VALLEY REPUBLIC BANCORP

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News Release

Valley Republic Bancorp Reports Third Quarter 2021 Earnings

BAKERSFIELD, Calif., October 21, 2021:

Valley Republic Bancorp (the "Company") (OTCQX: VLLX), the parent company of Valley Republic Bank (the "Bank"), today announced its unaudited financial results for the third quarter of 2021.

3rd Quarter 2021 Compared to 3rd Quarter 2020:

- Net income after tax increased 9.8% to $3.4 million or $0.79 per diluted share
- Total assets increased 18.2% to $1.4 billion
- Deposits increased 20.4% to $1.3 billion
- Total Loans increased 2.4% to $885.9 million
- Gross loans, excluding Paycheck Protection Program (PPP) loans increased 17.0% to $768.3 million
- Shareholders' equity increased 21.8% to $106.0 million
- Book value increased to $24.96 per share
- YTD return on average assets was 1.16%
- YTD return on average equity was 15.57%

Overview:

Geraud Smith, President and CEO said, "The Company announced its merger with Tri Counties Bank in the 3rd quarter of 2021. Since the announcement, the Valley Republic Bank team has been working closely with the Tri Counties team toward a seamless integration of our two institutions while simultaneously continuing our commitment to deliver uncommon service to our customers. We look forward to closing the transaction and moving forward as one bank. The merger with Tri Counties will provide our existing clients with a broader product offering and increased lending capacity. In addition, the larger combined organization will allow us to increase our community development investments in Kern County."

Financial Performance

Net income for the third quarter of 2021 was $3.4 million compared to $3.1 million reported in the same quarter in the prior year, an increase of $301 thousand or 9.8%. Earnings per share for the third quarter of 2021 were $0.79 per diluted share outstanding compared to $0.73 per diluted share reported in the third quarterof 2020, an increase of 8.2%. In the third quarter of 2021, income before taxes was $4.7 million compared to $4.2 million in the same quarter of 2020. Income before taxes included $548 thousand in merger related expenses. Excluding these expenses, income before taxes would have been $5.2 million, an increase of $992 thousand, or 23.5%, compared to the same quarter in the prior year.

For the nine months ended September 30, 2021, net income was $11.6 million compared to $9.0 million in the same period in the prior year, an increase of $2.6 million or 29.2%. Year to date earnings per diluted share were $2.73 compared to $2.14 in the same period of 2020. For the nine months ended September 30, 2021, income before taxes was $16.4 million compared to $12.3 million, an increase of $4.0 million, or 32.7%. For the nine months ended September 30, 2021, income before taxes included $548 thousand in merger related expenses. Excluding these expenses, income before taxes would have been $16.9 million, an increase of $4.6 million, or 37.1%, compared to the same quarter in the prior year.

For the three months and nine months ended September 30, 2021, the Company's return on average assets was 0.96% and 1.16%, respectively, and the return on average equity was 12.76% and 15.57%, respectively.

The following tables set forth a summary of average balances and rates for the periods presented. Average loans include nonaccrual loans. Interest income includes fee income of $478 thousand and $387 thousand for the three months ended September 30, 2021 and September 30, 2020, respectively. Interest income includes net fees and (costs) of $3.1 million and $371 thousand for the nine months ended September 30, 2021 and September 30, 2020, respectively. Certain loans and debt securities were tax exempt, however, the income derived from these earning assets was not significant, therefore there have been no adjustments made to reflect interest earned on these earning assets on a tax-equivalent basis.

