

FOR IMMEDIATE RELEASE

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CASHMERE VALLEY BANK REPORTS ANNUAL EARNINGS OF \$26.0 MILLION

CASHMERE, WA, January 24, 2023 – Cashmere Valley Bank (OTCQX: CSHX) (“Bank”), announced annual earnings of \$26.0 million for the year ended December 31, 2022. Diluted earnings per share was \$6.69, representing a decrease of \$0.70 per share, or 9.5%.

On January 24, 2023 the Bank’s Board of Directors declared a semi-annual dividend payment of \$0.85 per share to shareholders of record on February 3, 2023. The dividend will be paid on February 13, 2023.

“2022 was a challenging year for the industry and Cashmere Valley Bank” said Greg Oakes, President and CEO. “The interest rate environment was especially challenging as the Fed increased its overnight rate at the fastest speed in history in order to combat inflation. On top of that, the labor market remained tight through the majority of the year. Both of those challenges eased somewhat in the fourth quarter, but it is far too early to say those challenges are behind us. We remain focused on obtaining and retaining key personnel and looking for opportunities to deleverage our investment portfolio as appropriate. Through those challenges I am proud to report earnings of \$26.0 million, which exceeds every year in the Bank’s history except 2021.”

2022 Highlights

Net income decreased 10.4% to \$26.0 million for the year ended December 31, 2022 versus \$29.0 million for fiscal year 2021.

Quarterly net income marked the second consecutive quarter of record earnings. Fourth quarter earnings totaled \$9.7 million or \$2.49 per share.

Diluted earnings per share decreased 9.5% to \$6.69 per share. Earnings per share decreased primarily due to sales on available for sale securities (AFS) which resulted in a pre-tax loss of \$8.2 million. Available for sale securities were sold to bolster liquidity and reduce interest rate risks in an increasing rate environment.

Return on equity increased to 14.68% in fiscal 2022 as compared to 12.24% in 2021. Return on equity increased despite a reduction in net income. This increase was attributable to \$57.5 million reduction in average equity from unrealized losses on available for sale securities.

Return on assets decreased 16 basis points to 1.20%. The reduction occurred as average assets increased year over year by \$37.7 million while earnings decreased by \$3.0 million.

The Bank’s net interest margin increased to 2.91% in 2022 as compared to 2.60% a year ago. Rates increased on cash held with the Federal Reserve, variable rate available for sale securities, variable rate

and new loan production all contributed to an expanding margin. Yield improvement on earning assets was attributable to an increasing treasury yield curve which resulted in higher yields on interest earning assets, while the Bank's cost of funds continued to fall until the fourth quarter of 2022.

The efficiency ratio increased primarily due to the aforementioned reduction in net income, from 53.1% in 2021 to 58.4% in 2022.

Cash, Cash Equivalents and Restricted Cash

Cash balances increased to \$180.3 million at December 31, 2022 from \$114.0 million as of December 31, 2021. Increasing cash on hand was a strategic objective as rates on overnight funds increased from 7 basis points to 440 basis points in 2022.

Available for Sale (AFS) and Held to Maturity (HTM) Securities

- Held to maturity securities totaled \$146.4 million at December 31, 2022 as compared to zero at December 31, 2021. The Bank transferred approximately \$123.5 million from available for sale to held to maturity during the second quarter in an effort to reduce the impact on common equity from an increasing rate environment. The remainder of the balance in held to maturity securities was comprised of security purchases.
- The book value on available for sale securities decreased \$326.4 million in fiscal 2022. In addition to the transfers from AFS to HTM, the Bank received proceeds of \$220.3 million on sales of securities which resulted in a pre-tax loss of \$8.2 million.
- As of December 31, 2022, the average portfolio yield was 3.06% as compared to 1.94% as of December 31, 2021. The significant year over year increase was due to increasing rates on existing available for sale securities in combination with selling lower yielding securities, and purchasing higher yielding securities.
- Principal purchases of securities totaled \$142.0 million in 2022. \$45.3 million of those principal purchases occurred after March 31, 2022. Purchases occurring after March 31, 2022 had a significantly higher yield than the purchases that occurred earlier in the year.

Loans and Credit Quality

- December 31, 2022 gross loans totaled \$1.006 billion representing an increase of \$65.0 million or 6.9% from December 31, 2021.
- Equipment Finance loans increased 52.5% to \$90.6 million as of December 31, 2022.
- Indirect dealer loans increased 22.3% to \$224.9 million as of December 31, 2022.
- Construction loans increased 12.6% to \$90.3 million as of December 31, 2022.
- Commercial real estate loans decreased 9.6% to \$251.7 million as of December 31, 2022.
- The allowance for loan and lease losses (ALLL) was 1.37%, or \$13.7 million as of December 31, 2022. 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 \$800,000 in 2022 as compared to \$81,000 in 2021. The increase in provision expense was largely due to loan growth.

