Annual Report
2020

Washington Trust Bank
Member FDIC

Privately Owned. **Built in the Northwest.**

Chairman’s Letter

Dear Customers and Friends:

Here at the Bank, the team devotes a lot of effort to risk management and that includes thinking through a wide range of potential stress events and disaster scenarios. We take that work seriously, even if it sometimes seems hard to believe that some of the events we plan for could ever happen. What I generally take away from those exercises is that the future can be wildly unpredictable and the only real protection from a broad range of possible unforeseen stress events is balance sheet strength.

This past year brought a very real stress test to all of us; one that we frankly did not see coming. But we know it is the nature of human events and the complex world that we live in to sometimes deliver the unexpected, and so we prepare. I am proud to report that we navigated through this most difficult year remarkably well. As the pandemic took hold last spring, we successfully shifted nearly the entire organization to remote working status, while barely skipping a beat in operating the Bank and delivering uninterrupted service to our customers. The Fed pushed rates down across the curve to record lows and the economy took a giant hit. The Small Business Administration (“SBA”) rolled out a relief plan called the Paycheck Protection Program (“PPP”) through which we delivered over $1.2 billion in financial relief to over 5,000 grateful business clients. We also worked with over 600 customers on payment deferrals covering more than $500 million in loans to help them work through the worst of the pandemic’s impact. Our strength helped us support our clients when they needed us and that made this a most gratifying year.

Given all the challenges of 2020, our financial performance was impressive, though some of our performance metrics were thrown out of kilter by a very dynamic year and an equally dynamic balance sheet. For the year, assets increased nearly $2.7 billion, or 37.1 percent to $9.8 billion. That extraordinary growth was funded almost entirely by deposits, which grew nearly $2.5 billion, or 39.8 percent over the course of the year. Deposit growth started with the PPP program early in the second quarter, but continued through the second half of the year as our core clients brought significant levels of liquidity to the Bank.

All of that deposit growth provided the funding for extraordinary earning asset growth. Investable cash levels increased $939 million to almost $1.5 billion. Our securities portfolio grew by $683 million, or 36.0 percent to $2.6 billion. Our loan portfolio increased $1.0 billion, or 23.1 percent to $5.6 billion. Collectively, this significant earning asset growth helped offset the impact record low interest rates had on net interest margin. The low rate environment, increased balances in low yielding cash and bonds, and generally unattractive reinvestment yields during the year helped shrink net interest margin by 69 basis points (“bps”) to 3.28 percent. But despite the significant contraction in net interest margin, net interest revenue increased by $17.2 million, or 6.7 percent to $272 million. It is strange to end up at a fairly customary level of annual net interest revenue growth in the face of such stunning moves in rates, margin, cash levels and earning assets, but that is the kind of strange year it has been.

Another way to put our performance in context is that the balance sheet generated enough earning power to achieve very solid net income of $77.6 million, despite posting $33.0 million in provision expense, which was more than ten times the $3.2 million we took in 2019. The higher provision expense levels we took reflected massive uncertainty around the macro credit environment and helped grow our allowance position by $36.4 million to $132.8 million, or 2.38 percent of loans. If you exclude from the denominator the $971 million in PPP loans remaining at year end, which are fully guaranteed by the SBA, our allowance position would have been reported at 2.87 percent of loans.

While the external environment continues to be under significant stress, that stress seems to be concentrated in industries naturally impacted by society’s response to the COVID pandemic, like restaurants and hotels. And given all the relief that has been targeted on the economy as a whole, and hard-hit sectors in particular, traditional indicators of loan payment difficulties sometimes do not truly reflect the challenges some customers are facing. For example, noncurrent loans at year end totaled just $11.4 million, or 0.2 percent of total loans, down $2.9 million year-over-year.

Additionally, charge-offs for the year totaled $2.1 million, down from $5.2 million last year. Those metrics remain at historic lows and even suggest improving credit performance, while we know the external environment is decidedly less favorable today than one year ago. Helping to buffer whatever financial challenges certain borrowers are enduring are literally trillions of dollars of indirect macro support by the Federal government and more directly, over a billion dollars of relief from the Bank through forgivable PPP loans and the loan payment accommodations we granted.

