

Annual Report 2018



Chairman's Letter

Dear Customers and Friends:

This past year the Bank reported record net income of \$82.9 million, reflecting earnings levels well above any year in our history. Growth in net interest revenue was the largest driver of our improved performance, and tax reform, with its lower tax rates, contributed to bottom-line results, as well. Improved net interest revenue was the result of continued organic loan and deposit growth amplified by a rising rate environment. The Fed raised rates four times in 2018, their most aggressive upward rate move in more than a decade. Tax reform's contribution to our strong earnings will make some year-over-year financial comparisons difficult, given the favorable impact of lower rates in 2018 and the adverse impact of the accounting treatment of lower tax rates on 2017 performance.

For 2018, earnings totaled \$82.9 million, up \$41.6 million, or 100.7 percent from 2017's results and \$29.2 million greater than the Bank's previous record high earnings of \$53.7 million reached way back in 2007. Much has changed over the past 10 years and our strong financial performance today has been accomplished while also maintaining a very solid balance sheet position. The Bank's improved core earning power was primarily the result of strong growth in average earning assets and widening margins, which drove net interest revenue to record levels. Average earning assets in 2018 totaled \$6.3 billion, increasing \$603.2 million, or 10.6 percent year-over-year. With rising rates and an asset sensitive balance sheet, net interest margin widened 11 basis points to 3.77 percent. The combination of strong growth in average earning assets and wider margins, propelled net interest revenue higher by \$29.5 million, or 14.3 percent to \$236.2 million, a new Company record.

The Company's excellent year is reflected in many of the key banking performance metrics common in the industry. Return on assets for the year came in at 1.30 percent and return on equity was 15.35 percent, both very strong numbers from a historical perspective. For 2018, expenses increased \$11.8 million, or 7.0% to \$178.7 million, still reasonable at 2.81 percent of average assets. The Company's efficiency ratio is a measure of the percentage of total revenue that is consumed by operating expenses. In 2018, our efficiency ratio improved 250 basis points to 62.4 percent, although still above where we'd like to see it long-term. Given our ongoing focus on investing in technology, facilities and our people, our efficiency ratio may remain higher than desired for some time.

Total assets for the year increased \$309.1 million, or 5.0 percent, which was largely due to deposit growth. Deposits grew \$197.2 million, or 3.6 percent, continuing a long trend of year- after-year growth in what are predominantly core customer deposits. Loan growth moderated in 2018, increasing \$115.3 million, or 2.9 percent. The interesting dynamic impacting growth in the loan portfolio during the year was significantly higher levels of pay-downs on commercial lines of credit, rather than lower loan demand. Our loan originations actually were higher by almost \$90 million in 2018, than in 2017. With deposit growth exceeding loan growth, on-balance sheet liquidity grew. Investment securities increased \$202.1 million to nearly \$1.6 billion. When our investment portfolio is combined with investible cash, liquid resources were at historical highs totaling over \$2.3 billion, or nearly 36 percent of total assets.

Shareholder's equity increased significantly in 2018 benefiting from strong earnings. For the year, shareholder's equity grew \$67.3 million, or 13.0 percent to \$584.5 million.

Our risk metrics continued to come in at moderate levels and our capacity to withstand unexpected conditions remained significant. Credit quality was strong with noncurrent loans at just 0.18 percent of assets. While credit performance was excellent, it also tends to be a lagging indicator of difficulties in the economy and so we remain cautious given how late we seem to be in the economic cycle. The Bank's allowance to loans was substantial at year end, closing the year at \$90.7 million, or 2.24 percent of loans. Liquidity resources continued at substantial levels, with the Company's liquidity ratio, comprised of unpledged cash and bonds as a percent

of liabilities, closing the year at 33.8 percent. The Company's key capital ratios are significant and increasing as a result of strong retained earnings growth in excess of asset growth. At the end of 2018, shareholder's equity as a percent of assets was 8.93 percent, which was above end of year 2017 levels by 63 basis points.

We are gratified by our performance and the ability to deliver these results while still maintaining substantial balance sheet strength, but these are interesting times with significant levels of uncertainty. We are late in the economic cycle and the Fed has raised short-term rates to levels where the yield curve is flat and even inverted across some segments, which historically has been an early warning sign that trouble may be looming. The nation's politics are unusually contentious and the potential for a policy mistake by our local and national leaders seems higher than usual. The government's resources to address a downturn also seem stretched, with large budget deficits, rising national debt and the Fed's balance sheet still over-sized with bonds purchased back in the days of quantitative easing.