- Non-performing loans totaled \$1,581,000 as of December 31, 2022, representing 0.15% of gross loans.

Deposits

Total deposits were \$1.9 billion as of December 31, 2022, which represented a decrease of \$36.6 million, or 1.9% from December 31, 2021. Non-interest bearing deposits increased 6.0% during 2022 and totaled \$457.7 million, which was 24.1% of total deposits. Time deposits increased \$11.2 million or 5.5% during 2022 and total \$214.0 million as of December 31, 2022.

Capital

As of December 31, 2022, shareholder's equity totaled \$158.4 million, a 33.8% decrease from \$239.1 million at December 31, 2021. The reduction in capital was due to unrealized losses in available for sale securities and unrealized losses from transferring available for sale securities to held to maturity securities. In combination, unrealized losses adversely affected shareholders equity by \$100.5 million. Capital was positively impacted by \$26.0 million in annual earnings. The Bank remains well above regulatory well capitalized standards.

Earnings

Net Interest Income totaled \$61.9 million for the year ended December 31, 2022 as compared to \$52.8 million for the year ended December 31, 2021. The increase of \$9.1 million represented an increase of 17.3%. Interest income increased \$8.4 million while interest expense decreased by \$762,000. Interest income increased in asset categories as a result of higher average balances as well as increasing yields as compared to 2021. Securities income increased \$5.5 million, fed funds and deposits with other financial institutions increased \$2.1 million, and loan income increased \$799,000. From an interest expense standpoint, cost of funds decreased six basis points to 29 basis points. Interest expense began to trend back up in the fourth quarter of 2022 presenting greater deposit competition as competitors increased rates, primarily on time deposits.

Non-Interest Income decreased \$8.2 million, or 41.4% as compared to 2021. Fiscal 2021 was a record-breaking year for mortgage banking income and in 2022 mortgage banking income decreased \$3.2 million, or 58.0%. In addition, sales of available for sale securities adversely affected non-interest income by \$8.2 million. The reductions realized in sales of available for sale securities and mortgage banking were partially offset by growth at our insurance subsidiary Mitchell, Reed and Schmitten. Mitchell, Reed and Schmitten revenues increased \$2.2 million in 2022 and finished the year with net income of \$1.5 million.

Non-interest expense increased \$4.3 million or 11.2% in 2022. The Bank was not exempt from labor market challenges throughout 2021 and 2022. Our regional labor market presented challenges as salaries and benefits expenses increased \$2.4 million or 11.0%. Non-interest expenses outside of salaries and benefits increased \$1.9 million or 11.4%.

The provision for loans losses increased \$719,000 in 2022, which was primarily due to increasing loan balances.

Federal income tax expense decreased approximately \$1.1 million from the prior year due to a decrease in earnings and in combination with a reduction in the Bank's effective tax rate. The Bank's effective tax rate was 12.8% for 2022 as compared to 14.2% in 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 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, 2022	September 30, 2022	December 31, 2021
Assets			
Cash and Cash Equivalent:			
Cash & due from banks	\$27,702	\$25,210	\$22,450
Interest bearing deposits	142,617	146,529	81,399
Fed funds sold	9,989	10,590	10,155
Total Cash and Cash Equivalent	180,308	182,329	114,004
Securities available for sale	670,077	744,137	1,103,232
Securities held to maturity	146,409	145,252	-
Federal Home Loan Bank stock, at cost	2,669	2,669	2,393
Loans held for sale	142	288	1,148
Loans	1,005,741	1,008,014	940,802
Allowance for credit losses	(13,746)	(13,808)	(13,774)
Net loans	991,995	994,206	927,028
Premises and equipment	18,275	16,942	17,058
Accrued interest receivable	8,199	8,894	8,553
Bank Owned Life Insurance	26,105	27,004	26,485
Goodwill	7,576	7,576	7,576
Intangibles	3,796	3,883	4,285
Mortgage servicing rights	2,685	2,707	2,802
Other assets	29,526	31,145	9,738
Total assets	\$2,087,762	\$2,167,032	\$2,224,302
Liabilities and Shareholders' Equity			
Liabilities			
Deposits:			
Non-interest bearing demand	\$457,666	\$494,334	\$432,621
Savings and interest-bearing demand	1,228,375	1,308,611	1,301,169
Time	213,978	180,769	202,787
Total deposits	1,900,019	1,983,714	1,936,577
Accrued interest payable	434	281	403
Short-term borrowings	17,166	28,674	34,504
Other liabilities	11,753	11,511	13,721
Total liabilities	1,929,372	2,024,180	1,985,205
Shareholders' Equity			
Common stock (no par value); authorized 10,000,000 shares;			
Issued and outstanding: 12/31/2022 -- 3,883,956 ;			
9/30/2022 -- 3,883,946 ; 12/31/2021 -- 3,880,811	--	--	--
Additional paid-in capital	4,540	4,475	4,186
Treasury stock	(16,784)	(16,784)	(16,784)
Retained Earnings	259,839	250,150	240,439
Other comprehensive income	(89,239)	(94,989)	11,256
Total Cashmere Valley Bank shareholders' equity	158,356	142,852	239,097
Noncontrolling interests	34	-	-
Total shareholders' equity	158,390	142,852	239,097
Total liabilities and shareholders' equity	\$2,087,762	\$2,167,032	\$2,224,302

