

CVB Newsletter

CEDAR VALLEY
BANKSHARES, LTD.



12 April 2024



Here's what has happened so far and what's to come!

Welcome to our newsletter! We are thrilled to share with you the latest developments in the banking industry, as well as updating you on the status of your investment.

First, we would like to express our gratitude to all of our Shareholders. With your support, we have been able to celebrate 130 years of serving our customers and communities in Iowa.

In recent news, on January 1st we welcomed Brad Miller as President and CEO as well as a director of First Security. While Kurt Herbrechtsmeyer has stepped back from day-to-day management responsibilities, he is still very present as the Chairman of the Board and continues to assist Brad in the transition.

We are also excited to announce that we will be hosting our annual Shareholders Meeting and Dinner on Monday April 15th.

This is a great opportunity to meet with the Board and Management Team of CVB and First Security, while also enjoying great food, drinks, and conversation. We hope to see you there!

Finally, one of our goals for 2024 is to improve our communication with shareholders by providing quarterly updates on financial performance and highlights of how your investment is serving the needs of our customers in Northcentral Iowa. We are also investigating the possibility of creating a shareholder data room where we can provide access to both current and historical information about Cedar Valley Bankshares.

Thank you for your continued support!

In this newsletter you can expect:

Annual Shareholders Meeting/Dinner

Contact Info Initiative

Bank Board Spotlight

Cyber Security Tips & Highlights

Financial Updates

Survey & Contact



Event News

Join us for our upcoming Shareholders Meeting and Dinner on April 15th. Here are the details:

Meeting:

- Time: 4:30 pm
- Location: Charles City Public Library, Zastrow Room. Also held via Zoom. (See below for link.)
- **If you can't make it to the meeting, please remember to send in your proxy!**

Dinner:

- Location: Floyd County Youth Enrichment Center (Fairgrounds)
- Cocktail hour to immediately follow the meeting, with dinner being served at 6:00 pm.
- This will be a sit-down served meal, catered by local Ginger's Top Shelf.

Please contact Hannah Chambers for any questions!

Join Zoom Meeting:

<https://us06web.zoom.us/j/89749073420?pwd=Px1aT2cccDe899TqJlZE3XXhLHSMsN.1>

Meeting ID: 897 4907 3420
Passcode: 498145

Contact Info Initiative



With your letters and proxies for the annual meeting, Hannah also enclosed a form to fill out in order to update your contact information. The goal is to be able to put together a Shareholders Directory so that we may better contact Shareholders and include everyone we can in this newsletter and other communications.

Please include as much information as possible (including winter addresses if applicable) so that we may have better communication going forward!

CVB Snapshot



	2022	2023	Q124
Book Value/Share	153.62	155.87	158.78
EPS	6.48	-4.87	2.87



Brad Miller



Kurt Herbrechtsmeyer

Bank Board Spotlight

Excerpts from the Press Release by First Security

The First Security Bank & Trust Board of Directors announced at their December 2023 meeting that Kurt Herbrechtsmeyer had been elected Chairman of the Board and Brad Miller, who has been the bank's Chief Financial Officer since 2021, had been promoted to President and Chief Executive Officer effective January 1st, 2024. Brad will also be joining the bank's Board of Directors.

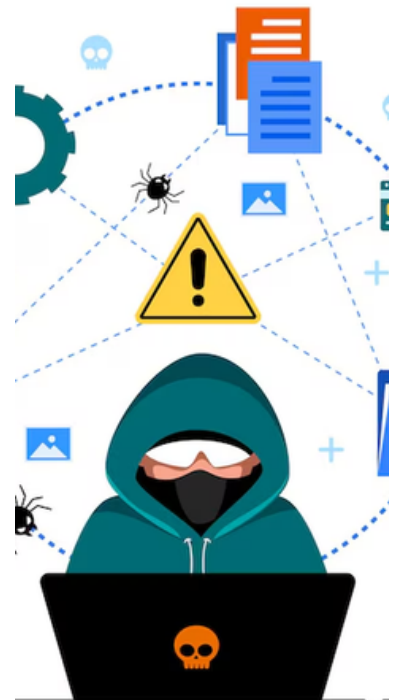
Brad joined the bank with a bachelor's degree in accounting and business administration from the University of Kansas as well as a Master of Business Administration degree from Washburn University. He also earned a Chartered Financial Analyst® Institute designation and is a member of the Institute of Chartered Financial Analysts.

He joins First Security with a background in public accounting, institutional investment management, and community-based financial institutions.

In the meantime, Kurt Herbrechtsmeyer, former President and CEO of nearly 20 years, isn't going anywhere. He is taking over as Chairman of the Board, allowing for some continuity as leadership changes at First Security.

