



Cashmere Valley Bank

FOR IMMEDIATE RELEASE

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## **CASHMERE VALLEY BANK REPORTS RECORD QUARTERLY EARNINGS OF \$8.9 MILLION**

CASHMERE, WA, October 18, 2022 – Cashmere Valley Bank (OTCQX: CSHX) (“Bank”), announced quarterly earnings of \$8.9 million for the quarter ended September 30, 2022. Year-to-date earnings total \$16.3 million as compared to \$22.2 million for the nine months ended September 30, 2021. Year-to-date diluted earnings per share were \$4.19, representing a decrease of \$1.45 per share, or 25.6%. 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 \$7.2 million year-to-date.

As of September 30, 2022, deposit balances totaled \$1.98 billion, an increase of \$20.0 million from June 30, 2022, representing a 1.0% increase.

“We are proud of our record quarterly earnings,” said Greg Oakes, President and CEO. “The rapid rise in the Fed Funds rates, the prime rate and treasury rates provides challenges to us, but we were able to receive some benefit as some of our assets repriced into higher yields. We are wary of the economy as rates continue to rise into an economy where many economists are predicting a recession in the near future. Our goal is to be prepared for any direction the economy takes us.”

### **Q3 Highlights**

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

- As of September 30, 2022, gross loans totaled \$1.008 billion representing a slight decrease from June 30, 2022. As compared to one year ago gross loans have increased \$61.4 million.
- The Bank’s year-to-date return on assets decreased to 1.00% from 1.41% primarily due to the aforementioned security sales.
- The Bank’s return on equity was 11.66% as compared to 12.53% one year ago. While net income has decreased year-over-year, the reduction in capital due to unrealized gains and losses in the available for sale securities portfolio has helped to minimize the impact to return on equity.
- For the quarter ended September 30, 2022 the Bank’s return on assets was 1.61% and the Bank’s return on equity was 21.58%.

### **Cash, Cash Equivalents and Restricted Cash**

Total cash, cash equivalents and restricted cash were \$182.3 million at September 30, 2022, compared to \$92.1 million at September 30, 2021. Cash is maintained at a higher level as the rates earned on overnight funds have increased to 3.15% from 0.15% as of September 30, 2021.

## **Investments**

The investment portfolio totaled \$889.4 million at September 30, 2022, a decrease of \$197.2 million from September 30, 2021. A significant reduction of \$117.3 million in the unrealized gain and loss on available for securities was the principle reason for the reduction. Additionally, the Bank has strategically unwound the portfolio through sales and principal paydowns that have only been partially reinvested into securities.

As of September 30, 2022, \$145.3 million in securities were classified as held-to-maturity as compared to none as of September 30, 2021. New securities purchases during the third quarter totaled \$17.6 million. 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 September 30, 2022, no securities were determined to be other than temporarily impaired.

## **Loans and Credit Quality**

Gross loans totaled \$1.008 billion as of September 30, 2022 a decrease of \$709,000 from June 30, 2022 and an increase of \$61.5 million from September 30, 2021. Equipment Finance, Construction and Auto Finance loans have been mainly responsible for increasing loan balances.

As of September 30, 2022, the allowance for loans and lease losses (ALLL) was 1.37% of gross loans as compared to 1.45% one year ago. The Bank allocated \$387,000 to the loan loss provisions during the third quarter of 2022 and the allowance totals \$13.8 million. Increasing loan balances during the prior twelve months have effectively utilized the Bank's unallocated loan loss provision that existed as of September 30, 2021.

Credit quality remains exceptionally strong with non-performing loans representing 0.10% of gross loans as of September 30, 2022.

## **Deposits**

As of September 30, 2022, total deposits increased by \$73.5 million or 3.8% from September 30, 2021. From June 30, 2022 to September 30, 2022 total deposits increased \$20.0 million or 1.0%. Non-interest deposits totaled \$494.3 million as of September 30, 2022, which represents 24.9% of total deposits. The average cost of deposits decreased 10 basis points to 0.27% as compared to the nine months ended September 30, 2021.

## **Equity**

Tier 1 capital remains strong. Tier 1 capital increased to \$225.2 million from \$219.5 at June 30, 2022 due to earnings less dividends paid during the third quarter. Regulatory capital remains well capitalized.

GAAP capital reflected a decrease of \$92.5 million from September 30, 2021 and a decrease of \$16.9 million from June 30, 2022. The decrease was a result of market value changes in securities due to the increase in the treasury yield curve.

## **Earnings**

### *Net Interest Income*

Net interest income totaled \$16.3 million during the third quarter of 2022, compared to \$14.6 million in the prior quarter and \$13.4 million in the same quarter a year ago. The increase from the prior quarter was a result of increasing interest-bearing deposits at other financial institutions and fed funds sold income of \$603,000, securities income of \$565,000 and loan income of \$473,000. As compared to the same

quarter one year ago, the increase was the result of higher income from securities in the amount of \$1,438,000, cash held with other financial institutions totaling \$758,000 and loan income \$513,000.

