

# Annual Report 2023



Member FDIC

Privately Owned. **Locally Invested.**



# Chairman's Letter

Dear Customers and Friends:

This past year finished with much greater calm and stability than how it started, which was good to see after a particularly challenging time for the industry. In July, the Fed paused its rate raising policy actions and that has helped stabilize market conditions considerably. The relative stability in the external environment over the last half of 2023 is providing additional time for our financial positioning to adapt to these higher interest rate levels, and that adaptation process will continue into 2024. Deposit balances stabilized in the second quarter and have grown through year end. The pace of rising funding costs throughout the year has slowed. New loan origination yields are rising and are significantly above portfolio averages, helping earning assets continue to reprice higher. And while borrowings are elevated, cash resources are significant and bond cash flows are returning to the balance sheet, providing the liquidity resources to paydown borrowings as they mature in 2024 and beyond.

Earnings of \$57.2 million for the year were down significantly from 2022 and historically typical levels. The two big factors impacting the year-over-year decline in earnings were net interest revenue and provision expense. As a result of narrowing net interest margin, net interest revenue declined \$38.0 million year-over-year to \$285.1 million. Net interest margin seems to be stabilizing, which should be favorable to performance later in 2024. Loan provision expense was higher by \$31.0 million year-over-year, though that big increase was not due to elevated credit concerns. Provision expense in 2022 was actually negative, as we released reserves after little in the way of credit losses materialized coming out of the COVID related downturn in 2020 and 2021. Additionally, provision expense increased in 2023 due to a change in accounting standard, as we adopted the FASB's Current Expected Credit Loss standard for the allowance for credit losses. While those big shifts distorted our comparative financial performance, the end result is a substantial allowance for credit losses position of \$146.2 million, or 2.25 percent of loans, which provides significant credit loss absorbing capacity in the balance sheet.

While there are important positive trends underway, the balance sheet is still transitioning to the higher rate environment and earnings have yet to return to historically normal levels. Through all the challenges 2023 provided, we were both cost conscious and committed to investing in the systems, staffing and client growth strategies we need to stay on track with our long-term strategic plan.

While deposits for the year were down significantly, declining \$1.1 billion, or 11.8 percent from year ago levels, all of the decline was in the first half of 2023, and deposit stability and growth returned in the second half of the year with deposits up \$236.8 million to a closing balance of \$8.1 billion. Loan growth remained solid for the year, up \$467.9 million, or 7.7 percent to \$6.5 billion, a new company record. The Company's loan to deposit ratio of 78.2 percent is a much more historically typical balance of loans and deposits than we have seen in many years, which still leaves significant liquidity available to fund loan growth. Borrowings remained elevated at year end at \$1.9 billion, but are covered, in part, by an elevated cash position at the Federal Reserve of \$1.0 billion and scheduled cash flow from the bond portfolio in the coming year will provide additional liquidity resources to help cover maturing borrowings in 2024. Shareholders' equity during the year increased \$25.7 million, or 3.1 percent to \$862 million, also a new Company record. The Company's equity to assets ratio finished the year at 7.54 percent.

With the Federal Reserve forcefully trying to bring inflation down, there is much attention on the potential for its efforts to bring about a recession. The yield curve has been inverted for some time now and that has historically been a reliable precursor to a recession, although the data do not yet signal that an economic downturn has arrived. Unemployment remains historically low and GDP growth is positive. Nonetheless, given these conditions and expectations, we continue to monitor asset quality and credit performance closely. While there are a few loans that have shown some weakness, our credit quality metrics remain strong. Noncurrent loans total just \$31.5 million, or 0.48 percent of loans. A few loans have slipped into the "special mention" classification category, but by historical norms, classified assets remain low and credit performance has been durable through the disruptions of the past year or so.

Big changes to the operating environment, like we experienced with the sharp rise in interest rates over the past two years, required that we adapt to market conditions we have not seen for over a decade. That adaptation process is not immediate; it takes time for our financial assets and liabilities to fully adjust, but significant and positive progress has been made. Deposit balances are growing. New customer acquisition remains a focus. The rise in funding costs and the narrowing of margin is slowing. New loan originations are significant and at yields substantially greater than average portfolio levels. Cost discipline has helped control expenses, while we continue investing for the future. Cash levels are substantial, and we have a solid plan and the liquidity resources to help paydown maturing borrowings. Our risk management and governance structure is in place and functioning well and we continue to invest in important technology enhancements in order to maintain our competitive standing into the future.

We appreciate your support and know that we are always here to serve your banking and financial needs.

Warm Regards,



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

# Statements of Financial Condition

(unaudited)