Cyber Security Tips & Highlights: Spoofing

- In the context of cybersecurity, spoofing occurs when fraudsters pretend to be someone or something else to gain a person's trust. Their motivation is usually to gain unauthorized access to systems, steal sensitive data, steal money, or spread malware. Examples include but aren't limited to:
 - **Email Spoofing:** Scammers forge email headers to make it appear as if the email comes from a trusted source. They might request money transfers or permission to access systems.
 - **Website Spoofing:** Fraudulent websites mimic legitimate ones, tricking users into sharing sensitive information.
 - **Phone Call Spoofing:** Scammers manipulate caller ID to appear as a trusted contact.
 - **Technical Spoofing:** This involves manipulating IP addresses, ARP, or DNS servers.
- Successful spoofing attacks can lead to data theft, credential harvesting, malware spread, unauthorized network access, bypassing security controls, and costly data breaches or ransomware attacks. Remember vigilance and skepticism are essential when dealing with any communication or online requests. Always verify the authenticity of messages and requests before taking action!





Cedar Valley Bankshares, Ltd. is the sole owner of two subsidiary companies: First Security Bank and Trust Co. and Four Key, LLC, with the majority of the operations in First Security Bank. The consolidated income from 2023 was a net loss of \$1.425 million for 2023, compared with the net income for 2022 of \$1.8 million.

Consolidated Income Statement (per audited statements)	2023	2022
Cedar Valley Bankshares, Ltd	(194,447)	(255,994)
First Security Bank & Trust Co.	(321,494)	4,816,958
Four Keys, LLC.	(909,891)	(2,667,292)
Net Income (Loss)	(1,425,832)	1,893,672

By breaking this down by individual entity, we get a better picture of the drivers of performance of the overall company. Operations of Cedar Valley Bankshares are minimal and consist mainly of director fees and administrative expenses from the operation of the holding company itself. It is not in itself designed to be a for-profit entity as its revenues come from the subsidiary bank and a few investments. The increase in expense in 2023 was primarily due to interest costs in short-term debt of the holding company that was used to infuse additional capital into First Security Bank. As First Security creates operating income during 2024, using these earnings to retire the holding company debt will be a high priority to add shareholder value.



Four Keys, LLC:

Four Keys, LLC, is a company created to hold a commercial property, the Union House, that was acquired in 2020 from a bankruptcy related to a borrower relationship. In 2022, we wrote down the value of Union House by \$2.2 million, a reflection of an appraisal that showed a decline in commercial real estate values. An additional write-down of \$627 thousand was booked in 2023 to reflect the market price of the building when it was listed for sale, recognizing further decreasing commercial real estate values. The property is currently listed for sale and is anticipated to be liquidated in 2024. When it does, the company will be liquidated, and any remaining assets rolled up to CVB.

First Security Bank & Trust Co.

The main driver of performance for CVB is from the operations of First Security Bank. Performance in 2023 was impacted significantly in 2023 by two factors: interest margin compression and credit costs in the lending portfolio. These, along with a decrease in earning assets of \$25 million, caused bank earnings to decline from \$4.8 million in 2022 to a loss of \$321 thousand in 2023. With the decrease in profit margin, operating income was less than the credit costs that were recognized resulting in an overall loss for the year.



Credit:

In early 2023, management of First Security Bank and Trust reevaluated several commercial property appraisals that it had relied on when the loans were originated in 2019 and 2020. The result led management to believe that the collateral backing these loans was not as valuable as indicated by the original appraisals. As a result, the Board reserved \$2.46 million in the first quarter of 2023 as a hedge against possible future losses from these loans, and a total provision for the year of \$2.918 million. The remainder of the credit costs were in industries that experienced financial strain in the wake of the pandemic. These include health care facilities that experienced labor shortages, increased costs, and lower patient populations as well as trucking companies that experienced a rapid increase in demand during the pandemic, followed by a sharp decline as it ended.

There are two components of credit loss: Reserves and Charge-Offs. Reserves are what the Bank sets aside when there is an anticipation of a possible future loss. In this case, none of the loans mentioned above has experienced an actual loss at this point. In fact, we have actively worked with the borrowers on these loans to reduce our credit risk and avoid loss. As a result, a meaningful portion of these loans has been paid off or paid down, reducing the bank's overall credit risk and reversing some of the credit costs incurred in 2023.

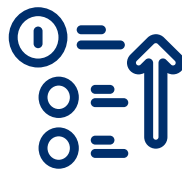
The second component is the Charge Off. These are losses realized as uncollectable during 2023 and occurred primarily in industries that experienced financial strain in the wake of the pandemic: health care facilities that experienced labor shortages, increased costs and lower patient populations, and trucking companies that experienced a rapid increase in demand during the pandemic followed by a sharp decline as it ended.

