation and amortization	3,237	3,025	2,988
Net amortization on securities premiums and discounts	4,914	4,789	4,449
Accretion of discounts for loans acquired and net deferred loan fees	(411)	(663)	(1,023)
Increase in cash surrender value of life insurance policies	(2,648)	(2,412)	(2,184)
Amortization of core deposit intangible	1,032	1,074	1,074
Decrease (increase) in interest receivable and other assets	6,435	(488)	(9,224)
Increase (decrease) in other liabilities	1,602	(8,151)	9,662
Deferred income tax provision (benefit)	85	(2,611)	(97)
Increase in equity securities	(2,523)	(447)	(232)
Net amortization of partnership investment	746	1,505	2,127
Net cash provided by operating activities	52,656	40,027	46,737
Cash flows from investing activities:			
Maturities and calls of securities available for sale	10,390	12,385	9,809
Proceeds from sales of securities available for sale	148	20,298	60,510
Purchases of securities available for sale	(568,174)	(71,816)	(190,168)
Principal paydowns on securities available for sale	113,117	109,267	92,766
Net purchases of FHLB stock	—	—	(833)
Loan originations and payments, net	472,589	(697,305)	(32,376)
Purchases of premises and equipment, net	(371)	(2,916)	(783)
Proceeds from sales of fixed assets	1,426	—	10
Proceeds from sales of foreclosed assets	950	2,445	7,955
Purchase of bank owned life insurance	(39)	(210)	(440)
Liquidation of bank-owned life insurance	—	326	260
Proceeds from BOLI death benefit	984	274	—
Net increase in partnership investment	(10,400)	—	—
Net cash provided by (used in) investing activities	20,620	(627,252)	(53,290)
Cash flows from financing activities:			
Increase in deposits	156,966	456,232	52,034
(Decrease) increase in borrowed funds	(42,900)	22,900	(36,100)
Increase in repurchase agreements	67,799	13,427	9,352
(Decrease) increase in fed funds purchased	(100,000)	100,000	—
Cash dividends paid	(13,232)	(12,207)	(11,332)
Repurchases of common stock	(5,220)	(2,562)	(2,544)
Stock options exercised	281	775	1,088
Proceeds from issuance of subordinated debt	49,141	—	—
Net cash provided by financing activities	112,835	578,565	12,498
Increase (decrease) in cash and due from banks	186,111	(8,660)	5,945
Cash and cash equivalents, beginning of year	71,417	80,077	74,132
Cash and cash equivalents, end of year	$ 257,528	$ 71,417	$ 80,077

SIERRA BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Continued)

Years Ended December 31, 2021, 2020 and 2019
(dollars in thousands)

	2021	2020	2019
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	$ 3,649	$ 6,007	$ 13,769
Income taxes	$ 13,554	$ 14,490	$ 12,000
Supplemental noncash disclosures:			
Real estate acquired through foreclosure	$ 93	$ 2,562	$ 27
Change in unrealized net (losses) gains on securities available-for-sale	$ (10,276)	$ 17,709	$ 17,884
Operating right-of-use asset pursuant to adoption of ASU 2016-02	$ —	$ —	$ 8,308
Operating lease liability pursuant to adoption of ASU 2016-02	$ —	$ —	$ 8,915

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

SIERRA BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. THE BUSINESS OF 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 Statutory Trust II, Sierra Capital Trust III and Coast Bancorp Statutory Trust II, which were formed solely to facilitate the issuance of capital trust pass-through securities.

At December 31, 2021, the Bank operated 35 full service branch offices, an online branch and provides specialized lending services through an agricultural credit center, an SBA center, Mortgage Warehouse lending divisions and a dedicated loan production office in Roseville, California. The Bank's deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to applicable legal limits. The Bank maintains a diversified loan portfolio comprised of agricultural, commercial, consumer, real estate, construction and mortgage loans. Loans are made in California within the market area of the South Central San Joaquin Valley, the Central Coast, Ventura County and neighboring communities. These areas have diverse economies with principal industries being agriculture, real estate and light manufacturing.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of the Company and the consolidated accounts of its wholly-owned subsidiary, Bank of the Sierra. All significant intercompany balances and transactions have been eliminated. Certain reclassifications have been made to prior years' balances to conform to classifications used in 2021. The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and prevailing practices within the banking industry.

In accordance with U.S. GAAP, the Company's investments in Sierra Statutory Trust II, Sierra Capital Trust III and Coast Bancorp Statutory Trust II are not consolidated and are accounted for under the equity method and included in other assets on the consolidated balance sheet. The subordinated debentures issued and guaranteed by the Company and held by the trusts are reflected on the Company's consolidated balance sheet.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

Material estimates that are particularly susceptible to significant changes in the near-term relate to the determination of the allowance for loan and lease losses and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowances for loan and lease losses and other real estate, management obtains independent appraisals for significant properties, evaluates the overall loan portfolio characteristics and delinquencies and monitors economic conditions.

Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash and deposits with other financial institutions with original maturities within 90 days, and federal funds sold. Net cash flows are reported for customer

loan and deposit transactions, interest bearing deposits in other financial institutions, and fed funds purchased and repurchase agreements.

Securities

Debt securities may be classified as held to maturity and carried at amortized cost when management has the positive ability and intent to hold them to maturity. Debt securities are classified as available for sale when they might be sold before maturity. Equity securities with readily determinable fair values are classified as available for sale. Debt securities available for sale are carried at fair value with unrealized holding gains and losses reported in other comprehensive income, net of tax.

Interest income includes amortization of purchase premium or discount. Premiums or discounts on securities are amortized on the level-yield method without anticipating prepayments. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management determines the appropriate classification of its investments at the time of purchase and may only change the classification in certain limited circumstances. All transfers between categories are accounted for at fair value. Although the Company currently has the intent and the ability to hold the securities in its investment portfolio to maturity, the securities are all marketable and are currently classified as “available for sale” to allow maximum flexibility with regard to interest rate risk and liquidity management.

Management evaluates securities for other-than-temporary impairment (“OTTI”) on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of the impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

FHLB Stock and Other Investments

The Bank is a member of the Federal Home Loan Bank ("FHLB") system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost in other assets, and periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income. The Bank’s investment in FHLB stock was approximately $12.4 million at December 31, 2021 and $10.7 million at December 31, 2020.

Pursuant to the adoption of ASU 2016-01 on January 1, 2018, the Company elected the measurement alternative for measuring equity securities without readily determinable fair values at cost less impairment, plus or minus observable price changes in orderly transactions. The carrying amount of equity securities without readily determinable fair values is $3.3 million and $2.5 million at December 31, 2021 and 2020, respectively. Equity securities primarily consist of an investment in Pacific Coast Bankers’ Bank (“PCBB”). A remeasurement gain of $0.9 million, $0.4 million and $0.2 million was recorded to income during the years ended December 31, 2021, 2020 and 2019, on PCBB stock. $2.7 million in cumulative remeasurement gains have been recorded as of December 31, 2021 on PCBB stock. Adjustments to the carrying value of PCBB stock were based on a third party valuation.

Loans Held for Sale

The Company may originate loans intended to be sold on the secondary market. Loans originated and intended for sale in the secondary market are carried at cost which approximates fair value since these loans are typically sold shortly after origination. The loan's cost basis includes unearned deferred fees and costs, and premiums and discounts. If loans held for sale remain on our books for an extended period of time the fair value of those loans is determined using quoted secondary market prices. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Loans that might be held for sale by the Company typically consist of residential real estate loans. Loans classified as held for sale, if any, are disclosed in Note 4 to the consolidated financial statements.

Gains and losses on sales of loans are recognized at the time of sale and are calculated based on the difference between the selling price and the allocated book value of loans sold. Book value allocations are determined in accordance with U.S. GAAP. Any inherent risk of loss on loans sold is transferred to the buyer at the date of sale.

The Company has issued various representations and warranties associated with the sale of loans. These representations and warranties may require the Company to repurchase loans with underwriting deficiencies as defined per the applicable sales agreements and certain past due loans within 90 days of the sale. The Company did not experience losses during the years ended December 31, 2021, 2020, or 2019 regarding these representations and warranties.

Loans and Leases (Financing Receivables)

Our credit quality classifications of Loans and Leases include Pass, Special Mention, Substandard and Impaired. These classifications are defined in Note 4 to the consolidated financial statements.

Loans and leases that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs, purchase premiums and discounts, write-downs, and an allowance for loan and lease losses. Loan and lease origination fees, net of certain deferred origination costs, and purchase premiums and discounts are recognized in interest income as an adjustment to yield of the related loans and leases over the contractual life of the loan using both the effective interest and straight line methods without anticipating prepayments.

Interest income for all performing loans, regardless of classification (Pass, Special Mention, Substandard and Impaired), is recognized on an accrual basis, with interest accrued daily. Costs associated with successful loan originations are netted from loan origination fees, with the net amount (net deferred loan fees) amortized over the contractual life of the loan in interest income. If a loan has scheduled periodic payments, the amortization of the net deferred loan fee is calculated using the effective interest method over the contractual life of the loan. If the loan does not have scheduled payments, such as a line of credit, the net deferred loan fee is recognized as interest income on a straight line basis over the contractual life of the loan. Fees received for loan commitments are recognized as interest income over the term of the commitment. When loans are repaid, any remaining unamortized balances of deferred fees and costs are accounted for through interest income.

Generally, the Company places a loan or lease on nonaccrual status and ceases recognizing interest income when it has become delinquent more than 90 days and/or when Management determines that the repayment of principal and collection of interest is unlikely. The Company may decide that it is appropriate to continue to accrue interest on certain loans more than 90 days delinquent if they are well-secured by collateral and collection is in process. When a loan is placed on nonaccrual status, any accrued but uncollected interest for the loan is reversed out of interest

income in the period in which the loan's status changed. For loans with an interest reserve, i.e., where loan proceeds are advanced to the borrower to make interest payments, all interest recognized from the inception of the loan is reversed when the loan is placed on non-accrual. Once a loan is on non-accrual status subsequent payments received from the customer are applied to principal, and no further interest income is recognized until the principal has been paid in full or until circumstances have changed such that payments are again consistently received as contractually required. Generally, loans and leases are not restored to accrual status until the obligation is brought current and has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

Impaired loans are classified as either nonaccrual or accrual, depending on individual circumstances regarding the collectability of interest and principal according to the contractual terms.

Purchased Credit Impaired Loans

The Company purchases individual loans and groups of loans, some of which may show evidence of credit deterioration since origination. These purchased credit impaired ("PCI") loans are recorded at the amount paid, since there is no carryover of the seller's allowance for loan and lease losses. After acquisition, additional deterioration in credit is recognized by an increase in the allowance for loan and lease losses.

Such PCI loans are accounted for individually or aggregated into pools of loans based on common risk characteristics. The Company estimates the amount and timing of expected cash flows for the loan or pool, and the expected cash flows in excess of amount paid is recorded as interest income over the remaining life of the loan or pool (accretable yield). The excess of the loan's or pool's contractual principal and interest over expected cash flows is not recorded (nonaccretable difference).

Over the life of the loan or pool, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded as a provision for loan and lease losses. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income

Loans Modified in a Troubled Debt Restructuring

Loans are considered to have been modified in a troubled debt restructuring ("TDR") when due to a borrower's financial difficulties the Company makes certain concessions to the borrower that it would not otherwise consider. Modifications may include interest rate reductions, principal or interest forgiveness, forbearance, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral. Generally, a non-accrual loan that has been modified in a TDR remains on non-accrual status for a period of six months to demonstrate that the borrower is able to meet the terms of the modified loan. However, performance prior to the modification, or significant events that coincide with the modification, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status at the time of loan modification or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, the loan remains on non-accrual status.

A TDR is generally considered to be in default when it appears likely that the customer will not be able to repay all principal and interest pursuant to the terms of the restructured agreement.

Allowance for Loan and Lease Losses

The allowance for loan and lease losses is maintained at a level which, in management's judgment, is adequate to absorb loan and lease losses inherent in the loan and lease portfolio. The allowance for loan and lease losses is

SIERRA BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

increased by a provision for loan and lease losses, which is charged to expense, and by principal recovered on charged-off balances. It is reduced by principal charge-offs. The amount of the allowance is based on management's evaluation of the collectability of the loan and lease portfolio, changes in its risk profile, credit concentrations, historical trends, and economic conditions. This evaluation also considers the balance of impaired loans and leases. A loan or lease is impaired when it is probable that the Company will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan or lease agreement. The impairment on certain individually identified loans or leases is measured based on the present value of expected future cash flows discounted at the original effective interest rate of the loan or lease. As a practical expedient, impairment may be measured based on the loan's or lease's observable market price or the fair value of collateral if the loan or lease is collateral dependent. The amount of impairment, if any, is recorded through the provision for loan and lease losses and is added to the allowance for loan and lease losses, with any changes over time recognized as additional bad debt expense in our provision for loan and lease losses. Impaired loans with homogenous characteristics, such as one-to-four family residential mortgages and consumer installment loans, may be subjected to a collective evaluation for impairment, considering delinquency and repossession statistics, historical loss experience, and other factors.

General reserves cover non-impaired loans and are based on historical net loss rates for each portfolio segment by call report code, adjusted for the effects of qualitative or environmental factors that are likely to cause estimated credit losses as of the evaluation date to differ from the portfolio segment's historical loss experience. Qualitative factors include consideration of the following: changes in lending policies and procedures; changes in international, national, regional, and local economic and business conditions and developments; changes in the nature and volume of the portfolio; changes in the experience, ability and depth of lending management and staff; changes in the volume and severity of past due, nonaccrual and other adversely graded loans; changes in quality of the loan review system; changes in the value of the underlying collateral for collateral-dependent loans; concentrations of credit; and the effect of the other external factors such as competition and legal and regulatory requirements.

Most of the Company's business activity is with customers located in California within the Southern Central San Joaquin Valley; in the corridor stretching between Santa Paula and Santa Clarita in Southern California, and on the Central Coast. Therefore the Company's exposure to credit risk is significantly affected by changes in the economy in those regions. The Company considers this concentration of credit risk when assessing and assigning qualitative factors in the allowance for loan and lease losses. Portfolio segments identified by the Company include Agricultural, Commercial and Industrial, Real Estate, Small Business Administration, and Consumer loans. Relevant risk characteristics for these portfolio segments generally include debt service coverage, loan-to-value ratios and financial performance on non-consumer loans; and credit scores, debt-to-income ratios, collateral type and loan-to-value ratios for consumer loans.

Though management believes the allowance for loan and lease losses to be adequate, ultimate losses may vary from their estimates. However, estimates are reviewed periodically, and as adjustments become necessary they are reported in earnings during the periods they become known. In addition, the FDIC and the California Department of Financial Protection and Innovation, as an integral part of their examination processes, review the allowance for loan and lease losses. These agencies may require additions to the allowance for loan and lease losses based on their judgment about information available at the time of their examinations.

