# VALLEY REPUBLIC BANCORP

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*News Release*

## Valley Republic Bancorp Reports Record Earnings

BAKERSFIELD, Calif., July 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 quarter ended June 30, 2021.

2nd Quarter 2021 Compared to 2nd Quarter 2020:

- Net income after tax increased 23.8% to $4.554 million or $1.07 per diluted share
- Total assets increased 12.0% to $1.366 billion
- Deposits increased 14.4% to $1.212 billion
- Total Loans increased 5.4% to $903.661 million
- Gross loans, excluding Paycheck Protection Program (PPP) loans increased 12.7% to $735.923 million
- Shareholders' equity increased 18.5% to $103.103 million
- Book value increased to $24.32 per share
- YTD return on average assets was 1.27%
- YTD return on average equity was 17.11%

Overview:

Geraud Smith, President and CEO stated, "Given the difficult interest rate environment, I am extremely pleased with our Company's financial performance. Our dedicated team remains laser focused on serving our existing customers and bringing net new names into the Bank, which is evidenced by our core balance sheet growth during the first six months of the year. In addition, our intentional focus on non-interest income through an expansion of our Treasury Management capabilities drove our 29%, year-to-date, year-over-year increase in non-interest income, when excluding our previous years gain on sale of securities. Non-interest income and the development of net new relationships remain top priorities for our Company."

Financial Performance

Net income for the second quarter of 2021 was $4.554 million compared to $3.678 million reported in the same quarter in the prior year, an increase of $876 thousand or 23.8%. Earnings per share for the second quarter of 2021 were $1.07 per diluted share outstanding compared to $0.87 per diluted share reported in the second quarter of 2020, an increase 23.0%.

For the six months ended June 30, 2021, net income was $8.262 million compared to $5.933 million in the same period in the prior year, an increase of $2.329 million or 39.3%. Year to date earnings were $1.94 per diluted share compared to $1.41 in the same period of 2020.

For the three months and six months ended June 30, 2021, the Company's return on average assets was 1.34% and 1.27%, respectively, and the return on average equity was 18.51% and 17.11%, 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 $1.843 million and $126 thousand for the three months ended June 30, 2021 and June 30, 2020, respectively. Interest income includes fees and (costs), net, of $2.661 million and $(16) thousand for the six months ended June 30, 2021 and June 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.

**Average Balances, Average Yields & Rates**

| | Three months ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2021 | | | 2020 | | |
| | Average Balance | Interest | Weighted Average Yield/Cost | Average Balance | Interest | Weighted Average Yield/Cost |
| ASSETS | | | | | | |
| Earning assets: | | | | | | |
| Core Loans, Net of Unearned Income | 729,590 | 8,174 | 4.49% | 643,752 | 7,172 | 4.47% |
| PPP Loans | 229,294 | 2,314 | 4.05% | 153,136 | 710 | 1.86% |
| Debt Securities | 210,423 | 970 | 1.85% | 141,993 | 768 | 2.17% |
| Fed funds sold and other interest-bearing balances | 141,731 | 32 | 0.09% | 151,575 | 34 | 0.09% |
| Total earning assets | 1,311,038 | 11,490 | 3.52% | 1,090,456 | 8,684 | 3.19% |
| Total nonearning assets | 48,779 | | | 41,528 | | |
| Total Assets | 1,359,817 | | | 1,131,984 | | |
| LIABILITIES | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| MMDA & Interest Checking | 675,005 | 375 | 0.22% | 499,375 | 260 | 0.21% |
| Savings | 67,069 | 26 | 0.16% | 50,903 | 19 | 0.15% |
| Time deposits | 31,863 | 37 | 0.47% | 61,081 | 247 | 1.62% |
| Long-term Debt | 39,425 | 588 | 5.98% | 19,729 | 300 | 6.10% |
| PPPLF | - | - | 0.00% | 21,897 | 19 | 0.35% |
| Total interest-bearing liabilities | 813,362 | 1,026 | 0.51% | 652,985 | 845 | 0.52% |
| Noninterest-bearing deposits | 431,706 | | | 378,277 | | |
| Other liabilities | 16,091 | | | 17,154 | | |
| Total liabilities | 1,261,159 | | | 1,048,416 | | |
| SHAREHOLDERS' EQUITY | | | | | | |
| Shareholders' equity | 98,658 | | | 83,568 | | |
| Total Liabilities and Shareholders' Equity | 1,359,817 | | | 1,131,984 | | |
| Net Interest Income and Net Interest Margin | | 10,464 | 3.20% | | 7,839 | 2.88% |