We anticipate that credit costs in 2024 will be substantially lower than the 2023 amount, and the first quarter of 2024 demonstrated this point, ending with a total reversal of \$715 thousand to the provision and an increase in earnings of that same amount in the quarter.



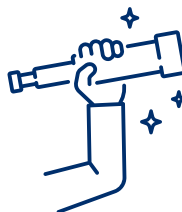
Interest Rates and Net Interest Margin:

In 2022 and 2023, interest rates increased substantially as the Federal Reserve increased short-term rates by 4.25 percentage points in 2022 and another 1.00 in 2023. Normally, when interest rates rise at a moderate pace, the Bank's cost of funding increases at a rate that is general slower or equal to our increase in yields on loans and investments. However, when rates increase as rapidly as they did over the last two years, deposit and other funding costs increase more rapidly than yields and cause our Net Interest Margin (the difference between what we can earn on loans and investments and pay on deposits and other funding), to decline from \$17.7 million in 2022 to \$16.0 million in 2023, a total decline of \$1.7 million.



2024 Priorities for Cedar Valley Bankshares

- Retire holding company debt of \$2.1 million with earnings from First Security Bank
- Sell the Union House to generate cash and eliminate the cost of managing the building and Four Keys, LLC.
- Develop shareholder data room to provide financial and other information
- Continue to support the development of the First Security Board of Directors efforts to implement Enterprise Risk Management and Governance oversight.
- Continue to develop CVB and First Security Director and Management Succession Plans to ensure the continued health of the Cedar Valley organization.



Looking Ahead to the Remainder of 2024 for First Security Bank:

2023 allowed FSBT to lay the groundwork for improved results in the future that will translate into improved performance for CVB. That groundwork includes:

- Improvements in the lending and credit functions that will provide for better management of credit risk that is expected to result in lower and more predictable credit costs.
- A higher interest rate environment provides the opportunity for improved Net Interest Margins as loans reprice to higher rates, and deposit and funding costs continue to stabilize. In fact, the bank is already seeing its Net Interest Margin improve in early 2024 and has exceeded the first quarter budgeted margin by \$389 thousand.

Financial Updates, Continued

- Increased focus on relationship-based banking and less reliance on winning business through pricing will also improve Net Interest Margin and build customer loyalty and further improve credit quality.
- The sale of Union House will end the costs and distractions of overseeing a commercial property and allow management more time to focus on actions that will improve future results.
- The office space for back-office operations of the bank will be consolidated from three locations into two, improving efficiency, communication, employee development, and morale.
- We are dedicated to growing our loan portfolio while allowing the investment portfolio to pay down and be reinvested into loans that return approximately 3 percentage points more than investments. Changing the mix on the balance sheet towards loans and away from investments will further improve our margins.

Our goal over the next three years is to improve financial performance to ensure that your shares in FSBT are an attractive investment that provide you a competitive return while our banking activities improve our communities and enhance the financial lives of our customers.

Ultimately our goal is to continue to build on the rich 120-year legacy of First Security Bank and Trust in a way that benefits owners, employees, customers, and the communities we serve.

Brad Miller
President/CEO

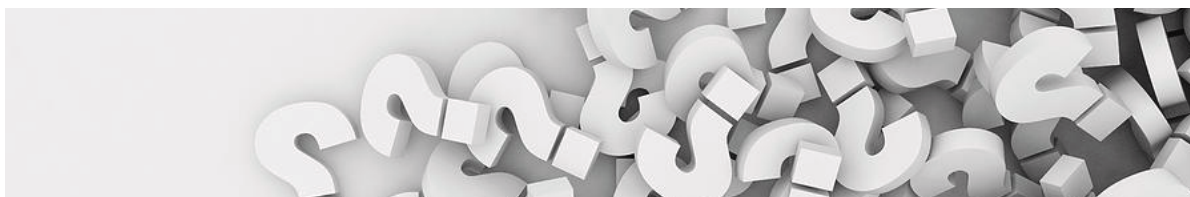
Kurt Herbrechtsmeyer
FSBT Chairman of the Board



Quote of the Quarter:

We cannot do everything at once, but we can do something at once.

-Calvin Coolidge



What's next?

We want to hear from you!

We need your feedback!

Clickable Survey Link:

We want to know what you'd like to hear more about from us. Is it more financials? Bank vs CVB information? Board member spotlights?

<https://forms.monday.com/forms/778ef54ca71b2bfa458641f13c2c914d?r=use1>

QR Code:



Please use the link or QR Code to take a short survey and tell us what you'd like to see in future newsletters!

Thank you for reading!

QUESTIONS?	CONTACT US
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