

SIERRA BANCORP
Form 10-Q
November 06, 2015

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2015

Commission file number: 000-33063

Sierra Bancorp

(Exact name of Registrant as specified in its charter)

California 33-0937517
(State of Incorporation) (IRS 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)

Not Applicable

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(Former name, former address and former fiscal year, if changed since last report)

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 R No £

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes R No £

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer £ Accelerated filer R
Non-accelerated filer £ (Do not check if a smaller reporting company) Smaller Reporting Company £

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

Yes £ No R

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common stock, no par value, 13,248,048 shares outstanding as of October 30, 2015

FORM 10-Q**Table of Contents**

	Page
<u>Part I - Financial Information</u>	1
<u>Item 1. Financial Statements (Unaudited)</u>	1
<u>Consolidated Balance Sheets</u>	1
<u>Consolidated Statements of Income</u>	2
<u>Consolidated Statements of Comprehensive Income</u>	3
<u>Consolidated Statements of Cash Flows</u>	4
<u>Notes to Unaudited Consolidated Financial Statements</u>	5
<u>Item 2. Management's Discussion & Analysis of Financial Condition & Results of Operations</u>	34
<u>Forward-Looking Statements</u>	34
<u>Critical Accounting Policies</u>	34
<u>Overview of the Results of Operations and Financial Condition</u>	35
<u>Earnings Performance</u>	36
<u>Net Interest Income and Net Interest Margin</u>	36
<u>Provision for Loan and Lease Losses</u>	40
<u>Non-interest Income and Non-Interest Expense</u>	41
<u>Provision for Income Taxes</u>	44
<u>Balance Sheet Analysis</u>	44
<u>Earning Assets</u>	44
<u>Investments</u>	44
<u>Loan and Lease Portfolio</u>	45
<u>Nonperforming Assets</u>	47
<u>Allowance for Loan and Lease Losses</u>	48
<u>Off-Balance Sheet Arrangements</u>	50
<u>Other Assets</u>	50
<u>Deposits and Interest-Bearing Liabilities</u>	51
<u>Deposits</u>	51
<u>Other Interest-Bearing Liabilities</u>	52
<u>Non-Interest Bearing Liabilities</u>	52
<u>Liquidity and Market Risk Management</u>	52
<u>Capital Resources</u>	55
<u>Item 3. Qualitative & Quantitative Disclosures about Market Risk</u>	56
<u>Item 4. Controls and Procedures</u>	56
<u>Part II - Other Information</u>	57
<u>Item 1. - Legal Proceedings</u>	57

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<u>Item 1A. - Risk Factors</u>	57
<u>Item 2. - Unregistered Sales of Equity Securities and Use of Proceeds</u>	57
<u>Item 3. - Defaults upon Senior Securities</u>	57
<u>Item 4. - (Removed and Reserved)</u>	57
<u>Item 5. - Other Information</u>	57
<u>Item 6. - Exhibits</u>	58
<u>Signatures</u>	59

PART I - FINANCIAL INFORMATION**Item 1 – Financial Statements****SIERRA BANCORP****CONSOLIDATED BALANCE SHEETS**

(dollars in thousands)

	September 30, 2015 (unaudited)	December 31, 2014 (audited)
ASSETS		
Cash and due from banks	\$ 45,658	\$ 48,405
Interest-bearing deposits in banks	3,330	1,690
Total cash & cash equivalents	48,988	50,095
Securities available for sale	509,600	511,883
Loans and leases:		
Gross loans and leases	1,054,136	970,653
Allowance for loan and lease losses	(10,412	) (11,248
Deferred loan and lease fees, net	1,950	1,651
Net loans and leases	1,045,674	961,056
Premises and equipment, net	22,177	21,853
Foreclosed assets	3,003	3,991
Company owned life insurance	43,675	42,989
Goodwill	6,908	6,908
Other intangible assets, net	963	1,064
Other assets	36,146	37,481
	\$ 1,717,134	\$ 1,637,320
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 423,449	\$ 390,897
Interest bearing	1,005,665	975,798
Total deposits	1,429,114	1,366,695
Federal funds purchased and repurchase agreements	10,115	7,251
Short-term borrowings	41,500	18,200
Long-term borrowings	2,000	6,000
Junior subordinated debentures	30,928	30,928
Other liabilities	16,425	21,155
Total Liabilities	1,530,082	1,450,229