Against this back-drop, technological innovation continues to transform our business, which is both challenging and exciting. Along the way we are transforming how, when and where we serve our customers, while at the same time, we are also transforming how we operate. The investments we are making in technology are a competitive necessity and that challenges us to improve our internal processes and find opportunities for greater efficiency in our operations. These are crucial and healthy objectives for the Company and our customers.

While cautious by nature, we remain optimistic about our positioning, the markets we serve and the many amazing things our clients are doing and accomplishing, with our help, as their financial partner. Our relationship based business model allows us the privilege of a little more insight into the difference we can make in each of our client's lives as they pursue their goals. Making a difference is why we do what we do. If we can help you in anyway, please reach out to us.

Warm Regards,



Peter F. Stanton
Chairman of the Board and
Chief Executive Officer

Statements of Income

(unaudited)

	Years Ended December 31,	
	<u>2018</u>	<u>2017</u>
INTEREST REVENUE		
Loans, including fees	\$ 202,233,603	\$ 179,649,629
Deposits with banks	15,399,484	4,173,196
Securities	29,914,698	27,121,046
Other interest and dividend income	322,200	91,610
Total interest revenue	<u>247,869,985</u>	<u>211,035,481</u>
INTEREST EXPENSE		
Deposits	11,179,382	4,096,573
Funds purchased and other borrowings	452,236	182,936
Total interest expense	<u>11,631,618</u>	<u>4,279,509</u>
Net interest revenue	236,238,367	206,755,972
Provision for loan losses	2,700,000	-
Net interest revenue after provision for loan losses	<u>233,538,367</u>	<u>206,755,972</u>
NONINTEREST REVENUE		
Fiduciary income	18,138,449	14,644,454
Mortgage banking revenue, net	5,820,035	6,184,067
Other fees on loans	1,005,992	974,228
Service charges, commissions and fees	23,647,923	23,392,693
Net losses on other real estate	(92,638)	(11,649)
Other income	916,190	4,001,315
Total noninterest revenue	<u>49,435,951</u>	<u>49,185,108</u>
NONINTEREST EXPENSE		
Salaries and benefits	105,672,372	97,762,385
Occupancy, furniture and equipment expense	17,547,207	15,335,090
Other expense	55,481,298	53,842,169
Total noninterest expense	<u>178,700,877</u>	<u>166,939,644</u>
Income before income taxes	104,273,441	89,001,436
Income taxes	21,344,369	47,686,402
NET INCOME	<u>\$ 82,929,072</u>	<u>\$ 41,315,034</u>

Statements of Financial Condition

(unaudited)

	December 31, 2018	December 31, 2017
	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and due from banks	\$ 106,555,393	\$ 106,151,555
Interest-bearing deposits with banks	751,180,001	748,821,952
Securities available for sale, at fair value	1,030,059,621	905,670,188
Securities held to maturity, at amortized cost	558,191,770	480,511,844
Federal Home Loan Bank and PCBB stock, at cost	7,540,600	6,857,600
Loans receivable	4,047,398,419	3,932,075,545
Allowance for loan losses	(90,748,593)	(86,784,229)
Loans net of allowance for loan losses	<u>3,956,649,826</u>	<u>3,845,291,316</u>
Premises and equipment, net	47,883,482	42,815,535
Other real estate	-	310,500
Accrued interest receivable	20,924,004	19,569,155
Other assets	63,939,491	77,807,464
Total assets	<u>\$ 6,542,924,188</u>	<u>\$ 6,233,807,109</u>
 LIABILITIES		
Deposits:		
Noninterest-bearing	\$ 2,421,715,824	\$ 2,358,268,545
Interest-bearing	3,225,410,151	3,091,661,772
Total deposits	<u>5,647,125,975</u>	<u>5,449,930,317</u>
Securities sold under agreements to repurchase	259,857,022	222,135,525
Accrued interest payable	2,084,277	570,243
Other liabilities	49,382,130	44,022,961
Total liabilities	<u>5,958,449,404</u>	<u>5,716,659,046</u>
 SHAREHOLDER'S EQUITY		
Common stock	7,534,503	7,534,503
Surplus	35,664,248	35,664,248
Undivided profits	588,133,877	519,119,805
	<u>631,332,628</u>	<u>562,318,556</u>
Accumulated other comprehensive loss	(46,857,844)	(45,170,493)
Total shareholder's equity	<u>584,474,784</u>	<u>517,148,063</u>
Total liabilities and shareholder's equity	<u>\$ 6,542,924,188</u>	<u>\$ 6,233,807,109</u>

Directors & Officers

(as of December 31, 2018)

Board Of Directors

Peter F. Stanton

Chairman of the Board and Chief Executive Officer

John E. (Jack) Heath, III

President and Chief Operating Officer

Christopher Ackerley

Managing Partner, Ackerley Partners, LLC

Steven M. Helmbrecht

Venture Investor

Molly J. Scammell Hurley

Retired Officer, Washington Trust Bank

Michael J. Lee

President, Lakeside Industries, Inc.