Reserve for Off-Balance Sheet Commitments

In addition to the exposure to credit loss from outstanding loans, the Company is also exposed to credit loss from certain off-balance sheet commitments such as unused commitments from revolving lines of credit, mortgage warehouse lines of credit, construction loans and commercial and standby letters of credit. Because the available funds have not yet been disbursed on these commitments the estimated losses are not included in the calculation of the ALLL. The reserve for off-balance sheet commitments is an estimated loss contingency which is included in

other liabilities on the Consolidated Balance Sheets. The adjustments to the reserve for off-balance sheet commitments are reported within noninterest expense. This reserve is for estimated losses that could occur when the Company is contractually obligated to make a payment under these instruments and must seek repayment from a party that may not be as financially sound in the current period as it was when the commitment was originally made.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The useful lives of premises range between twenty-five to thirty-nine years. The useful lives of furniture, fixtures and equipment range between three to twenty years. Leasehold improvements are amortized over the life of the asset or the term of the related lease, whichever is shorter. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred.

Impairment of long-lived assets is evaluated by management based upon an event or changes in circumstances surrounding the underlying assets which indicate long-lived assets may be impaired.

Foreclosed Assets

Foreclosed assets include real estate and other property acquired in full or partial settlement of loan obligations. Upon acquisition, any excess of the recorded investment in the loan balance over the appraised fair market value, net of estimated selling costs, is charged against the allowance for loan and lease losses. A valuation allowance for losses on foreclosed assets is maintained to provide for subsequent declines in value. The allowance is established through a provision for losses on foreclosed assets which is included in other noninterest expense. Subsequent gains or losses on sales or write-downs resulting from permanent impairments are recorded in other noninterest expense as incurred. Operating costs after acquisition are expensed.

The Company had one foreclosed residential real estate property recorded at December 31, 2021, as a result of obtaining physical possession of the property. At December 31, 2021, the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceeds were in process was $.008 million.

Goodwill and Other Intangible Assets

The Company acquired Sierra National Bank in 2000, Santa Clara Valley Bank in 2014, Coast National Bank in 2016, and Ojai Community Bank and the Woodlake Branch of Citizen's Business Bank in 2017. Goodwill resulting from business combinations after January 1, 2009 is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date.

Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but are tested for impairment at least annually or more frequently if events and circumstances exist which indicate that an impairment test should be performed. The Company selected December 31, 2021 as the date to perform the annual impairment test for 2021. Goodwill is the only intangible asset with an indefinite life on our balance sheet. There was no impairment recognized for the years ended December 31, 2021, 2020, and 2019.

Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. The Company's other intangible assets consist solely of core deposit intangible assets (CDI's) arising from the acquisitions of Santa Clara Valley Bank, Coast National Bank, a Citizen's Business Bank Porterville branch deposit portfolio, Ojai Community Bank, the Woodlake Branch of Citizen's Business Bank and the Lompoc branch of Santa Maria Community Bank. All of the CDI's are being amortized on a straight-line basis over eight years, except for the Citizen's Business Bank Porterville branch deposit portfolio which is being amortized on a straight-line basis over five years.

Loan Commitments and Related Financial Instruments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded. Details regarding these commitments and financial instruments are discussed in detail in Note 14 to the consolidated financial statements.

Income Taxes

The Company files its income taxes on a consolidated basis with its subsidiary. The allocation of income tax expense represents each entity's proportionate share of the consolidated provision for income taxes.

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax basis of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely to be realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. We have determined that as of December 31, 2021 all tax positions taken to date are highly certain and, accordingly, no accounting adjustment has been made to the financial statements.

The Company recognizes interest and penalties related to uncertain tax positions as part of income tax expense.

Salary Continuation Agreements and Directors' Retirement Plan

The Company has entered into agreements to provide members of the Board of Directors and certain key executives, or their designated beneficiaries, with annual benefits for up to fifteen years after retirement or death. The Company accrues for these future benefits from the effective date of the plan until the director's or executive's expected retirement date in a systematic and rational manner. At the consolidated balance sheet date, the amount of accrued benefits equals the then present value of the benefits expected to be provided to the director or employee, any beneficiaries, and covered dependents in exchange for the director's or employee's services to that date.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes fluctuations in unrealized gains and losses on securities available for sale, net of an adjustment for the effects of realized gains and losses and any applicable tax. Comprehensive income is a more inclusive financial

reporting methodology that includes disclosure of other comprehensive income that historically has not been recognized in the calculation of net income. Unrealized gains and losses on the Company's available for sale securities, net of tax, are included in other comprehensive income after adjusting for the effects of realized gains and losses. Total comprehensive income and the components of accumulated other comprehensive income (loss) are presented in the consolidated statements of comprehensive income.

Stock-Based Compensation

At December 31, 2021, the Company had one stock-based compensation plan, the Sierra Bancorp 2017 Stock Incentive Plan (the "2017 Plan"), which was adopted by the Company's Board of Directors on March 16, 2017 and approved by the Company's shareholders on May 24, 2017. The 2017 Plan replaced the Company's 2007 Stock Incentive Plan (the "2007" Plan), which expired by its own terms on March 15, 2017. Options to purchase shares granted under the 2007 Plan that remained outstanding were unaffected by that plan's termination. The 2017 Plan covers 850,000 shares of the Company's authorized but unissued common stock, subject to adjustment for stock splits and dividends, and provides for the issuance of both "incentive" and "nonqualified" stock options to salaried officers and employees, and of "nonqualified" stock options to non-employee directors. The 2017 Plan also provides for the issuance of restricted stock awards to these same classes of eligible participants.

Compensation cost and director's expense is recognized for stock options and restricted stock awards issued to employees and directors and is recognized over the required service period, generally defined as the vesting period. The Company is using the Black-Scholes model to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards. The "multiple option" approach for stock options is used to allocate the resulting valuation to actual expense for current period. Expected volatility is based on historical volatility of the Company's common stock. The Company uses historical data to estimate stock option exercise and post-vesting termination behavior. The expected term of stock options granted is based on historical data and represents the period of time that options granted are expected to be outstanding subsequent to vesting, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the stock option is based on the U.S. Treasury yield curve in effect at the time of the grant. The fair value of each stock option is estimated on the date of grant using the following assumptions:

	2020	2019
Dividend yield	3.02%	2.62%
Expected Volatility	25.06%	34.57%
Risk-free interest rate	1.47%	2.70%
Expected option life	6.4 years	5.4 years

No stock options were granted during the year ended December 31, 2021.

Revenue Recognition

Revenue from contracts with customers subject to ASC 606 comprises the noninterest income earned by the Company in exchange for services provided to customers. Income associated with customer contracts generally involve transaction prices that are fixed and performance obligations which are satisfied as services are rendered. In most cases recognition occurs within a single financial reporting period as there is little or no judgement involved in the timing of revenues. We generally act in a principal capacity, on our own behalf, in most of our contracts with customers. In such transactions, we recognize revenue and the related costs to provide our services on a gross basis in our financial statements. Service Charges on Deposit Accounts comprise charges on retail and business accounts.

SIERRA BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Business customers can earn credits depending on account type and deposit balances maintained with the Company, which may be used to offset fees. Fees and credits are based on predetermined, agreed-upon rates. In some cases, we act in an agent capacity, deriving revenue through assisting other entities in transactions with our customers. In such transactions, we recognize revenue and those related costs to provide services on a gross basis in our financial statements. Debit card interchange income is derived from our customers' use of various interchange and ATM/debit card networks which are the primary sources of revenue generated in an agent capacity.

Recent Accounting Pronouncements

In September 2016 the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which eliminates the probable initial recognition threshold for credit losses in current U.S. GAAP, and instead requires an organization to record a current estimate of all expected credit losses over the contractual term, adjusted by expected prepayments, for financial assets carried at amortized cost. This is commonly referred to as the current expected credit losses ("CECL") methodology. Expected credit losses for financial assets held at the reporting date will be estimated for the contractual term of the financial asset, adjusted by prepayments, based on historical experience, current conditions, and reasonable and supportable forecasts of future economic conditions. Another change from existing U.S. GAAP involves the treatment of purchased credit deteriorated assets, which are more broadly defined than purchased credit impaired assets in current accounting standards. When such assets are purchased, institutions will estimate and record an allowance for credit losses, in contrast to acquired loans not identified as purchased credit deteriorated for which the allowance will be established through a charge to credit loss expense. Furthermore, ASU 2016-13 updates the measurement of credit losses on available-for-sale debt securities, by mandating that institutions record credit losses on available-for-sale debt securities through an allowance for credit losses rather than the current practice of writing down securities for other-than-temporary impairment. ASU 2016-13 will also require the enhancement of financial statement disclosures regarding estimates used in calculating credit losses. ASU 2016-13 does not change the existing write-off principle in U.S. GAAP or current nonaccrual practices, nor does it change accounting requirements for loans held for sale or certain other financial assets which are measured at the lower of amortized cost or fair value. As a public business entity that is an SEC filer, ASU 2016-13 was originally scheduled to become effective for the Company on January 1, 2020. In March 2020, the Company elected under Section 4014 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act to defer the implementation of CECL until the earlier of when the national emergency related to the outbreak of COVID-19 ends or December 31, 2020. In December 2020, the Consolidated Appropriations Act 2021, extended the deferral of implementation of CECL from December 31, 2020, to the earlier of the first day of the fiscal year, beginning after the national emergency terminates or January 1, 2022. The Company implemented CECL on January 1, 2022. As a result the Company's allowance for credit losses increased by $10.4 million relative to the balance at December 31, 2021, which included an increase to our reserve for unfunded commitments of $0.9 million.

On March 22, 2020, a statement was issued by our banking regulators and titled the "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus" (the "Interagency Statement") that encourages financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations due to the effects of COVID-19. Additionally, Section 4013 of the CARES Act, that passed on March 27, 2020, further provides that a qualified loan modification is exempt by law from classification as a troubled debt restructuring ("TDR") as defined by GAAP, from the period beginning March 1, 2020 until the earlier of December 31, 2020 or the date that is 60 days after the date on which the national emergency concerning the COVID-19 outbreak declared by the President of the United States under the National Emergencies Act (50 U.S.C. 1601 et seq.) terminates. The Interagency Statement was subsequently revised in April 2020 to clarify the interaction of the original guidance with Section 4013 of the CARES Act, as well as setting forth the banking regulators' views on consumer protection considerations. In accordance with such guidance, we processed short-term modifications for 311 loans and $424.9 million made in response to COVID-19 to borrowers

who were current and otherwise not past due. These include short-term, 180 days or less, modifications in the form of payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant. See Note 4 for further information on remaining non-TDR loan modifications. The Interagency Guidance and Section 4013 did not have a material impact on the Company's financial statements.

3. SECURITIES AVAILABLE-FOR-SALE

The amortized cost and fair value of the securities available-for-sale are as follows (dollars in thousands):

	December 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agencies	$ 1,546	$ 28	$ —	$ 1,574
Mortgage-backed securities	303,912	4,772	(1,957)	306,727
State and political subdivisions	290,729	13,807	(268)	304,268
Corporate bonds	28,436	94	(1)	28,529
Collateralized loan obligations	332,836	68	(688)	332,216
Total securities	$ 957,459	$ 18,769	$ (2,914)	$ 973,314

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agencies	$ 1,725	$ 75	$ —	$ 1,800
Mortgage-backed securities	304,108	10,389	(62)	314,435
State and political subdivisions	212,011	15,728	—	227,739
Total securities	$ 517,844	$ 26,192	$ (62)	$ 543,974

For the years ended December 31, 2021, 2020, and 2019, proceeds from sales of securities available-for-sale were $0.1 million, $20.3 million, and $60.5 million, respectively. Gains and losses on the sale of investment securities are recorded on the trade date and are determined using the specific identification method.

Gross gains and losses from the sales and calls of securities for the years ended were as follows (dollars in thousands):

	December 31,		
	2021	2020	2019
Gross gains on sales and calls of securities	$ 11	$ 433	$ 230
Gross losses on sales and calls of securities	—	(43)	(428)
Net gains (losses) on sales and calls of securities	$ 11	$ 390	$ (198)

The Company has reviewed all sectors and securities in the portfolio for impairment. During the year ended December 31, 2021 the Company realized gains through earnings from the sale and call of 21 debt securities for $0.01 million. There were no securities sold during 2021 for which a loss was realized. During the year ended December 31, 2020, the Company realized gains through earnings from the sale and call of 60 debt securities for $0.43 million. The securities were sold with 9 other debt securities, for which a $0.04 million loss was realized. During the year ended December 31, 2019 the Company realized gains through earnings from the sale and call of

74 debt securities for $0.2 million. The securities were sold with 108 other debt securities, for which a $0.4 million loss was realized, to improve the structure of the portfolio at year end.

At December 31, 2021 and 2020, the Company had 99 and 2 securities with unrealized gross losses, respectively. Information pertaining to these securities aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows (dollars in thousands):

	December 31, 2021			
	Less than twelve months		Twelve months or longer	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. government agencies	$ —	$ —	$ —	$ —
Mortgage-backed securities	(1,797)	107,026	(160)	2,808
State and political subdivisions	(268)	30,170	—	—
Corporate bonds	(1)	499	—	—
Collateralized loan obligations	(688)	175,581	—	—
Total	$ (2,754)	$ 313,276	$ (160)	$ 2,808

	December 31, 2020			
	Less than twelve months		Twelve months or longer	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. government agencies	$ —	$ —	$ —	$ —
Mortgage-backed securities	(62)	4,286	—	—
State and political subdivisions	—	—	—	—
Total	$ (62)	$ 4,286	$ —	$ —

The Company has concluded as of December 31, 2021 that all remaining securities, currently in an unrealized loss position, are not other-than-temporarily-impaired. This assessment was based on the following factors: 1) the Company has the ability to hold the securities, 2) the Company does not intend to sell the securities, 3) the Company does not anticipate it will be required to sell the securities before recovery, 4) and the Company expects to eventually recover the entire amortized cost basis of the securities.

The amortized cost and estimated fair value of securities available-for-sale at December 31, 2021 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without penalties (dollars in thousands):

	Amortized Cost	Fair Value
Maturing within one year	$ 3,513	$ 3,547
Maturing after one year through five years	26,422	26,718
Maturing after five years through ten years	36,840	38,314
Maturing after ten years	253,936	265,792
Securities not due at a single maturity date:	320,711	334,371
Mortgage-backed securities	303,912	306,727
Collateralized loan obligations	332,836	332,216
	$ 957,459	$ 973,314

Securities available-for-sale with amortized costs totaling $166.3 million and estimated fair values totaling $167.2 million were pledged to secure other contractual obligations and short-term borrowing arrangements at December 31, 2021 (see Note 10).

Securities available-for-sale with amortized costs totaling $224.1 million and estimated fair values totaling $232.0 million were pledged to secure other contractual obligations and short-term borrowing arrangements at December 31, 2020 (see Note 10).

At December 31, 2021, the Company's investment portfolio included securities issued by 335 different government municipalities and agencies located within 33 states with a fair value of $304.3 million. The largest exposure to any single municipality or agency was $4.0 million (fair value) in three bonds issued for the purpose of paying costs to acquire and construct improvements of various township facilities by the Charter Township of Washington, to be repaid by future tax revenues.

The Company's investments in bonds issued by states, municipalities and political subdivisions are evaluated in accordance with Supervision and Regulation Letter 12-15 (SR 12-15) issued by the Board of Governors of the Federal Reserve System, "Investing in Securities without Reliance on Nationally Recognized Statistical Rating Organization Ratings", and other regulatory guidance. Credit ratings are considered in our analysis only as a guide to the historical default rate associated with similarly-rated bonds. There have been no significant differences in our internal analyses compared with the ratings assigned by the third party credit rating agencies.