Commitments and contingent liabilities (Note 8)

Shareholders' equity

Common stock, no par value; 24,000,000 shares authorized; 13,248,048 and 13,689,181 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	62,324	64,153
Additional paid in capital	2,650	2,605
Retained earnings	118,795	116,026
Accumulated other comprehensive income	3,283	4,307
Total shareholders' equity	187,052	187,091
	\$ 1,717,134	\$ 1,637,320

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

SIERRA BANCORP**CONSOLIDATED STATEMENTS OF INCOME**

(dollars in thousands, except per share data, unaudited)

	Three months ended September		Nine months ended September	
	30,	2014	30,	2014
	2015		2015	2014
Interest and dividend income				
Loans and leases, including fees	\$ 12,924	\$ 11,237	\$ 38,124	\$ 32,644
Taxable securities	1,847	2,008	6,191	5,709
Tax-exempt securities	746	729	2,202	2,203
Federal funds sold and other	7	4	26	55
Total interest income	15,524	13,978	46,543	40,611
Interest expense				
Deposits	452	503	1,345	1,614
Short-term borrowings	12	6	43	16
Long-term borrowings	2	-	9	-
Subordinated debentures	181	177	533	526
Total interest expense	647	686	1,930	2,156
Net Interest Income	14,877	13,292	44,613	38,455
Provision for loan losses	-	-	-	350
Net interest income after provision for loan losses	14,877	13,292	44,613	38,105
Non-interest income				
Service charges on deposits	2,611	2,214	6,880	6,139
Net gains on sale of securities available-for-sale	108	-	431	287
Other income	1,542	1,571	5,611	5,084
Total non-interest income	4,261	3,785	12,922	11,510
Other operating expense				
Salaries and employee benefits	5,904	5,459	18,924	16,772
Occupancy and equipment	1,834	1,662	5,160	4,700
Other	4,547	4,629	14,412	12,014
Total other operating expense	12,285	11,750	38,496	33,486
Income before taxes	6,853	5,327	19,039	16,129
Provision for income taxes	2,443	1,776	6,335	4,543
Net income	\$ 4,410	\$ 3,551	\$ 12,704	\$ 11,586
PER SHARE DATA				
Book value	\$ 14.12	\$ 13.46	\$ 14.12	\$ 13.46
Cash dividends	\$ 0.11	\$ 0.09	\$ 0.31	\$ 0.25
Earnings per share basic	\$ 0.33	\$ 0.25	\$ 0.94	\$ 0.82
Earnings per share diluted	\$ 0.33	\$ 0.25	\$ 0.93	\$ 0.81

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Average shares outstanding, basic	13,358,895	13,939,152	13,531,370	14,083,649
Average shares outstanding, diluted	13,482,364	14,072,783	13,656,747	14,218,194
Total shareholder equity (in thousands)	\$ 187,052	\$ 186,240	\$ 187,052	\$ 186,240
Shares outstanding	13,248,048	13,841,342	13,248,048	13,841,342
Dividends Paid	\$ 1,474,639	\$ 1,260,823	\$ 4,205,218	\$ 3,528,478

