



Cashmere Valley Bank

FOR IMMEDIATE RELEASE

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CASHMERE VALLEY BANK REPORTS ANNUAL EARNINGS OF \$28.0 MILLION

CASHMERE, WA, January 16, 2024 – Cashmere Valley Bank (OTCQX: CSHX) (“Bank”), announced annual earnings of \$28.0 million for the year ended December 31, 2023. Diluted earnings per share was \$7.20, representing an increase of \$0.51 per share, or 7.7%.

On January 16, 2024 the Bank’s Board of Directors declared a semi-annual dividend payment of \$0.85 per share to shareholders of record on January 26, 2024. The dividend will be paid on February 5, 2024.

“I am delighted with how we navigated 2023,” said Greg Oakes, President and CEO. “The ability to increase earnings by \$2.0 million in light of deposit outflows and interest rate pressure on our deposits is outstanding. 2022 and 2023 stressed financial markets in terms of capital, liquidity and interest rate risk. Those pressures have not entirely abated as of yet. Nonetheless, the increase in earnings and opening of our Union Gap location are reasons to celebrate.”

2023 Highlights

The Bank reported the following statement of condition highlights as of December 31, 2023:

- Net income increased 7.6% to \$28.0 million for the year ended December 31, 2023 versus \$26.0 million for fiscal year 2022.
- Fourth quarter net income totaled \$7.7 million or \$1.98 per share.
- Diluted earnings per share increased 7.7% to \$7.20 per share. Earnings increased as the Bank’s net interest margin expanded and the Bank qualified for an Employee Tax Retention Credit of \$3.9 million.
- Return on equity increased to 15.69% in fiscal 2023 as compared to 14.68% in 2022.
- Return on assets increased 19 basis points to 1.39%. The increase was a result of an earnings improvement of \$2.0 million in conjunction with a reduction in average assets.
- The Bank’s net interest margin increased to 3.30% in 2023 as compared to 2.91% a year ago. Rate increases on cash held with the Federal Reserve, variable rate assets and new asset production or purchases led to an expanding margin. An increasing treasury yield curve resulted in higher yields on interest earning assets. A significant increase in deposit costs offset a portion of asset yield improvement.
- The efficiency ratio improved to 53.5% from 58.4%. The improvement was largely attributable to an increase in net interest income, a \$3.9 million Employee Tax Retention Credit and a reduction from the prior year in losses on available for sale securities sales.

Cash, Cash Equivalents and Restricted Cash

Cash balances decreased to \$117.1 million at December 31, 2023 from \$180.3 million as of December 31, 2022. The Bank continued to see deposit outflows during the year which reduced cash on hand. In December, the Bank entered into a 30-day borrowing from the Federal Home Loan Bank (FHLB) of \$39.0 million. The borrowing was used to fund the purchase of agency mortgage backed securities. The transaction also entailed a swap arrangement. The purpose of the swap was to attempt to lock in the interest rate spread between the mortgage backed securities less FHLB borrowings

Investments

The book value on AFS and HTM securities totaled \$858.0 million at December 31, 2023, a decrease of \$51.0 million, or 5.6%, from December 31, 2022. AFS security sales totaled \$90.2 million and the Bank recognized a pre-tax loss of \$4.8 million on those security sales. Security maturities and payoffs totaled \$22.2 million. AFS security purchases of \$110.0 million were made in 2023. The overwhelming majority of securities purchases were amortizing mortgage backed or asset backed securities.

Held to maturity securities totaled \$139.8 million at December 31, 2023 as compared to \$146.4 at December 31, 2022.

During 2023 the average rate earned on HTM and AFS securities increased from 2.34% to 3.44%. The increase was due to a combination of increasing yields on floating rate securities along with purchasing higher yielding securities funded by sales of lower yielding securities.

Loans and Credit Quality

At December 31, 2023 gross loans totaled \$1.042 billion, representing an increase of \$36.7 million, or 3.6%, from December 31, 2022. Multifamily loans increased 88.8% to \$112.3 million as of December 31, 2023, which was mostly driven by construction loans rolling over into term loans. Indirect dealer loans increased 4.1% to \$234.2 million as of December 31, 2023. Municipal loans increased 10.4% to \$91.0 million as of December 31, 2023. Construction and land development loans decreased 19.8% to \$81.7 million as of December 31, 2023.