The following table summarizes the amortized cost and fair values of general obligation and revenue bonds in the Company's investment securities portfolio at the indicated dates, identifying the state in which the issuing municipality or agency operates for our largest geographic concentrations (dollars in thousands):

	December 31, 2021		December 31, 2020	
General obligation bonds	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
State of Issuance:				
Texas	$ 85,045	$ 89,225	$ 76,794	$ 82,888
California	64,092	67,066	31,122	33,100
Washington	23,858	24,812	22,896	25,072
Other (26 and 21 states, respectively)	75,037	78,579	51,827	55,352
Total general obligation bonds	248,032	259,682	182,639	196,412
Revenue bonds				
State of Issuance:				
Texas	7,038	7,377	7,023	7,516
California	1,349	1,392	363	379
Washington	4,334	4,602	2,249	2,406
Other (15 and 14 states, respectively)	29,976	31,215	19,737	21,026
Total revenue bonds	42,697	44,586	29,372	31,327
Total obligations of states and political subdivisions	$ 290,729	$ 304,268	$ 212,011	$ 227,739

The following table summarizes the amortized cost and fair value of revenue bonds in the Company's investment securities portfolio at the indicated dates, identifying the revenue source of repayment for our largest source concentrations (dollars in thousands):

	December 31, 2021		December 31, 2020	
Revenue bonds	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Revenue Source:				
Water	$ 15,534	$ 16,220	$ 12,609	$ 13,526
Lease	6,556	6,718	2,707	2,773
Sales tax	5,514	5,842	3,083	3,308
Sewer	3,932	4,165	4,584	4,891
Other (9 and 8 sources, respectively)	11,161	11,641	6,389	6,829
Total revenue bonds	$ 42,697	$ 44,586	$ 29,372	$ 31,327

4. LOANS AND LEASES

The composition of the loan and lease portfolio is as follows (dollars in thousands):

	December 31,	
	2021	**2020**
Real estate:		
Secured by commercial and professional office properties, including construction and development	$ 1,242,633	$ 1,477,677
Secured by residential properties	390,872	288,341
Secured by farmland	106,706	129,905
Total real estate loans	1,740,211	1,895,923
Agricultural	33,990	44,872
Commercial and industrial	109,791	209,048
Mortgage warehouse lines	101,184	307,679
Consumer	4,550	5,589
Total loans	1,989,726	2,463,111
Deferred loan and lease origination cost, net	(1,865)	(3,147)
Allowance for loan and lease losses	(14,256)	(17,738)
Loans, net	$ 1,973,605	$ 2,442,226

The Company monitors the credit quality of loans on a continuous basis using the regulatory and accounting classifications of pass, special mention, substandard and impaired to characterize and qualify the associated credit risk. Loans classified as "loss" are immediately charged-off. The Company uses the following definitions of risk classifications:

Pass – Loans listed as pass include larger non-homogeneous loans not meeting the risk rating definitions below and smaller, homogeneous loans not assessed on an individual basis.

Special Mention – Loans classified as special mention have the potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

SIERRA BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Substandard – Loans classified as substandard are those loans with clear and well-defined weaknesses such as a highly leveraged position, unfavorable financial operating results and/or trends, or uncertain repayment sources or poor financial condition, which may jeopardize ultimate recoverability of the debt.

Impaired – A loan is considered impaired, when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Additionally, all loans classified as troubled debt restructurings are considered impaired.

Credit quality classifications as of December 31, 2021 were as follows (dollars in thousands):

	Pass	Special Mention	Substandard	Impaired	Total
Real estate:					
1-4 family residential construction	$ 19,669	$ 1,700	$ —	$ —	$ 21,369
Other construction/land	24,958	—	—	341	25,299
1-4 family - closed-end	282,717	4,703	201	1,836	289,457
Equity lines	23,277	615	55	2,641	26,588
Multi-family residential	49,986	3,472	—	—	53,458
Commercial real estate owner occupied	321,996	6,108	3,860	2,482	334,446
Commercial real estate non-owner occupied	841,728	26,364	14,429	367	882,888
Farmland	92,479	10,266	3,961	—	106,706
Total real estate	1,656,810	53,228	22,506	7,667	1,740,211
Agricultural	32,513	—	1,099	378	33,990
Commercial and industrial	98,367	9,989	212	1,223	109,791
Mortgage warehouse lines	101,184	—	—	—	101,184
Consumer loans	4,349	31	6	164	4,550
Total gross loans and leases	$ 1,893,223	$ 63,248	$ 23,823	$ 9,432	$ 1,989,726

SIERRA BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Credit quality classifications as of December 31, 2020 were as follows (dollars in thousands):

	Pass	Special Mention	Substandard	Impaired	Total
Real estate:					
1-4 family residential construction	$ 40,044	$ 8,521	$ —	$ —	$ 48,565
Other construction/land	61,809	7,478	2,148	545	71,980
1-4 family - closed-end	130,559	4,922	1,356	2,999	139,836
Equity lines	30,479	2,581	58	4,957	38,075
Multi-family residential	57,934	3,597	—	334	61,865
Commercial real estate owner occupied	308,819	21,148	5,652	7,580	343,199
Commercial real estate non-owner occupied	1,026,041	10,827	25,048	582	1,062,498
Farmland	104,826	21,468	3,169	442	129,905
Total real estate	1,760,511	80,542	37,431	17,439	1,895,923
Agricultural	39,391	3,617	1,614	250	44,872
Commercial and industrial	194,876	11,819	1,259	1,094	209,048
Mortgage warehouse lines	307,679	—	—	—	307,679
Consumer loans	5,323	58	11	197	5,589
Total gross loans and leases	$ 2,307,780	$ 96,036	$ 40,315	$ 18,980	$ 2,463,111

Loans may or may not be collateralized, and collection efforts are continuously pursued. Loans or leases may be restructured by management when a borrower has experienced some change in financial status causing an inability to meet the original repayment terms and where the Company believes the borrower will eventually overcome those circumstances and make full restitution. Loans and leases are charged off when they are deemed to be uncollectible, while recoveries are generally recorded only when cash payments are received subsequent to the charge-off.

The following tables present the activity in the allowance for loan and lease losses and the recorded investment in loans and impairment method by portfolio segment for each of the years ending December 31, 2021, 2020, and 2019 (dollars in thousands):

	Real Estate	Agricultural	Commercial and Industrial [(1)]	Consumer	Unallocated	Total
Allowance for credit losses:						
Balance, December 31, 2018	$ 5,831	256	2,394	1,239	30	9,750
Charge-offs	(1,190)	—	(1,274)	(2,409)	—	(4,873)
Recoveries	647	—	690	1,159	—	2,496
Provision	347	(63)	875	1,289	102	2,550
Balance, December 31, 2019	5,635	193	2,685	1,278	132	9,923
Charge-offs	—	—	(436)	(1,397)	—	(1,833)
Recoveries	87	—	129	882	—	1,098
Provision	6,044	289	2,343	(43)	(83)	8,550
Balance, December 31, 2020	11,766	482	4,721	720	49	17,738
Charge-offs	(245)	(50)	(159)	(946)	—	(1,400)
Recoveries	601	—	223	744	—	1,568
Benefit	(536)	32	(3,226)	(8)	88	(3,650)
Balance, December 31, 2021	$ 11,586	$ 464	$ 1,559	$ 510	$ 137	$ 14,256

(1) Includes mortgage warehouse lines

SIERRA BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Loans evaluated for impairment:

	December 31, 2021		December 31, 2020		December 31, 2019	
	Individually	Collectively	Individually	Collectively	Individually	Collectively
Real estate	$ 7,667	$ 1,732,544	$ 17,439	$ 1,878,484	$ 12,745	$ 1,389,368
Agricultural	378	33,612	250	44,622	5	48,031
Commercial and industrial [(1)]	1,223	209,752	1,094	515,633	977	303,658
Consumer	164	4,386	197	5,392	426	7,355
Total loans	$ 9,432	$ 1,980,294	$ 18,980	$ 2,444,131	$ 14,153	$ 1,748,412

(1) Includes mortgage warehouse lines

Reserves based on method of evaluation for impairment:

	December 31, 2021		December 31, 2020		December 31, 2019	
	Specific	General	Specific	General	Specific	General
Real estate	$ 428	$ 10,983	$ 525	$ 11,241	$ 493	$ 5,142
Agricultural	244	217	250	232	1	192
Commercial and industrial [(1)]	127	1,405	202	4,519	219	2,466
Consumer	19	487	19	701	114	1,164
Unallocated	—	346	—	49	—	132
Total loan loss reserves	$ 818	$ 13,438	$ 996	$ 16,742	$ 827	$ 9,096

(1) Includes mortgage warehouse lines

SIERRA BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The following tables present the recorded investment in nonaccrual loans and loans past due over 30 days as of December 31, 2021 and December 31, 2020 (dollars in thousands, except footnotes):

December 31, 2021	30-59 Days Past Due	60-89 Days Past Due	90 Days Or More Past Due[2]	Total Past Due	Current	Total Financing Receivables	Non-Accrual Loans[1]
Real Estate:							
1-4 family residential construction	$ —	$ —	$ —	$ —	$ 21,369	$ 21,369	$ —
Other construction/land	—	—	—	—	25,299	25,299	—
1-4 family - closed-end	1,532	132	—	1,664	287,793	289,457	1,023
Equity lines	30	—	—	30	26,558	26,588	892
Multi-family residential	—	—	—	—	53,458	53,458	—
Commercial real estate owner occupied	124	—	698	822	333,624	334,446	1,234
Commercial real estate non-owner occupied	—	—	—	—	882,888	882,888	—
Farmland	—	—	—	—	106,706	106,706	—
Total real estate loans	1,686	132	698	2,516	1,737,695	1,740,211	3,149
Agricultural	—	—	284	284	33,706	33,990	378
Commercial and industrial	473	—	283	756	109,035	109,791	973
Mortgage warehouse lines	—	—	—	—	101,184	101,184	—
Consumer loans	6	3	—	9	4,541	4,550	22
Total gross loans and leases	$ 2,165	$ 135	$ 1,265	$ 3,565	$ 1,986,161	$ 1,989,726	$ 4,522

(1) Included in Total Financing Receivables

(2) As of December 31, 2021 there were no loans over 90 days past due and still accruing.

SIERRA BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

December 31, 2020	30-59 Days Past Due	60-89 Days Past Due	90 Days Or More Past Due[(2)]	Total Past Due	Current	Total Financing Receivables	Non-Accrual Loans[(1)]
Real Estate:							
1-4 family residential construction	$ —	$ —	$ —	$ —	$ 48,565	$ 48,565	$ —
Other construction/land	—	—	—	—	71,980	71,980	—
1-4 family - closed-end	210	37	150	397	139,439	139,836	1,193
Equity lines	1,409	—	551	1,960	36,115	38,075	2,403
Multi-family residential	—	—	—	—	61,865	61,865	—
Commercial real estate owner occupied	101	1,187	78	1,366	341,833	343,199	1,678
Commercial real estate non-owner occupied	—	—	152	152	1,062,346	1,062,498	582
Farmland	—	211	442	653	129,252	129,905	442
Total real estate loans	1,720	1,435	1,373	4,528	1,891,395	1,895,923	6,298
Agricultural	—	—	250	250	44,622	44,872	250
Commercial and industrial	325	—	237	562	208,486	209,048	1,026
Mortgage warehouse lines	—	—	—	—	307,679	307,679	—
Consumer loans	38	—	—	38	5,551	5,589	24
Total gross loans and leases	$ 2,083	$ 1,435	$ 1,860	$ 5,378	$ 2,457,733	$ 2,463,111	$ 7,598

(1) Included in Total Financing Receivables

(2) As of December 31, 2020 there were no loans over 90 days past due and still accruing.

Generally, the Company places a loan or lease on nonaccrual status and ceases recognizing interest income when it has become delinquent more than 90 days and/or when Management determines that the repayment of principal and collection of interest is unlikely. The Company may decide that it is appropriate to continue to accrue interest on certain loans more than 90 days delinquent if they are well-secured by collateral and collection is in process. When a loan is placed on nonaccrual status, any accrued but uncollected interest for the loan is reversed out of interest income in the period in which the loan's status changed. Subsequent payments received from the customer are applied to principal, and no further interest income is recognized until the principal has been paid in full or until circumstances have changed such that payments are again consistently received as contractually required. As of December 31, 2021 there was 1 customer relationship, for a total of $10.4 million, with payment deferrals either under section 4013 of the CARES Act or the April 7, 2020 Interagency Statement, that are not included in the table above.

SIERRA BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Individually impaired loans as of December 31, 2021, December 31, 2020 and December 31, 2019 were as follows (dollars in thousands):

	December 31, 2021				
	Unpaid Principal Balance[1]	Recorded Investment[2]	Related Allowance	Average Recorded Investment	Interest Income Recognized[3]
With an Allowance Recorded					
Real estate:					
Other construction/land	$ 341	$ 341	$ 64	$ 352	$ 55
1-4 family - closed-end	1,048	1,048	37	1,096	104
Equity lines	2,005	1,993	182	2,056	138
Commercial real estate - owner occupied	1,249	1,248	19	1,278	144
Commercial real estate - non-owner occupied	367	367	126	393	32
Total real estate	5,010	4,997	428	5,175	473
Agricultural	244	244	244	246	—
Commercial and industrial	757	757	127	873	41
Consumer loans	164	164	19	180	28
	6,175	6,162	818	6,474	542
With no Related Allowance Recorded					
Real estate:					
1-4 family - closed-end	788	788	—	869	—
Equity lines	648	648	—	690	6
Commercial real estate - owner occupied	1,353	1,234	—	1,282	—
Total real estate	2,789	2,670	—	2,841	6
Agricultural	134	134	—	186	—
Commercial and industrial	466	466	—	550	—
	3,389	3,270	—	3,577	6
Total	$ 9,564	$ 9,432	$ 818	$ 10,051	$ 548

(1) Contractual principal balance due from customer.

(2) Principal balance on Company’s books, less any direct charge offs.

(3) Interest income is recognized on performing balances on a regular accrual basis.

SIERRA BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

	December 31, 2020				
	Unpaid Principal Balance[1]	**Recorded Investment[2]**	**Related Allowance**	**Average Recorded Investment**	**Interest Income Recognized[3]**
With an Allowance Recorded					
Real estate:					
Other construction/land	$ 545	$ 545	$ 171	$ 565	$ 40
1-4 family - closed-end	2,078	2,077	51	2,141	104
Equity lines	2,875	2,875	233	2,989	98
Multifamily residential	334	334	16	343	23
Commercial real estate- owner occupied	6,076	6,076	54	6,135	226
Total real estate	11,908	11,907	525	12,173	491
Agricultural	250	250	250	250	—
Commercial and industrial	945	935	202	1,152	6
Consumer loans	235	197	19	221	16
	13,338	13,289	996	13,796	513
With no Related Allowance Recorded					
Real estate:					
Other construction/land	114	—	—	5	—
1-4 family - closed-end	942	922	—	960	—
Equity Lines	2,160	2,082	—	2,127	3
Commercial real estate- owner occupied	1,624	1,504	—	1,590	—
Commercial real estate- non-owner occupied	582	582	—	617	—
Farmland	442	442	—	446	—
Total real estate	5,864	5,532	—	5,745	3
Commercial and industrial	189	159	—	165	—
Consumer loans	5	—	—	5	2
	6,058	5,691	—	5,915	5
Total	$ 19,396	$ 18,980	$ 996	$ 19,711	$ 518

(1) Contractual principal balance due from customer.

