



Cashmere Valley Bank

FOR IMMEDIATE RELEASE

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CASHMERE VALLEY BANK EARNINGS INCREASE 18.4% FROM PRIOR YEAR

CASHMERE, WA, July 20, 2021 – Cashmere Valley Bank (OTCQX: CSHX) (“Bank”), announced 2021 year to date earnings of \$14.2 million and quarterly earnings of \$6.9 million for the periods ended June 30, 2021. Year to date diluted earnings per share were \$3.59, representing an increase of \$0.57 per share, or 18.8%.

As of June 30, 2021, deposit balances totaled \$1.9 billion. Deposit balances increased approximately \$152.4 million from December 31, 2020, representing an 8.9% increase.

“Our deposit growth has been the driver for our increasing earnings” said Greg Oakes, President and CEO. “Our deposit growth continued in the second quarter, exceeding our expectations. Deposit growth along with fees earned from PPP forgiveness have been welcome surprises in light of the industry’s compressed interest rate environment. We were also pleased with the results of our tender offer which was completed during the second quarter.”

Q2 Highlights

The Bank reported the following statement of condition highlights as of June 30, 2021:

- June 30, 2021 gross loans totaled \$941.2 million representing a decrease of \$9.8 million or 1.0% from December 31, 2020.
- Total deposits increased by \$152.4 million or 8.9% from December 31, 2020. Non-interest bearing deposits have increased \$57.0 million or 15.6% since December 31, 2020. Non-interest bearing deposits total \$422.6 million and represent 22.6% of total deposits.
- On May 14, 2021 the Bank announced the completion of a tender offer to repurchase the Bank’s stock at \$70.00 per share. The Bank was approved to repurchase 340,000 shares and successfully repurchased 98,223 shares.
- Net income for the quarter was \$6.9 million, an increase of \$348,000 or 5.3% over the prior year. Diluted earnings per share increased \$0.10 to \$1.75 per share. An increase of \$1,358,000 in net interest income combined with a reduction in provision for loan losses of \$1,996,000 were the primary reasons for the increase in income. The second quarter of 2020 did have a non-recurring gain of \$2.5 million on the sale of securities.

Pandemic Response Update

As of June 30, 2021, the remaining balance on PPP loans totaled \$40.1 million. Remaining fees to be earned totaled \$1.9 million. During the quarter, net deferred fees reported through income totaled \$762,000

and year to date net deferred fees totaled \$1,835,000, which have had a positive impact on the Bank's earnings and net interest margin.

The Bank began providing support to its employees at the onset of COVID-19 including at-risk employees and employees with child care needs. Those employees have been allowed to stay home, Bank paid as needed on an unlimited basis, or work from home if their position allows. While some employees will continue to work from home at a reduced level, the program to financially support for COVID related illnesses has been suspended.

Cash, Cash Equivalents and Restricted Cash

Total cash, cash equivalents and restricted cash were \$134.7 million at June 30, 2021, compared to \$135.7 million at December 31, 2020.

Investments

The investment portfolio totaled \$1.0 billion at June 30, 2021, an increase of \$151.5 million from December 31, 2020 and an increase of \$330.0 million from June 30, 2020. The increase is a result of significant deposit growth combined with marginal loan demand. Security types showing the most significant increases year to date were CMO's \$77.9 million, taxable municipal securities \$54.2 million and treasury securities \$22.4 million.

Loans and Credit Quality

Gross loans totaled \$941.2 million as of June 30, 2021 a decrease of \$21.9 million from March 31, 2021 and a decrease of \$33.8 million from June 30, 2020. As compared to the prior June 30, real estate balances consisting of multifamily and consumer adjustable rate mortgages have decreased \$29.0 million. Commercial and agriculture balances have decreased \$15.1 million. The decrease in commercial and agriculture balances were primarily the result of a decrease of \$26.3 million in PPP loans which were partially offset by increases in commercial loans. Over the last 12 months the Bank did see a significant increase in commercial real estate (CRE) loans. CRE loans increased \$25.6 million or 10.4%.

The allowance for loans and lease losses (ALLL) was 1.47% of gross loans as compared to 1.36% one year ago. The Bank did not make any provisions during the first half of 2021 and the allowance totals \$13.9 million.