The allowance for credit losses on loans (ACL) was 1.26%, or \$13.1 million, as of December 31, 2023. The reserve methodology in place as of December 31, 2022 changed to the Current Expected Credit Loss (CECL) methodology on January 1, 2023.

The Bank recorded provision expense of \$2,942,000 in 2023 as compared to \$800,000 in 2022. The increase in provision expense was largely due to an increase in charged off loans. Charged off loans totaled \$4.7 million as compared to \$1.4 million in 2022. The majority of charged off loans came from the equipment finance division which was adversely affected by a recession in long haul trucking throughout 2023.

Non-performing loan totals were largely unchanged from the prior year. As of December 31, 2023, non-performing loans totaled \$1,998,000, representing 0.19% of gross loans.

Deposits

Total deposits were \$1.8 billion as of December 31, 2023, which represented a decrease of \$126.3 million, or 6.6%, from December 31, 2022. Non-interest bearing deposits totaled \$424.4 million, which was 23.9% of total deposits. Certificate of deposit balances increased significantly from \$214.0 million at December 31, 2022 to \$393.1 million as of December 31, 2023.

Capital

As of December 31, 2023, shareholders' equity totaled \$202.8 million, a 28.0% increase from \$158.4 million at December 31, 2022. The increase in capital was due to unrealized losses in available for sale securities improving by \$23.5 million in combination with annual earnings less dividends paid. At period end, the Bank's GAAP capital to assets ratio was 9.91% as compared to 7.58% one year ago.

Earnings

Net Interest Income

Net interest income totaled \$65.6 million for the year ended December 31, 2023 as compared to \$61.9 million for the year ended December 31, 2022. The increase of \$3.8 million represented an increase of 6.1%. Interest income increased \$15.9 million while interest expense increased by \$12.1 million. The average yield on earning assets improved from 3.11% to 4.11% while interest bearing liabilities increased from 0.29% to 1.18%. Loan income increased \$7.4 million, securities income increased \$5.7 million, fed funds and deposits with other financial institutions increased \$2.8 million.

Non-Interest Income

Non-interest income increased \$2.6 million, or 22.7%, as compared to 2022. Losses on sales of available for sale securities improved by \$3.4 million and totaled \$4.8 million during 2023. Mitchell, Reed and Schmitt revenues increased \$172,000 in 2023 and finished the year with record net income of \$2.4 million. Net interchange income increased \$746,000.

Non-Interest Expense

Non-interest expense remained flat in 2023. In large part, level non-interest expenses were due to a \$3.9 million Employee Retention Tax Credit. The credit was applied for and accounted for as a reduction to payroll tax expense in 2023. Payment of the tax credit is not anticipated until late 2024 or 2025. Wages and commissions increased \$1.1 million, or 5.5%, in 2023. Occupancy expense also increased \$696,000. Increases in occupancy expense were largely due to non-depreciable improvements in our facilities.

The provision for loans losses increased \$2.1 million in 2023, which was necessitated by increases in charged-off loans.

Federal income tax expense increased approximately \$2.4 million from the prior year due to an increase in earnings, and in combination with an increase in the Bank's effective tax rate. The Bank's effective tax rate was 18.1% for 2023 as compared to 12.8% in 2022.

About Cashmere Valley Bank

Cashmere Valley Bank was established September 24, 1932 and now has 11 retail offices in Chelan, Douglas, Kittitas and Yakima Counties and a municipal lending office in King County. The Bank provides business and personal banking, commercial lending, insurance services through its subsidiary Mitchell, Reed & Schmitt Insurance, investment services, mortgage services, equipment lease financing, auto and marine dealer financing and municipal lending. The success of Cashmere Valley Bank is the result of maintaining a high level of personal service and controlling expenses so our fees and charges offer our customers the best value available. We remain committed to those principles that we feel are best summarized as, "the little Bank with the big circle of friends."