(2) Principal balance on Company’s books, less any direct charge offs.

(3) Interest income is recognized on performing balances on a regular accrual basis.

SIERRA BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

	December 31, 2019				
	Unpaid Principal Balance(1)	Recorded Investment(2)	Related Allowance	Average Recorded Investment	Interest Income Recognized(3)
With an Allowance Recorded					
Real estate:					
Other construction/land	$ 656	$ 537	$ 157	$ 563	$ 32
1-4 family - closed-end	2,298	2,298	58	2,365	146
Equity lines	4,173	4,120	252	4,185	200
Multifamily residential	353	353	17	361	23
Commercial real estate- owner occupied	593	593	6	606	38
Farmland	237	237	3	256	—
Total real estate	8,310	8,138	493	8,336	439
Agricultural	5	5	1	6	—
Commercial and industrial	915	896	219	1,140	29
Consumer loans	464	426	114	469	35
	9,694	9,465	827	9,951	503
With no Related Allowance Recorded					
Real estate:					
Other construction/land	52	17	—	577	4
1-4 family - closed-end	755	722	—	726	—
Equity Lines	326	301	—	310	5
Commercial real estate- owner occupied	1,560	1,440	—	1,477	—
Commercial real estate- non-owner occupied	3,295	2,105	—	3,267	—
Farmland	22	22	—	25	—
Total real estate	6,010	4,607	—	6,382	9
Commercial and industrial	102	81	—	162	—
Consumer loans	9	—	—	140	15
	6,121	4,688	—	6,684	24
Total	$ 15,815	$ 14,153	$ 827	$ 16,635	$ 527

(1) Contractual principal balance due from customer.

(2) Principal balance on Company's books, less any direct charge offs.

(3) Interest income is recognized on performing balances on a regular accrual basis.

Included in loans above are troubled debt restructurings that were classified as impaired. The Company had $0.4 million and $0.4 million in commercial loans, $0.1 million and $0 in agricultural loans, $5.4 million and $13.0 million in real estate secured loans and $0.2 million and $0.2 million in consumer loans, which were modified as troubled debt restructurings and consequently classified as impaired at December 31, 2021 and 2020, respectively.

Table of Contents

Additional commitments to existing customers with restructured loans totaled $0.04 million and $0.05 million at December 31, 2021 and 2020, respectively.

Interest income recognized on impaired loans was $0.5 million, $0.5 million, and $0.5 million, for the years ended December 31, 2021, 2020, and 2019, respectively. There was no interest income recognized on a cash basis on impaired loans for the years ended December 31, 2021, 2020, and 2019, respectively.

The following is a summary of interest income from non-accrual loans in the portfolio at year-end that was not recognized (dollars in thousands):

	Years Ended December 31,		
Non-accrual loans	**2021**	**2020**	**2019**
Interest that would have been recorded under the loans' original terms	$ 406	$ 605	$ 650
Less gross interest recorded	33	201	289
Foregone interest	$ 373	$ 404	$ 361

Certain loans have been pledged to secure short-term borrowing arrangements (see Note 10). These loans totaled $808.8 million and $1.1 billion at December 31, 2021 and 2020, respectively.

Salaries and employee benefits totaling $1.0 million, $3.3 million, and $3.7 million, have been deferred as loan and lease origination costs to be amortized over the estimated lives of the related loans and leases for the years ended December 31, 2021, 2020, and 2019, respectively.

During the periods ended December 31, 2021 and 2020, the terms of certain loans were modified as troubled debt restructurings. Types of modifications applied to these loans include a reduction of the stated interest rate, a modification of term, an agreement to collect only interest rather than principal and interest for a specified period, or any combination thereof.

SIERRA BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The following tables present troubled debt restructurings by type of modification during the period ending December 31, 2021, December 31, 2020 and December 31, 2019 (dollars in thousands):

December 31, 2021	Rate Modification	Term Modification	Interest Only Modification	Rate & Term Modification	Term & Interest Modification	Total
Troubled debt restructurings						
Real estate:						
1-4 family residential construction	$ —	$ —	$ —	$ —	$ —	$ —
Other construction/land	—	—	—	—	—	—
1-4 family - closed-end	—	—	—	—	—	—
Equity lines	—	1,000	—	83	—	1,083
Multi-family residential	—	—	—	—	—	—
Commercial real estate owner occupied	—	136	—	—	—	136
Commercial real estate non-owner occupied	—	—	—	—	—	—
Farmland	—	—	—	—	—	—
Total real estate loans	—	1,136	—	83	—	1,219
Agricultural	—	118	—	—	—	118
Commercial and industrial	—	185	—	—	—	185
Consumer loans	—	44	—	—	23	67
Small Business Administration Loans	—	—	—	—	—	—
	$ —	$ 1,483	$ —	$ 83	$ 23	$ 1,589

December 31, 2020	Rate Modification	Term Modification	Interest Only Modification	Rate & Term Modification	Term & Interest Modification	Total
Troubled debt restructurings						
Real estate:						
Other construction/land	$ —	$ 85	$ —	$ —	$ —	$ 85
1-4 family - closed-end	—	1,325	—	—	—	1,325
Equity lines	—	—	—	—	—	—
Multi-family residential	—	—	—	—	—	—
Commercial real estate owner occupied	—	5,515	—	—	338	5,853
Commercial real estate non-owner occupied	—	443	—	—	—	443
Farmland	—	—	—	—	—	—
Total real estate loans	—	7,368	—	—	338	7,706
Agricultural	—	—	—	—	—	—
Commercial and industrial	—	143	—	—	—	143
Consumer loans	—	—	—	—	—	—
	$ —	$ 7,511	$ —	$ —	$ 338	$ 7,849

SIERRA BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

December 31, 2019	Rate Modification	Term Modification	Interest Only Modification	Rate & Term Modification	Term & Interest Modification	Total
Troubled debt restructurings						
Real estate:						
Other construction/land	$ —	$ 163	$ —	$ —	$ —	$ 163
1-4 family - closed-end	—	—	—	—	—	—
Equity lines	—	344	—	—	—	344
Multi-family residential	—	—	—	—	—	—
Commercial real estate owner occupied	—	—	—	—	—	—
Commercial real estate non-owner occupied	—	—	—	—	—	—
Farmland	—	—	—	—	—	—
Total real estate loans	—	507	—	—	—	507
Agricultural	—	—	—	—	—	—
Commercial and industrial	94	255	—	52	—	401
Consumer loans	—	9	—	50	—	59
	$ 94	$ 771	$ —	$ 102	$ —	$ 967

The following tables present loans by class modified as troubled debt restructurings including any subsequent defaults during the period ending December 31, 2021, December 31, 2020 and December 31, 2019 (dollars in thousands):

December 31, 2021	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Reserve Difference[(1)]
Real estate:				
1-4 family residential construction	—	$ —	$ —	$ —
Other construction/land	—	—	—	—
1-4 family - closed-end	—	—	—	—
Equity lines	2	1,083	1,083	—
Multi-family residential	—	—	—	—
Commercial real estate - owner occupied	1	137	136	(1)
Commercial real estate - non-owner occupied	—	—	—	—
Farmland	—	—	—	—
Total real estate loans		1,220	1,219	(1)
Agricultural	1	118	118	116
Commercial and industrial	1	185	185	(1)
Consumer loans	3	67	67	2
Small Business Administration Loans	—	—	—	—
		$ 1,590	$ 1,589	$ 116

(1) This represents the increase or (decrease) in the allowance for loans and lease losses reserve for these credits measured as the difference between the specific post-modification impairment reserve and the pre-modification reserve calculated under our general allowance for loan and lease loss methodology.

December 31, 2020	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Reserve Difference(1)
Real estate:				
Other construction/land	1	$ 86	$ 85	$ 40
1-4 family - closed-end	1	1,325	1,325	10
Equity lines	—	—	—	—
Multi-family residential	—	—	—	—
Commercial real estate - owner occupied	4	5,853	5,853	8
Commercial real estate - non-owner occupied	1	443	443	—
Farmland	—	—	—	—
Total real estate loans		7,707	7,706	58
Agricultural	—	—	—	—
Commercial and industrial	3	143	143	3
Consumer loans	—	—	—	—
		$ 7,850	$ 7,849	$ 61

(1) This represents the increase or (decrease) in the allowance for loans and lease losses reserve for these credits measured as the difference between the specific post-modification impairment reserve and the pre-modification reserve calculated under our general allowance for loan and lease loss methodology.

December 31, 2019	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Reserve Difference(1)
Real estate:				
Other construction/land	1	$ 163	$ 163	$ 74
1-4 family - closed-end	—	—	—	—
Equity lines	2	344	344	—
Multi-family residential	—	—	—	—
Commercial real estate - owner occupied	—	—	—	—
Commercial real estate - non-owner occupied	—	—	—	—
Farmland	—	—	—	—
Total real estate loans		507	507	74
Agricultural	—	—	—	—
Commercial and industrial	7	401	401	(59)
Consumer loans	2	59	59	(47)
		$ 967	$ 967	$ (32)

(1) This represents the increase or (decrease) in the allowance for loans and lease losses reserve for these credits measured as the difference between the specific post-modification impairment reserve and the pre-modification reserve calculated under our general allowance for loan and lease loss methodology.

In the tables above, there were no TDRs that subsequently defaulted necessitating an increase in the allowance for loan and lease losses for the years ended December 31, 2021, 2020 and 2019. The total allowance for loan and lease

losses specifically allocated to the balances that were classified as TDRs during the year ended December 31, 2021 and 2020 is $0.5 million and $0.6 million, respectively.

Purchased Credit Impaired Loans

The Company has purchased loans from past acquisitions, some of which have shown evidence of credit deterioration since origination and it was probable at acquisition that all contractually required payments would not be collected. The carrying amount and unpaid principal balance of those loans are as follows (dollars in thousands):

	December 31, 2021	
	Unpaid Principal Balance	Carrying Value
Real estate secured	$ 60	$ 60
Total purchased credit impaired loans	$ 60	$ 60

	December 31, 2020	
	Unpaid Principal Balance	Carrying Value
Real estate secured	$ 78	$ 78
Total purchased credit impaired loans	$ 78	$ 78

For those purchased credit impaired loans disclosed above, the Company did not increase the allowance for loan and lease losses during 2021, 2020 and 2019. There is no accretable yield, or income expected to be collected on these purchased credit impaired loans. During the years ended December 31, 2021 and 2020, there were no purchased credit impaired loans acquired.

5. PREMISES AND EQUIPMENT

Premises and equipment at cost consisted of the following (dollars in thousands):

	December 31,	
	2021	2020
Land	$ 4,823	$ 5,751
Buildings and improvements	21,006	21,580
Furniture, fixtures and equipment	19,242	20,705
Leasehold improvements	14,682	15,226
	59,753	63,262
Less accumulated depreciation and amortization	36,182	35,757
	$ 23,571	$ 27,505

Depreciation and amortization included in occupancy and equipment expense totaled $3.1 million, $2.8 million, and $2.8 million, for the years ended December 31, 2021, 2020, and 2019, respectively.

6. OPERATING LEASES

The Company leases space under non-cancelable operating leases for 18 branch locations, four off-site ATM locations, one administrative building, one loan production office and a warehouse. Many of our leases include both lease (e.g., fixed payments including rent, taxes, and insurance costs) and non-lease components (e.g., common-area or other maintenance costs). Payments for taxes and insurance as well as non-lease components are not included in the accounting of the lease component, but are separately accounted for in occupancy expense. The Company

recognized lease expense of $2.2 million for the years ended December 31, 2021, 2020 and 2019. Most leases include one or more renewal options available to exercise. The exercise of lease renewal options is typically at the Company's sole discretion; therefore, the majority of renewals to extend the lease terms are not included in our right-of-use assets and lease liabilities as they are not reasonably certain of exercise. We regularly evaluate the renewal options and when they are reasonably certain of exercise, we include the renewal period in our lease term. As most of our leases do not provide an implicit rate, we used our incremental borrowing rate in determining the present value of the lease payments.

There were no sale and leaseback transactions, leveraged leases, or lease transactions with related parties during the years ending December 31, 2021 and 2020.

At December 31, 2021, the Company's right-of-use assets and operating lease liabilities were $5.5 million and $6.2 million, respectively. The weighted average remaining lease term for the lease liabilities was 6.3 years, and the weighted average discount rate of remaining payments was 5.3 percent. At December 31, 2020, the Company's right-of-use assets and operating lease liabilities were $7.2 million and $7.8 million, respectively. The weighted average remaining lease term for the lease liabilities was 6.8 years, and the weighted average discount rate of remaining payments was 5.5 percent for the year ended December 31, 2020. Lease liabilities from new right-of-use assets obtained during the year ending December 31, 2021 and December 31, 2020 were $0.5 million and $0.6 million, respectively. There were no variable lease costs for the years ending December 31, 2021 and 2020. Cash paid on operating leases was $2.2 million for both years ending December 31, 2021 and 2020.

Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2021 are as follows (dollars in thousands):

Year Ending December 31,		
2022	$	1,909
2023		1,403
2024		1,057
2025		782
2026		479
Thereafter		1,722
Total undiscounted lease payments	$	7,352
Less: imputed interest		(1,143)
Net lease liabilities	$	6,209

The Company generally has options to renew its facilities leases after the initial leases expire. The renewal options range from one to ten years.

SIERRA BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

7. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The rollforward of goodwill for each of the preceding three years is included in the table below (dollars in thousands):

	Years Ended December 31,		
	2021	2020	2019
Balance at January 1	$ 27,357	$ 27,357	$ 27,357
Acquired goodwill	—	—	—
Impairment	—	—	—
Balance at December 31	$ 27,357	$ 27,357	$ 27,357

Impairment exists when a reporting unit's carrying value of goodwill exceeds its fair value. Bank of the Sierra (the "Bank") is the only subsidiary of the Company that meets the materiality criteria necessary to be deemed an operating segment, and because the Company exists primarily for the purpose of holding the stock of the Bank we have determined that only one unified operating segment or reporting unit (the consolidated Company) exists. The fair value of the consolidated Company is its market capitalization, as determined by quoted prices in active markets. If the Company's market capitalization exceeds recorded shareholders' equity, the book value, it can be reasonably presumed that no impairment exists. At December 31, 2021 (the measurement date that the Company selected), the Company's stock closed at $27.15 which resulted in a market capitalization in excess of shareholders book equity. Therefore it was determined that the fair value of the reporting unit exceeded its carrying value, resulting in no impairment at December 31, 2021.

Acquired Intangible Assets

Acquired intangible assets were as follows at year-end (dollars in thousands):

	Years Ended December 31,			
	2021		2020	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Core deposit intangibles	$ 8,401	$ 5,126	$ 8,401	$ 4,094

Aggregate amortization expense was $1.0 million, $1.1 million, and $1.1 million for 2021, 2020, and 2019.

