



Cashmere Valley Bank

FOR IMMEDIATE RELEASE

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CASHMERE VALLEY BANK REPORTS YEAR-TO-DATE EARNINGS OF \$13.1 MILLION, GROSS LOANS AT ALL TIME HIGH

CASHMERE, WA, July 18, 2023 – Cashmere Valley Bank (OTCQX: CSHX) (“Bank”), announced quarterly earnings of \$5.4 million for the quarter ended June 30, 2023. Year-to-date earnings totaled \$13.1 million as compared to \$7.4 million for the six months ended June 30, 2022. Year-to-date diluted earnings per share were \$3.37, representing an increase of \$1.46 per share, or 77.1%. In the first six months of 2023, losses on securities sold totaled \$2.3 million as compared \$7.3 million in 2022.

As of June 30, 2023, deposit balances totaled \$1.799 billion, a decrease of \$101.2 million from December 31, 2022, which represented a 5.3% decrease. For the second quarter, deposit balances fell by \$42.3 million, or 2.3%.

“The banking environment continues to be a challenging one,” said Greg Oakes, President and CEO. “While the economy and rate volatility are difficult to manage, we are very pleased with our financial results. Deposit outflows have slowed for the time being and our net interest margin appears to be stabilizing. Growing our GAAP capital was our primary focus one year ago and we have significantly increased our capital levels. Currently, we are diligently managing our net interest margin and on hand liquidity, but at this point those metrics are strong.”

Q2 Highlights

The Bank reported the following statement of condition highlights as of June 30, 2023:

- On July 18, 2023, the Bank’s Board of Directors declared a dividend of \$0.85 per share. The dividend will be payable on August 7, 2023 for shareholders of record on July 28, 2023.
- As of June 30, 2023, gross loans totaled \$1.026 billion representing an increase from June 30, 2022 of \$17.1 million.
- The Bank’s return on assets increased to 1.30% from 0.68% primarily due to the aforementioned security sales and increases in net interest income.
- The Bank’s return on equity was 15.21% as compared to 7.51% one year ago.

Cash, Cash Equivalents and Restricted Cash

Total cash, cash equivalents and restricted cash were \$121.3 million at June 30, 2023, compared to \$136.5 million at June 30, 2022. The Bank has made a concerted effort to maintain large cash balances through security sales and paydowns without full reinvestment of principal.

Investments

The book value of the Bank’s investment portfolio totaled \$850.9 million at June 30, 2023, a decrease of \$163.2 million from June 30, 2022. As of June 30, 2023, \$142.8 million in securities were classified as held-to-maturity as compared to \$139.6 million as of June 30, 2022. Yields on securities have

significantly increased from 2.07% for the first six months of 2022 to 3.25% for the first six months of 2023. Yields have increased due to new purchases and floating rate securities repricing upwards.

During the quarter, the Bank sold securities for \$34.3 million resulting in a \$1.9 million loss. The sale was executed as favorable pricing existed on some tax-exempt municipal securities. The sales resulted in additional cash on hand and also increased the yield on earning assets.

Loans and Credit Quality

Gross loans reached an all-time high of \$1.026 billion as of June 30, 2023, which represents an increase of \$20.5 million from December 31, 2022 and an increase of \$17.1 million from June 30, 2022. During 2023, loan growth has come primarily from multi-family loans, municipal loans and construction and land development loans. While loan pricing has increased we continue to see moderate demand from our customer base.

As of June 30, 2023, the allowance for credit losses on loans (ACL) was 1.22% of gross loans as compared to 1.36% one year ago. The Bank has allocated \$1,085,000 to the loan loss provisions through the second quarter of 2023 as compared to \$106,000 through the second quarter of 2022. The reduction in allowance percentage was primarily attributable to the required implementation of Current Expected Credit Loss Model, effective January 1, 2023.

Credit quality remains exceptionally strong with non-performing loans representing 0.14% of gross loans as of June 30, 2023. This is a slight increase from 0.04% as of June 30, 2022.

Deposits

Total deposits decreased by \$164.9 million, or 8.4%, from June 30, 2022. From March 31, 2023 to June 30, 2023 total deposits decreased \$42.3 million, or 2.3%. Non-interest deposits totaled \$415.2 million as of June 30, 2023, which represents 23.1% of total deposits. The average cost of deposits increased 64 basis points to 0.91% as compared to the six months ended June 30, 2022.

Construction on the Union Gap facility is nearing completion. The Bank anticipates opening that location sometime during the third quarter. The branch will house traditional banking services along with a mortgage lender and MRS Insurance personnel.

Equity

Tier 1 capital remains strong. Tier 1 capital increased to \$243.5 million from \$219.5 at June 30, 2023, due to earnings less dividends paid during 2023.