Forward-Looking Statements

This release may contain certain forward-looking statements that are based on management's current expectations regarding economic, legislative, and regulatory issues that may impact the Bank's earnings in future periods. 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," "intend," "anticipate," "estimate," "will," "would," "should," "could" or "may." Factors that could cause future results to vary materially from current management expectations include, but are not limited to, general economic conditions, economic uncertainty in the United States and abroad, changes in interest rates, deposit flows, real estate values, costs or effects of acquisitions, competition, changes in accounting principles, policies or guidelines, legislation or regulation, and other economic, competitive, governmental, regulatory and technological factors affecting the Bank's operations. The Bank undertakes no obligation to release publicly the result of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date of this press release or to reflect the occurrence of unanticipated events.

Consolidated Balance Sheets (UNAUDITED)*(Dollars in Thousands)*

Cashmere Valley Bank and Subsidiary

	December 31, 2023	September 30, 2023	December 31, 2022
Assets			
Cash and Cash Equivalent:			
Cash & due from banks	\$26,619	\$26,859	\$27,706
Interest bearing deposits	86,432	105,325	142,617
Fed funds sold	4,085	2,662	9,989
Total Cash and Cash Equivalent	117,136	134,846	180,312
Securities available for sale	650,905	600,278	670,077
Securities held to maturity, net of allowance for credit losses of \$20, \$21 and \$0, respectively	139,775	141,258	146,409
Federal Home Loan Bank stock, at cost	3,008	2,505	2,669
Loans held for sale	4	1,223	142
Loans	1,042,453	1,026,040	1,005,741
Allowance for credit losses	(13,085)	(13,252)	(13,746)
Net loans	1,029,368	1,012,788	991,995
Premises and equipment	21,017	21,061	18,275
Accrued interest receivable	9,411	8,734	8,199
Other real estate and foreclosed assets	97	97	--
Bank Owned Life Insurance	26,809	26,628	26,105
Goodwill	7,576	7,576	7,576
Intangibles	3,465	3,557	3,796
Mortgage servicing rights	2,536	2,567	2,685
Net deferred tax assets	19,037	23,735	21,021
Other assets	12,594	12,302	8,501
Total assets	\$2,042,738	\$1,999,155	\$2,087,762
Liabilities and Shareholders' Equity			
Liabilities			
Deposits:			
Non-interest bearing demand	\$424,380	\$441,561	\$457,666
Savings and interest-bearing demand	956,290	1,008,861	1,228,375
Time	393,097	346,346	213,978
Total deposits	1,773,767	1,796,768	1,900,019
Accrued interest payable	2,216	1,476	434
Short-term borrowings	48,858	8,267	17,166
Other liabilities	15,099	14,243	11,753
Total liabilities	1,839,940	1,820,754	1,929,372
Shareholders' Equity			
Common stock (no par value); authorized 10,000,000 shares;			
Issued and outstanding: 12/31/2023 -- 3,883,986 ;			
9/30/2023 -- 3,883,981 ; 12/31/2022 -- 3,883,956	--	--	--
Additional paid-in capital	4,833	4,782	4,540
Treasury stock	(16,784)	(16,784)	(16,784)
Retained Earnings	280,087	272,400	259,839
Other comprehensive income	(65,758)	(82,171)	(89,239)
Total Cashmere Valley Bank shareholders' equity	202,378	178,227	158,356
Noncontrolling interest	420	174	34
Total shareholders' equity	202,798	178,401	158,390
Total liabilities and shareholders' equity	\$2,042,738	\$1,999,155	\$2,087,762

Quarterly Consolidated Statements of Income (UNAUDITED)

(Dollars in Thousands)