Estimated amortization expense for each of the next five years and thereafter (dollars in thousands):

2022	$ 1,000
2023	876
2024	781
2025	566
2026	52
Thereafter	—
	$ 3,275

8. OTHER ASSETS

Other assets consisted of the following (dollars in thousands):

	December 31,	
	2021	2020
Accrued interest receivable	$ 11,246	$ 16,074
Deferred tax assets	3,792	839
Investment in qualified affordable housing projects	2,940	3,473
Investment in limited partnerships	1,655	1,848
Federal Home Loan Bank stock, at cost	12,393	10,727
Other	26,003	17,485
	$ 58,029	$ 50,446

The Company has invested in limited partnerships that operate qualified affordable housing projects to receive tax benefits in the form of tax deductions from operating losses and tax credits. The Company accounts for these investments under the cost method and management analyzes these investments annually for potential impairment. The Company had $0.1 million in remaining capital commitments to these partnerships at December 31, 2021.

The Company holds certain equity investments that are not readily marketable securities and thus are classified as “other assets” on the Company’s balance sheet. These include investments in Pacific Coast Bankers Bancshares, California Economic Development Lending Initiative, and the Federal Home Loan Bank (“FHLB”). The largest of these is the Company’s $12.4 million investment in FHLB stock, carried at cost. Quarterly, the FHLB evaluates and adjusts the Company’s minimum stock requirement based on the Company’s borrowing activity and membership requirements. Any stock deemed in excess is automatically repurchased by the FHLB at cost.

9. DEPOSITS

Time deposits that meet or exceed the FDIC Insurance limit of $250,000 at year-end 2021 and 2020 were $115.2 million and $225.4 million, respectively.

Aggregate annual maturities of time deposits were as follows (dollars in thousands):

Year Ending December 31,	
2022	$ 294,284
2023	31,227
2024	26,051
2025	1,254
2026	309
Thereafter	772
	$ 353,897

SIERRA BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Interest expense recognized on interest-bearing deposits consisted of the following (dollars in thousands):

	Year Ended December 31,		
	2021	2020	2019
Interest bearing demand deposits	$ 331	$ 278	$ 316
NOW	444	388	524
Savings	240	221	308
Money market	111	128	181
Time deposits	1,039	2,687	8,931
Brokered Deposits	225	246	1,120
	$ 2,390	$ 3,948	$ 11,380

10. OTHER BORROWING ARRANGEMENTS

At year end, short-term borrowings consisted of the following (dollars in thousands):

	2021				
	Average balance outstanding	Amount	Average interest rate during the year	Maximum month-end balance during the year	Weighted average interest rate at year-end
As of December 31:					
Repurchase agreements	$ 70,443	$ 106,937	0.30%	$ 106,937	0.30%
Short term borrowings	5,186	—	0.06%	5,000	—
	$ 75,629	$ 106,937		$ 111,937	

	2020				
	Average balance outstanding	Amount	Average interest rate during the year	Maximum month-end balance during the year	Weighted average interest rate at year-end
As of December 31:					
Repurchase agreements	$ 34,614	$ 39,138	0.40%	$ 41,449	0.40%
Short term borrowings	53,593	142,900	0.19%	195,100	0.12%
	$ 88,207	$ 182,038		$ 236,549	

Each FHLB advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The advances were collateralized by $808.8 million of first mortgage loans under a blanket lien arrangement at year end 2021. Based on this collateral and the Company's holdings of FHLB stock, the Company was eligible to borrow up to the total of $888.8 million at year-end 2021, with a remaining borrowing capacity of $732.2 million if sufficient additional collateral was pledged.

The Company had no borrowings at December 31, 2021 and 2020 from the FRB. The Company was eligible to borrow up to $50.6 million from FRB at year end 2021, which was collateralized by $66.1 million in first mortgage loans under a blanket lien arrangement.

The Company had unsecured lines of credit with its correspondent banks which, in the aggregate, amounted to $305.0 million and $275.0 million at December 31, 2021 and 2020, respectively, at interest rates which vary with market conditions. There was no balance outstanding under these lines of credit at December 31, 2021 and $100.0 million outstanding at December 31, 2020.

SIERRA BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

11. LONG-TERM DEBT

At year-end, long-term debt was as follows (dollars in thousands):

	2021		2020	
	Principal	**Unamortized Debt Issuance Costs**	**Principal**	**Unamortized Debt Issuance Costs**
Fixed - floating rate subordinated debentures, due 2031 [1]	$ 50,000	$ (859)	$ —	$ —
	$ 50,000	$ (859)	$ —	$ —

(1) 3.25% fixed rate for five years then floating rate at 253.5 basis points over 3-month term SOFR.

12. SUBORDINATED DEBENTURES

Sierra Statutory Trust II ("Trust II"), Sierra Capital Trust III ("Trust III"), and Coast Bancorp Statutory Trust II ("Trust IV"), (collectively, the "Trusts") exist solely for the purpose of issuing trust preferred securities fully and unconditionally guaranteed by the Company. For financial reporting purposes, the Trusts are not consolidated and the Floating Rate Junior Subordinated Deferrable Interest Debentures (the "Subordinated Debentures") held by the Trusts and issued and guaranteed by the Company are reflected in the Company's consolidated balance sheet in accordance with provisions of ASC Topic 810. Under applicable regulatory guidance, the amount of trust preferred securities that is eligible as Tier 1 capital is limited to twenty-five percent of the Company's Tier 1 capital on a pro forma basis. At December 31, 2021, all $35.3 million of the Company's trust preferred securities qualified as Tier 1 capital.

During the first quarter of 2004, Sierra Statutory Trust II issued 15,000 Floating Rate Capital Trust Pass-Through Securities (TRUPS II), with a liquidation value of $1,000 per security, for gross proceeds of $15,000,000. The entire proceeds of the issuance were invested by Trust II in $15,464,000 of Subordinated Debentures issued by the Company, with identical maturity, re-pricing and payment terms as the TRUPS II. The Subordinated Debentures, purchased by Trust II, represent the sole assets of the Trust II. Those Subordinated Debentures mature on March 17, 2034, bear a current interest rate of 2.97% (based on 3-month LIBOR plus 2.75%), with re-pricing and payments due quarterly.

Those Subordinated Debentures are currently redeemable by the Company, subject to receipt by the Company of prior approval from the Federal Reserve Bank, on any March 17th, June 17th, September 17th, or December 17th. The redemption price is par plus accrued and unpaid interest, except in the case of redemption under a special event which is defined in the debenture.

The TRUPS II are subject to mandatory redemption to the extent of any early redemption of the related Subordinated Debentures and upon maturity of the Subordinated Debentures on March 17, 2034.

Trust II has the option to defer payment of the distributions for a period of up to five years, subject to certain conditions, including that the Company may not pay dividends on its common stock during such period. The TRUPS II issued in the offering were sold in private transactions pursuant to an exemption from registration under the Securities Act of 1933, as amended. The Company has guaranteed, on a subordinated basis, distributions and other payments due on the TRUPS II.

SIERRA BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

During the second quarter of 2006, Sierra Capital Trust III issued 15,000 Floating Rate Capital Trust Pass-Through Securities (TRUPS III), with a liquidation value of $1,000 per security, for gross proceeds of $15,000,000. The entire proceeds of the issuance were invested by Trust III in $15,464,000 of Subordinated Debentures issued by the Company, with identical maturity, repricing and payment terms as the TRUPS III. The Subordinated Debentures, purchased by Trust III, represent the sole assets of the Trust III. Those Subordinated Debentures mature on September 23, 2036, bear a current interest rate of 1.62% (based on 3-month LIBOR plus 1.40%), with repricing and payments due quarterly.

Those Subordinated Debentures are redeemable by the Company, subject to receipt by the Company of prior approval from the Federal Reserve Bank, on any March 23rd, June 23rd, September 23rd, or December 23rd. The redemption price is par plus accrued and unpaid interest, except in the case of redemption under a special event which is defined in the debenture. The TRUPS III are subject to mandatory redemption to the extent of any early redemption of the related Subordinated Debentures and upon maturity of the Subordinated Debentures on September 23, 2036.

Trust III has the option to defer payment of the distributions for a period of up to five years, subject to certain conditions, including that the Company may not pay dividends on its common stock during such period. The TRUPS III issued in the offering were sold in private transactions pursuant to an exemption from registration under the Securities Act of 1933, as amended. The Company has guaranteed, on a subordinated basis, distributions and other payments due on the TRUPS III.

During the third quarter of 2016, the Company acquired Coast Bancorp Statutory Trust II, which had issued 7,000 Floating Rate Capital Trust Pass-Through Securities (TRUPS IV), with a liquidation value of $1,000 per security, for gross proceeds of $7,000,000. The entire proceeds of the issuance were invested by Trust IV in $7,217,000 of Subordinated Debentures issued by Coast Bancorp with identical maturity, re-pricing and payment terms as the TRUPS IV. The Subordinated Debentures, purchased by Trust IV, represent the sole assets of the Trust IV. Those Subordinated Debentures mature on December 15, 2037, bear a current interest rate of 1.70% (based on 3-month LIBOR plus 1.50%), with re-pricing and payments due quarterly.

Those Subordinated Debentures are currently redeemable by the Company, subject to receipt by the Company of prior approval from the Federal Reserve Bank, on any March 15th, June 15th, September 15th, or December 15th. The redemption price is par plus accrued and unpaid interest, except in the case of redemption under a special event which is defined in the debenture.

The TRUPS IV are subject to mandatory redemption to the extent of any early redemption of the related Subordinated Debentures and upon maturity of the Subordinated Debentures on December 15, 2037.

Coast Bancorp Statutory Trust II has the option to defer payment of the distributions for a period of up to five years, subject to certain conditions, including that the Company may not pay dividends on its common stock during such period. The TRUPS IV issued in the offering were sold in private transactions pursuant to an exemption from registration under the Securities Act of 1933, as amended. The Company has guaranteed, on a subordinated basis, distributions and other payments due on the TRUPS IV.

13. INCOME TAXES

The provision for income taxes follows (dollars in thousands):

	Year Ended December 31,		
	2021	**2020**	**2019**
Federal:			
Current	$ 8,186	$ 7,979	$ 7,081
Deferred	135	(1,697)	(228)
	8,321	6,282	6,853
State:			
Current	5,916	5,711	4,771
Deferred	(50)	(914)	133
	5,866	4,797	4,904
	$ 14,187	$ 11,079	$ 11,757

SIERRA BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The components of the net deferred tax asset, included in other assets, are as follows (dollars in thousands):

	December 31, 2021	December 31, 2020
Deferred tax assets:		
Allowance for loan and lease losses	$ 4,215	$ 5,244
Foreclosed assets	126	126
Deferred compensation	4,511	4,147
Accrued reserves	555	325
Non-accrual loans	363	403
Lease liability	1,752	2,283
Loan fair value adjustment	420	956
Capital losses carried forward	—	29
Net operating losses	1,592	1,751
State income tax deduction	1,179	1,170
Other	992	986
Total deferred tax assets	15,705	17,420
Deferred tax liabilities:		
Deferred loan costs	(1,288)	(2,482)
Right-of-use asset	(1,618)	(2,127)
Intangibles	(579)	(832)
Premises and equipment	(917)	(750)
Net unrealized gain on securities available-for-sale	(4,687)	(7,725)
Other	(2,824)	(2,665)
Total deferred tax liabilities	(11,913)	(16,581)
Net deferred tax assets	$ 3,792	$ 839

The expense for income taxes differs from amounts computed by applying the statutory Federal income tax rates to income before income taxes. The significant items comprising these differences consisted of the following (dollars in thousands):

	Year Ended December 31, 2021	2020	2019
Income tax expense at federal statutory rate	$ 12,012	$ 9,770	$ 10,021
Increase (decrease) resulting from:			
State franchise tax expense, net of federal tax effect	4,634	3,790	3,872
Tax exempt municipal income	(1,306)	(1,199)	(952)
Affordable housing tax credits	(524)	(518)	(538)
Excess tax benefit of stock-based compensation	(109)	(90)	(133)
Cash surrender value - life insurance	(556)	—	—
Other	36	(674)	(513)
	$ 14,187	$ 11,079	$ 11,757
Effective tax rate	24.80%	23.81%	24.64%

The Company is subject to federal income tax and income tax of various states. Our federal income tax returns for the years ended December 31, 2018, 2019 and 2020 are open to audit by the federal authorities and our California

state tax returns for the years ended December 31, 2017, 2018, 2019 and 2020 are open to audit by the state authorities.

The Company has net operating loss carry forwards of approximately $4.8 million for federal income and approximately $6.9 million for California franchise tax purposes. Net operating loss carry forwards, to the extent not used will begin to expire in 2031. Net operating loss carry forwards available from acquisitions are substantially limited by Section 382 of the Internal Revenue Code and benefits not expected to be realized due to the limitation have been excluded from the deferred tax asset and net operating loss carry forward amounts noted above.

There were no recorded interest or penalties related to uncertain tax positions as part of income tax for the years ended December 31, 2021, 2020, and 2019, respectively. We do not expect the total amount of unrecognized tax benefits to significantly increase or decrease within the next twelve months

14. COMMITMENTS AND CONTINGENCIES

Letter of Credit

The Company holds two letters of credit with the Federal Home Loan Bank of San Francisco totaling $128.6 million. A $125.0 million letter of credit is pledged to secure public deposits at December 31, 2021 and a $3.6 million standby letter of credit was obtained on behalf of one of our customers to guarantee financial performance. Should the standby letter of credit be drawn upon, the customer would reimburse the Company from an existing line of credit.

Federal Reserve Requirements

Banks are normally required to maintain reserves with the Federal Reserve Bank equal to a specified percentage of their reservable deposits less vault cash. The Federal Reserve Bank has temporarily eliminated the reserve requirement in response to the COVID-19 pandemic, in an effort to free up available cash for lending purposes. There were no reserve balances required to be maintained at the Federal Reserve Bank by the Company at December 31, 2021 and 2020.

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. These financial instruments consist of commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet.

The Company's exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit and letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and letters of credit as it does for loans included on the balance sheet.

SIERRA BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The following financial instruments represent off-balance-sheet credit risk (dollars in thousands):

	December 31,	
	2021	**2020**
Fixed-rate commitments to extend credit	$ 72,946	$ 75,291
Variable-rate commitments to extend credit	$ 481,082	$ 366,525
Standby letters of credit	$ 6,651	$ 8,104

Commitments to extend credit consist primarily of the unused or unfunded portions of the following: home equity lines of credit; commercial real estate construction loans, where disbursements are made over the course of construction; commercial revolving lines of credit; mortgage warehouse lines of credit; unsecured personal lines of credit; and formalized (disclosed) deposit account overdraft lines. Commitments generally have fixed expiration dates 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. Commitments to extend credit are made at both fixed and variable rates of interest as stated in the table above. Standby letters of credit are generally unsecured and are issued by the Company to guarantee the performance of a customer to a third party, while commercial letters of credit represent the Company's commitment to pay a third party on behalf of a customer upon fulfillment of contractual requirements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

Concentration in Real Estate Lending

At December 31, 2021, in management's judgment the Company had a concentration of loans secured by real estate. At that date, approximately 87% of the Company's loans were real estate related. Balances secured by commercial buildings and construction and development loans represented 71% of all real estate loans, while loans secured by non-construction residential properties accounted for 22%, and loans secured by farmland were 6% of real estate loans. Although management believes the loans within these concentrations have no more than the normal risk of collectability, a decline in the performance of the economy in general or a decline in real estate values in the Company's primary market areas, in particular, could have an adverse impact on collectability.

