

# VALLEY REPUBLIC BANCORP

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## *News Release*

### **Valley Republic Bancorp Reports Record 2<sup>nd</sup> Quarter Growth and Earnings**

BAKERSFIELD, Calif., July 17, 2020:

Valley Republic Bancorp (the “Company”) (OTCQX: VLLX), the parent company of Valley Republic Bank (the “Bank”), today announced its financial results for the quarter ended June 30, 2020.

#### 2<sup>nd</sup> Quarter Ended June 30, 2020 Compared to 2<sup>nd</sup> Quarter Ended June 30, 2019:

- Net income after tax increased 54.72% to \$.88 per share
- Total assets increased 40.5% to \$1.219 billion
- Deposits increased 39% to \$1.059 billion
- Loans increased 47.5% to \$857 million
- Shareholder equity increased 18.5% to \$87 million
- Book value increased 16.6% to \$20.73 per share
- YTD return on average assets increased to 1.16%
- YTD return on average equity increased to 14.53%

#### Overview:

These results were exceptional, considering the significant and unusual economic situation caused by COVID-19 that negatively impacted most businesses. During this turmoil, the Company generated record quarterly earnings of \$3.7 million. Also, the Company experienced record growth in assets, loans and deposits, ending the quarter at \$1.219 billion in total assets. This could not have been achieved without the support of our local community.

Although the COVID-19 pandemic has created many challenges, Valley Republic Bank responded proactively to this crisis in the following ways:

- Paycheck Protection Program (the “PPP”) - Recognizing the significant strain the pandemic put on the local business community, Valley Republic participated in the PPP. The Bank accepted requests from both customers and non-customers. In total, the Bank processed over 800 applications and funded 664 loans totaling \$215 million. 100% of all applications received were processed.
- Kern Small Business Relief Program (the “KSBRP”) - In an effort to support the small business community in Kern County, the County utilized \$25 million of funds received through the CARES Act to inject into businesses with less than 50 employees and annual revenue under \$5 million. Valley Republic helped develop the new county program and to date has funded 107 loans totaling \$4.5 million through the KSBRP.

- Loan Modifications - The Bank actively worked with its customers to initiate temporary loan modifications for approximately 4% of the total number of loans outstanding to business borrowers, in accordance with extensive guidelines provided by both state and federal banking regulators.
- Impaired and nonperforming assets – Total impaired and nonperforming assets increased from \$1,827,000, or 0.19%, of total assets as of December 31, 2019 to \$4,808,000, or 0.39%, of total assets as of June 30, 2020. The impaired loans at quarter end are secured by real estate assets with loans to values of less than 60%.
- ALLL – Because of the extreme uncertainty in our local and national economies, the Bank accrued an additional \$700,000 to the Allowance for Loan and Lease Losses (ALLL) during the second quarter. This brings the ALLL, excluding the PPP loans, to 1.45% of total core loans at quarter end. The Bank will continue to closely monitor economic conditions and their potential impact on our customers going forward.
- Liquidity - The Bank has also taken the additional precautionary steps of maintaining \$171 million in cash and cash equivalents and \$160 million in marketable securities as of June 30, 2020, in order to increase balance sheet liquidity.

Balance Sheet Composition:

The COVID-19 pandemic has affected certain business sectors more than others. Particularly impacted are the *hospitality, restaurant and food service*, and *oil and gas* sectors. Valley Republic Bank is aware of the risks associated with these business sectors and has intentionally diversified its portfolio to minimize these risks to the Bank. The following table shows the composition of the Bank’s loan portfolio at the end of the second quarter:

Exposure to Sectors Impacted by COVID-19

<u>Sector</u>	<u>% of Total Commitments</u>
Arts, Entertainment & Recreation	0.3%
Beauty Salons, Laundries, Drycleaners & Other Personal Services	2.4%
Construction	7.1%
Consumer Loans	2.6%
Healthcare & Social Assistance	2.8%
<i>Hospitality</i>	6.9%
<i>Mining, Oil &amp; Gas</i>	9.7%
Real Estate Rental & Leasing - Non-Real Estate Secured	0.3%
Real Estate Rental & Leasing - Real Estate Secured	22.0%
Religious Organizations	0.7%
<i>Restaurant &amp; Food Service</i>	0.6%
Retail Trade	2.0%
Transportation & Warehousing	0.6%

The loans in the Bank’s portfolio from each of these sectors have been carefully evaluated. Of the three major loan categories mentioned, many are secured by real estate with modest LTVs. Based upon this evaluation, the Bank has proactively evaluated and adjusted the risk ratings of all loans in these segments and will continue to do so as long as current economic conditions warrant such action.