GAAP capital reflected an increase of \$22.6 million from June 30, 2022, and an increase of \$24.0 million from December 31, 2022. The Bank entered into three swaps with notional value of \$125 million during 2023 that effectively turn some of the Bank's fixed rate securities into floating rate securities. An unrealized gain of \$1.3 million existed on those swaps as of June 30, 2023. As of June 30, 2023, the Bank's GAAP capital to assets ratio was 9.07% as compared to 7.36% one year ago.

Earnings

Net Interest Income

For the six months ended June 30, 2023, net interest income totaled \$32.9 million compared to \$28.2 million in the same period one year ago. The increase from the prior quarter was a result of increasing loan income of \$3.5 million, securities income of \$3.3 million and from higher rates paid on cash balances with other institutions totaling \$2.2 million. Interest income has increased as a result of the increasing

yield curve, which positively affects variable rate assets and also causes higher rates on new loans, securities and cash.

For the quarter ended June 30, 2023, net interest income increased \$974,000 over the prior year, however net interest income decreased \$1.7 million over the quarter ended March 31, 2023. The decrease from the prior quarter was due to increasing cost of funds on deposits, which increased approximately \$2.0 million quarter over quarter.

The net interest margin was 3.30% for the first six months of 2023, compared to 2.67% during the first six months of 2022. The improvement in net interest income is attributable to higher yields on earning assets.

Non-Interest Income

Non-interest income totaled \$7.4 million in the first six months of 2023 as compared to \$2.0 million in the first six months of 2022. Losses on securities sales represented \$7.3 million of the reduction in income in 2022. The Bank has realized \$2.3 million in losses through the first six months of 2023, a reduction of \$5.0 million. As mortgage refinances have slowed, income from mortgage banking operations has decreased to \$676,000 in the first six months of 2023 as compared to \$1,423,000 in the first six months of 2022. Income from insurance commission and fees increased to \$3.88 million from \$3.54 million in the first six months of 2022.

Non-Interest Expense

Non-interest expense totaled \$23.3 million in the first six months of 2023, as compared to \$21.6 million in the first six months of 2022.

Increases in salary and benefits were primarily responsible for the increase in non-interest expense. As compared to the same period one year ago, wages and benefits expense increased \$1.1 million, or 8.5%.

Data processing costs have also increased 15.8%, or \$415,000, from the prior year and occupancy costs have increased \$324,000.

The Bank's efficiency ratio was 57.8% in the first six months of 2023 as compared to 71.5% in the first six months 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

	June 30, 2023	March 31, 2023	June 30, 2022
Assets			
Cash and Cash Equivalent:			
Cash & due from banks	\$26,674	\$24,027	\$24,755
Interest bearing deposits	91,422	82,565	101,080
Fed funds sold	3,179	3,863	10,634
Total Cash and Cash Equivalent	121,275	110,455	136,469
Securities available for sale	627,646	691,926	804,607
Securities held to maturity, net of allowance for credit losses of \$22, \$347 and \$0, respectively	142,796	144,381	139,637
Federal Home Loan Bank stock, at cost	2,505	2,505	2,669
Loans held for sale	165	4	564
Loans	1,026,191	1,016,257	1,009,137
Allowance for credit losses	(12,540)	(12,831)	(13,686)
Net loans	1,013,651	1,003,426	995,451
Premises and equipment	20,749	19,286	16,824
Accrued interest receivable	8,081	8,486	8,442
Other real estate and foreclosed assets	97	-	-
Bank Owned Life Insurance	26,447	26,275	26,823
Goodwill	7,576	7,576	7,576
Intangibles	3,633	3,715	3,969
Mortgage servicing rights	2,587	2,628	2,732
Net deferred tax assets	21,634	21,293	15,885
Other assets	9,890	7,861	9,611
Total assets	\$2,008,732	\$2,049,817	\$2,171,259
Liabilities and Shareholders' Equity			
Liabilities			
Deposits:			
Non-interest bearing demand	\$415,164	\$425,526	\$459,975
Savings and interest-bearing demand	1,023,585	1,093,805	1,315,476
Time	360,056	321,767	188,298
Total deposits	1,798,805	1,841,098	1,963,749
Accrued interest payable	1,526	1,060	334
Short-term borrowings	13,350	14,163	36,213
Other liabilities	12,697	15,326	11,227
Total liabilities	1,826,378	1,871,647	2,011,523
Shareholders' Equity			
Common stock (no par value); authorized 10,000,000 shares;			
Issued and outstanding: 6/30/2023 -- 3,883,981 ;			
3/31/2023 -- 3,883,971 ; 6/30/2022 -- 3,883,816	--	--	--
Additional paid-in capital	4,721	4,660	4,432
Treasury stock	(16,784)	(16,784)	(16,784)
Retained Earnings	268,517	263,123	244,560
Other comprehensive income	(74,266)	(72,986)	(72,472)
Total Cashmere Valley Bank shareholders' equity	182,188	178,013	159,736
Noncontrolling interests	166	157	-
Total shareholders' equity	182,354	178,170	159,736
Total liabilities and shareholders' equity	\$2,008,732	\$2,049,817	\$2,171,259