Concentration by Geographic Location

The Company extends commercial, real estate mortgage, real estate construction and consumer loans to customers primarily in the South Central San Joaquin Valley of California, specifically Tulare, Fresno, Kern, Kings and Madera counties; and the Coastal counties of San Luis Obispo, Ventura and Santa Barbara. The ability of a substantial portion of the Company's customers to honor their contracts is dependent on the economy in these areas. Although the Company's loan portfolio is diversified, there is a relationship in those regions between the local agricultural economy and the economic performance of loans made to non-agricultural customers.

Legal Matters

In the ordinary course of our business, the Company is subject to legal proceedings and claims which we believe are incidental to the operation of our business. The outcome of such legal actions and the timing of ultimate resolution are inherently difficult to predict. Upon consultation with legal counsel and based on information currently available to us, management does not expect the amount of any resulting liability, in addition to amounts already accrued and taking into consideration insurance which may be applicable, to have a material adverse effect on the consolidated financial position or results of operations of the Company. Given the nature, scope and complexity of the extensive legal and regulatory landscape applicable to banking (including laws and regulations governing consumer protection,

fair lending, privacy, information security and anti-money laundering and anti-terrorism laws), we like all banking organizations, are subject to heightened legal and regulatory compliance and litigation risk.

The Company has established litigation and legal reserves, where appropriate, in accordance with FASB guidance over loss contingencies (ASC 450). The outcome of litigation and other legal and regulatory matters is inherently uncertain, however, and it is possible that one or more of the legal or regulatory matters currently pending or threatened could have a material adverse effect on our liquidity, consolidated financial position, and/or results of operations.

15. SHAREHOLDERS' EQUITY

Share Repurchase Plan

At December 31, 2021, the Company had a stock repurchase plan which has no expiration date. During the year ended December 31, 2021, the Company repurchased 187,438 shares. The total number of shares available for repurchase at December 31, 2021 was 812,562. Repurchases are generally made in the open market at market prices.

Earnings Per Share

A reconciliation of the numerators and denominators of the basic and diluted earnings per share computations is as follows (dollars in thousands, except per share data):

	For the Years Ended December 31,		
	2021	2020	2019
Basic Earnings Per Share			
Net income (dollars in thousands)	$ 43,012	$ 35,444	$ 35,961
Weighted average shares outstanding	15,241,957	15,216,749	15,311,113
Basic earnings per share	$ 2.82	$ 2.33	$ 2.35
Diluted Earnings Per Share			
Net income (dollars in thousands)	$ 43,012	$ 35,444	$ 35,961
Weighted average shares outstanding	15,241,957	15,216,749	15,311,113
Effect of dilutive stock options	111,488	63,576	125,998
Weighted average shares outstanding	15,353,445	15,280,325	15,437,111
Diluted earnings per share	$ 2.80	$ 2.32	$ 2.33

Stock options for 337,004, 348,328, and 243,657 shares of common stock were not considered in computing diluted earnings per common share for 2021, 2020, and 2019, respectively, because they were antidilutive.

Stock Options

On March 16, 2017 the Company's Board of Directors approved and adopted the 2017 Stock Incentive Plan (the "2017 Plan"), which became effective May 24, 2017 pursuant to the approval of the Company's shareholders. The 2017 Plan replaced the Company's 2007 Stock Incentive Plan (the "2007 Plan"), which expired by its own terms on March 15, 2017. Options to purchase 172,689 shares that were granted under the 2007 Plan were still outstanding as of December 31, 2021, and remain unaffected by that plan's expiration. The 2017 Plan provides for the issuance of both "incentive" and "nonqualified" stock options to officers and employees, and of "nonqualified" stock options

to non-employee directors and consultants of the Company. The 2017 Plan also provides for the issuance of restricted stock awards to these same classes of eligible participants. The total number of shares of the Company's authorized but unissued stock reserved for issuance pursuant to awards under the 2017 Plan was initially 850,000 shares, and the number remaining available for grant as of December 31, 2021, was 408,909.

All options granted under the 2017 and 2007 Plans have been or will be granted at an exercise price of not less than 100% of the fair market value of the stock on the date of grant, exercisable in installments as provided in individual stock option agreements. In the event of a "Change in Control" as defined in the Plans, all outstanding options shall become exercisable in full (subject to certain notification requirements), and shall terminate if not exercised within a specified period of time unless such options are assumed by the successor corporation or substitute options are granted. Options also terminate in the event an optionee ceases to be employed by or to serve as a director of the Company or its subsidiaries, and the vested portion thereof must be exercised within a specified period after such cessation of employment or service.

A summary of the Company's stock option activity follows (shares in thousands, except exercise price):

	2021			2020		2019	
	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (1)	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding,							
Beginning of year	495	$ 23.67		458	$ 21.08	453	$ 18.45
Exercised or released	(33)	$ 14.64		(67)	$ 11.65	(83)	$ 13.07
Granted	—	$ —		126	$ 27.11	102	$ 26.97
Canceled	(45)	$ 26.36		(21)	$ 26.01	(14)	$ 26.77
Expired	(1)	$ 10.58		(1)	$ 10.73	—	$ —
Outstanding, end of year	416	$ 24.15	$ 1,338	495	$ 23.67	458	$ 21.08
Exercisable, end of year (2)	355	$ 23.62	$ 1,336	324	$ 21.97	322	$ 18.89

(1) The aggregate intrinsic value of stock option in the table above represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had all option holders exercised their options on December 31, 2021. This amount changes based on changes in the market value of the Company's stock.

(2) The weighted average remaining contractual life of stock options outstanding and exercisable on December 31, 2021 was 5.9 years and 5.6 years, respectively.

Information related to stock options during each year follows (dollars in thousands, except per share data):

	2021	2020	2019
Weighted-average grant-date fair value per share	$ —	$ 4.76	$ 6.60
Total intrinsic value of stock options exercised	$ 346	$ 705	$ 1,150
Total fair value of stock options vested	$ 418	$ 489	$ 438

$0.3 million in cash was received from the exercise of 25,452 shares during the period ended December 31, 2021, with a related tax benefit of $0.1 million. $0.8 million in cash was received from the exercise of 66,470 shares during the period ended December 31, 2020, with a related tax benefit of $0.5 million. $1.1 million in cash was received from the exercise of 83,261 shares during the period ended December 31, 2019, with a related tax benefit of $0.3 million.

The Company is using the Black-Scholes model to value stock options. In accordance with U.S. GAAP, charges of $0.1 million, $0.4 million, and $0.5 million are reflected in the Company's income statements for the years ended December 31, 2021, 2020, and 2019, respectively, as pre-tax compensation and directors' expense related to stock options. The related tax benefit of these options is $0.03 million for the year ended December 31, 2021, and $0.1 million for the two years ended December 31, 2020 and 2019.

Unamortized compensation expense associated with unvested stock options outstanding at December 31, 2021 was $0.4 million, which will be recognized over a weighted average period of 2.9 years.

Restricted Stock Grants

The Company's restricted stock awards are time-vested, non-transferrable shares of common stock and are available to be granted to the Company's employees and directors. The vesting period of restricted stock awards is determined at the time the awards are issued, and different awards may have different vesting terms; provided, however, that no installment of any restricted stock award shall become vested less than one year from the grant date. Restricted stock awards are valued utilizing the fair value of the Company's stock at the grant date. During the year ending 2021, 73,912 shares were granted to employees and directors of the Company. These awards are expensed on a straight-line basis over the vesting period. Compensation expense related to restricted stock units for the years ended December 31, 2021, 2020 and 2019 was $0.9 million, $0.2 million, and $0 respectively, and the recognized income tax benefit related to this expense was $0.3 million, $0.1 million, and $0, respectively. As of December 31, 2021, there was $3.0 million of unamortized compensation and directors' cost related to unvested restricted stock awards granted under the 2017 plan. That cost is expected to be amortized over a weighted average period of 3.2 years. The total fair value of shares vested during the year ended December 31, 2021 was $0.7 million. There were no shares vested during the years ended December 31, 2020 and 2019.

A summary of the Company's nonvested shares for the year follows (shares in thousands, except grant date fair value):

Nonvested Shares	**Shares**	**Weighted Average Grant-Date Fair Value**
Nonvested at January 1, 2021	149	$ 18.00
Granted	74	26.66
Vested	(40)	18.00
Forfeited	(18)	18.22
Nonvested at December 31, 2021	165	$ 21.85

16. REGULATORY MATTERS

The Company and the Bank are subject to regulatory capital requirements administered by the Board of Governors of the Federal Reserve System and the FDIC. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action.

SIERRA BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2021, the Company and Bank meet all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized , significantly undercapitalized , and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end December 31, 2021 and 2020, notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's categorization.

In 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio framework (CBLR framework), for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020 and was elected by the Bank at that time. In April 2020, the federal banking agencies issued an interim final rule that makes temporary changes to the CBLR framework, pursuant to section 4012 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and a second interim final rule that provides a graduated increase in the community bank leverage ratio requirement after the expiration of the temporary changes implemented pursuant to section 4012 of the CARES Act.

The community bank leverage ratio removes the requirement for qualifying banking organizations to calculate and report risk-based capital but rather only requires a Tier 1 to average assets (leverage) ratio. Qualifying banking organizations that elect to use the community bank leverage ratio framework and that maintain a leverage ratio of greater than required minimums will be considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies' capital rules (generally applicable rule) and, if applicable, will be considered to have met the well capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. Under the interim final rules the community bank leverage ratio minimum requirement is 8% as of December 31, 2020, 8.5% for calendar year 2021, and 9% for calendar year 2022 and beyond. The interim rule allows for a two-quarter grace period to correct a ratio that falls below the required amount, provided that the bank maintains a leverage ratio of 7% as of December 31, 2020, 7.5% for calendar year 2021, and 8% for calendar year 2022 and beyond.

Under the final rule, an eligible banking organization can opt out of the CBLR framework and revert back to the risk-weighting framework without restriction. As of December 31, 2021, both the Company and Bank were qualifying community banking organizations as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework.

Actual and required capital amounts (dollars in thousands) and ratios are presented below at year end.

	Actual		To Be Well Capitalized Under Prompt Corrective Action Regulations (CBLR Framework)	
2021	**Capital Amount**	**Ratio**	**Capital Amount**	**Ratio**
Tier 1 (Core) Capital to average total assets				
Sierra Bancorp and subsidiary	$ 356,800	10.43%	$ 290,851	8.50%
Bank of the Sierra	$ 387,059	11.31%	$ 290,817	8.50%

	Actual		To Be Well Capitalized Under Prompt Corrective Action Regulations	
2020	**Capital Amount**	**Ratio**	**Capital Amount**	**Ratio**
Tier 1 (Core) Capital to average total assets				
Sierra Bancorp and subsidiary	$ 330,200	10.50%	$ 251,595	8.00%
Bank of the Sierra	318,194	10.12%	251,572	8.00%

Dividend Restrictions

The Company’s ability to pay cash dividends is dependent on dividends paid to it by the Bank, and is also limited by state corporation law. California law allows a California corporation to pay dividends if the company’s retained earnings equal at least the amount of the proposed dividend plus any preferred dividend arrears amount. If a California corporation does not have sufficient retained earnings available for the proposed dividend, it may still pay a dividend to its shareholders if immediately after the dividend the value of the company’s assets would equal or exceed the sum of its total liabilities plus any preferred dividend arrears amount.

Dividends from the Bank to the Company are restricted under California law to the lesser of the Bank’s retained earnings or the Bank’s net income for the latest three fiscal years, less dividends previously declared during that period, or, with the approval of the Department of Financial Protection and Innovation, to the greater of the retained earnings of the Bank, the net income of the Bank for its last fiscal year, or the net income of the Bank for its current fiscal year. As of December 31, 2021, the maximum amount available for dividend distribution under this restriction was approximately $77.6 million.

17. BENEFIT PLANS

Salary Continuation Agreements, Directors’ Retirement and Officer Supplemental Life Insurance Plans

The Company has entered into salary continuation agreements with its executive officers, and has established retirement plans for qualifying members of the Board of Directors. The plans provide for annual benefits for up to fifteen years after retirement or death. The benefit obligation under these plans totaled $5.1 million and was fully accrued for both of the years ended December 31, 2021 and 2020. The expense recognized under these arrangements totaled $0.4 million, $0.2 million and $0.3 million for the years ended December 31, 2021, 2020 and 2019, respectively. Salary continuation benefits paid to former directors or executives of the Company or their

beneficiaries totaled $0.4 million, $0.4 million and $0.3 million for the years ended December 31, 2021, 2020 and 2019. Certain officers of the Company have supplemental life insurance policies with death benefits available to the officers' beneficiaries.

In connection with these plans the Company has purchased, or acquired through merger, single premium life insurance policies with cash surrender values totaling $43.2 million at December 31, 2021 and 2020.

Officer and Director Deferred Compensation Plan

The Company has established a deferred compensation plan for certain members of the management group and a deferred fee plan for directors for the purpose of providing the opportunity for participants to defer compensation. The Company bears the costs for the plan's administration and the interest earned on participant deferrals. The related administrative expense was not material for the years ended December 31, 2021, 2020 and 2019. In connection with this plan, life insurance policies with cash surrender values totaled $11.0 million and $9.3 million at December 31, 2021 and 2020, respectively.

401(k) Savings Plan

The 401(k) savings plan (the "Plan") allows participants to defer, on a pre-tax basis, up to 15% of their salary (subject to Internal Revenue Service limitations) and accumulate tax-deferred earnings as a retirement fund. The Bank may make a discretionary contribution to match a specified percentage of the first 6% of the participants' contributions annually. The amount of the matching contribution was 95%, 90% and 95% for the years ended December 31, 2021, 2020 and 2019, respectively. The matching contribution is discretionary, vests over a period of five years from the participants' hire date, and is subject to the approval of the Board of Directors. The Company contributed $1.2 million, $1.1 million, and $1.1 million to the Plan in 2021, 2020 and 2019, respectively.

18. NONINTEREST INCOME

The major grouping of noninterest revenue on the consolidated income statements includes several specific items: service charges on deposit accounts, gains on the sale of loans, credit card fees, check card fees, the net gain (loss) on sales and calls of investment securities available for sale, and the net increase (decrease) in the cash surrender value of life insurance.