The following are general comments about the Bank's loan commitments to the three high risk sectors:

- *Hospitality*: This segment of the Bank's loan portfolio primarily includes nationally recognized brand names that are modestly leveraged, with LTVs less than 60%. The properties are owned and operated by families with extensive hospitality experience and well-established reputations for excellence. This portfolio is secured by 1<sup>st</sup> deeds of trust, with personal guaranties and full recourse to the principals.
- *Restaurant and Food Service*: The Bank's total exposure to this segment is less than \$6.9 million, consisting of national franchises as well as independently owned and operated restaurants. Curbside pickup, home delivery and drive-up services have been extensively used to allow these customers to remain open for business during the pandemic.
- *Oil & Gas*: The borrowers in the Oil & Gas industry segment consist mainly of service companies that are focused on the delivery of production, transportation and construction services. Even during the slowdown in this industry, these companies have continued to see demand for their services. Many of these companies had substantial work backlogs, which are continuing to generate current revenues. This industry segment has continued to perform well during this economic downturn.

### Financial Performance

The Company reported net income before taxes of \$5 million for the 2<sup>nd</sup> quarter ended June 30, 2020 compared to \$3 million for the same period last year. The Company reported net income after tax for the 2<sup>nd</sup> quarter ended June 30<sup>th</sup>, 2020 of \$3.7 million compared to \$2.3 million for the 2<sup>nd</sup> quarter ended June 30, 2019, an increase of 54.72%. Lower deposit costs, significant loan growth, a gain on sale of securities, a slight reduction in salaries expense, and a modest increase in service charge revenue were the primary drivers of the significant increase in earnings. The 2<sup>nd</sup> quarter ended June 30, 2020 results represented basic earnings per share of \$.88, compared to \$0.57 for the same quarter last year.

For the year-to-date period ended June 30, 2020, the Company reported pre-tax income of \$8.1 million compared to \$5.4 million in the same period last year, an increase of \$2.7 million or 49%. Net income after tax for the six months ended June 30, 2020 was \$5.9 million compared to \$5.3 million for the same period in 2019, an increase of 12.32%. The year-to-date results represented basic earnings per share of \$1.42, compared to \$1.28 one year ago. 2019 benefited from lower taxes related to the exercise of stock options while higher interest income on loans, lower deposit costs, and a gain on sale of securities helped drive financial performance in 2020.

Geraud Smith, President and CEO stated, "I am so proud of how Valley Republic's team has responded to the current crisis. Our team worked 7 days a week for 8 weeks straight to ensure we were taking care of our business community. Whether it was processing PPP loans, reviewing KSBPR applications, or facilitating loan modifications, the Valley team remains steadfast to the Bank's purpose of providing uncommon service."

### Growth

Total assets for the 2<sup>nd</sup> quarter ended June 30, 2020 were \$1.219 billion, which represents a year over year increase of \$351 million, or 40.5%. Total deposits increased \$297 million, or 39%, ending the quarter at \$1.059 billion. Total loans were \$857 million, which represents a year over year increase of \$277 million,

or 48%. The PPP loan balance at quarter end was \$207 million. One of the unexpected results from Valley Republic's performance during this challenging time is a significant influx of net new relationships. The Bank has boarded or is in the process of boarding over 100 new business relationships during the last 90 days.

Eugene Voiland, Chairman of the Board of Directors added, "The entire Valley Republic Bank team has worked tirelessly over the last three months to help our community in this difficult time. We have made every effort to provide our customers and non-customers, on a first come/first served basis, the relief they needed through the CARES Act and other government programs. We have worked closely with our regulators to be as certain as possible that all of our actions and accounting are compliant with the letter and spirit of the law. I could not be more grateful and proud of our entire organization for this extraordinary effort. Even through these uncertain times, Valley Republic Bank will be prepared to do what we can to help our community's economic recovery."

### Capital

The Company's total shareholders' equity at June 30, 2020 was \$87 million. Total shareholders' equity increased by \$13.5 million, or 18.3%, over the last 12 months. Book value per share for the same time period grew to \$20.73, compared to \$17.76 for the same period last year.

The Bank's total equity at June 30, 2020 was \$104.5 million, which generated an equity/asset ratio of 8.57%. Because of the PPP loans, the Bank's leverage ratio has decreased over the previous quarter. Leverage will increase significantly as the PPP loans are forgiven.

### About Valley Republic Bancorp and Valley Republic Bank

Valley Republic Bancorp is a bank holding company formed in 2016. Valley Republic Bank is a wholly owned subsidiary of Valley Republic Bancorp, headquartered in Bakersfield, California. The Bancorp is subject to the regulatory oversight of the Federal Reserve Bank, and the Bank is subject to the regulatory oversight of the Federal Deposit Insurance Corporation and the California Department of Business Oversight. Valley Republic Bank is an insured, state-chartered, non-member bank of the Federal Reserve System. The Bank is in its twelfth year of operation, having been established in 2009. Valley Republic Bank is a full-service, community bank with three full-service banking offices in Bakersfield, one full-service banking office in Delano, and a loan production office in Fresno. Valley Republic Bank emphasizes professional, high quality banking services provided to a wide range of businesses and professionals. The Bank also provides a full complement of banking services that are available to individuals and non-profit organizations.