| | Six months ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2021 | | | 2020 | | |
| | Average Balance | Interest | Weighted Average Yield/Cost | Average Balance | Interest | Weighted Average Yield/Cost |
| ASSETS | | | | | | |
| Earning assets: | | | | | | |
| Core Loans, Net of Unearned Income | 720,545 | 15,809 | 4.42% | 634,497 | 14,556 | 4.61% |
| PPP Loans | 221,237 | 3,937 | 3.59% | 76,841 | 711 | 1.86% |
| Debt Securities | 210,202 | 1,937 | 1.86% | 154,491 | 1,773 | 2.31% |
| Fed funds sold and other interest-bearing balances | 117,169 | 53 | 0.09% | 118,893 | 295 | 0.50% |
| Total earning assets | 1,269,153 | 21,736 | 3.45% | 984,722 | 17,335 | 3.55% |
| Total nonearning assets | 47,611 | | | 41,479 | | |
| Total Assets | 1,316,764 | | | 1,026,694 | | |
| LIABILITIES | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| MMDA & Interest Checking | 644,160 | 705 | 0.22% | 457,439 | 1,057 | 0.46% |
| Savings | 64,027 | 49 | 0.15% | 47,817 | 53 | 0.22% |
| Time deposits | 33,184 | 85 | 0.52% | 61,543 | 518 | 1.69% |
| Long-term Debt | 39,406 | 1,176 | 6.02% | 19,720 | 603 | 6.15% |
| PPPLF | - | - | 0.00% | 10,948 | 19 | 0.35% |
| Total interest-bearing liabilities | 780,777 | 2,015 | 0.52% | 597,467 | 2,250 | 0.76% |
| Noninterest-bearing deposits | 421,325 | | | 331,604 | | |
| Other liabilities | 17,308 | | | 15,528 | | |
| Total liabilities | 1,219,410 | | | 944,599 | | |
| SHAREHOLDERS' EQUITY | | | | | | |
| Shareholders' equity | 97,354 | | | 82,095 | | |
| Total Liabilities and Shareholders' Equity | 1,316,764 | | | 1,026,694 | | |
| Net Interest Income and Net Interest Margin | | 19,721 | 3.13% | | 15,085 | 3.08% |

For the second quarter of 2021, the Company’s net interest margin increased to 3.20% compared to 2.88% in the same period in 2020. For the six months ended June 30, 2021, the Company’s net interest margin increased to 3.13% compared to 3.08% in the same period in 2020.

The increase in the net interest margin and net interest income for the second quarter of 2021 was driven by an increased volume in earning assets, prepayment penalties, and increased yields on PPP loans resulting from accelerated fee accretion when the loans were forgiven by the SBA. At the same time, there were a number of time deposits that were originated in a higher rate environment that matured. This was partially offset by additional interest expense associated with the year over year increase in the volume of subordinated debt.

In the second quarter of 2021 and 2020, the Company recorded a pretax gain on the sale of securities of $0 and $1.088 million, respectively. Excluding the gain, non-interest income increased from $750 thousand to $915 thousand, an increase of 22% for the quarter. The increase was primarily the result of increases in service charges on deposits and income related to the origination of Farmer Mac loans. 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 18.0% to $4.637 million in the second quarter of 2021. Salaries and employee expense increased as the number of full-time equivalent employees increased from 111 to 124. Data processing expense also increased due to the increase in our asset size. In the second quarter of 2021 and 2020, our efficiency ratio was 40.8% and 40.6%, respectively. For the six months ended June 30, 2021 and 2020, our efficiency ratio was 42.3% and 46.8%, 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 second quarter of 2021. PPP1 originations totaled $219.389 million to 672 borrowers. PPP2 originations totaled $108.711 million to 527 borrowers. PPP1 forgiveness application submission began in 4th quarter 2020 and was nearly completed by June 30, 2021. As of June 30, 2021, total PPP loans outstanding totaled $170.908 million. As of June 30, 2021, PPP loan fees net of costs totaling $4.449 million had yet to be accreted as a component of interest and fees on loans. In the second quarter of 2021, PPP loans generated $2.314 million in interest and fee income as compared to $711 thousand 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) | June 30, 2021 | December 31, 2020 | June 30, 2020 |
|---|---|---|---|
| Real Estate: | | | |
| Construction and Land Development | $ 71,037 | $ 67,903 | $ 67,778 |
| 1-4 Family Residential | 47,829 | 50,212 | 44,065 |
| Multifamily Residential | 17,494 | 4,587 | 3,359 |
| Secured by Farmland | 69,445 | 64,029 | 72,979 |
| Commercial Real Estate | 352,585 | 344,642 | 316,816 |
| Total Real Estate Loans | 558,390 | 531,373 | 504,997 |
| Commercial and Industrial | 143,013 | 97,810 | 107,249 |
| Payment Protection Program | 170,908 | 177, 304 | 208,608 |
| Agriculture | 22,954 | 33,689 | 39,795 |
| Loans to Municipalities | 10,000 | 10,013 | 34 |
| Consumer and Other | 1,566 | 1,215 | 1,025 |
| Total Loans | 906,831 | 851,404 | 861,708 |
| Deferred Loan (Fees) Costs, Net | ( 3,170) | ( 2,178) | ( 4,444) |
| Loans, Net of Deferred Costs and Fees | 903,661 | 849,226 | 857,264 |
| Allowance for Loan Losses | ( 11,124) | ( 10,624) | ( 9,424) |
| Net Loans | $ 892,537 | $ 838,602 | $ 847,840 |

