



Cashmere Valley Bank

FOR IMMEDIATE RELEASE

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CASHMERE VALLEY BANK REPORTS YEAR-TO-DATE EARNINGS OF \$7.4 MILLION, GROSS LOANS EXCEED \$1 BILLION

CASHMERE, WA, July 19, 2022 – Cashmere Valley Bank (OTCQX: CSHX) (“Bank”), announced quarterly earnings of \$1.3 million for the quarter ended June 30, 2022. Year-to-date earnings total \$7.4 million as compared to \$14.2 million for the six months ended June 30, 2021. Year-to-date diluted earnings per share were \$1.91, representing a decrease of \$1.68 per share, or 46.9%. The primary driver for the decrease in year-to-date earnings per share was realized losses on sales of securities during the second quarter. Losses on securities sold totaled \$7.3 million for the quarter and year-to-date. The decision to sell securities was made to reduce the Bank’s exposure to continued treasury yield increases, which typically reduce the value of the Bank’s bond portfolio.

As of June 30, 2022, deposit balances totaled \$1.96 billion, an increase of \$1.7 million from March 31, 2022, representing a 0.1% increase.

“Core earnings were adversely affected by our decision to sell some securities at a loss.” said Greg Oakes, President and CEO. “Absent the sale of securities net income looks like it would have been an improvement over the prior quarter. The decision to sell was made to reduce our exposure to the increases in the treasury yield curve we saw during the first quarter. While treasury yield curve rates continued up during the second quarter, the velocity of change slowed down. We have begun to see the benefit of a higher rate environment through an improving net interest margin. We look forward to the third quarter and the second half of 2022 where we expect to see increases in net interest income.”

Q2 Highlights

The Bank reported the following statement of condition highlights as of June 30, 2022:

- On July 19, 2022, the Bank’s Board of Directors declared a dividend of \$0.85 per share. The dividend will be payable on August 8, 2022 for shareholders of record on July 29, 2022.
- As of June 30, 2022, gross loans totaled \$1.009 billion representing an increase from June 30, 2021 of \$68.0 million. From June 30, 2021, equipment finance loans have increased \$30.2 million, construction loans have increased \$27.1 million and dealer auto loans have increased \$17.5 million.
- The Bank’s return on assets decreased to 0.68% from 1.38% primarily due to the aforementioned security sales.
- The Bank’s return on equity was 7.52% as compared to 12.19% one year ago.

Pandemic Response Update

Income earned through PPP forgiveness totaled \$472,000 during the first half of 2022 as compared to \$2.1 million in the first half of 2021. This change in income was expected as PPP draws to a close.

Cash, Cash Equivalents and Restricted Cash

Total cash, cash equivalents and restricted cash were \$136.5 million at June 30, 2022, compared to \$134.6 million at June 30, 2021.

Investments

The investment portfolio totaled \$944.2 million at June 30, 2022, a decrease of \$63.6 million from June 30, 2021. As of June 30, 2022, \$139.6 million in securities were classified as held-to-maturity as compared to zero as of June 30, 2021. New securities purchases slowed during the second quarter and totaled \$18.3 million. All new purchases were classified as held-to-maturity. Securities sales and movement of securities into a held-to-maturity status were executed in part to help minimize the impact of continued increases in the treasury yield curve and to shorten the overall duration of the investment portfolio. Each quarter all securities are evaluated for impairment. As of June 30, 2022, no securities were determined to be other than temporarily impaired.

Loans and Credit Quality

Gross loans totaled \$1.009 billion as of June 30, 2022 an increase of \$37.4 million from March 31, 2022 and an increase of \$68.0 million from June 30, 2021. Equipment Finance, Construction and Auto Finance loans have been mainly responsible for increasing loan balances. The loan growth was achieved even though PPP loans have decreased \$36.7 million from June 30, 2021.

As of June 30, 2022, the allowance for loans and lease losses (ALLL) was 1.36% of gross loans as compared to 1.47% one year ago. The Bank allocated \$15,000 to the loan loss provisions during the second quarter of 2022 and the allowance totals \$13.7 million. The increase in loan balances during the prior twelve months have effectively utilized the Bank's unallocated loan loss provision that existed as of June 30, 2022.

Credit quality remains exceptionally strong with non-performing loans representing 0.04% of gross loans as of June 30, 2022. This is a slight decrease from 0.09% as of June 30, 2021.