	Three months ended September 30,					
	2021			2020		
(In Thousands)	Avg Balance	Interest	Weighted Avg Yield/Cost	Avg Balance	Interest	Weighted Avg Yield/Cost
ASSETS						
Earning assets:						
Core Loans, Net of Unearned Income	751,777	7,871	4.15%	640,880	7,112	4.45%
PPP Loans	144,097	1,211	3.33%	210,878	1,249	2.38%
Debt Securities	240,807	1,025	1.69%	194,282	885	1.83%
Fed funds sold and other interest-bearing balances	221,825	375	0.13%	112,515	32	0.11%
Total earning assets	1,358,506	10,182	2.97%	1,158,555	9,278	2.97%
Total nonearning assets	44,482			43,287		
Total Assets	1,402,988			1,201,842		
LIABILITIES						
Interest-bearing liabilities:						
MMDA & Interest Checking	722,823	394	0.22%	549,340	294	0.21%
Savings	71,959	29	0.16%	55,034	21	0.15%
Time deposits	29,218	25	0.34%	46,764	147	1.26%
Subordinated Debt	39,465	588	5.91%	27,348	402	5.90%
PPPLF	-	-	0.00%	25,527	22	0.35%
Total interest-bearing liabilities	863,465	1,036	0.48%	704,013	886	0.50%
Noninterest-bearing deposits	423,822			388,661		
Other liabilities	10,488			19,104		
Total liabilities	1,297,775			1,111,778		
SHAREHOLDERS' EQUITY						
Shareholders' equity	105,213			90,064		
Total Liabilities and Shareholders' Equity	1,402,988			1,201,842		
Net Interest Income and Net Interest Margin		9,146	2.67%		8,392	2.91%

	Nine months ended September 30,					
	2021			2020		
(In Thousands)	Avg Balance	Interest	Weighted Avg Yield/Cost	Avg Balance	Interest	Weighted Avg Yield/Cost
ASSETS						
Earning assets:						
Core Loans, Net of Unearned Income	731,343	23,679	4.33%	636,635	21,670	4.55%
PPP Loans	194,955	5,148	3.53%	121,851	1,959	2.15%
Debt Securities	220,501	2,963	1.80%	167,818	2,658	2.12%
Fed funds sold and other interest-bearing balances	152,363	128	0.11%	116,701	326	0.37%
Total earning assets	1,299,162	31,918	3.28%	1,043,005	26,613	3.41%
Total nonearning assets	45,820			44,881		
Total Assets	1,347,129			1,087,886		
LIABILITIES						
Interest-bearing liabilities:						
MMDA & Interest Checking	670,604	1,100	0.22%	488,297	1,352	0.37%
Savings	66,705	77	0.15%	50,240	74	0.20%
Time deposits	31,847	110	0.46%	56,581	664	1.57%
Subordinated Debt	39,426	1,764	5.98%	22,237	1,005	6.04%
PPPLF	-	-	0.00%	15,843	42	0.35%
Total interest-bearing liabilities	808,582	3,051	0.50%	633,198	3,137	0.66%
Noninterest-bearing deposits	423,609			352,073		
Other liabilities	14,940			18,280		
Total liabilities	1,247,131			1,003,551		
SHAREHOLDERS' EQUITY						
Shareholders' equity	99,998			84,335		
Total Liabilities and Shareholders' Equity	1,347,129			1,087,886		
Net Interest Income and Net Interest Margin		28,867	2.97%		23,476	3.01%

For the third quarter of 2021, the Company’s net interest income increased by $754 thousand to $9.1 million. At the same time, the Company’s net interest margin decreased to 2.67% compared to 2.91% in the same period in 2020. The increase in the net interest income for the third quarter of 2021 was driven by an increase in earning assets while the increased volume of deposits and a declining yield on earning assets, particularly the higher average balance on low yielding federal funds sold and other interest-bearing balances, resulted in a decrease in the net interest margin.

For the nine months ended September 30, 2021, the Company's net interest margin decreased to 2.97% compared to 3.01% in the same period in 2020. The decrease was primarily the result of an increase in low yielding federal funds sold and other interest-bearing balances as well as there being 1 day less in the period since the prior year was leap year.

For the three months and nine months ended September 30, 2021, federal funds sold and other interest-bearing balances have increased because deposit growth has exceeded loan demand. At the same time, the forbearances contained in the merger agreement prevent us from purchasing additional debt securities.

For the third quarter of 2021, non-interest income decreased from $618 thousand to $605 thousand, a decrease of 2% for the quarter. The decrease was primarily the result of a decrease in miscellaneous noninterest income. In the third quarter of 2020, the bank participated in the Kern Small Business Relief Program (KSBRP). The program was a one-time program sponsored by the County of Kern whereby the Bank assisted the county in helping deliver grants to small businesses. For the third quarter of 2020, income from the program was $231 thousand. The bank did not receive any fee income from the program in 2021. At the same time, service charges and fees on deposits increased by $97 thousand, or 58.4%. Management is focused on helping customers identify additional treasury management products that will be accretive to our customers' businesses while driving service charge income growth for the Company.