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

| Loan Risk Rating (In thousands) | June 30, 2021 | December 31, 2020 | June 30, 2020 |
|---|---|---|---|
| Pass | 868,448 | 814,594 | 818,577 |
| Special Mention | 19,259 | 32,550 | 38,893 |
| Substandard | 14,869 | - | - |
| Substandard-Impaired | 4,255 | 4,260 | 4,238 |
| Total | 906,831 | 851,404 | 861,708 |
| Deferred Loan Fees & Costs, Net | (3,170) | (2,178) | (4,444) |
| Loans Net of Fees & Costs | 903,661 | 849,226 | 857,264 |

At June 30, 2021, loans past due 30 days or more and still accruing totaled \$4.500 million compared to \$0 at December 31, 2020. At June 30, 2021, non-accrual loans totaled \$2.345 million compared to \$1.121 million at December 31, 2020. The total of Adversely Classified loans – Special Mention, Substandard and Substandard-Impaired at June 30, 2021 of \$38.383 million is slightly elevated compared to December 31, 2020 of \$36.810 million, but improved year over year from \$43.131 million at June 30, 2020. The \$14.869 million increase in Substandard loans at June 30, 2021 is from the reclassification of a borrowing relationship that was previously rated Special Mention. Despite a loans 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 a result of this methodology, Management has increased its allowance for loan losses year over year. As of June 30, 2021 and June 30, 2020, the ratio of ALLL to total loans was 1.23% and 1.10%, respectively. Excluding PPP loans that carry an SBA guarantee, reserves have been increased from \$9.424 million or 1.44% of gross core loans at June 30, 2020 to \$11.124 million or 1.51% at June 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 second quarter of 2021 of \$125 thousand compared to \$700 thousand for the second quarter of 2020. The provision for the six months ended June 30, 2021 and 2020 was \$500 thousand and \$1.075 million, respectively. The loans downgraded to substandard did not have a material impact on the level of the ALLL.

Jack Smith, Executive Vice President & Chief Credit Officer stated, "In 2020, our loan teams were very proactive working with customers to modify loans with a variety of payment deferral arrangements that assisted businesses to navigate pandemic cash flow impacts. At the peak, there were \$76 million in loan payment deferrals. During the first half of 2021, all borrowers have been able to return to original repayment terms. The Bank's loan portfolio is very sound, overall. Despite the reclassification that increased Substandard loans, Adversely Classified loans at June 30, 2021 declined to \$38.383 million or 4.23% of gross loans outstanding from \$43.131 million or 5.01% of gross loans outstanding at June 30, 2020. Along with very modest delinquencies and improving financial trends in many of the industries we are engaged in, the Bank is positioned for loan growth and support of the businesses and communities it serves."

Growth

Total assets for the second quarter ended June 30, 2021 were \$1.366 billion, which represents a year-over-year increase of \$146.780 million, or 12.0%. Total loans were \$903.661 million, which represents a year-over-year increase of \$46.397 million, or 5.4%. The Bank's PPP loan balance as of the quarter ended June 30, 2021 was \$170.908 million, a decrease of \$6.396 million from December 31, 2020 and a decrease of \$37.700 million compared to June 30, 2020. The Bank's gross core loans increased by $61.823 million or 9.2% since year-end 2020. During the first six months of 2021, total deposits increased $127.870 million, or 11.8%, ending the quarter at $1.212 billion.

Growth in loans and deposits for the first six months was primarily due to the addition of 121 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, "Our Bank and its employees continue to perform at a very high level. We are very vigilant as to the economic environment, low interest rates, potential inflationary pressures, COVID issues, and changing government policies. We believe we are well positioned to manage through these uncertainties."

## Capital

The Company's total shareholders' equity at June 30, 2021 was $103.103 million. Total shareholders' equity increased by $16.074 million, or 18.5%, over the last 12 months. Book value per share for the same time period grew to $24.32, compared to $20.73 for the same period last year.