Credit quality remains exceptionally strong with non-performing loans totaling \$856,000 representing 0.09% of total loans as of June 30, 2021.

Deposits

Deposits totaled \$1.872 billion at June 30, 2021, as compared to \$1.585 billion at June 30, 2020. The \$286.9 million increase in deposits from the year end represented an 18.1% increase. Transaction accounts grew \$322.7 million while time deposits decreased \$35.9 million over the prior 12 months.

Earnings

Net Interest Income

Net interest income totaled \$25.5 million during the first six months of 2021, compared to \$23.2 million during the first six months of 2020. The primary reason for increases in net interest income were increases in PPP fees which are generally recorded into income at the time of PPP loan forgiveness. Net PPP fees totaled approximately \$1.8 million in the first six months of 2021. Net fees in the second quarter were

approximately \$762,000 which was a decrease from \$1,073,000 in the first quarter of 2021. PPP fees recognized in the first six months of 2020 were negligible.

Interest income from available for sale securities totaled \$8.7 million in the first half of 2021, compared to \$7.6 million in the comparable period from one year ago. As compared to the prior year, yields on investment securities have decreased from 2.54% to 1.90%. Securities portfolio growth has driven the increase in securities income.

The net interest margin was 2.61% for the first six months of 2021, compared to 2.87% in the first six months of 2020. Loan yields have increased six basis points, while cash and available for sale securities yields have decreased 68 and 64 basis points respectively.

Non-Interest Income

Non-interest income totaled \$9.6 million in the first half of 2021 as compared to \$11.0 million in the first half of 2020. The decrease was due to a \$2.5 million reduction on gains on security sales. Mortgage banking income remained strong and was largely unchanged from the prior year. Interchange income increased significantly by \$539,000 (56.6%) due to program and network changes.

Non-Interest Expense

Non-interest expense totaled \$18.5 million in the first half of 2021 as compared to \$17.8 million in the first half of 2020.

As compared to the same period one year ago, wages and benefits expense increased \$352,000 or 3.4% and professional services including legal, audits and examination expenses increased \$269,000.

The Bank's efficiency ratio was 55.4% in the first half of 2021 as compared to 54.2% in the first half of 2020.

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, 2021	December 31, 2020	June 30, 2020
Assets			
Cash and Cash Equivalent:			
Cash & due from banks	\$21,890	\$27,258	\$28,355
Interest bearing deposits	94,013	97,466	108,387
Fed funds sold	18,743	10,990	4,872
Total Cash and Cash Equivalent	134,646	135,714	141,614
Securities available for sale	1,007,823	856,327	677,793
Federal Home Loan Bank stock, at cost	2,393	1,982	1,982
Loans held for sale	532	1,470	5,497
Loans	941,176	950,970	974,953
Allowance for credit losses	(13,854)	(13,730)	(13,226)
Net loans	927,322	937,240	961,727
Premises and equipment	17,348	16,381	16,680
Accrued interest receivable	8,181	7,829	7,228
Foreclosed real estate	-	-	-
Bank Owned Life Insurance	26,138	15,908	15,675
Goodwill	7,518	7,182	7,162
Intangibles	2,233	1,564	1,684
Mortgage servicing rights	2,808	2,856	2,659
Other assets	10,552	9,835	7,073
Total assets	\$2,147,494	\$1,994,288	\$1,846,774
Liabilities and Shareholders' Equity			
Liabilities			
Deposits:			
Non-interest bearing demand	\$422,606	\$365,645	\$348,397
Savings and interest-bearing demand	1,232,659	1,121,111	984,123
Time	217,057	233,215	252,927
Total deposits	1,872,322	1,719,971	1,585,447
Accrued interest payable	506	612	699
Short-term borrowings	25,409	16,395	14,122
Long-term borrowings	-	-	-
Other liabilities	14,587	18,632	23,549
Total liabilities	1,912,824	1,755,610	1,623,817
Shareholders' Equity			
Common stock (no par value); authorized 10,000,000 shares;			
Issued and outstanding: 6/30/2021 -- 3,876,931 ;			
3/31/2021 -- 3,972,304 ; 6/30/2020 -- 3,972,149	3,898	3,723	3,649
Treasury stock	(16,784)	(9,908)	(9,908)
Retained Earnings	228,723	217,487	206,753
Accumulated other comprehensive income	18,833	27,376	22,463
Total shareholders' equity	234,670	238,678	222,957
Total liabilities and shareholders' equity	\$2,147,494	\$1,994,288	\$1,846,774

