



Cashmere Valley Bank

FOR IMMEDIATE RELEASE

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CASHMERE VALLEY BANK REPORTS QUARTERLY EARNINGS OF \$7.7 MILLION

CASHMERE, WA, April 18, 2023 – Cashmere Valley Bank (OTCQX: CSHX) (“Bank”), announced quarterly earnings of \$7.7 million for the quarter ended March 31, 2023. Diluted earnings per share were \$1.99, representing an increase of \$0.43 per share, or 27.6%.

“We are proud to report our first quarter earnings and the improvement these earnings represent,” said Greg Oakes, President and CEO. “The benefit of higher rates on our net interest margin is significant. The downside of higher rates is that deposit competition and our costs to retain deposits is starting to increase at a rapid pace. We continue to deploy strategies to attract and retain deposits. In addition, we are continuing to try to unwind the level of unrealized loss in our securities portfolio.”

Q1 Highlights

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

- As of March 31, 2023, gross loans totaled \$1.016 billion, representing an increase from March 31, 2022 of \$44.5 million.
- Deposit balances totaled \$1.84 billion as of March 31, 2023. Deposit balances decreased \$120.9 million, or 6.2%, from March 31, 2022. Non-interest deposits totaled \$425.5 million as of March 31, 2023, which represents 23.1% of total deposits.

Cash, Cash Equivalents and Restricted Cash

Total cash, cash equivalents and restricted cash were \$110.5 million at March 31, 2023, compared to \$87.6 million at March 31, 2022. The \$22.8 million increase was primarily due to efforts to retain higher cash balances as rates paid to the Bank on overnight funds have increased significantly from one year ago. Rates have increased from 0.40% to 4.90% from March 31, 2022 to March 31, 2023. Available borrowing lines from the Federal Home Loan Bank and the Federal Reserve total approximately \$347 million. As of March 31, 2023, the Bank had full borrowing capacity as no advances had been made.

Investments

The investment portfolio totaled \$836.3 at March 31, 2023, a decrease of \$224.5 million from March 31, 2022. As of March 31, 2023, available for sale securities totaled \$691.9 million and held to maturity securities totaled \$144.4 million. For the quarter ended March 31, 2023, securities earned 3.17% as compared to 1.99% one year ago. The increase in the earnings rate is attributable to increasing yields on floating rate securities in combination with higher rates on new securities purchases.

As of March 31, 2023, unrealized losses on available for sale securities totaled \$76.7 million. Additionally, there was a \$7.1 million unrealized loss on held to maturity securities. To conform with generally accepted accounting principles, held to maturity securities are recorded on the balance sheet at amortized cost. The unrealized loss on held to maturity securities was not recorded on the balance sheet. As of March 31, 2022, the unrealized loss on available for sale securities totaled \$52.7 million and there was no loss on held to maturity securities.

Loans and Credit Quality

Gross loans totaled \$1.016 billion as of March 31, 2023, which is an increase of \$44.5 million from March 31, 2022. Since March 31, 2022, loan growth was reported for purchased auto dealer loans of \$39.2 million, equipment finance loans of \$16.6 million, and multi-family loans of \$23.8 million. Decreases in loan balances were noted for commercial real estate loans of \$25.6 million and municipal loans of \$9.5 million.

The Bank adopted the Current Expected Credit Losses (CECL) Methodology on January 1, 2023. As part of the adoption the Bank lowered the Allowance for Credit Losses on Loans balance by \$1.1 million and increased the unfunded commitment reserve by \$2.1 million. According to generally accepted accounting principles (GAAP) the changes to reserve amounts were applied against capital net of tax rather than through earnings. The allowance for credit losses on loans (ACL) was 1.26% of gross loans as compared to 1.41% one year ago. During the first quarter of 2023, provision expense of \$605,000 was recorded, and the allowance totaled \$12.8 million.

Credit quality remains exceptionally strong with non-performing loans representing 0.15% of gross loans as of March 31, 2023. This is a slight increase from 0.03% as of March 31, 2022.

