



Cashmere Valley Bank

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 |