Noninterest expense increased by 21.2% to $5.1 million in the third quarter of 2021. Salaries and employee expense increased as the number of full-time equivalent employees increased from 110 to 117. Noninterest expense for the third quarter of 2021 included $548 thousand in merger related expenses. Excluding those expenses, noninterest expense would have only increased by $349 thousand, or 8.3%. In the third quarter of 2021 and 2020, the Company's efficiency ratio was 52.2% and 46.5%, respectively. For the nine months ended September 30, 2021 and 2020, our efficiency ratio was 45.4% and 46.7%, respectively. Excluding the merger related expenses, the Company's efficiency ratio for the three months and nine months ended September 30, 2021 was 46.6% and 46.0%, respectively.

PPP Loans

The Bank began originating PPP loans to both customers and noncustomers at the outset of the program in 2020 and continued to do so until funding was exhausted in the third quarter of 2021. PPP1 originations totaled $219.4 million to 672 borrowers. PPP2 originations totaled $108.7 million to 527 borrowers. PPP1 forgiveness application submission began in 4th quarter 2020 and nine loans totaling $19.0 million remained outstanding as of September 30, 2021. In the third quarter of 2021, the Bank began processing PPP2 forgiveness applications. As of September 30, 2021, total PPP loans outstanding were $119.8 million. As of September 30, 2021, PPP loan fees totaling $3.8 million remain to be accreted as a component of interest and fee income on loans. In the third quarter of 2021, PPP loans generated $1.2 million in interest and fee income as compared to $1.2 million in the same quarter of the prior year. These amounts are included in interest income on loans in the income statement.

Loan Portfolio Composition & Credit Quality

The following table sets forth information concerning the composition of our loan portfolio as of the dates presented:

(In thousands)	September 30, 2021	December 31, 2020	September 30, 2020
Real Estate:			
Construction and Land Development	$ 54,853	$ 67,903	$ 66,585
1-4 Family Residential	42,440	50,212	42,558
Multifamily Residential	17,844	4,587	3,659
Secured by Farmland	68,534	64,029	64,482
Commercial Real Estate	395,568	344,642	330,001
Total Real Estate Loans	579,239	531,373	507,285
Commercial and Industrial	152,467	97,810	92,821
Payment Protection Program	119,767	177,304	212,179
Agriculture	25,489	33,689	54,578
Loans to Municipalities	10,000	10,013	23
Consumer and Other	1,123	1,215	1,731
Total Loans	888,085	851,404	868,617
Deferred Loan (Fees) Costs, Net	(2,182)	(2,178)	(3,656)
Loans, Net of Deferred Costs and Fees	885,903	849,226	864,961
Allowance for Loan Losses	(11,124)	(10,624)	(10,024)
Net Loans	$874,779	$838,602	$854,937

The following table sets forth the Company’s loan portfolio allocated by Management’s internal risk ratings:

Loan Risk Rating (In thousands)	September 30, 2021	December 31, 2020	September 30, 2020
Pass	854,247	814,594	828,372
Special Mention	16,515	32,550	35,989
Substandard	13,114	-	-
Substandard-Impaired	4,209	4,260	4,256
Total	888,085	851,404	868,617
Deferred Loan Fees & Costs, Net	(2,182)	(2,178)	(3,656)
Loans Net of Fees & Costs	$885,903	$849,226	864,961

At September 30, 2021, loans past due 30 days or more and still accruing totaled $2.6 million compared to $0 at December 31, 2020. At September 30, 2021, non-accrual loans totaled $2.3 million compared to $1.1 million at December 31, 2020. The total of Adversely Classified loans – Special Mention, Substandard and Substandard-Impaired – at September 30, 2021 decreased to $33.8 million compared to December 31, 2020 of $36.8 million and improved year over year from $40.2 million at September 30, 2020. The $13.1 million increase in Substandard loans at September 30, 2021 is from the reclassification of a borrowing relationship that was previously rated Special Mention. The reclassified relationship is well-collateralized. Despite a loan's adverse classification, management maintains an active dialogue with all borrowers in order to maximize the opportunity for full collection of the balances owed to the Bank.