John J. Luger

President, JDL Enterprises, LLC

Dennis P. Murphy

Chief Executive Officer, Hayden Homes, LLC

Nancy Sue Wallace

Community Volunteer

Jeffrey Wright

Chairman, Space Needle Corporation

Administration

Peter F. Stanton

Chairman of the Board and Chief Executive Officer

John E. (Jack) Heath, III

President and Chief Operating Officer

Commercial Banking

J. Jay Lewis

*Senior Vice President, Chief Lending Officer, and
Commercial Division Manager*

Andy G. Beitia

President, Southern Idaho Region

Kevin L. Blair

President, Western Washington Region

Linda A. Williams

President, Oregon Region

Steve K. Roberts

*Senior Vice President
Manager Central Washington Region*

Steve L. Utt

*Senior Vice President
Manager Eastern Washington/North Idaho Region*

Credit Administration

Peter G. Bentley

Senior Vice President and Chief Credit Officer

Finance

Larry V. Sorensen

Senior Vice President and Chief Financial Officer

Laura M. Gingrich

Vice President and Chief Accounting Officer

Human Resources

Katy J. Bruya

Senior Vice President

Retail Banking, Information Technology, Operations and Strategic Services

Jim D. Branson

*Senior Vice President and Chief Banking Officer, Director
of Technology, Operations, and Consumer Banking*

John G. Baker

*Senior Vice President
Commercial/Retail Services Group Manager*

Sharry J. Ditzler

Senior Vice President and Chief Information Officer

Tami T. Ferguson

Senior Vice President, Client Experience Director

F. Mack Wood

Senior Vice President and Strategic Services Director

Internal Audit

Daniel A. Clark

Senior Vice President and Director of Internal Audit

Legal

Burke D. Jackowich

Senior Vice President and General Counsel

Wealth Management & Advisory Services

Robert A. Blume

Senior Vice President, Managing Director

Locations

Washington

Bellevue

10500 Northeast 8th Street, Suite 1100

Deer Park

903 South Main Street

Ephrata

12 Basin Street Northwest

Liberty Lake

1427 North Liberty Lake Road

Moses Lake

402 South Ash Street

Pullman

670 SE Bishop Boulevard

Quincy

509 Central Avenue South

Seattle

601 Union Street, Suite 4747

Spokane

Airway Heights – 10609 West State Route 2

East Sprague – 3510 East Sprague Avenue

Five Mile – 1906 West Francis Avenue

Indiana – 27 East Indiana Avenue

Lincoln Heights – 2415 East 29th Avenue

Main – 717 West Sprague Avenue

Manito – 3103 S. Grand Boulevard

Maple & Garland – 3810 North Maple Street

Medical Center – 105 West 8th Avenue

Northgate – 7815 North Division Street

Second & Wall – 706 West 2nd Avenue

Wandermere – 438 East Hastings Road

Spokane Valley

Sullivan – 407 North Sullivan Road

Valley Financial Center – 310 North Argonne Road

Tri-Cities

Kennewick – 3250 West Clearwater Avenue

Wenatchee

East Wenatchee – 523 Valley Mall Parkway

North Wenatchee – 1851 North Wenatchee Avenue

South Wenatchee – 759 South Wenatchee Avenue

Idaho

Boise

Downtown – 901 West Bannock Avenue

Fairview – 7930 Fairview Avenue

Overland – 7802 West Overland Road

Coeur d'Alene

218 Lakeside Avenue

Garden City

7309 West State Street

Hayden

8050 North Government Way

Lewiston

102 Thain Road, Suite D

Meridian

Meadow Lake – 4037 East Clocktower Lane

Meridian Financial Center – 3251 East Presidential Drive

Moscow

948 West Pullman Road

Nampa

Idaho Center – 6010 East Franklin Road

Nampa – 2200 North Cassia Street

Post Falls

1601 East Seltice Way

Sandpoint

509 North 5th Avenue, Suite E

Oregon

Beaverton

8905 Southwest Nimbus Avenue, Suite 125

Portland

760 SW Ninth Avenue, Suite 1900