	December 31, 2023	December 31, 2022
<b>ASSETS</b>		
Cash and due from banks	\$ 138,517,638	\$ 119,932,630
Interest-bearing deposits with banks	1,006,525,355	273,938,004
Securities available for sale, at fair value	484,726,152	536,229,617
Securities held to maturity, at amortized cost	3,079,857,073	3,221,994,093
Federal Home Loan Bank and PCBB stock, at cost	28,807,700	10,060,000
Loans receivable	6,510,127,778	6,042,262,030
Allowance for credit losses on loans	(146,156,404)	(120,838,526)
Loans, net of allowance for credit losses on loans	<u>6,363,971,374</u>	<u>5,921,423,504</u>
Premises and equipment, net	77,650,902	78,765,682
Accrued interest receivable	35,873,622	32,240,946
Other assets	219,910,327	218,139,664
Total assets	<u>\$ 11,435,840,143</u>	<u>\$ 10,412,724,140</u>
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing	\$ 3,341,164,381	\$ 4,264,985,673
Interest-bearing	4,801,746,531	4,971,470,925
Total deposits	<u>8,142,910,912</u>	<u>9,236,456,598</u>
Securities sold under agreements to repurchase	336,960,656	209,031,623
Other borrowings	1,915,000,000	-
Accrued interest payable	53,919,417	370,567
Other liabilities	124,555,163	130,100,576
Total liabilities	<u>10,573,346,148</u>	<u>9,575,959,364</u>
<b>SHAREHOLDER'S EQUITY</b>		
Common stock	7,534,503	7,534,503
Surplus	35,664,248	35,664,248
Undivided profits	859,610,954	841,715,729
	<u>902,809,705</u>	<u>884,914,480</u>
Accumulated other comprehensive loss, net of tax	(40,315,710)	(48,149,704)
Total shareholder's equity	<u>862,493,995</u>	<u>836,764,776</u>
Total liabilities and shareholder's equity	<u>\$ 11,435,840,143</u>	<u>\$ 10,412,724,140</u>

# Statements of Income

(unaudited)

	December 31, 2023	December 31, 2022
<b>INTEREST REVENUE</b>		
Loans, including fees	\$ 340,196,895	\$ 257,234,036
Deposits with banks	28,467,940	13,712,397
Securities	68,276,840	64,582,390
Other interest and dividend income	909,062	308,459
Total interest revenue	<u>437,850,737</u>	<u>335,837,282</u>
<b>INTEREST EXPENSE</b>		
Deposits	84,838,344	12,378,240
Funds purchased and other borrowings	67,931,802	351,710
Total interest expense	<u>152,770,146</u>	<u>12,729,950</u>
Net interest revenue	285,080,591	323,107,332
Provision (recapture) for credit losses	12,340,000	(20,500,000)
Net interest revenue after provision for credit losses	<u>272,740,591</u>	<u>343,607,332</u>
<b>NONINTEREST REVENUE</b>		
Fiduciary income	24,258,751	21,596,123
Mortgage banking revenue, net	1,184,997	2,140,229
Other fees on loans	1,191,349	1,173,917
Service charges, commissions and fees	21,966,771	25,953,178
Other income	8,752,079	7,432,360
Total noninterest revenue	<u>57,353,947</u>	<u>58,295,807</u>
<b>NONINTEREST EXPENSE</b>		
Salaries and benefits	153,533,659	153,553,044
Occupancy, furniture and equipment expense	24,775,987	23,807,067
Other expense	78,970,804	77,008,184
Total noninterest expense	<u>257,280,450</u>	<u>254,368,295</u>
Income before provision for income taxes	72,814,088	147,534,844
Provision for income taxes	15,656,789	32,119,531
<b>NET INCOME</b>	<u>\$ 57,157,299</u>	<u>\$ 115,415,313</u>

# Directors and Officers

## Board of Directors

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**Peter F. Stanton**

*Chairman of the Board and Chief Executive Officer*

**John E. (Jack) Heath, III**

*President and Chief Operating Officer*

**Christopher H. Ackerley**

*Managing Partner, Ackerley Partners, LLC*

**Craig O. Dawson**

*CEO and President, Retail Lockbox, Inc.*

**Jinyoung L. Englund**

*Digital Service Expert, U.S. Department of Defense*

**Steven M. Helmbrecht**

*President and CEO, Treasury 4, Inc.*

**Michael J. Lee**

*President, Lakeside Industries, Inc.*

**John J. Luger**

*Managing Member, JDL Enterprises, LLC*

**Dennis P. Murphy**

*Chief Executive Officer, Hayden Homes, LLC*

**Peter D. Nickerson**

*Co-founder and Principal, Chinus Asset Management*

**Jeffrey J. Wright**

*Chairman, Space Needle Corporation*

## Administration

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**Peter F. Stanton**

*Chairman of the Board and Chief Executive Officer*

**John E. (Jack) Heath, III**

*President and Chief Operating Officer*

## Commercial Banking

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**Kevin L. Blair**

*Senior Vice President, Chief Lending Officer*

## Compliance

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**Shannon M. Cowley**

*Senior Vice President and Chief Compliance Officer*

## Credit Administration

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**Peter G. Bentley**

*Senior Vice President and Chief Credit Officer*

## Finance

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**Larry V. Sorensen**

*Senior Vice President and Chief Financial Officer*

**Nicholas K. Olsen**

*Vice President and Chief Accounting Officer*

## Human Resources

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**Katy J. Bruya**

*Senior Vice President, Chief Human Resources Officer*

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

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**Jim D. Branson**

*Senior Vice President and Chief Banking Officer*

## Internal Audit

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**Johanne Lapointe**

*Senior Vice President and Director of Internal Audit*

## Legal

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**John B. Eagan**

*Senior Vice President, General Counsel & Corporate Secretary*

## Wealth Management & Advisory Services

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**Alicia C. O'Mary**

*Senior Vice President, Managing Director of WMAS*

# Locations

## Washington

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### **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

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### **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**

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

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### **Bend**

Bend Financial Center – 1219 NE 3rd Street, Suite 120

### **Portland**

760 Southwest 9th Avenue, Suite 1900