The Company assesses and manages credit risk on an ongoing basis through formal lending policies of the Bank, internal monitoring and formal credit reviews by an outside firm. The Company believes that the Bank's ability to identify and assess risk and return characteristics of the loan portfolio is critical for profitability and growth. The Company emphasizes credit quality in the loan approval process and engages in active credit administration and regular monitoring. Management has designed and implemented a comprehensive loan review and grading system that functions to monitor and assess the credit risk inherent in the loan portfolio. This system is incorporated in an incurred loss methodology used to determine an appropriate Allowance for Loan and Lease Loss ("ALLL") reserve for the Bank. As of September 30, 2021 and September 30, 2020, the ratio of ALLL to total loans was 1.25% and 1.15%, respectively. Excluding PPP loans that carry an SBA guarantee, reserves have decreased from 1.53% of gross core loans, at September 30, 2020 to 1.45% at September 30, 2021. As the trend of adversely classified loans has improved and the economic risks related to the COVID-19 pandemic have moderated, the Bank recorded a provision for loan losses for the third quarterof 2021 of $0 compared to $600 thousand for the third quarter of 2020. The provision for the nine months ended September 30, 2021 and 2020 was $500 thousand and $1.7 million, respectively. The loans downgradedto substandard did not have a material impact on the level of the ALLL.

John C. Smith, Executive Vice President & Chief Credit Officer said, "Credit quality trends continue to be positive. The Bank's loan portfolio is very sound. Despite the reclassification in the 2nd quarter that increased substandard loans, the total of Special Mention, Substandard and Impaired loans at September 30, 2021 declined to $33.838 million, or 3.82% of gross loans outstanding, from $38.383 million, or 4.23% of gross loans outstanding, at June 30, 2021. Substandard-Impaired loans of $4.209 million are comprised of four loans, all secured by 1st Deeds of Trust with LTV estimates less than 60%, and no calculated estimated loss.

<u>Growth</u>

Total assets for the third quarter ended September 30, 2021 were $1.4 billion, which represents a year-over-year increase of $217.2 million, or 18.2%. Total loans were $885.9 million, which represents a year-over-year increase of $20.3 million, or 2.4%. The Bank's PPP loan balance as of the quarter ended September 30, 2021 was $119.8 million, a decrease of $57.5 million from December 31, 2020 and a decrease of $92.4 million compared to September 30, 2020. The Bank's gross core loans increased by $94.2 million, or 14.0%, since year-end 2020 and $111.9 million, or 17.0%, compared to September 30, 2020. During the first nine months of 2021, total deposits increased $170.6 million, or 15.7%, ending the quarter at $1.3 billion.

Growth in loans and deposits was primarily due to the addition of 135 new relationships. Developing new banking relationships and enhancing the Bank's non-interest income remain a major focus of Valley Republic Bank.

Eugene Voiland, Chairman of the Board of Directors, said, "Given the great uncertainty and volatility of these times, we are very pleased with the Company's performance. I believe this occurred because of our reputation in the community as a whole, our customers, our shareholders, and mostly our loyal employees. I am particularly proud of how our employees have maintained focus on our business and high quality service in spite of the many unknowns and uncertainties that have existed this year."

Capital

The Company's total shareholders' equity at September 30, 2021 was $106.0 million. Total shareholders' equity increased by $15.0 million, or 16.5%, over the last 12 months. Book value per share for the same time period grew to $24.96, compared to $21.60 for the same period last year.

Merger

During the Third quarter of 2021, the Company, together with TriCo Bancshares, announced a strategic merger. The merger is expected to close in the fourth quarter of 2021 or the first quarter of 2022. Branch and account conversion is expected to occur in the first quarter of 2022.

Mr. Voiland said, "I believe the pending merger of Valley Republic Bancorp and TriCo Bancshares will be good for all. However, this is a big change for all who have ties to our bank. Our board and management and our new partners are committed to make this transition to the new organization as seamless as possible. This will be a major effort, but everything I have seen to date suggests we will accomplish this."