The net interest margin was 2.79% for the first nine months of 2022, compared to 2.60% during the first nine months of 2021. Margin expansion is due to increasing loan balances in combination with increasing yields on new loans, securities and cash held at other financial institutions. Adjustable rate loans and securities are also consistently repricing into higher rates.

#### *Non-Interest Income*

Non-interest income totaled \$7.1 million in the first nine months of 2022 as compared to \$15.1 million in the first nine months of 2021. Losses on securities sales represented \$7.2 million of the reduction in income. As mortgage refinances have slowed, income from mortgage banking operations has decreased from \$4.3 million through September 30, 2021 to \$1.9 million in the first nine months of 2022. Income from insurance commissions and fees increased to \$5,461,000 from \$3,910,000 million in the first nine months of 2021 due to the purchase of two insurance agencies along with organic growth.

#### *Non-Interest Expense*

Non-interest expense totaled \$32.3 million in the first nine months of 2022 as compared to \$28.2 million in the first nine months of 2021. The increase of \$4,062,000 represented a 14.4% increase. The Bank continues to manage costs prudently, however, employee costs along with other inflation impacted areas continue to see increasing costs.

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 \$2.6 million or 16.5%. Wages and health care premiums are up substantially in an effort to attract and retain employees.

Data processing costs have also increased 18.6% or \$638,000 from the prior year.

The Bank's efficiency ratio was 68.4% in the first nine months of 2022 as compared to 54.7% in the first nine months of 2021. The efficiency ratio was adversely impacted by the sale of securities at a loss. For the quarter ended September 30, 2022, the Bank's efficiency ratio was 51.3%.

#### **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

	September 30, 2022	June 30, 2022	September 30, 2021
<b>Assets</b>			
Cash and Cash Equivalent:			
Cash & due from banks	\$25,210	\$24,750	\$26,878
Interest bearing deposits	146,529	101,080	56,910
Fed funds sold	10,590	10,634	8,352
<b>Total Cash and Cash Equivalent</b>	<b>182,329</b>	<b>136,464</b>	<b>92,140</b>
Securities available for sale	744,137	804,607	1,086,559
Securities held to maturity	145,252	139,637	--
Federal Home Loan Bank stock, at cost	2,669	2,669	2,393
Loans held for sale	288	978	660
Loans	1,008,014	1,008,723	946,539
Allowance for credit losses	(13,808)	(13,686)	(13,760)
<b>Net loans</b>	<b>994,206</b>	<b>995,037</b>	<b>932,779</b>
Premises and equipment	16,942	16,824	17,061
Accrued interest receivable	8,894	8,442	8,851
Bank Owned Life Insurance	27,004	26,823	26,313
Goodwill	7,576	7,576	7,518
Intangibles	3,883	3,969	2,044
Mortgage servicing rights	2,707	2,732	2,759
Other assets	31,145	25,501	10,187
<b>Total assets</b>	<b>\$2,167,032</b>	<b>\$2,171,259</b>	<b>\$2,189,264</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Liabilities</b>			
Deposits:			
Non-interest bearing demand	\$494,334	\$459,975	\$443,846
Savings and interest-bearing demand	1,308,611	1,315,476	1,257,270
Time	180,769	188,298	209,088
<b>Total deposits</b>	<b>1,983,714</b>	<b>1,963,749</b>	<b>1,910,204</b>
Accrued interest payable	281	334	437
Short-term borrowings	28,674	36,213	29,344
Other liabilities	11,511	11,227	13,976
<b>Total liabilities</b>	<b>2,024,180</b>	<b>2,011,523</b>	<b>1,953,961</b>
<b>Shareholders' Equity</b>			
Common stock (no par value); authorized 10,000,000 shares;			
Issued and outstanding: 9/30/2022 -- 3,883,946 ;			
6/30/2022 -- 3,883,816 ; 9/30/2021 -- 3,880,786	--	--	--
Additional paid-in capital	4,475	4,432	4,150
Treasury stock	(16,784)	(16,784)	(16,784)
Retained Earnings	250,150	244,560	233,608
Other comprehensive income	(94,989)	(72,472)	14,329
<b>Total shareholders' equity</b>	<b>142,852</b>	<b>159,736</b>	<b>235,303</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$2,167,032</b>	<b>\$2,171,259</b>	<b>\$2,189,264</b>

## Quarterly Consolidated Statements of Income (UNAUDITED)

(Dollars in Thousands)