Cashmere Valley Bank & Subsidiary

	For the quarters ended,		
	December 31, 2023	September 30, 2023	December 31, 2022
Interest Income			
Loans	\$12,767	\$12,115	\$10,641
Fed funds sold and deposits at other financial institutions	1,087	1,448	1,190
Securities available for sale:			
Taxable	6,750	6,254	4,904
Tax-exempt	357	372	1,099
Securities held to maturity:			
Taxable	787	778	773
Tax-exempt	46	46	41
Total interest income	21,794	21,013	18,648
Interest Expense			
Deposits	5,163	4,709	1,261
Short-term borrowings	150	49	12
Total interest expense	5,313	4,758	1,273
Net interest income	16,481	16,255	17,375
Provision for Credit Losses	1,115	743	307
Net interest income after provision for credit losses	15,366	15,512	17,068
Non-Interest Income			
Service charges on deposit accounts	473	553	557
Mortgage banking operations	374	465	422
Net gain (loss) on sales of securities available for sale	(2,560)	--	(1,019)
Brokerage commissions	232	247	275
Insurance commissions and fees	2,007	1,830	2,091
Net interchange income (expense)	1,043	1,188	1,204
BOLI cash value	182	180	729
Dividends from correspondent banks	19	19	21
Other	367	298	330
Total non-interest income	2,137	4,780	4,610
Non-Interest Expense			
Salaries and employee benefits	2,512	6,374	5,935
Occupancy and equipment	1,025	1,041	916
Audits and examinations	56	157	103
State and local business and occupation taxes	345	346	360
FDIC insurance & WA state assessments	229	265	171
Legal and professional fees	622	232	223
Check losses and charge-offs	128	185	109
Low income housing investment losses	154	153	151
Data processing	1,676	1,657	1,479
Product delivery	324	301	309
Other	859	817	889
Total non-interest expense	7,930	11,528	10,645
Income before income taxes	9,573	8,764	11,033
Income Taxes	1,858	1,574	1,344
Net income	\$7,715	\$7,190	\$9,689
Net income attributable to noncontrolling interest	27	7	--
Net income attributable to Cashmere Valley Bank	\$7,688	\$7,183	\$9,689
Earnings Per Share			
Basic	\$ 1.98	\$ 1.85	\$ 2.49
Diluted	\$ 1.98	\$ 1.85	\$ 2.49

Year-to-Date Consolidated Statements of Income (UNAUDITED)

(Dollars in Thousands)

Cashmere Valley Bank & Subsidiary

	For the twelve months ended,	
	December 31, 2023	December 31, 2022
Interest Income		
Loans	\$47,392	\$39,950
Fed funds sold and deposits at other financial institutions	4,992	2,199
Securities available for sale:		
Taxable	24,548	16,528
Tax-exempt	1,886	5,653
Securities held to maturity:		
Taxable	3,151	1,856
Tax-exempt	184	58
Total interest income	82,153	66,244
Interest Expense		
Deposits	16,259	4,319
Short-term borrowings	257	63
Total interest expense	16,516	4,382
Net interest income	65,637	61,862
Provision for Credit Losses	2,942	800
Net interest income after provision for credit losses	62,695	61,062
Non-Interest Income		
Service charges on deposit accounts	2,128	2,130
Mortgage banking operations	1,514	2,320
Net gain (loss) on sales of securities available for sale	(4,818)	(8,179)
Brokerage commissions	999	1,136
Insurance commissions and fees	7,720	7,552
Net interchange income (expense)	4,743	3,997
BOLI cash value	704	1,247
Dividends from correspondent banks	86	84
Other	1,234	1,379
Total non-interest income	14,310	11,666
Non-Interest Expense		
Salaries and employee benefits	22,359	24,558
Occupancy and equipment	4,013	3,317
Audits and examinations	409	546
State and local business and occupation taxes	1,346	1,248
FDIC insurance & WA state assessments	1,017	687
Legal and professional fees	1,361	809
Check losses and charge-offs	582	495
Low income housing investment losses	633	656
Data processing	6,372	5,541
Product delivery	1,255	1,222
Other	3,412	3,831
Total non-interest expense	42,759	42,910
Income before income taxes	34,246	29,818
Income Taxes	6,214	3,818
Net income	28,032	26,000
Net income attributable to noncontrolling interest	50	--
Net income attributable to Cashmere Valley Bank	\$27,982	\$26,000
Earnings Per Share		
Basic	\$ 7.20	\$ 6.70
Diluted	\$ 7.20	\$ 6.69