



FOR IMMEDIATE RELEASE

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CASHMERE VALLEY BANK REPORTS QUARTERLY EARNINGS OF \$7.2 MILLION, OPENING OF UNION GAP BRANCH

CASHMERE, WA, October 17, 2023 – Cashmere Valley Bank (OTCQX: CSHX) (“Bank”), announced quarterly earnings of \$7.2 million for the quarter ended September 30, 2023. Year-to-date earnings totaled \$20.3 million as compared to \$16.3 million for the nine months ended September 30, 2022. Year-to-date diluted earnings per share were \$5.22, representing an increase of \$1.07 per share, or 25.9%. Third quarter earnings per share totaled \$1.85, which represented a decrease of 19.3% from \$2.29 per diluted share in 2022.

As of September 30, 2023, deposit balances totaled \$1.797 billion, a decrease of \$103.3 million, or a 5.4% decrease from December 31, 2022. For the third quarter, deposit balances declined by \$2.0 million, or 0.1%. Non-interest deposits totaled \$441.6 million, which represented 24.6% of total deposits.

“Our focus on retaining customer deposits is paying off. Deposit balances and rates paid for deposits stabilized in third quarter. Thus, our cost of funds continues to increase but not at a pace many of our competitors are seeing,” said Greg Oakes, President and CEO. “We are proud to announce the opening of our Union Gap location. We feel that Union Gap is in a prime and growing location with a mixture of businesses and residential housing. We have high hopes for that location’s future.”

Q3 Highlights

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

- As of September 30, 2023, gross loans totaled \$1.026 billion, representing an increase from December 31, 2022 of \$20.3 million. Gross loans remained flat during the third quarter.
- For the third quarter return on assets was 1.42%. The Bank’s return on assets year-to-date increased to 1.34% from 0.99% from one year ago. Return on assets improved primarily due to increases in net interest income and a decline in realized losses on security sales.
- The Bank’s year-to-date return on equity was 15.33% as compared to 11.65% one year ago. For the third quarter return on equity was 15.55%

Cash, Cash Equivalents and Restricted Cash

Total cash, cash equivalents and restricted cash totaled \$134.8 million at September 30, 2023, compared to \$180.3 million at December 31, 2022. The Bank has made a concerted effort to maintain large cash balances through security sales and paydowns without full reinvestment of principal. Interest rates on overnight cash held at the Fed have increased to 5.4%.

Investments

The book value of the Bank’s investment portfolio totaled \$835.3 million at September 30, 2023, a decrease of \$73.7 million from December 31, 2022. As of September 30, 2023, \$141.3 million in securities were classified as held-to-maturity as compared to \$146.4 million as of December 31, 2022. Yields on securities have significantly increased from 2.20% for the first nine months of 2022 to 3.34% for

the first nine months of 2023. Yields are higher due to increasing rates on new purchases and floating rate securities repricing upwards.

During the quarter there were no sales of available for sale securities.

Loans and Credit Quality

Gross loans were virtually unchanged from the prior quarter and totaled \$1.026 billion. Gross loans have increased \$20.3 million from December 31, 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 to low demand from our customer base.

As of September 30, 2023, the allowance for credit losses on loans (ACL) was 1.29% of gross loans as compared to 1.37% one year ago. The Bank has allocated \$1,828,000 to the loan loss provisions through the third quarter of 2023 as compared to \$493,000 through the third 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 0.23% of gross loans as of September 30, 2023, as compared to 0.10% as of September 30, 2022.

Deposits

Total deposits decreased slightly by \$2.0 million from June 30, 2023 to September 30, 2023. The average cost of deposits increased 15 basis points to 1.06% as compared to the prior quarter.

Construction on the Union Gap facility was completed and opened effective September 11, 2023. The Summitview location in Yakima closed on September 8, 2023 and personnel were relocated to Union Gap. Union Gap houses traditional banking services along with a mortgage lender and MRS Insurance personnel.

Equity

Tier 1 capital remains strong. Tier 1 capital increased to \$247.5 million from \$243.5 at June 30, 2023, due to earnings less dividends paid during 2023.

GAAP capital reflected an increase of \$35.4 million from September 30, 2022, and an increase of \$19.8 million from December 31, 2022. The Bank entered into three swaps with notional value of \$125.0 million during 2023 that effectively turn some of the Bank's fixed rate securities into floating rate securities. An unrealized gain of \$3.6 million after tax existed on those swaps as of September 30, 2023. At period end, the Bank's GAAP capital to assets ratio was 8.92% as compared to 6.59% one year ago.