Deposits

Total deposits increased by \$91.4 million or 4.9% from June 30, 2021. From March 31, 2022 to June 30, 2022 total deposits increased \$1.7 million or 0.1%. Non-interest deposits totaled \$460.0 million as of June 30, 2022, which represents 23.4% of total deposits. The \$1.7 million increase in deposits from year end represented a 0.1% increase. The average cost of deposits decreased 12 basis points to 0.27% as compared to the six months ended June 30, 2021.

Equity

Tier 1 capital remains strong. Tier 1 capital increased to \$219.5 million from \$217.9 at March 31, 2022 due to earnings less dividends paid during 2022. Regulatory capital remains well capitalized with a Tier 1 capital ratio of 9.88% which is an increase of 0.01% from March 31, 2022.

GAAP capital reflected a decrease of \$74.9 million from June 30, 2021 and a decrease of \$29.5 million from March 31, 2022. The decrease was a result of market value changes in securities due to of the increase in the treasury yield curve.

Earnings

Net Interest Income

Net interest income totaled \$14.6 million during the second quarter of 2022, compared to \$13.6 million in the prior quarter and \$12.8 million in the same quarter a year ago. The increase from the prior quarter was primarily a result of increasing loan income of \$622,000 and from higher rates paid on cash balances with other institutions totaling \$154,000. As compared to the same quarter one year ago, the increase was largely the result of higher income from securities in the amount of \$1,143,000 and cash held with other financial institutions totaling \$164,000.

The net interest margin was 2.67% for the first six months of 2022, compared to 2.61% during the first quarter of 2021. The improvement in net interest income is attributable to loan and securities growth in combination with higher rates earned on securities and cash held with correspondent banks along with lower deposit costs.

Non-Interest Income

Non-interest income totaled \$2.0 million in the first six months of 2022 as compared to \$9.6 million in the first six months of 2021. Losses on securities sales represented \$7.3 million of the reduction in income. As mortgage refinances have slowed, income from mortgage banking operations has decreased to \$1,423,000 in the first six months of 2022 as compared to \$3,244,000 in the first six months of 2021. Income from insurance commission and fees increased to \$3,541,000 from \$2,516,000 million in the first six months of 2021 due to the purchase of two insurance agencies along with organic growth.

Non-Interest Expense

Non-interest expense totaled \$21.6 million in the first six months of 2022 as compared to \$18.6 million in the first six months of 2021.

Increases in salary and benefits contributed most to the increase in non-interest expense. As compared to the same period one year ago, wages and benefits expense increased \$1.9 million or 17.5%. Wages and health care premiums are up substantially in an effort to attract and retain employees.

Data processing costs have also increased 15.9% or \$360,000 from the prior year.

The Bank's efficiency ratio was 71.5% in the first six months of 2022 as compared to 52.8% in the first six months of 2021.

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 wholly owned subsidiary Mitchell, Reed & Schmitten 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

	June 30, 2022	March 31, 2022	June 30, 2021
Assets			
Cash and Cash Equivalent:			
Cash & due from banks	\$24,750	\$24,697	\$21,890
Interest bearing deposits	101,080	54,485	94,013
Fed funds sold	10,634	8,434	18,743
Total Cash and Cash Equivalent	136,464	87,616	134,646
Securities available for sale	804,607	1,060,851	1,007,823
Securities held to maturity	139,637	--	--
Federal Home Loan Bank stock, at cost	2,669	2,669	2,393
Loans held for sale	564	910	532
Loans	1,009,137	971,745	941,176
Allowance for credit losses	(13,686)	(13,707)	(13,854)
Net loans	995,451	958,038	927,322
Premises and equipment	16,824	17,047	17,348
Accrued interest receivable	8,442	9,237	8,181
Bank Owned Life Insurance	26,823	26,653	26,138
Goodwill	7,576	7,576	7,518
Intangibles	3,969	4,115	2,233
Mortgage servicing rights	2,732	2,744	2,808
Other assets	25,501	22,051	10,553
Total assets	\$2,171,259	\$2,199,507	\$2,147,495
Liabilities and Shareholders' Equity			
Liabilities			
Deposits:			
Non-interest bearing demand	\$459,975	\$440,821	\$422,606
Savings and interest-bearing demand	1,315,476	1,325,500	1,232,659
Time	188,298	195,719	217,057
Total deposits	1,963,749	1,962,040	1,872,322
Accrued interest payable	334	363	506
Short-term borrowings	36,213	34,887	25,409
Other liabilities	11,227	13,027	14,588
Total liabilities	2,011,523	2,010,317	1,912,825
Shareholders' Equity			
Common stock (no par value); authorized 10,000,000 shares;			
Issued and outstanding: 6/30/2022 -- 3,883,816 ;			
3/31/2022 -- 3,883,801 ; 6/30/2022 -- 3,876,931	--	--	--
Additional paid-in capital	4,432	4,393	3,898
Treasury stock	(16,784)	(16,784)	(16,784)
Retained Earnings	244,560	243,219	228,723
Other comprehensive income	(72,472)	(41,638)	18,833
Total shareholders' equity	159,736	189,190	234,670
Total liabilities and shareholders' equity	\$2,171,259	\$2,199,507	\$2,147,495