Noninterest income also includes one general category of "other income" of which the following are major components (dollars in thousands):

	Year Ended December 31,		
	2021	**2020**	**2019**
Included in other income:			
Amortization of limited partnerships	$ (524)	$ (1,189)	$ (2,079)
Dividends on equity investments	737	664	789
Unrealized gains recognized on equity investments	857	447	232
Other	4,019	4,638	3,223
Total other noninterest income	$ 5,089	$ 4,560	$ 2,165

SIERRA BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

19. OTHER NONINTEREST EXPENSE

Other noninterest expense consisted of the following (dollars in thousands):

	Year Ended December 31,		
	2021	2020	2019
Legal, audit and professional	$ 7,652	$ 4,263	$ 4,039
Data processing	5,890	4,661	4,564
Advertising and promotional	1,521	1,889	2,568
Deposit services	9,049	8,483	7,962
Stationery and supplies	345	446	318
Telephone and data communication	2,013	1,775	1,529
Loan and credit card processing	501	879	675
Foreclosed assets expense (income), net	72	253	35
Postage	308	321	436
Other	2,780	2,205	2,082
Assessments	1,157	717	525
Total other noninterest expense	$ 31,288	$ 25,892	$ 24,733

20. RELATED PARTY TRANSACTIONS

During the normal course of business, the Bank enters into loans with related parties, including executive officers and directors. These loans are made with substantially the same terms, including rates and collateral, as loans to unrelated parties. The following is a summary of the aggregate activity involving related party borrowers (dollars in thousands):

	Year Ended December 31,		
	2021	2020	2019
Balance, beginning of year	$ 1,794	$ 2,731	$ 2,544
Disbursements	1,983	7,114	18,681
Amounts repaid	(2,548)	(8,051)	(18,494)
Effect of changes in composition of related parties	(162)	—	—
Balance, end of year	$ 1,067	$ 1,794	$ 2,731
Undisbursed commitments to related parties	$ 2,156	$ 2,635	$ 1,829

Deposits from related parties held by the Bank at December 31, 2021 and 2020 amounted to $9.9 million and $6.1 million, respectively.

21. FAIR VALUE

Fair value is defined by U.S. GAAP as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. U.S. GAAP also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

- Level 2: Significant observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

- Level 3: Significant unobservable inputs that reflect a company's own assumptions about the factors that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate fair values for each category of financial asset noted below:

Securities: The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges, live trading desk pricing from brokerages, or by matrix pricing, which is a mathematical technique used widely in the industry to value debt securities by relying on their relationship to other benchmark quoted securities. In certain circumstances live trading desk pricing from brokerages and third party internal models are used to value debt securities that we classify as Level 3.

Collateral-dependent impaired loans: A specific loss allowance is created for collateral dependent impaired loans, representing the difference between the face value of the loan and the current appraised value of its associated collateral, less estimated disposition costs.

Foreclosed assets: Repossessed real estate (OREO) and other assets are carried at the lower of cost or fair value. Fair value is the appraised value less expected selling costs for OREO and some other assets such as mobile homes, and for all other assets fair value is represented by the estimated sales proceeds as determined using reasonably available sources. Foreclosed assets for which appraisals can be feasibly obtained are periodically measured for impairment using updated appraisals. Fair values for other foreclosed assets are adjusted as necessary, subsequent to a periodic re-evaluation of expected cash flows and the timing of resolution. If impairment is determined to exist, the book value of a foreclosed asset is immediately written down to its estimated impaired value through the income statement, thus the carrying amount is equal to the fair value and there is no valuation allowance.

SIERRA BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Assets and liabilities measured at fair value on a recurring basis are summarized below (dollars in thousands):

	Fair Value Measurements at December 31, 2021, using				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Realized Gain/(Loss)
Securities:					
U.S. government agencies	$ —	$ 1,574	$ —	$ 1,574	$ —
Mortgage-backed securities	—	306,727	—	306,727	—
State and political subdivisions	—	304,268	—	304,268	—
Corporate bonds	—	999	27,530	28,529	—
Collateralized loan obligations	—	136,509	195,707	332,216	—
Total available-for-sale securities	$ —	$ 750,077	$ 223,237	$ 973,314	$ —

	Fair Value Measurements at December 31, 2020, using				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Realized Gain/(Loss)
Securities:					
U.S. government agencies	$ —	$ 1,800	$ —	$ 1,800	$ —
Mortgage-backed securities	—	314,435	—	314,435	—
State and political subdivisions	—	227,739	—	227,739	—
Total available-for-sale securities	$ —	$ 543,974	$ —	$ 543,974	$ —

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2021 and 2020 (dollars in thousands):

	Collateralized Loan Obligations		Corporate Bonds	
	2021	2020	2021	2020
Balance of recurring Level 3 assets at January 1,	$ —	$ —	$ —	$ —
Purchases	195,707	—	27,530	—
Balance of recurring Level 3 assets at December 31,	$ 195,707	$ —	$ 27,530	$ —

The following table presents quantitative information about recurring level 3 fair value measurements at December 31, 2021 (dollars in thousands):

				Range		
	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Min	Max	Weighted Average
Corporate Bonds	$ 27,530	New issue pricing	Risk appetite	N/A	N/A	N/A
		Secondary market pricing	Market volatility			
		Credit quality of issuer				
		Credit spread				
Collateralized Loan Obligations	195,707	New issue pricing	Constant prepayment rate	N/A	N/A	N/A
		Secondary market pricing	Default rate			
		Credit quality of issuer	Recovery rate			
		Credit spread				
	$ 223,237					

There were no assets measured at fair value on a recurring basis with level 3 fair value measurements at December 31, 2020.

Assets and liabilities measured at fair market value on a non-recurring basis are summarized below (dollars in thousands):

	Year Ended December 31, 2021			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Collateral dependent impaired loans	$ —	$ 221	$ 177	$ 398
Foreclosed assets	$ —	$ 93	$ —	$ 93

	Year Ended December 31, 2020			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Collateral dependent impaired loans	$ —	$ 550	$ —	$ 550
Foreclosed assets	$ —	$ 971	$ —	$ 971

The following table presents quantitative information about level 3 fair value measurements for assets measured at fair value on a non-recurring basis at December 31, 2021 (dollars in thousands):

				Range		
	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Min	Max	Weighted Average
Impaired loans - commercial and industrial	$ 177	Fair value of collateral	Collateral discount	50%	70%	56%
	$ 177					

There were no assets measured at fair value on a non-recurring basis with level 3 fair value measurements at December 31, 2020.

22. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Disclosures include estimated fair values for financial instruments for which it is practicable to estimate fair value. These estimates are made as of the respective balance sheet dates based on relevant market data and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering the Company’s entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

Because no market exists for a significant portion of the Company’s financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments and

other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the fair values presented. The following methods and assumptions were used by the Company to estimate the fair value of its financial instruments at December 31, 2021 and 2020:

Cash and cash equivalents, and fed funds sold: For cash and cash equivalents and fed funds sold, the carrying amount is estimated to be fair value.

Securities: The fair values of investment securities are determined by obtaining quoted prices on nationally recognized securities exchanges, live trading desk pricing from brokerages, or by matrix pricing, which is a mathematical technique used widely in the industry to value debt securities by relying on their relationship to other benchmark quoted securities when quoted prices for specific securities are not readily available.

Loans and leases: Fair values of loans, excluding loans held for sale, are based on the exit price notion set forth by ASU 2016-01 effective January 1, 2018 and estimated using discounted cash flow analyses. The estimation of fair values of loans results in a Level 3 classification as it requires various assumptions and considerable judgement to incorporate factors relevant when selling loans to market participants, such as funding costs, return requirements of likely buyers and performance expectations of the loans given the current market environment and quality of loans.

Loans held for sale: Since loans designated by the Company as held-for-sale are typically sold shortly after making the decision to sell them, realized gains or losses are usually recognized within the same period and fluctuations in fair values are thus not relevant for reporting purposes. If held-for-sale loans stay on our books for an extended period of time, the fair value of those loans is determined using quoted secondary-market prices.

Deposits: Fair values for non-maturity deposits are equal to the amount payable on demand at the reporting date, which is the carrying amount. Fair values for fixed-rate certificates of deposit are estimated using a cash flow analysis, discounted at interest rates being offered at each reporting date by the Bank for certificates with similar remaining maturities.

Short-term borrowings: The carrying amounts approximate fair values for federal funds purchased, overnight FHLB advances, borrowings under repurchase agreements, and other short-term borrowings maturing within ninety days of the reporting dates. Fair values of other short-term borrowings are estimated by discounting projected cash flows at the Company’s current incremental borrowing rates for similar types of borrowing arrangements.

Long-term borrowings: The fair values of the Company’s long-term borrowings are estimated using projected cash flows discounted at the Company’s current incremental borrowing rates for similar types of borrowing arrangements.

Subordinated debentures: The fair values of subordinated debentures are determined based on the current market value for like instruments of a similar maturity and structure.

SIERRA BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Carrying amount and estimated fair values of financial instruments were as follows (dollars in thousands):

	Year Ended December 31, 2021				
		Estimated Fair Value			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial Assets:					
Cash and cash equivalents	$ 257,528	$ 257,528	$ —	$ —	$ 257,528
Securities available for sale	973,314	—	750,077	223,237	973,314
Loans and leases held for investment	1,973,207	—	—	1,960,966	1,960,966
Collateral dependent impaired loans	398	—	221	177	398
Financial Liabilities:					
Deposits:					
Noninterest bearing	$ 1,084,544	$ 1,084,544	$ —	$ —	$ 1,084,544
Interest bearing	1,697,028	—	1,696,124	—	1,696,124
Repurchase agreements	106,937	—	106,937	—	106,937
Long-term borrowings	49,141	—	49,118	—	49,118
Subordinated debentures	35,302	—	33,281	—	33,281

	Notional Amount
Off-balance-sheet financial instruments:	
Commitments to extend credit	$ 554,028
Standby letters of credit	6,651

Carrying amount and estimated fair values of financial instruments were as follows (dollars in thousands):

	Year Ended December 31, 2020				
		Estimated Fair Value			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial Assets:					
Cash and cash equivalents	$ 71,417	$ 71,417	$ —	$ —	$ 71,417
Securities available for sale	543,974	—	543,974	—	543,974
Loans and leases held for investment	2,441,676	—	—	2,450,340	2,450,340
Collateral dependent impaired loans	550	—	550	—	550
Financial Liabilities:					
Deposits:					
Noninterest bearing	$ 943,664	$ 943,664	$ —	$ —	$ 943,664
Interest bearing	1,680,942	—	1,680,814	—	1,680,814
Fed funds purchased and repurchase agreements	39,138	—	39,138	—	39,138
Short-term borrowings	142,900	—	142,896	—	142,896
Subordinated debentures	35,124	—	24,364	—	24,364

	Notional Amount
Off-balance-sheet financial instruments:	
Commitments to extend credit	$ 441,816
Standby letters of credit	8,104

23. QUALIFIED AFFORDABLE HOUSING PROJECT INVESTMENTS

The Company invests in qualified affordable housing projects. At December 31, 2021 and 2020, the balance of the investment for qualified affordable housing projects totaled $2.9 million and $3.5 million, respectively. These balances are reflected in the other assets line on the consolidated balance sheet. Unfunded commitments related to these investments in qualified affordable housing projects totaled $0.1 million and $0.1 million at December 31, 2021 and 2020, respectively.

During the years ended December 31, 2021, 2020 and 2019, the Company recognized amortization expense on these investments of $0.5 million, $0.6 million, and $1.8 million, respectively which was included within pretax income on the consolidated statements of income.

Additionally, during the years ended December 31, 2021, 2020 and 2019 the Company recognized tax credits and other benefits from its investment in affordable housing tax credits of $0.5 million. The Company had no impairment losses during the years ended December 31, 2021, 2020 and 2019.

24. REVENUE FROM CONTRACTS WITH CUSTOMERS

All of the Company’s revenue from contracts with customers in the scope of ASC 606 is recognized within Noninterest Income. The following table presents the Company’s sources of Noninterest Income for the

SIERRA BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

twelve months ended December 31, 2021 and 2020. Items outside the scope of ASC 606 are noted as such (dollars in thousands).

	Year Ended December 31,	
	2021	**2020**
Noninterest income		
Service charges on deposits		
Returned item and overdraft fees	$ 4,924	$ 5,078
Other service charges on deposits	6,922	6,687
Debit card interchange income	8,485	7,023
Loss on limited partnerships[1]	(524)	(1,189)
Dividends on equity investments[1]	737	664
Unrealized gains recognized on equity investments[1]	857	447
Net gains (losses) on sale of securities[1]	11	390
Other[1]	6,667	7,050
Total noninterest income	$ 28,079	$ 26,150
Noninterest expense		
Salaries and employee benefits[1]	$ 42,431	$ 40,178
Occupancy expense[1]	9,837	9,842
Gains on sale of OREO	(153)	(10)
Other[1]	31,441	25,902
Total noninterest expense	$ 83,556	$ 75,912

(1) Not within the scope of ASC 606. Revenue streams are not related to contracts with customers and are accounted for on an accrual basis under other provisions of GAAP.

SIERRA BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

25. PARENT ONLY CONDENSED FINANCIAL STATEMENTS

BALANCE SHEETS

Years Ended December 31, 2021 and 2020
(dollars in thousands)

	2021	2020
ASSETS		
Cash and due from banks	$ 20,143	$ 12,000
Investments in bank subsidiary	428,054	367,014
Investment in trust subsidiaries	1,145	1,145
Other assets	21	22
	$ 449,363	$ 380,181
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Other liabilities	$ 2,426	$ 1,161
Long-term debt	49,141	—
Subordinated debentures	35,302	35,124
Total liabilities	86,869	36,285
Shareholders' equity:		
Common stock	116,917	117,120
Retained earnings	234,410	208,371
Accumulated other comprehensive gain, net of taxes	11,167	18,405
Total shareholders' equity	362,494	343,896
	$ 449,363	$ 380,181

STATEMENTS OF INCOME

Years Ended December 31, 2021, 2020 and 2019
(dollars in thousands)

	2021	2020	2019
Income:			
Dividend from subsidiary	$ 3,200	$ 23,000	$ 17,200
Other operating income	—	43	—
Total income	3,200	23,043	17,200
Expense			
Salaries and employee benefits	779	856	582
Other expenses	2,728	1,971	2,664
Total expenses	3,507	2,827	3,246
Income before income taxes	(307)	20,216	13,954
Income tax benefit	(1,037)	(823)	(1,138)
Income before equity in undistributed income of subsidiary	730	21,039	15,092
Equity in undistributed income of subsidiary	42,282	14,405	20,869
Net income	$ 43,012	$ 35,444	$ 35,961

SIERRA BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2021, 2020 and 2019
(dollars in thousands)

	2021	2020	2019
Cash flows from operating activities:			
Net income	$ 43,012	$ 35,444	$ 35,961
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed net income of subsidiary	(42,282)	(14,405)	(20,869)
Decrease in other assets	179	178	178
Increase (decrease) in other liabilities	1,263	(41)	(2)
Net cash provided by operating activities	2,172	21,176	15,268
Cash flows from investing activities:			
Investment in subsidiary	(25,000)	—	—
Net cash used by investing activities	(25,000)	—	—
Cash flows from financing activities:			
Stock options exercised	282	775	1,088
Repurchase of common stock	(5,220)	(2,562)	(2,544)
Dividends paid	(13,232)	(12,207)	(11,332)
Issuance of debentures, net	49,141	—	—
Net cash provided by (used) in financing activities	30,971	(13,994)	(12,788)
Net increase in cash and cash equivalents	8,143	7,182	2,480
Cash and cash equivalents, beginning of year	12,000	4,818	2,338
Cash and cash equivalents, end of year	$ 20,143	$ 12,000	$ 4,818

SIERRA BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

26. CONDENSED QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following table sets forth the Company's unaudited results of operations for the four quarters of 2021 and 2020. In management's opinion, the results of operations reflect all adjustments (which include only recurring adjustments) necessary to present fairly the condensed results for such periods (dollars in thousands, except per share data).