Earnings

Net Interest Income

For the nine months ended September 30, 2023, net interest income totaled \$49.2 million compared to \$44.5 million in the same period one year ago. Growth from the prior year was a result of increasing loan income of \$5.3 million, securities income of \$4.5 million and from higher rates paid on cash balances with other institutions totaling \$2.9 million. Interest income has increased as a result of the rising yield curve, which positively affects variable rate assets and also has increased rates on new loans, securities and cash.

Net interest income increased \$645,000 over the prior quarter. Net interest income decreased by \$22,000 from the same quarter one year ago.

Interest expense increased from the prior quarter by \$550,000.

The net interest margin was 3.29% for the first nine months of 2023, compared to 2.79% during the first nine months of 2022. The improvement in net interest income is attributable to higher yields on earning assets which have changed faster than rates paid on deposits.

Non-Interest Income

Non-interest income totaled \$12.2 million in the first nine months of 2023 as compared to \$7.1 million in the first nine months of 2022. Losses on securities sales represented \$7.2 million in the first nine months of 2022. In 2023, losses on available for sale securities sales were reduced by \$4.9 million to \$2.3 million. As residential mortgage purchases and refinances have slowed, income from mortgage banking operations has decreased to \$1,140,000 in the first nine months of 2023 as compared to \$1,898,000 in the first nine months of 2022. Net interchange income has increased significantly to \$3.7 million, which represents an increase of \$907,000 from the prior year. Income from insurance commission and fees increased to \$5.7 million from \$5.5 million in the first nine months of 2022.

Non-Interest Expense

Non-interest expense totaled \$34.8 million in the first nine months of 2023 as compared to \$32.3 million in the first nine 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 \$1.2 million, or 6.6%.

Data processing costs have also increased 15.6%, or \$634,000 from the prior year, and occupancy costs have increased \$586,000.

The Bank's efficiency ratio was 56.8% in the first nine months of 2023 as compared to 62.6% in the first nine 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 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, 2023	June 30, 2023	September 30, 2022
Assets			
Cash and Cash Equivalent:			
Cash & due from banks	\$26,859	\$26,674	\$25,215
Interest bearing deposits	105,325	91,422	146,529
Fed funds sold	2,662	3,179	10,590
Total Cash and Cash Equivalent	134,846	121,275	182,334
Securities available for sale	600,278	627,646	744,137
Securities held to maturity, net of allowance for credit losses of \$21, \$22 and \$0, respectively	141,258	142,796	145,252
Federal Home Loan Bank stock, at cost	2,505	2,505	2,669
Loans held for sale	1,223	165	288
Loans	1,026,040	1,026,191	1,008,014
Allowance for credit losses	(13,252)	(12,540)	(13,808)
Net loans	1,012,788	1,013,651	994,206
Premises and equipment	21,061	20,749	16,942
Accrued interest receivable	8,734	8,081	8,894
Other real estate and foreclosed assets	97	97	--
Bank Owned Life Insurance	26,628	26,447	27,004
Goodwill	7,576	7,576	7,576
Intangibles	3,557	3,633	3,883
Mortgage servicing rights	2,567	2,587	2,707
Net deferred tax assets	23,735	21,634	22,027
Other assets	12,302	9,890	9,113
Total assets	\$1,999,155	\$2,008,732	\$2,167,032
Liabilities and Shareholders' Equity			
Liabilities			
Deposits:			
Non-interest bearing demand	\$441,561	\$415,164	\$494,334
Savings and interest-bearing demand	1,008,861	1,023,585	1,308,611
Time	346,346	360,056	180,769
Total deposits	1,796,768	1,798,805	1,983,714
Accrued interest payable	1,476	1,526	281
Short-term borrowings	8,267	13,350	28,674
Other liabilities	14,243	12,697	11,511
Total liabilities	1,820,754	1,826,378	2,024,180
Shareholders' Equity			
Common stock (no par value); authorized 10,000,000 shares;			
Issued and outstanding: 9/30/2023 -- 3,883,981 ;			
6/30/2023 -- 3,883,981 ; 9/30/2022 -- 3,883,946	--	--	--
Additional paid-in capital	4,782	4,721	4,475
Treasury stock	(16,784)	(16,784)	(16,784)
Retained Earnings	272,400	268,517	250,150
Other comprehensive income	(82,171)	(74,266)	(94,989)
Total Cashmere Valley Bank shareholders' equity	178,227	182,188	142,852
Noncontrolling interests	174	166	--
Total shareholders' equity	178,401	182,354	142,852
Total liabilities and shareholders' equity	\$1,999,155	\$2,008,732	\$2,167,032