Quarterly Consolidated Statements of Income (UNAUDITED)

(Dollars in Thousands)

Cashmere Valley Bank & Subsidiary

	For the quarters ended,		
	June 30, 2021	December 31, 2020	June 30, 2020
Interest Income			
Loans	\$9,656	\$9,761	\$9,409
Deposits at other financial institutions	21	26	(7)
Federal funds sold	2	1	2
Securities available for sale:			
Taxable	2,862	2,259	2,362
Tax-exempt	1,657	1,617	1,466
Total interest income	14,198	13,664	13,232
Interest Expense			
Deposits	1,341	1,515	1,735
Short-term borrowings	11	9	9
Long-term borrowings	-	-	-
Total interest expense	1,352	1,524	1,744
Net interest income	12,846	12,140	11,488
Provision for Credit Losses	8	321	2,004
Net interest income after provision for credit losses	12,838	11,819	9,484
Non-Interest Income			
Service charges on deposit accounts	354	327	204
Mortgage banking operations	1,364	2,110	2,121
Net gain (loss) on sales of securities available for sale	21	-	2,508
Brokerage commissions	369	202	241
Insurance commissions and fees	1,264	1,182	1,143
Net interchange income (expense)	783	587	552
BOLI cash value	116	117	116
Dividends from correspondent banks	15	15	14
Other	314	332	267
Total non-interest income	4,600	4,872	7,166
Non-Interest Expense			
Salaries and employee benefits	5,349	4,951	5,208
Occupancy and equipment	756	799	728
Audits and examinations	316	216	233
State and local business and occupation taxes	228	239	259
Legal and professional fees	217	98	140
Net loss (gain) on foreclosed real estate	-	-	-
Check losses and charge-offs	131	99	114
Low income housing investment losses	155	134	336
Data processing	1,214	1,155	1,087
Product delivery	284	255	301
Other	797	786	618
Total non-interest expense	9,447	8,732	9,024
Income before income taxes	7,991	7,959	7,626
Income Taxes	1,092	967	1,075
Net income	\$6,899	\$6,992	\$6,551
Earnings Per Share			
Basic	\$ 1.76	\$ 1.76	\$ 1.65
Diluted	\$ 1.75	\$ 1.76	\$ 1.65

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

(Dollars in Thousands)

Cashmere Valley Bank & Subsidiary

	For the six months ended,	
	June 30, 2021	June 30, 2020
Interest Income		
Loans	\$19,578	\$18,898
Deposits at other financial institutions	44	324
Federal Funds Sold	3	26
Securities available for sale:		
Taxable	5,416	5,048
Tax-exempt	3,298	2,563
Total interest income	28,339	26,859
Interest Expense		
Deposits	2,779	3,650
Short-term borrowings	19	18
Long-term borrowings	-	-
Total interest expense	2,798	3,668
Net interest income	25,541	23,191
Provision for Credit Losses	4	2,467
Net interest income after provision for credit losses	25,537	20,724
Non-Interest Income		
Service charges on deposit accounts	681	667
Mortgage banking operations	3,244	3,269
Net gain (loss) on sales of securities available for sale	21	2,520
Brokerage commissions	584	463
Insurance commissions and fees	2,516	2,329
Net interchange income (expense)	1,492	953
BOLI cash value	230	228
Dividends from correspondent banks	37	36
Other	778	573
Total non-interest income	9,583	11,038
Non-Interest Expense		
Salaries and employee benefits	10,562	10,210
Occupancy and equipment	1,501	1,478
Audits and examinations	619	513
State and local business and occupation taxes	479	462
Legal and professional fees	439	276
Net loss (gain) on foreclosed real estate	-	-
Check losses and charge-offs	332	220
Low income housing investment losses	300	418
Data processing	2,264	2,270
Product delivery	517	553
Other	1,536	1,358
Total non-interest expense	18,549	17,758
Income before income taxes	16,571	14,004
Income Taxes	2,356	1,997
Net income	\$14,215	\$12,007
Earnings Per Share		
Basic	\$ 3.60	\$ 3.02
Diluted	\$ 3.59	\$ 3.02