Deposits

Deposits totaled \$1.84 billion at March 31, 2023. The average cost of deposits increased 36 basis points to 0.63% for the quarter ended March 31, 2023 as compared to 0.27% for the quarter ended March 31, 2022.

Equity

Tier 1 capital remains strong. Tier 1 capital increased to \$238.0 million as of March 31, 2023 an increase from \$217.9 at March 31, 2022. The increase is due to earnings less dividends paid during the first quarter. The first quarter dividend was paid February 13, 2023 at a rate of \$0.85 per share.

As of March 31, 2023, GAAP capital reflects a decrease of \$11.0 million from March 31, 2022. The decrease was a result of market value changes in securities as a result of the increase in the treasury yield curve, which was partially offset by earnings.

Earnings

Net Interest Income

Net interest income totaled \$17.3 million in the first quarter of 2023, compared to \$13.6 million in the same quarter a year ago. The increase from the prior quarter was attributable to an improvement in yields on earning assets of 108 basis points as compared to an increase of 36 basis points in deposit expenses.

Loan interest income increased \$1.8 million over the same quarter one year ago as the average yield on loans increased from 3.91% to 4.40%.

Interest income on available for sale and held to maturity securities increased \$1.7 million from one year ago as the average yield on securities increased from 1.99% to 3.17%.

Interest income from deposits with other financial institutions increased \$1.4 million as the average yield on interest bearing accounts increased from 0.18% to 4.63%.

The net interest margin was 3.42% for the first quarter of 2023, compared to 2.58% during the first quarter of 2022.

Non-Interest Income

Non-interest income totaled \$4.5 million in the first quarter of 2023 as compared to \$4.5 million in the first quarter of 2022. As mortgage purchases and refinances have slowed, income from mortgage banking operations decreased to \$312,000 in the first quarter of 2023 as compared to \$755,000 in the first quarter of 2022. Income from insurance commission and fees increased to \$1.9 million from \$1.7 million in the first quarter of 2022. Net interchange income has increased significantly from \$654,000 in the first quarter of 2022 to \$1,360,000 in the first quarter of 2023. While interchange volume has increased, the bulk of the increase was due to improved interchange pricing. Price improvements were negotiated for higher interchange income as well as reductions in costs incurred for processing debit card transactions.

Non-Interest Expense

Non-interest expense totaled \$11.8 million in the first quarter of 2023 as compared to \$11.0 million in the first quarter of 2022.

The primary driver of the increase in non-interest expense has been the increase in salaries and benefits. As compared to the same period one year ago, wages and benefits expense increased \$670,000 or 10.5%. Wages and health care premiums are up substantially in an effort to attract and retain employees.

The Bank's efficiency ratio was 54.0% in the first quarter of 2023 as compared to 61.0% in the first quarter of 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 wholly owned 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