Quarterly Consolidated Statements of Income (UNAUDITED)

(Dollars in Thousands)

Cashmere Valley Bank & Subsidiary

	For the quarters ended,		
	September 30, 2023	June 30, 2023	September 30, 2022
Interest Income			
Loans	\$12,115	\$11,559	\$10,292
Fed funds sold and deposits at other financial institutions	1,448	990	790
Securities available for sale:			
Taxable	6,254	5,975	4,182
Tax-exempt	372	467	1,307
Securities held to maturity:			
Taxable	778	781	727
Tax-exempt	46	46	11
Total interest income	21,013	19,818	17,309
Interest Expense			
Deposits	4,709	4,156	1,015
Short-term borrowings	49	52	17
Total interest expense	4,758	4,208	1,032
Net interest income	16,255	15,610	16,277
Provision for Credit Losses	743	480	387
Net interest income after provision for credit losses	15,512	15,130	15,890
Non-Interest Income			
Service charges on deposit accounts	553	562	566
Mortgage banking operations	465	364	475
Net gain (loss) on sales of securities available for sale	-	(1,893)	111
Brokerage commissions	247	250	285
Insurance commissions and fees	1,830	2,020	1,920
Net interchange income (expense)	1,188	1,152	1,082
BOLI cash value	180	172	180
Dividends from correspondent banks	19	20	20
Other	298	283	432
Total non-interest income	4,780	2,930	5,071
Non-Interest Expense			
Salaries and employee benefits	6,374	6,399	6,210
Occupancy and equipment	1,041	1,019	779
Audits and examinations	157	106	94
State and local business and occupation taxes	346	332	324
FDIC insurance & WA state assessments	265	358	175
Legal and professional fees	232	262	162
Check losses and charge-offs	185	152	140
Low income housing investment losses	153	171	152
Data processing	1,657	1,500	1,438
Product delivery	301	316	300
Other	817	929	910
Total non-interest expense	11,528	11,544	10,684
Income before income taxes	8,764	6,516	10,277
Income Taxes	1,574	1,113	1,386
Net income	\$7,190	\$5,403	\$8,891
Net income attributable to noncontrolling interest	7	9	--
Net income attributable to Cashmere Valley Bank	\$7,183	\$5,394	\$8,891
Earnings Per Share			
Basic	\$ 1.85	\$ 1.39	\$ 2.29
Diluted	\$ 1.85	\$ 1.39	\$ 2.29

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

(Dollars in Thousands)

Cashmere Valley Bank & Subsidiary

	For the nine months ended,	
	September 30, 2023	September 30, 2022
Interest Income		
Loans	\$34,626	\$29,308
Fed funds sold and deposits at other financial institutions	3,906	1,009
Securities available for sale:		
Taxable	17,797	11,624
Tax-exempt	1,529	4,554
Securities held to maturity:		
Taxable	2,364	1,084
Tax-exempt	138	17
Total interest income	60,360	47,596
Interest Expense		
Deposits	11,096	3,058
Short-term borrowings	108	51
Total interest expense	11,204	3,109
Net interest income	49,156	44,487
Provision for Credit Losses	1,828	493
Net interest income after provision for credit losses	47,328	43,994
Non-Interest Income		
Service charges on deposit accounts	1,656	1,572
Mortgage banking operations	1,140	1,898
Net gain (loss) on sales of securities available for sale	(2,258)	(7,160)
Brokerage commissions	767	861
Insurance commissions and fees	5,713	5,461
Net interchange income (expense)	3,700	2,793
BOLI cash value	523	519
Dividends from correspondent banks	66	63
Other	867	1,050
Total non-interest income	12,174	7,057
Non-Interest Expense		
Salaries and employee benefits	19,847	18,623
Occupancy and equipment	2,988	2,402
Audits and examinations	353	443
State and local business and occupation taxes	1,001	888
FDIC insurance & WA state assessments	788	516
Legal and professional fees	740	586
Check losses and charge-offs	454	386
Low income housing investment losses	479	505
Data processing	4,696	4,062
Product delivery	931	913
Other	2,552	2,942
Total non-interest expense	34,829	32,266
Income before income taxes	24,673	18,785
Income Taxes	4,356	2,474
Net income	\$20,317	\$16,311
Net income attributable to noncontrolling interest	23	--
Net income attributable to Cashmere Valley Bank	20,294	16,311
Earnings Per Share		
Basic	\$ 5.23	\$ 4.20
Diluted	\$ 5.22	\$ 4.19