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

SIERRA BANCORP**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(dollars in thousands, unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Net Income	\$ 4,410	\$ 3,551	\$ 12,704	\$ 11,586
Other comprehensive income, before tax:				
Unrealized gains on securities:				
Unrealized holding (losses) gains arising during period	1,284	(237)	(1,225)	5,256
Less: reclassification adjustment for gains ⁽¹⁾	(108)	-	(431)	(287)
Other comprehensive (loss) income, before tax	1,176	(237)	(1,656)	4,969
Income tax expense (benefit) related to items of other comprehensive income (loss), net of tax	(494)	97	632	(2,045)
Other comprehensive income (loss) gain	682	(140)	(1,024)	2,924
Comprehensive Income	\$ 5,092	\$ 3,411	\$ 11,680	\$ 14,510

⁽¹⁾ Amounts are included in net gains on investment securities available-for-sale on the Consolidated Statements of Income in non-interest revenue. Income tax expense associated with the reclassification adjustment for the three months ended September 30, 2015 and 2014 was \$45 thousand and zero respectively. Income tax expense associated with the reclassification adjustment for the nine months ended September 30, 2015 and 2014 was \$181 thousand and \$118 thousand respectively.

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

SIERRA BANCORP**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(dollars in thousands, unaudited)

	Nine months ended September 30, 2015	2014
Cash flows from operating activities:		
Net income	\$ 12,704	\$ 11,586
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sales of securities	(431)	(287)
Gain on sales of loans	(6)	(3)
Loss on disposal of fixed assets	62	1
Gain on sale on foreclosed assets	(166)	(531)
Writedowns on foreclosed assets	193	286
Share-based compensation expense	33	57
Provision for loan losses	-	350
Depreciation	1,694	1,569
Net accretion on purchased loans	(634)	-
Net amortization on securities premiums and discounts	5,217	4,925
Decrease (increase) in unearned net loan fees	299	(16)
Increase in cash surrender value of life insurance policies	(686)	(1,001)
	323	108

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Proceeds from sale of loans			
Increase in loans held-for-sale	(317)	-
Decrease in interest receivable and other assets	3,845		1,923
(Decrease) increase in other liabilities	(4,730	)	1,756
Deferred Income Tax (Benefit) provision	(1,182	)	864
Excess tax benefit from equity based compensation	92		-
Net cash provided by operating activities	16,310		21,587
Cash flows from investing activities:			
Maturities of securities available for sale	580		995
Proceeds from sales/calls of securities available for sale	24,408		11,055
Purchases of securities available for sale	(97,899	)	(111,425
Principal pay downs on securities available for sale	68,753		57,062
Purchases of FHLB stock	(504	)	(190
Net increase in loans receivable, net	(84,776	)	(82,126
Purchases of premises and equipment, net	(2,136	)	(2,159
Proceeds from sale premises and equipment	56		-
Proceeds from sales of foreclosed assets	1,454		4,421
Net cash used in investing activities	(90,064)	(122,367
Cash flows from financing activities:			

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Increase in deposits	62,419		48,867	
Increase in borrowed funds	19,300		22,390	
Increase in repurchase agreements	2,864		1,196	
Cash dividends paid	(4,205	)	(3,528)
Repurchases of common stock	(7,956	)	(7,284)
Stock options exercised	317		811	
Excess tax benefit from equity based compensation	(92)	-	
Net cash provided by financing activities	72,647		62,452	
Decrease in cash and due from banks	(1,107	)	(38,328)
Cash and cash equivalents				
Beginning of period	50,095		78,006	
End of period	\$ 48,988		\$ 39,678	

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

Sierra Bancorp

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2015

Note 1 – The Business of Sierra Bancorp

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. At the present time, the Company’s only other subsidiaries are Sierra Statutory Trust II and Sierra Capital Trust III, which were formed in March 2004 and June 2006, respectively, 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 Company’s financial statements. References herein to the “Company” include Sierra Bancorp and its consolidated subsidiary, the Bank, unless the context indicates otherwise.