## Valley Republic Bancorp and Subsidiary Balance Sheet

<i>(Unaudited. Dollars in thousands, except per share data.)</i>	June 30, 2020	December 31, 2019
<b>ASSETS</b>		
Cash and Due From Banks	\$ 15,020	\$ 15,776
Federal Funds Sold & Interest-Bearing Deposits in Banks	155,785	90,533
Total Cash and Equivalents	170,805	106,309
Debt Securities	160,447	174,461
Loans, Net of Deferred Fees and Costs	857,264	624,768
Allowance for Loan losses	(9,424)	(8,348)
Net Loans	847,840	616,420
Premises and Equipment	7,371	7,839
Bank Owned Life Insurance	12,839	10,714
Interest Receivable and Other Assets	20,166	23,342
<b>TOTAL ASSETS</b>	<b>\$ 1,219,468</b>	<b>\$ 939,085</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
<b>Deposits</b>		
Noninterest-Bearing	\$ 404,944	\$ 288,387
Interest-Bearing	653,856	540,407
Total Deposits	1,058,800	828,794
Long-Term Debt	60,899	20,000
Accrued Interest Payable and Other Liabilities	12,740	12,707
Total Liabilities	1,132,439	861,501
<b>Shareholders' Equity</b>		
Common Stock, no Par Value	47,144	46,639
Additional Paid-in Capital	710	726
Retained Earnings	36,551	30,618
Accumulated Other Comprehensive Income (Loss)	2,624	(399)
Total Shareholders' Equity	87,029	77,584
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 1,219,468</b>	<b>\$ 939,085</b>
Book Value per Share	\$ 20.73	\$ 18.59

## Valley Republic Bancorp and Subsidiary Income Statement

*(Unaudited. Dollars in thousands, except per share data.)*

	Quarters Ended June 30,		Year to Date Ended June 31,	
	2020	2019	2020	2019
<b>INTEREST INCOME</b>				
Loans (Including Fees and Costs)	\$ 7,882	\$ 7,252	\$ 15,267	\$ 13,805
Debt Securities	768	874	1,773	1,730
Other	34	425	295	748
<b>Total Interest Income</b>	<b>8,684</b>	<b>8,551</b>	<b>17,335</b>	<b>16,283</b>
<b>INTEREST EXPENSE</b>				
Deposits	526	1,705	1,628	3,084
Other	319	300	619	310
<b>Total Interest Expense</b>	<b>845</b>	<b>2,005</b>	<b>2,247</b>	<b>3,394</b>
Net Interest Income	7,839	6,546	15,088	12,889
Provision For Loan Losses	700	369	1,075	666
<b>Net Interest Income After Provision for Loan Losses</b>	<b>7,139</b>	<b>6,177</b>	<b>14,013</b>	<b>12,223</b>
<b>NON-INTEREST INCOME</b>				
Service Charges and Fees on Deposits	156	124	311	241
Other Non-Interest Income	594	493	799	693
Gain (Loss) on Sale of Securities	1,088	251	1,088	273
<b>Total Non-Interest Income</b>	<b>1,838</b>	<b>868</b>	<b>2,198</b>	<b>1,207</b>
<b>NON-INTEREST EXPENSE</b>				
Salaries and Employee Benefits	2,272	2,442	4,892	5,033
Occupancy & Equipment	475	417	944	815
Other	1,180	1,114	2,252	2,133
<b>Total Non-Interest Expense</b>	<b>3,927</b>	<b>3,973</b>	<b>8,088</b>	<b>7,981</b>
Income Before Taxes	5,050	3,072	8,123	5,449
Income Taxes	1,372	729	2,190	167
<b>NET INCOME</b>	<b>\$ 3,678</b>	<b>\$ 2,343</b>	<b>\$ 5,933</b>	<b>\$ 5,282</b>
Basic Earnings per Share	\$ 0.88	\$ 0.57	\$ 1.42	\$ 1.28

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Forward Looking Statements

This news release may include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act of 1934, as amended and Valley Republic Bancorp and Valley Republic Bank (together, the "Company") intend for such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Future events are difficult to predict, and the expectations described above are necessarily subject to risk and uncertainty that may cause actual results to differ materially and adversely.

Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include the words "believe," "expect," "anticipate," "intend," "plan," "estimate," or words of similar meaning, or future or conditional verbs such as "will," "would," "should," "could," or "may." These forward-looking statements are not guarantees of future performance, nor should they be relied upon as representing management's views as of any subsequent date. Forward-looking statements involve significant risks and uncertainties and actual results may differ materially from those presented, either expressed or implied, in this news release. Factors that might cause such differences include, but are not limited to: the Company's ability to successfully execute its business plans and achieve its objectives; changes in general economic and financial market conditions, either nationally or locally, in areas in which the Company conducts its operations; changes in interest rates; continuing consolidation in the financial services industry; new litigation or changes in existing litigation; increased competitive challenges and expanding product and pricing pressures among financial institutions; legislation or regulatory changes which adversely affect the Company's operations or business; loss of key personnel; and changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other regulatory agencies.

The Company undertakes no obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances.

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