## 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.)* | June 30, 2021 | December 31, 2020 | June 30, 2020 |
|---|---|---|---|
| ASSETS | | | |
| Cash and Due From Banks | $ 22,162 | $ 10,585 | $ 15,020 |
| Federal Funds Sold & Interest-Bearing Deposits in Banks | 173,478 | 130,141 | 155,785 |
| Total Cash and Equivalents | 195,640 | 140,726 | 170,805 |
| Debt Securities | 234,157 | 212,317 | 160,447 |
| Loans, Net of Deferred Fees and Costs | 903,661 | 849,226 | 857,264 |
| Allowance for Loan losses | (11,124) | (10,624) | (9,424) |
| Net Loans | 892,537 | 838,602 | 847,840 |
| Premises and Equipment | 6,409 | 6,948 | 7,371 |
| Bank Owned Life Insurance | 13,401 | 13,264 | 12,839 |
| Interest Receivable and Other Assets | 24,104 | 24,153 | 20,166 |
| TOTAL ASSETS | $ 1,366,248 | $ 1,236,010 | $ 1,219,468 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Liabilities | | | |
| Deposits | | | |
| Noninterest-Bearing | $ 412,145 | $ 381,733 | $ 404,944 |
| Interest-Bearing | 799,598 | 702,140 | 653,856 |
| Total Deposits | 1,211,743 | 1,083,873 | 1,058,800 |
| PPPLF Borrowing | - | - | 30,899 |
| Short-Term FHLB Borrowing | - | 5,000 | 10,000 |
| Long-Term Debt | 39,451 | 39,371 | 19,740 |
| Accrued Interest Payable and Other Liabilities | 11,951 | 12,652 | 13,000 |
| Total Liabilities | 1,263,145 | 1,140,896 - | 1,132,439 |
| Shareholders' Equity | | | |
| Common Stock, no Par Value | 48,967 | 48,530 | 47,144 |
| Additional Paid-in Capital | 970 | 808 | 710 |
| Retained Earnings | 50,404 | 42,143 | 36,551 |
| Accumulated Other Comprehensive Income (Loss) | 2,762 | 3,633 | 2,624 |
| Total Shareholders' Equity | 103,103 | 95,114 | 87,029 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $ 1,366,248 | $ 1,236,010 | $ 1,219,468 |
| Shares of Common Stock Outstanding at End of Period | 4,239,279 | 4,217,267 | 4,198,100 |
| Book Value per Share | $ 24.32 | $ 22.55 | $ 20.73 |

# 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, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| INTEREST INCOME | | | | |
| Loans (Including Fees and Costs) | $ 10,488 | $ 7,882 | $ 19,746 | $ 15,267 |
| Debt Securities, Available-for-Sale | 970 | 768 | 1,937 | 1,773 |
| Other | 32 | 34 | 53 | 295 |
| Total Interest Income | 11,490 | 8,684 | 21,736 | 17,335 |
| INTEREST EXPENSE | | | | |
| Deposits | 438 | 526 | 839 | 1,628 |
| Other | 588 | 319 | 1,176 | 622 |
| Total Interest Expense | 1,026 | 845 | 2,015 | 2,250 |
| Net Interest Income | 10,464 | 7,839 | 19,721 | 15,085 |
| Provision For Loan Losses | 125 | 700 | 500 | 1,075 |
| Net Interest Income After Provision for Loan Losses | 10,339 | 7,139 | 19,221 | 14,010 |
| NON-INTEREST INCOME | | | | |
| Service Charges and Fees on Deposits | 237 | 156 | 428 | 311 |
| Other Non-Interest Income | 678 | 594 | 1,006 | 799 |
| Gain (Loss) on Sale of Securities | - | 1,088 | - | 1,088 |
| Total Non-Interest Income | 915 | 1,838 | 1,434 | 2,198 |
| NON-INTEREST EXPENSE | | | | |
| Salaries and Employee Benefits | 2,748 | 2,272 | 5,117 | 4,892 |
| Occupancy & Equipment | 466 | 475 | 952 | 944 |
| Other | 1,423 | 1,180 | 2,872 | 2,249 |
| Total Non-Interest Expense | 4,637 | 3,927 | 8,941 | 8,085 |
| Income Before Taxes | 6,617 | 5,050 | 11,714 | 8,123 |
| Income Taxes | 2,063 | 1,372 | 3,452 | 2,190 |
| NET INCOME | $ 4,554 | $ 3,678 | $ 8,262 | $ 5,933 |
| Basic Earnings per Share | $ 1.08 | $ 0.88 | $ 1.96 | $ 1.42 |
| Diluted Earnings per Share | $ 1.07 | $ 0.87 | $ 1.94 | $ 1.41 |
| Weighted Average Shares | 4,229,778 | 4,182,252 | 4,224,930 | 4,179,099 |
| Weighted Average Diluted Shares | 4,275,527 | 4,204,616 | 4,256,385 | 4,209,401 |
| Average Assets | $ 1,359,817 | $ 1,131,984 | $ 1,316,764 | $ 1,026,694 |
| Average Equity | $ 98,658 | $ 83,568 | $ 97,354 | $ 83,123 |

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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