Quarterly Consolidated Statements of Income (UNAUDITED)

(Dollars in Thousands)

Cashmere Valley Bank & Subsidiary

	For the quarters ended,		
	December 31, 2022	September 30, 2022	December 31, 2021
Interest Income			
Loans	\$10,641	\$10,292	\$9,794
Fed funds sold and deposits at other financial institutions	1,190	790	26
Securities available for sale:			
Taxable	4,904	4,182	3,481
Tax-exempt	1,099	1,307	1,652
Securities held to maturity	814	738	-
Total interest income	18,648	17,309	14,953
Interest Expense			
Deposits	1,261	1,015	1,110
Short-term borrowings	12	17	16
Total interest expense	1,273	1,032	1,126
Net interest income	17,375	16,277	13,827
Provision for Credit Losses	307	387	36
Net interest income after provision for credit losses	17,068	15,890	13,791
Non-Interest Income			
Service charges on deposit accounts	557	566	486
Mortgage banking operations	422	475	1,237
Net gain (loss) on sales of securities available for sale	(1,019)	111	(19)
Brokerage commissions	275	285	453
Insurance commissions and fees	2,091	1,920	1,459
Net interchange income (expense)	1,204	1,082	655
BOLI cash value	729	180	172
Dividends from correspondent banks	21	20	19
Other	330	432	328
Total non-interest income	4,610	5,071	4,790
Non-Interest Expense			
Salaries and employee benefits	5,935	6,210	6,128
Occupancy and equipment	916	779	770
Audits and examinations	103	94	20
State and local business and occupation taxes	360	324	277
FDIC insurance & WA state assessments	171	175	167
Legal and professional fees	223	162	293
Check losses and charge-offs	109	140	121
Low income housing investment losses	151	152	144
Data processing	1,479	1,438	1,213
Product delivery	309	300	322
Other	889	910	928
Total non-interest expense	10,645	10,684	10,383
Income before income taxes	11,033	10,277	8,198
Income Taxes	1,344	1,386	1,367
Net income	\$9,689	\$8,891	\$6,831
Net income attributable to noncontrolling interest	-	-	-
Net income attributable to Cashmere Valley Bank	\$9,689	\$8,891	\$6,831
Earnings Per Share			
Basic	\$ 2.49	\$ 2.29	\$ 1.76
Diluted	\$ 2.49	\$ 2.29	\$ 1.75

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

(Dollars in Thousands)

Cashmere Valley Bank & Subsidiary

	For the twelve months ended,	
	December 31, 2022	December 31, 2021
Interest Income		
Loans	\$39,950	\$39,151
Fed funds sold and deposits at other financial institutions	2,199	106
Securities available for sale:		
Taxable	16,528	12,041
Tax-exempt	5,653	6,595
Securities held to maturity	1,914	--
Total interest income	66,244	57,893
Interest Expense		
Deposits	4,319	5,094
Short-term borrowings	63	50
Total interest expense	4,382	5,144
Net interest income	61,862	52,749
Provision for Credit Losses	800	81
Net interest income after provision for credit losses	61,062	52,668
Non-Interest Income		
Service charges on deposit accounts	2,130	1,634
Mortgage banking operations	2,320	5,531
Net gain (loss) on sales of securities available for sale	(8,179)	1
Brokerage commissions	1,136	1,327
Insurance commissions and fees	7,552	5,368
Net interchange income (expense)	3,997	3,948
BOLI cash value	1,247	578
Dividends from correspondent banks	84	74
Other	1,379	1,438
Total non-interest income	11,666	19,899
Non-Interest Expense		
Salaries and employee benefits	24,558	22,120
Occupancy and equipment	3,317	3,123
Audits and examinations	546	433
State and local business and occupation taxes	1,248	1,032
FDIC insurance & WA state assessments	687	627
Legal and professional fees	809	991
Check losses and charge-offs	495	540
Low income housing investment losses	656	588
Data processing	5,541	4,637
Product delivery	1,222	1,126
Other	3,831	3,370
Total non-interest expense	42,910	38,587
Income before income taxes	29,818	33,980
Income Taxes	3,818	4,949
Net income	\$26,000	\$29,031
Net income attributable to noncontrolling interest	-	-
Net income attributable to Cashmere Valley Bank	26,000	29,031
Earnings Per Share		
Basic	\$ 6.70	\$ 7.42
Diluted	\$ 6.69	\$ 7.39