	March 31, 2023	December 31, 2022	March 31, 2022
Assets			
Cash and Cash Equivalent:			
Cash & due from banks	\$24,027	\$27,706	\$24,697
Interest bearing deposits	82,565	142,617	54,485
Fed funds sold	3,863	9,989	8,434
Total Cash and Cash Equivalent	110,455	180,312	87,616
Securities available for sale	691,926	670,077	1,060,851
Securities held to maturity, net of allowance for credit losses of \$347 and \$0, respectively	144,381	146,409	-
Federal Home Loan Bank stock, at cost	2,505	2,669	2,669
Loans held for sale	4	142	910
Loans	1,016,257	1,005,741	971,745
Allowance for credit losses	(12,831)	(13,746)	(13,707)
Net loans	1,003,426	991,995	958,038
Premises and equipment	19,286	18,275	17,047
Accrued interest receivable	8,486	8,199	9,237
Bank Owned Life Insurance	26,275	26,105	26,653
Goodwill	7,576	7,576	7,576
Intangibles	3,715	3,796	4,115
Mortgage servicing rights	2,628	2,685	2,744
Net deferred tax assets	21,293	21,021	12,277
Other assets	7,861	8,501	9,774
Total assets	\$2,049,817	\$2,087,762	\$2,199,507
Liabilities and Shareholders' Equity			
Liabilities			
Deposits:			
Non-interest bearing demand	\$425,526	\$457,666	\$440,821
Savings and interest-bearing demand	1,093,805	1,228,375	1,325,500
Time	321,767	213,978	195,719
Total deposits	1,841,098	1,900,019	1,962,040
Accrued interest payable	1,060	434	363
Short-term borrowings	14,163	17,166	34,887
Other liabilities	15,326	11,753	13,027
Total liabilities	1,871,647	1,929,372	2,010,317
Shareholders' Equity			
Common stock (no par value); authorized 10,000,000 shares;			
Issued and outstanding: 3/31/2023 -- 3,883,971 ;			
12/31/2022 -- 3,883,956 ; 3/31/2022 -- 3,883,801	--	--	--
Additional paid-in capital	4,660	4,540	4,393
Treasury stock	(16,784)	(16,784)	(16,784)
Retained Earnings	263,123	259,839	243,219
Other comprehensive income	(72,986)	(89,239)	(41,638)
Total Cashmere Valley Bank shareholders' equity	178,013	158,356	189,190
Noncontrolling interests	157	34	-
Total shareholders' equity	178,170	158,390	189,190
Total liabilities and shareholders' equity	\$2,049,817	\$2,087,762	\$2,199,507

Quarterly Consolidated Statements of Income (UNAUDITED)

(Dollars in Thousands)

Cashmere Valley Bank & Subsidiary

	For the quarters ended,		
	March 31, 2023	December 31, 2022	March 31, 2022
Interest Income			
Loans	\$10,953	\$10,641	\$9,197
Fed funds sold and deposits at other financial institutions	1,467	1,190	33
Securities available for sale:			
Taxable	5,568	4,904	3,746
Tax-exempt	689	1,099	1,646
Securities held to maturity:			
Taxable	804	773	-
Tax-exempt	46	41	-
Total interest income	19,527	18,648	14,622
Interest Expense			
Deposits	2,230	1,261	1,029
Short-term borrowings	7	12	16
Total interest expense	2,237	1,273	1,045
Net interest income	17,290	17,375	13,577
Provision for Credit Losses	605	307	47
Net interest income after provision for credit losses	16,685	17,068	13,530
Non-Interest Income			
Service charges on deposit accounts	541	557	491
Mortgage banking operations	312	422	755
Net gain (loss) on sales of securities available for sale	(365)	(1,019)	135
Brokerage commissions	270	275	276
Insurance commissions and fees	1,863	2,091	1,673
Net interchange income (expense)	1,360	1,204	654
BOLI cash value	170	729	168
Dividends from correspondent banks	27	21	25
Other	287	330	311
Total non-interest income	4,465	4,610	4,488
Non-Interest Expense			
Salaries and employee benefits	7,075	5,935	6,405
Occupancy and equipment	928	916	906
Audits and examinations	89	103	193
State and local business and occupation taxes	323	360	279
FDIC insurance & WA state assessments	165	171	173
Legal and professional fees	245	223	209
Check losses and charge-offs	117	109	133
Low income housing investment losses	155	151	144
Data processing	1,539	1,479	1,283
Product delivery	314	309	323
Other	807	889	979
Total non-interest expense	11,757	10,645	11,027
Income before income taxes	9,393	11,033	6,991
Income Taxes	1,670	1,344	913
Net income	\$7,723	\$9,689	\$6,078
Net income attributable to noncontrolling interest	6	-	-
Net income attributable to Cashmere Valley Bank	\$7,717	\$9,689	\$6,078
Earnings Per Share			
Basic	\$ 1.99	\$ 2.49	\$ 1.57
Diluted	\$ 1.99	\$ 2.49	\$ 1.56