Quarterly Consolidated Statements of Income (UNAUDITED)

(Dollars in Thousands)

Cashmere Valley Bank & Subsidiary

	For the quarters ended,		
	June 30, 2023	March 31, 2023	June 30, 2022
Interest Income			
Loans	\$11,559	\$10,952	\$9,819
Fed funds sold and deposits at other financial institutions	990	1,467	187
Securities available for sale:			
Taxable	5,975	5,568	3,697
Tax-exempt	467	689	1,602
Securities held to maturity:			
Taxable	781	804	357
Tax-exempt	46	46	6
Total interest income	19,818	19,526	15,668
Interest Expense			
Deposits	4,156	2,230	1,014
Short-term borrowings	52	7	18
Total interest expense	4,208	2,237	1,032
Net interest income	15,610	17,289	14,636
Provision for Credit Losses	480	605	59
Net interest income after provision for credit losses	15,130	16,684	14,577
Non-Interest Income			
Service charges on deposit accounts	562	541	515
Mortgage banking operations	364	312	668
Net gain (loss) on sales of securities available for sale	(1,893)	(365)	(7,407)
Brokerage commissions	250	270	299
Insurance commissions and fees	2,020	1,863	1,868
Net interchange income (expense)	1,152	1,360	1,057
BOLI cash value	172	170	170
Dividends from correspondent banks	20	27	18
Other	283	287	306
Total non-interest income	2,930	4,465	(2,506)
Non-Interest Expense			
Salaries and employee benefits	6,399	7,075	6,007
Occupancy and equipment	1,019	928	717
Audits and examinations	106	89	156
State and local business and occupation taxes	332	323	285
FDIC insurance & WA state assessments	358	165	169
Legal and professional fees	262	245	215
Check losses and charge-offs	152	117	113
Low income housing investment losses	171	155	209
Data processing	1,500	1,539	1,340
Product delivery	316	314	290
Other	929	806	1,054
Total non-interest expense	11,544	11,756	10,555
Income before income taxes	6,516	9,393	1,516
Income Taxes	1,113	1,670	175
Net income	\$5,403	\$7,723	\$1,341
Net income attributable to noncontrolling interest	9	6	--
Net income attributable to Cashmere Valley Bank	\$5,394	\$7,717	\$1,341
Earnings Per Share			
Basic	\$ 1.39	\$ 1.99	\$ 0.35
Diluted	\$ 1.39	\$ 1.99	\$ 0.34

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

(Dollars in Thousands)

Cashmere Valley Bank & Subsidiary

	For the six months ended,	
	June 30, 2023	June 30, 2022
Interest Income		
Loans	\$22,511	\$19,016
Fed funds sold and deposits at other financial institutions	2,457	219
Securities available for sale:		
Taxable	11,544	7,442
Tax-exempt	1,156	3,247
Securities held to maturity:		
Taxable	1,586	357
Tax-exempt	92	6
Total interest income	39,346	30,287
Interest Expense		
Deposits	6,386	2,043
Short-term borrowings	59	34
Total interest expense	6,445	2,077
Net interest income	32,901	28,210
Provision for Credit Losses	1,085	106
Net interest income after provision for credit losses	31,816	28,104
Non-Interest Income		
Service charges on deposit accounts	1,103	1,007
Mortgage banking operations	676	1,423
Net gain (loss) on sales of securities available for sale	(2,258)	(7,272)
Brokerage commissions	520	575
Insurance commissions and fees	3,883	3,541
Net interchange income (expense)	2,512	1,711
BOLI cash value	342	338
Dividends from correspondent banks	47	43
Other	569	617
Total non-interest income	7,394	1,983
Non-Interest Expense		
Salaries and employee benefits	13,473	12,412
Occupancy and equipment	1,947	1,623
Audits and examinations	196	349
State and local business and occupation taxes	655	563
FDIC insurance & WA state assessments	523	341
Legal and professional fees	507	424
Check losses and charge-offs	269	246
Low income housing investment losses	326	353
Data processing	3,039	2,624
Product delivery	630	613
Other	1,735	2,032
Total non-interest expense	23,300	21,580
Income before income taxes	15,910	8,507
Income Taxes	2,783	1,088
Net income	\$13,127	\$7,419
Net income attributable to noncontrolling interest	16	--
Net income attributable to Cashmere Valley Bank	13,111	7,419
Earnings Per Share		
Basic	\$ 3.38	\$ 1.91
Diluted	\$ 3.37	\$ 1.91