While the level of loan payment accommodations we delivered during the year helped many customers bridge difficult times, only 15 loans totaling $36.7 million remained on some sort of payment deferral status at the end of 2020. Moreover, through the loan forgiveness process built into the PPP loan program, which is already underway, PPP loan totals declined to $971 million across 4,258 clients at year end. And more relief is underway. The SBA rolled out a new PPP loan program shortly after the first of the year and we are busy helping our clients participate in that program, though we do not expect participation to reach the levels of the first PPP program offered last spring.

Through our credit monitoring, we know there are emerging difficulties across the portfolio, though those borrowers with deteriorating financial prospects seem to be concentrated in business lines most impacted by the COVID pandemic. So while the credit picture remains unclear, we feel confident that through the combination of balance sheet strength, significant loss absorbing capacity and various forms of relief being delivered to borrowers that need support, we are well positioned.

Our financial performance measures were generally solid, with some distortions caused by the oddities of the operating environment and balance sheet dynamics. Noninterest revenue was a big contributor to financial performance, increasing $19.1 million, or 39.5 percent year-over-year to $67.5 million. Our home lending division had a fantastic year, with low rates driving a refinancing boom and record loan originations. We elected to sell some of our loan production and mortgage banking revenue increased $10.1 million to $14.1 million. Bond gains of $3.9 million also bolstered noninterest revenue as we both built our portfolio and repositioned our holdings throughout the year. Noninterest expense for the year came in at $207.2 million, up $15.3 million, or 8.0 percent over 2019 levels. The primary drivers of that increase were salaries and incentive compensation, which were up $12.0 million, or 12.7 percent to $106.8 million. That increase was primarily due to increased headcount and incentive compensation related to strong home loan originations, and overall loan and deposit growth during the year.

2020 was a wild year that certainly expanded the scope of what kinds of operating conditions fall into the range of the possible. We need to be built to withstand the unexpected to ensure we are positioned to help our clients withstand that same unforeseen environment. As bankers, that is what we do and while I cannot tell you we planned for the possibility of a global pandemic, we did manage to a position of strength to ensure we were here when our clients needed us most.

And so while we are not done with this difficult environment, we are certainly proud of what we achieved in 2020. Many challenges remain in the external market and we, as a country, are not back to anything that resembles normal yet. It always seems like there is great uncertainty and many unknowns facing the Bank, but that seems truer than ever today. So as we enter 2021, we will continue our focus on strength, competitiveness, technology, credit quality and of course, our clients, our employees and the communities we serve. Please let us know if we can help you in anyway.

Warm Regards,

Peter F. Stanton

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

Statements of Financial Condition
(unaudited)

	December 31, 2020	December 31, 2019
ASSETS		
Cash and due from banks	**$ 101,564,883**	$ 102,602,803
Interest-bearing deposits with banks	**1,463,300,093**	523,953,345
Securities available for sale, at fair value	**1,699,679,624**	1,246,598,430
Securities held to maturity, at amortized cost	**877,655,640**	648,206,906
Federal Home Loan Bank and PCBB stock, at cost	**8,642,400**	7,911,600
Loans receivable	**5,591,531,863**	4,542,596,852
Allowance for loan losses	**(132,811,083)**	(96,414,721)
Loans net of allowance for loan losses	**5,458,720,780**	4,446,182,131
Premises and equipment, net	**82,191,636**	76,254,880
Accrued interest receivable	**29,003,210**	21,146,767
Other assets	**82,298,886**	79,065,769
Total assets	**$ 9,803,057,152**	$ 7,151,922,631
LIABILITIES		
Deposits:		
Noninterest-bearing	**$ 4,167,608,430**	$ 2,824,865,238
Interest-bearing	**4,547,496,931**	3,409,727,898
Total deposits	**8,715,105,361**	6,234,593,136
Securities sold under agreements to repurchase	**216,428,301**	163,069,316
Accrued interest payable	**675,110**	1,134,357
Other liabilities	**91,888,396**	78,172,851
Total liabilities	**9,024,097,168**	6,476,969,660
SHAREHOLDER'S EQUITY		
Common stock	**7,534,503**	7,534,503
Surplus	**35,664,248**	35,664,248
Undivided profits	**693,556,817**	645,111,725
	736,755,568	688,310,476
Accumulated other comprehensive income (loss)	**42,204,416**	(13,357,505)
Total shareholder's equity	**778,959,984**	674,952,971
Total liabilities and shareholder's equity	**$ 9,803,057,152**	$ 7,151,922,631