Quarterly Consolidated Statements of Income (UNAUDITED)

(Dollars in Thousands)

Cashmere Valley Bank & Subsidiary

	For the quarters ended,		
	June 30, 2022	March 31, 2022	June 30, 2021
Interest Income			
Loans	\$9,819	\$9,197	\$9,656
Fed funds sold and deposits at other financial institutions	187	33	23
Securities available for sale:			
Taxable	3,697	3,746	2,862
Tax-exempt	1,602	1,646	1,657
Securities held to maturity	363	--	--
Total interest income	15,668	14,622	14,198
Interest Expense			
Deposits	1,014	1,029	1,341
Short-term borrowings	18	16	11
Total interest expense	1,032	1,045	1,352
Net interest income	14,636	13,577	12,846
Provision for Credit Losses	59	47	8
Net interest income after provision for credit losses	14,577	13,530	12,838
Non-Interest Income			
Service charges on deposit accounts	515	491	354
Mortgage banking operations	668	755	1,364
Net gain (loss) on sales of securities available for sale	(7,407)	135	21
Brokerage commissions	299	276	369
Insurance commissions and fees	1,868	1,673	1,264
Net interchange income (expense)	1,057	654	783
BOLI cash value	170	168	116
Dividends from correspondent banks	18	25	15
Other	306	311	313
Total non-interest income	(2,506)	4,488	4,599
Non-Interest Expense			
Salaries and employee benefits	6,007	6,405	5,349
Occupancy and equipment	717	906	756
Audits and examinations	156	193	168
State and local business and occupation taxes	285	279	228
FDIC insurance & WA state assessments	169	173	148
Legal and professional fees	215	209	217
Check losses and charge-offs	113	133	131
Low income housing investment losses	209	144	155
Data processing	1,340	1,283	1,214
Product delivery	290	323	284
Other	1,054	979	796
Total non-interest expense	10,555	11,027	9,446
Income before income taxes	1,516	6,991	7,991
Income Taxes	175	913	1,092
Net income	\$1,341	\$6,078	\$6,899
Earnings Per Share			
Basic	\$ 0.35	\$ 1.57	\$ 1.76
Diluted	\$ 0.34	\$ 1.56	\$ 1.75

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

(Dollars in Thousands)

Cashmere Valley Bank & Subsidiary

	For the six months ended,	
	June 30, 2022	June 30, 2021
Interest Income		
Loans	\$19,016	\$19,578
Fed funds sold and deposits at other financial institutions	219	48
Securities available for sale:		
Taxable	7,442	5,416
Tax-exempt	3,247	3,298
Securities held to maturity	363	--
Total interest income	30,287	28,340
Interest Expense		
Deposits	2,043	2,779
Short-term borrowings	34	19
Total interest expense	2,077	2,798
Net interest income	28,210	25,542
Provision for Credit Losses	106	4
Net interest income after provision for credit losses	28,104	25,538
Non-Interest Income		
Service charges on deposit accounts	1,007	681
Mortgage banking operations	1,423	3,244
Net gain (loss) on sales of securities available for sale	(7,272)	21
Brokerage commissions	575	584
Insurance commissions and fees	3,541	2,516
Net interchange income (expense)	1,711	1,492
BOLI cash value	338	230
Dividends from correspondent banks	43	37
Other	617	779
Total non-interest income	1,983	9,584
Non-Interest Expense		
Salaries and employee benefits	12,412	10,562
Occupancy and equipment	1,623	1,501
Audits and examinations	349	326
State and local business and occupation taxes	563	479
FDIC insurance & WA state assessments	341	294
Legal and professional fees	424	439
Check losses and charge-offs	246	332
Low income housing investment losses	353	300
Data processing	2,624	2,264
Product delivery	613	517
Other	2,032	1,537
Total non-interest expense	21,580	18,551
Income before income taxes	8,507	16,571
Income Taxes	1,088	2,356
Net income	\$7,419	\$14,215
Earnings Per Share		
Basic	\$ 1.91	\$ 3.60
Diluted	\$ 1.91	\$ 3.59