Cashmere Valley Bank & Subsidiary

	For the quarters ended,		
	September 30, 2022	June 30, 2022	September 30, 2021
<b>Interest Income</b>			
Loans	\$10,292	\$9,819	\$9,779
Fed funds sold and deposits at other financial institutions	790	187	32
Securities available for sale:			
Taxable	4,182	3,697	3,143
Tax-exempt	1,307	1,602	1,646
Securities held to maturity	738	363	--
<b>Total interest income</b>	<b>17,309</b>	<b>15,668</b>	<b>14,600</b>
<b>Interest Expense</b>			
Deposits	1,015	1,014	1,206
Short-term borrowings	17	18	14
<b>Total interest expense</b>	<b>1,032</b>	<b>1,032</b>	<b>1,220</b>
<b>Net interest income</b>	<b>16,277</b>	<b>14,636</b>	<b>13,380</b>
<b>Provision for Credit Losses</b>	387	59	41
<b>Net interest income after provision for credit losses</b>	<b>15,890</b>	<b>14,577</b>	<b>13,339</b>
<b>Non-Interest Income</b>			
Service charges on deposit accounts	566	515	466
Mortgage banking operations	475	668	1,050
Net gain (loss) on sales of securities available for sale	111	(7,407)	-
Brokerage commissions	285	299	290
Insurance commissions and fees	1,920	1,868	1,393
Net interchange income (expense)	1,082	1,057	1,801
BOLI cash value	180	170	176
Dividends from correspondent banks	20	18	18
Other	432	306	331
<b>Total non-interest income</b>	<b>5,071</b>	<b>(2,506)</b>	<b>5,525</b>
<b>Non-Interest Expense</b>			
Salaries and employee benefits	6,210	6,007	5,429
Occupancy and equipment	779	717	852
Audits and examinations	94	156	87
State and local business and occupation taxes	324	285	275
FDIC insurance & WA state assessments	175	169	166
Legal and professional fees	162	215	258
Check losses and charge-offs	140	113	87
Low income housing investment losses	152	209	144
Data processing	1,438	1,340	1,160
Product delivery	300	290	287
Other	910	1,054	906
<b>Total non-interest expense</b>	<b>10,684</b>	<b>10,555</b>	<b>9,651</b>
<b>Income before income taxes</b>	<b>10,277</b>	<b>1,516</b>	<b>9,213</b>
<b>Income Taxes</b>	<b>1,386</b>	<b>175</b>	<b>1,226</b>
<b>Net income</b>	<b>\$8,891</b>	<b>\$1,341</b>	<b>\$7,987</b>
<b>Earnings Per Share</b>			
Basic	\$ 2.29	\$ 0.35	\$ 2.06
Diluted	\$ 2.29	\$ 0.34	\$ 2.05

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

(Dollars in Thousands)

Cashmere Valley Bank & Subsidiary

	For the nine months ended,	
	September 30, 2022	September 30, 2021
<b>Interest Income</b>		
Loans	\$29,308	\$29,357
Fed funds sold and deposits at other financial institutions	1,009	80
Securities available for sale:		
Taxable	11,624	8,559
Tax-exempt	4,554	4,944
Securities held to maturity	1,101	--
<b>Total interest income</b>	<b>47,596</b>	<b>42,940</b>
<b>Interest Expense</b>		
Deposits	3,058	3,984
Short-term borrowings	51	33
<b>Total interest expense</b>	<b>3,109</b>	<b>4,017</b>
<b>Net interest income</b>	<b>44,487</b>	<b>38,923</b>
<b>Provision for Credit Losses</b>	493	45
<b>Net interest income after provision for credit losses</b>	<b>43,994</b>	<b>38,878</b>
<b>Non-Interest Income</b>		
Service charges on deposit accounts	1,572	1,147
Mortgage banking operations	1,898	4,294
Net gain (loss) on sales of securities available for sale	(7,160)	21
Brokerage commissions	861	875
Insurance commissions and fees	5,461	3,910
Net interchange income (expense)	2,793	3,293
BOLI cash value	519	406
Dividends from correspondent banks	63	55
Other	1,050	1,110
<b>Total non-interest income</b>	<b>7,057</b>	<b>15,111</b>
<b>Non-Interest Expense</b>		
Salaries and employee benefits	18,623	15,991
Occupancy and equipment	2,402	2,353
Audits and examinations	443	413
State and local business and occupation taxes	888	755
FDIC insurance & WA state assessments	516	460
Legal and professional fees	586	697
Check losses and charge-offs	386	419
Low income housing investment losses	505	444
Data processing	4,062	3,424
Product delivery	913	804
Other	2,942	2,444
<b>Total non-interest expense</b>	<b>32,266</b>	<b>28,204</b>
<b>Income before income taxes</b>	<b>18,785</b>	<b>25,785</b>
<b>Income Taxes</b>	<b>2,474</b>	<b>3,583</b>
<b>Net income</b>	<b>\$16,311</b>	<b>\$22,202</b>
<b>Earnings Per Share</b>		
Basic	\$ 4.20	\$ 5.66
Diluted	\$ 4.19	\$ 5.64