Statements of Income
(unaudited)

	Years Ended December 31, 2020	2019
INTEREST REVENUE		
Loans, including fees	**$ 237,474,817**	$ 224,315,382
Deposits with banks	**2,490,312**	7,713,318
Securities	**47,172,640**	41,993,998
Other interest and dividend income	**307,834**	308,244
Total interest revenue	**287,445,603**	274,330,942
INTEREST EXPENSE		
Deposits	**13,623,061**	16,844,718
Funds purchased and other borrowings	**1,589,790**	2,451,948
Total interest expense	**15,212,851**	19,296,666
Net interest revenue	**272,232,752**	255,034,276
Provision for loan losses	**33,000,000**	3,200,000
Net interest revenue after provision for loan losses	**239,232,752**	251,834,276
NONINTEREST REVENUE		
Fiduciary income	**18,861,810**	17,668,282
Mortgage banking revenue, net	**14,122,775**	4,015,838
Other fees on loans	**1,057,232**	1,210,720
Service charges, commissions and fees	**23,198,376**	21,961,854
Gains (losses) on sale of securities available for sale, net	**3,889,108**	(1,853,033)
Other income	**6,347,983**	5,352,344
Total noninterest revenue	**67,477,284**	48,356,005
NONINTEREST EXPENSE		
Salaries and benefits	**129,340,599**	114,769,476
Occupancy, furniture and equipment expense	**21,597,176**	20,498,839
Other expense	**56,292,759**	56,652,606
Total noninterest expense	**207,230,534**	191,920,921
Income before income taxes	**99,479,502**	108,269,360
Income taxes	**21,926,410**	23,790,512
NET INCOME	**$ 77,553,092**	$ 84,478,848

Directors & Officers
(as of December 31, 2020)

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

Peter D. Nickerson
Director and Co-founder, Chinus Asset Management

Administration

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

John E. (Jack) Heath, III
President and Chief Operating Officer

Commercial Banking

Andy G. Beitia
Regional President, Southern Idaho Region

Kevin L. Blair
Regional President, Western Washington/Oregon Group Manager

Steve K. Roberts
Regional Manager/Credit Approval Officer, Central Washington

Steve L. Utt
Senior Vice President
Inland Northwest Commercial Group Manager

Mike E. Williams
Regional President, Oregon Region

Compliance

Shannon M. Cowley
Senior Vice President and Chief Compliance Officer

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
Senior Vice President and Chief Accounting Officer

Human Resources

Katy J. Bruya
Senior Vice President, Human Resources Director

Retail Banking, Information Technology, Operations, Client Experience and Strategic Services

Jim D. Branson
Senior Vice President and Chief Banking Officer, Director of Technology, Operations, and Consumer Banking

Shane S. Patnoi
Vice President, Director of Mortgage and Consumer Lending

Michael Slama
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

Johanne Lapointe
Senior Vice President and Director of Internal Audit

Legal

Shelby P. Phillips
Vice President and Interim Corporate Counsel

Wealth Management & Advisory Services

Alicia O'Mary
Senior Vice President, Managing Director WMAS

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

Marysville
Smokey Point – 2437 172nd Street Northeast, Suite L103

Moses Lake
402 South Ash Street

Pullman
670 Southeast 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 South 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
Overland – 7802 West Overland Road

Coeur d'Alene
218 Lakeside Avenue

Garden City
7309 West State Street

Hayden
8050 North Government Way

Lewiston
1518 21st Street

Meridian
Meadow Lake – 4037 East Clocktower Lane
Meridian Financial Center – 3251 East Presidential Drive

Moscow
222 East Troy 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

Portland
760 Southwest Ninth Avenue, Suite 1900