The Bank is a California state-chartered bank headquartered in Porterville, California. We offer a full range of retail and commercial banking services primarily in Tulare, Kern, Fresno, and Kings Counties in Central California, and in select markets in Southern California including Ventura County, the Santa Clarita Valley, and the San Fernando Valley. Bank of the Sierra was incorporated in September 1977, and opened for business in January 1978 as a one-branch bank with \$1.5 million in capital and eleven employees. Our growth in the ensuing years has primarily been organic, but includes two acquisitions: Sierra National Bank in the year 2000, and Santa Clara Valley Bank (“SCVB”) in 2014 (see Note 13 to the financial statements, Recent Developments, for details on the SCVB acquisition). We are now the largest bank headquartered in the South San Joaquin Valley with more than 400 employees, 28 full-service branches, a loan production office and \$1.7 billion in assets at September 30, 2015. We have received regulatory approval for another branch in Bakersfield, California which is expected to commence operations in mid-2016, and more recently obtained consent for a branch in Sanger, California which could open in the first quarter of 2016 if approved. In addition to our stand-alone offices the Bank has specialized lending units which include a real estate industries center, an agricultural credit center, and an SBA lending unit. We also operate offsite ATMs at six different non-branch locations. The Bank’s deposit accounts are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to maximum insurable amounts.

Note 2 – Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in a condensed format, and therefore do not include all of the information and footnotes required by U.S. generally accepted accounting principles (“GAAP”) for complete financial statements. The information furnished in these interim statements reflects all adjustments that are, in the opinion of Management, necessary for a fair statement of the results for such period. Such adjustments can generally be considered as normal and recurring unless otherwise disclosed in this Form 10-Q. In preparing the accompanying financial statements, Management has taken subsequent events into consideration and recognized them where appropriate. The results of operations in the interim statements are not necessarily indicative of the results that may be expected for any other quarter, or for the full year. Certain amounts reported for 2014 have been reclassified to be consistent with the reporting for 2015. The interim financial information should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the Securities and Exchange Commission.

Note 3 – Current Accounting Developments

In January 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-01, *Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects*, to provide additional flexibility with regard to accounting for investments in qualified affordable housing projects. ASU 2014-01 modifies the conditions that must be met to present the pretax impact and related tax benefits of such investments as a component of income taxes (“net” within income tax expense), to enable more investors to elect to use a net presentation for those investments. Investors that do not qualify for net presentation under the new guidance will continue to account for such investments under the equity method or cost method, which results in losses recognized in pretax income and tax benefits recognized in income taxes (“gross” presentation of investment results). For investments that qualify for the net presentation of investment performance, ASU 2014-01 introduces a “proportional amortization method” that can be elected to amortize the investment basis. If elected, the method is required for all eligible investments in qualified affordable housing projects. ASU 2014-01 also requires enhanced recurring disclosures for all investments in qualified affordable housing projects, regardless of the accounting method used for those investments. It is effective for interim and annual periods beginning after December 15, 2014. The Company adopted the enhanced disclosure requirements of ASU 2014-01 as of the first quarter of 2015, as reflected in Note 10 to the consolidated financial statements, but we continue to account for our low-income housing tax credit investments using the equity method so there has been no impact on our income statement or balance sheet.

In January 2014, the FASB issued ASU 2014-04, *Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*, to resolve diversity in practice with respect to a creditor’s reclassification of a collateralized consumer mortgage loan to other real estate owned (OREO). Current US GAAP requires a loan to be reclassified to OREO upon a troubled debt restructuring that is “in substance a repossession or foreclosure”, where the creditor receives “physical possession” of the debtor’s assets regardless of whether formal foreclosure proceedings take place. The terms “in substance a repossession or foreclosure” and “physical possession” are not defined in US GAAP; therefore, questions have arisen about when a creditor should reclassify a collateralized mortgage loan to OREO. ASU 2014-04 requires a creditor to reclassify a collateralized consumer mortgage loan to real estate property upon obtaining legal title to the real estate collateral, or when the borrower voluntarily conveys all interest in the real estate property to the lender to satisfy the l