	2021 Quarter Ended			
	December 31,	September 30,	June 30,	March 31,
Interest income	$ 27,897	$ 27,629	$ 28,092	$ 29,458
Interest expense	1,331	913	903	903
Net interest income	26,566	26,716	27,189	28,555
Provision for loan and lease losses	(1,200)	(600)	(2,100)	250
Noninterest income	7,103	7,534	6,612	6,830
Noninterest expense	22,175	20,875	20,235	20,271
Net income before taxes	12,694	13,975	15,666	14,864
Provision for taxes	3,073	3,370	3,958	3,786
Net income	$ 9,621	$ 10,605	$ 11,708	$ 11,078
Diluted earnings per share	$ 0.63	$ 0.69	$ 0.76	$ 0.72
Cash dividend per share	$ 0.22	$ 0.22	$ 0.21	$ 0.21

	2020 Quarter Ended			
	December 31,	September 30,	June 30,	March 31,
Interest income	$ 29,762	$ 29,044	$ 25,386	$ 26,051
Interest expense	930	970	1,244	2,264
Net interest income	28,832	28,074	24,142	23,787
Provision for loan and lease losses	2,200	2,350	2,200	1,800
Noninterest income	6,040	7,104	6,900	6,106
Noninterest expense	20,757	19,304	18,033	17,818
Net income before taxes	11,915	13,524	10,809	10,275
Provision for taxes	2,936	3,169	2,506	2,468
Net income	$ 8,979	$ 10,355	$ 8,303	$ 7,807
Diluted earnings per share	$ 0.58	$ 0.68	$ 0.54	$ 0.52
Cash dividend per share	$ 0.20	$ 0.20	$ 0.20	$ 0.20

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer and its Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13(a)–15(e) as of the end of the period covered by this report (the "Evaluation Date") have concluded that as of the Evaluation Date, the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities, particularly during the period in which this annual report was being prepared.

Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our Management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure, and that such information is recorded, processed, summarized, and reported within the time periods specified by the SEC.

Management's Report on Internal Control over Financial Reporting

Management of the Company is responsible for the preparation, integrity, and reliability of the consolidated financial statements and related financial information contained in this annual report. The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America and, as such, include some amounts that are based on judgments and estimates of Management.

Management has established and is responsible for maintaining effective internal control over financial reporting. The Company's internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of Management and directors of the Company; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal control can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time. The system contains monitoring mechanisms, and actions are taken to correct deficiencies identified.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2021. This assessment was based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. This assessment included controls over the preparation of regulatory financial statements in accordance with the Federal Financial Institutions Examination Council's Instructions for Preparation of Consolidated Reports of Condition and Income, and in accordance with the Board of

Governors of the Federal Reserve System's Instructions for Preparation of Financial Statements for Bank Holding Companies (Consolidated and Parent Company Only). Based on this assessment, Management believes that the Company maintained effective internal control over financial reporting as of December 31, 2021.

Management is responsible for compliance with the federal and state laws and regulations concerning dividend restrictions and federal laws and regulations concerning loans to insiders designated by the FDIC as safety and soundness laws and regulations. Management assessed compliance by the Company's insured financial institution, Bank of the Sierra, with the designated laws and regulations relating to safety and soundness. Based on this assessment, Management believes that Bank of the Sierra complied, in all significant respects, with the designated laws and regulations related to safety and soundness for the year ended December 31, 2021.

Our assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2021 has been audited by Eide Bailly, an independent registered public accounting firm, as stated in their report appearing above in Item 8, Financial Statements and Supplementary Data.

Changes in Internal Control

There were no significant changes in the Company's internal control over financial reporting or in other factors in the fourth quarter of 2021 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INPECTIONS

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required to be furnished pursuant to this item with respect to Directors and Executive Officers of the Company will be set forth under the caption "Election of Directors" in the Company's proxy statement for the 2021 Annual Meeting of Shareholders (the "Proxy Statement"), which the Company will file with the SEC within 120 days after the close of the Company's 2021 fiscal year in accordance with SEC Regulation 14A under the Securities Exchange Act of 1934. Such information is hereby incorporated by reference.

The information required to be furnished pursuant to this item with respect to compliance with Section 16(a) of the Exchange Act will be set forth under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement, and is incorporated herein by reference.

The information required to be furnished pursuant to this item with respect to the Company's Code of Ethics and corporate governance matters will be set forth under the caption "Corporate Governance" in the Proxy Statement, and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required to be furnished pursuant to this item will be set forth under the captions "Executive Officer and Director Compensation" and "Compensation Discussion and Analysis" in the Proxy Statement, and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

Securities Authorized for Issuance under Equity Compensation Plans

The information required by Item 12 with respect to securities authorized for issuance under equity compensation plans is set forth under "Item 5 – Market for Registrant's Common Equity and Issuer Repurchases of Equity Securities" above.

Other Information Concerning Security Ownership of Certain Beneficial Owners and Management

The remainder of the information required by Item 12 will be set forth under the captions "Security Ownership of Certain Beneficial Owners and Management" and "Election of Directors" in the Proxy Statement, and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required to be furnished pursuant to this item will be set forth under the captions "Related Party Transactions" and "Corporate Governance – Director Independence" in the Proxy Statement, and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required to be furnished pursuant to this item will be set forth under the caption "Ratification of Appointment of Independent Registered Public Accounting Firm – Fees" in the Proxy Statement, and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) **Exhibits**

Exhibit #	Description
3.1	Restated Articles of Incorporation of Sierra Bancorp (1)
3.2	Amended and Restated By-laws of the Company (2)
4.1	Description of Securities (3)
10.1	Salary Continuation Agreement for Kenneth R. Taylor (4)*
10.3	Split Dollar Agreement for Kenneth R. Taylor (5)*
10.4	Director Retirement and Split dollar Agreements Effective October 1, 2002, for Albert Berra, Morris Tharp, and Gordon Woods (5)*
10.5	401 Plus Non-Qualified Deferred Compensation Plan (5)*
10.6	Indenture dated as of March 17, 2004 between U.S. Bank N.A., as Trustee, and Sierra Bancorp, as Issuer (6)
10.7	Amended and Restated Declaration of Trust of Sierra Statutory Trust II, dated as of March 17, 2004 (6)
10.8	Indenture dated as of June 15, 2006 between Wilmington Trust Co., as Trustee, and Sierra Bancorp, as Issuer (7)
10.9	Amended and Restated Declaration of Trust of Sierra Capital Trust III, dated as of June 15, 2006 (7)
10.10	2007 Stock Incentive Plan (8)*
10.11	Sample Retirement Agreement Entered into with Each Non-Employee Director Effective January 1, 2007 (9)*
10.12	Salary Continuation Agreement for Kevin J. McPhaill (9)*
10.13	First Amendment to the Salary Continuation Agreement for Kenneth R. Taylor (9)*
10.14	Second Amendment to the Salary Continuation Agreement for Kenneth R. Taylor (10)*
10.15	First Amendment to the Salary Continuation Agreement for Kevin J. McPhaill (11)*
10.16	Indenture dated as of September 20, 2007 between Wilmington Trust Co., as Trustee, and Coast Bancorp, as Issuer (12)
10.17	Amended and Restated Declaration of Trust of Coast Bancorp Statutory Trust II, dated as of September 20, 2007 (12)
10.18	First Supplemental Indenture dated as of July 8, 2016, between Wilmington Trust Co. as Trustee, Sierra Bancorp as the "Successor Company", and Coast Bancorp (12)
10.19	2017 Stock Incentive Plan (13)*
10.20	Employment agreements dated as of December 27, 2018 for Kevin McPhaill, CEO, and Michael Olague, Chief Banking Officer (14)*
10.22	Employment agreement dated as of November 15, 2019 for Christopher Treece, EVP and CFO (15)*
10.23	Employment agreement dated as of January 17, 2020 for Jennifer Johnson, EVP and CAO (16)*
21	Subsidiaries of Sierra Bancorp
23.1	Consent of Eide Bailly
31.1	Certification of Chief Executive Officer (Section 302 Certification)
31.2	Certification of Chief Financial Officer (Section 302 Certification)
32	Certification of Periodic Financial Report (Section 906 Certification)
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document

101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File - The cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

---

(1) Filed as Exhibit 3.1 to the Form 10-Q filed with the SEC on August 7, 2009 and incorporated herein by reference.
(2) Filed as Exhibit 3.3 to the Form 8-K filed with the SEC on February 21, 2007 and incorporated herein by reference.
(3) Filed as Exhibit 4.1 to the Form 10-K filed with the SEC on March 12, 2021 and incorporated herein by reference.
(4) Filed as Exhibit 10.5 to the Form 10-Q filed with the SEC on May 15, 2003 and incorporated herein by reference.
(5) Filed as Exhibits 10.10, 10.18 through 10.20, and 10.22 to the Form 10-K filed with the SEC on March 15, 2006 and incorporated herein by reference.
(6) Filed as Exhibits 10.9 and 10.10 to the Form 10-Q filed with the SEC on May 14, 2004 and incorporated herein by reference.
(7) Filed as Exhibits 10.26 and 10.27 to the Form 10-Q filed with the SEC on August 9, 2006 and incorporated herein by reference.
(8) Filed as Exhibit 10.20 to the Form 10-K filed with the SEC on March 15, 2007 and incorporated herein by reference.
(9) Filed as Exhibits 10.1 through 10.3 to the Form 8-K filed with the SEC on January 8, 2007 and incorporated herein by reference.
(10) Filed as Exhibit 10.23 to the Form 10-K filed with the SEC on March 13, 2014 and incorporated herein by reference.
(11) Filed as Exhibit 10.24 to the Form 10-Q filed with the SEC on May 7, 2015 and incorporated herein by reference.
(12) Filed as Exhibits 10.1 through 10.3 to the Form 8-K filed with the SEC on July 11, 2016 and incorporated herein by reference.
(13) Filed as Exhibit 10.1 to the Form 8-K filed with the SEC on March 17, 2017 and incorporated herein by reference.
(14) Filed as Exhibits 99.1 and 99.4 to the Form 8-K filed with the SEC on December 28, 2018 and incorporated by reference.
(15) Filed as Exhibit 99.1 to the Form 8-K filed with the SEC on November 11, 2019 and incorporated by reference.
(16) Filed as Exhibit 99.1 to the Form 8-K filed with the SEC on January 21, 2020 and incorporated by reference.

* Indicates management contract or compensatory plan or arrangement.

(b) **Financial Statement Schedules**

Schedules to the financial statements are omitted because the required information is not applicable or because the required information is presented in the Company’s Consolidated Financial Statements or related notes.

ITEM 16. FORM 10-K SUMMARY

Not Applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 10, 2022

SIERRA BANCORP,
a California corporation

By: */s/ Kevin J. McPhaill*
Kevin J. McPhaill
President &
Chief Executive Officer
(Principal Executive Officer)

By: */s/ Christopher G. Treece*
Christopher G. Treece
Executive Vice President &
Chief Financial Officer
(Principal Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Susan M. Abundis Susan M. Abundis	Director	March 10, 2022
/s/ Albert L. Berra Albert L. Berra	Director	March 10, 2022
/s/ Julie Castle Julie Castle	Director	March 10, 2022
/s/ Vonn R. Christenson Vonn R. Christenson	Director	March 10, 2022
/s/ Laurence S. Dutto, PhD Laurence S. Dutto, PhD	Director	March 10, 2022
/s/ Robb Evans Robb Evans	Director	March 10, 2022
/s/ James C. Holly James C. Holly	Vice Chairman of the Board	March 10, 2022
/s/ Kevin J. McPhaill Kevin J. McPhaill	President, Chief Executive Officer & Director (Principal Executive Officer)	March 10, 2022
/s/ Lynda B. Scearcy Lynda B. Scearcy	Director	March 10, 2022
/s/ Morris A. Tharp Morris A. Tharp	Chairman of the Board	March 10, 2022
/s/ Gordon T. Woods Gordon T. Woods	Director	March 10, 2022
/s/ Christopher G. Treece Christopher G. Treece	Executive Vice President & Chief Financial Officer (Principal Financial Officer)	March 10, 2022
/s/ Cindy L. Dabney Cindy L. Dabney	Senior Vice President & Chief Accounting Officer (Principal Accounting Officer)	March 10, 2022

Exhibit 21

Subsidiaries of Sierra Bancorp

Name of Subsidiary	Jurisdiction of Incorporation
Bank of the Sierra	California
Sierra Statutory Trust II	Connecticut
Sierra Capital Trust III	Delaware
Coast Bancorp Statutory Trust II	Delaware

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-146214 and 333-220553 on Form S-8 of Sierra Bancorp and Subsidiary of our report dated March 10, 2022, relating to our audit of the consolidated financial statements, which appear in this Form 10-K.

/s/ Eide Bailly LLP

San Ramon, California
March 10, 2022

Exhibit 31.1

Certification of Chief Executive Officer (Section 302 Certification)

I, Kevin J. McPhaill, certify that:

1. I have reviewed the 2021 Annual Report on Form 10-K (the "Annual Report") of Sierra Bancorp (the "Registrant");

2. Based on my knowledge, the Annual 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 the Annual Report;

3. Based on my knowledge, the financial statements, and other financial information included in the Annual 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 the Annual Report;

4. The Registrant's other certifying officer 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 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 subsidiaries, is made known to us by others within those entities, particularly during the period in which the Annual 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 the Annual Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the Annual Report based on such evaluation; and

(d) Disclosed in the Annual 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 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:

(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 information; 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: March 10, 2022

/s/ Kevin J. McPhaill
Kevin J. McPhaill
President &
Chief Executive Officer

Exhibit 31.2

Certification of Chief Financial Officer (Section 302 Certification)

I, Christopher G. Treece, certify that:

1. I have reviewed the 2021 Annual Report on Form 10-K (the "Annual Report") of Sierra Bancorp (the "Registrant");

2. Based on my knowledge, the Annual 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 the Annual Report;

3. Based on my knowledge, the financial statements, and other financial information included in the Annual 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 the Annual Report;

4. The Registrant's other certifying officer 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 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 subsidiaries, is made known to us by others within those entities, particularly during the period in which the Annual 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 the Annual Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the Annual Report based on such evaluation; and

(d) Disclosed in the Annual 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 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:

(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 information; 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: March 10, 2022

/s/ Christopher G. Treece

Christopher G. Treece
Executive Vice President &
Chief Financial Officer

Exhibit 32

Certification of Periodic Financial Report

Kevin J. McPhaill and Christopher G. Treece hereby certify as follows:

1. They are the Chief Executive Officer and Chief Financial Officer, respectively, of Sierra Bancorp.

2. The Form 10-K of Sierra Bancorp for the year ended December 31, 2021 complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and the information contained in the report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Sierra Bancorp.

March 10, 2022	*/s/ Kevin J. McPhaill*
Date	Kevin J. McPhaill President & Chief Executive Officer
March 10, 2022	*/s/ Christopher G. Treece*
Date	Christopher G. Treece Executive Vice President & Chief Financial Officer