About Valley Republic Bancorp and Valley Republic Bank

Valley Republic Bancorp is a bank holding company formed in 2016. Valley Republic Bank, established in 2009, 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 Financial Protection and Innovation. Valley Republic Bank is an insured, state-chartered, non-member bank of the Federal Reserve System. 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

(Unaudited. Dollars in thousands, except per share data.)	September 30, 2021	December 31, 2020	September 30, 2020
ASSETS			
Cash and Due From Banks	$ 10,667	$ 10,585	$ 12,389
Federal Funds Sold & Interest-Bearing Deposits in Banks	245,263	130,141	70,199
Total Cash and Equivalents	255,930	140,726	82,588
Debt Securities	237,653	212,317	215,464
Loans, Net of Deferred Fees and Costs	885,903	849,226	864,961
Allowance for Loan losses	(11,124)	(10,624)	(10,024)
Net Loans	874,779	838,602	854,937
Premises and Equipment	6,103	6,948	7,204
Bank Owned Life Insurance	13,475	13,264	12,908
Interest Receivable and Other Assets	23,985	24,153	21,613
TOTAL ASSETS	$ 1,411,925	$ 1,236,010	$ 1,194,714
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits			
Noninterest-Bearing	$ 426,522	$ 381,733	$ 383,384
Interest-Bearing	827,965	702,140	658,480
Total Deposits	1,254,487	1,083,873	1,041,864
Short-Term FHLB Borrowing	-	5,000	5,000
Long-Term Debt	39,491	39,371	45,000
Accrued Interest Payable and Other Liabilities	11,931	12,652	11,875
Total Liabilities	1,305,909	1,140,896	1,103,739
Shareholders' Equity			
Common Stock, no Par Value	49,193	48,530	47,395
Additional Paid-in Capital	1,058	808	702
Retained Earnings	53,789	42,143	39,634
Accumulated Other Comprehensive Income (Loss)	1,976	3,633	3,244
Total Shareholders' Equity	106,016	95,114	90,975
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,411,925	$ 1,236,010	$ 1,194,714
Shares of Common Stock Outstanding at End of Period	4,246,666	4,217,267	4,211,188
Book Value per Share	$ 24.96	$ 22.55	$ 21.60

Valley Republic Bancorp and Subsidiary
Income Statement

(Unaudited. Dollars in thousands, except per share data.)	Quarters Ended September 30,		Year to Date Ended September 30,	
	2021	2020	2021	2020
INTEREST INCOME				
Loans (Including Fees and Costs)	$ 9,082	$ 8,361	$ 28,827	$ 23,629
Debt Securities	1,025	885	2,963	2,658
Other	75	32	128	326
Total Interest Income	10,182	9,278	31,918	26,613
INTEREST EXPENSE				
Deposits	448	461	1,287	2,090
Other	588	425	1,764	1,047
Total Interest Expense	1,036	886	3,051	3,137
Net Interest Income	9,146	8,392	28,867	23,476
Provision For Loan Losses	-	600	500	1,675
Net Interest Income After Provision for Loan Losses	9,146	7,792	28,367	21,801
NON-INTEREST INCOME				
Service Charges and Fees on Deposits	263	166	690	477
Other Non-Interest Income	342	452	1,348	1,250
Gain (Loss) on Sale of Securities	-	-	-	1,088
Total Non-Interest Income	605	618	2,038	2,815
NON-INTEREST EXPENSE				
Salaries and Employee Benefits	2,633	2,324	7,750	7,215
Occupancy & Equipment	549	494	1,501	1,438
Other	1,907	1,374	4,779	3,623
Total Non-Interest Expense	5,089	4,192	14,030	12,276
Income Before Taxes	4,662	4,218	16,375	12,340
Income Taxes	1,277	1,134	4,728	3,324
NET INCOME	$ 3,385	$ 3,084	$ 11,647	$ 9,016
Basic Earnings per Share	$ 0.80	$ 0.73	$ 2.75	$ 2.15
Diluted Earnings per Share	$ 0.79	$ 0.73	$ 2.73	$ 2.14
Weighted Average Shares	4,240,880	4,203,183	4,230,305	4,187,185
Weighted Average Diluted Shares	4,293,347	4,221,102	4,267,623	4,211,449
Average Assets	1,402,988	1,202,489	1,345,091	1,085,719
Average Equity	105,213	88,782	99,998	84,335

Valley Republic Bancorp Contact Information

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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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