

2016 Annual Report



Our Mission

We will be the best at understanding and meeting the financial needs of our customers. We will focus our unique strengths as a community bank on serving those customers who perceive a distinct value in building long-term relationships with us.

We will be empowered to act on behalf of Washington Trust to meet our customers' needs and will have the competencies to fulfill this mission. We will conduct ourselves in accordance with our guiding principles.

We will organize and manage to best support one another in these efforts and to ensure the long-term viability of the Bank.

Chairman's Letter

Dear Customers and Friends:

2016 brought us a heavy dose of politics, some volatility in the capital markets and an excellent year for the Bank with earnings exceeding \$52 million. The first half of 2016 was dominated by the presidential primaries, and just as those were wrapping up, British citizens voted to leave the European Union worrying investors and helping to push interest rates to historic lows. In the midst of that news cycle there was serious talk of the potential for negative interest rates, which would definitely be uncharted territory for the financial industry. The year closed with the surprising presidential election results and a strong move upward in rates. While the rate environment ended 2016 roughly an eighth to a quarter point higher than the beginning of the year, there was quite a swing in both rates and sentiment throughout the year and that contributed to a challenging banking environment.

Despite the volatility and uncertainty of the operating environment, our business performed very well. Deposit growth was strong, increasing \$385 million, or 8.5 percent to \$4.9 billion, a new Company record. That strength continued a three-year run of growth that saw deposits increase over \$1.1 billion, an impressive accomplishment for a Bank devoted to organic growth and relationship banking. Growing deposits helped propel assets up \$363 million, or 6.9 percent to nearly \$5.7 billion, another Company record. Increased deposits also helped cover solid loan growth of \$228 million, or 6.4 percent to almost \$3.8 billion and supplemented the Bank's liquidity resources comprised of investable cash and securities.

The increase in short-term rates brought about by the Federal Reserve's 25 basis point rate move back in December of 2015 helped expand margins, which widened 12 basis points to 3.55 percent in 2016. Wider margins combined with a growing portfolio of loans and securities helped bolster net interest revenue, our primary source of earning power. Net interest revenue during the year totaled \$181.6 million, an increase of \$17.8 million, or 10.8 percent over 2015 totals. Growing the business also drove higher expenses, which increased \$8.1 million, or 5.8 percent year over year. Taken together, a significant increase in net interest revenue combined with a smaller increase in operating costs helped improve our Efficiency Ratio (expenses to revenues) to 63.8 percent, down from 65.2 percent in 2015.

For the year, Company earnings improved \$5.3 million, or 11.3 percent to \$52.2 million. A growing book of business, wider margins and improved efficiency contributed to a 4 basis point increase in return on assets to 0.99 percent and a 29 basis point improvement in return on equity to 10.78 percent. These performance levels are gratifying, especially in a low interest rate, moderate growth economy with considerable uncertainty around potential policy shifts from the change in political leadership in America.

They say risk means that more things can happen than will happen, and that certainly seems true in today's uncertain world. Some of the best protection against unexpected events is a disciplined approach to banking and balance sheet strength. The credit performance of the Bank's loan portfolio has been very strong, with noncurrent loans and foreclosed real estate totaling just \$15 million, or 0.27 percent of assets. The Bank's allowance for loan loss position was substantial, ending the year at nearly \$86 million, or 2.27 percent of total loans. Liquidity resources were also substantial at year end, with a Liquidity Ratio (liquid assets to total liabilities) of 27.2 percent and no outstanding wholesale borrowings. Capital has always been an area of focus and the Company's capital position ended the year at \$487 million, up nearly \$30 million, or 6.5 percent over 2015 levels. Our capital ratios remained significantly above regulatory minimums.

As we reflect on our performance, we are proud of all we accomplished in 2016. Earnings were strong, we maintained discipline in our balance sheet and we grew our business. As for the future, the change in administrations may present the potential for a real shift in governing policies, so planning for 2017 and beyond brings with it an extra dose of uncertainty. We look around us and see reasons to worry over things that might happen, but that always seems to be the case. And while our crystal ball may be cloudier than normal, we have the good fortune to work with high quality customers and operate in great markets. No matter what the future brings, we will remain focused on executing to our strategy of building long-term relationships with our valued customers.

2016 was a very good year and we see reason for optimism heading into 2017. Our business model continues to find traction with current and prospective customers and we are working hard to take care of their banking needs. As the industry evolves, the ways in which we serve and interact with our customers evolves too. The operating landscape always seems to be filled with change and uncertainty, and so we try hard to take advantage of opportunities and protect against the unexpected. While we run the business, we hope you will stay in touch and make sure to let us know if we can help you in any way. And please keep current on how the Bank is doing by visiting our Investor Relations webpage at **watrust.com/about/investor-relations**.

Warm Regards,

A handwritten signature in blue ink that reads "Peter F. Stanton". The signature is written in a cursive, flowing style.

Peter F. Stanton

Chairman of the Board and

Chief Executive Officer

Statements of Income

(unaudited)

	Years Ended December 31,	
	2016	2015
INTEREST REVENUE		
Loans, including fees	\$ 161,242,023	\$ 151,464,308
Deposits with banks	1,446,623	989,400
Securities	22,668,655	15,748,686
Other interest and dividend income	129,550	31,418
Total interest revenue	<u>185,486,851</u>	<u>168,233,812</u>
INTEREST EXPENSE		
Deposits	3,745,998	4,200,538
Funds purchased and other borrowings	193,039	235,985
Total interest expense	<u>3,939,037</u>	<u>4,436,523</u>
Net interest revenue	181,547,814	163,797,289
Provision for loan losses	2,250,000	2,666,700
Net interest revenue after provision for loan losses	<u>179,297,814</u>	<u>161,130,589</u>
NONINTEREST REVENUE		
Fiduciary income	13,567,032	13,894,892
Mortgage banking revenue, net	8,253,908	5,751,736
Other fees on loans	1,124,701	1,221,989
Service charges, commissions and fees	22,913,567	22,702,331
Securities gains, net	1,000,753	605,669
Net gains on other real estate	56,418	742,204
Other income	1,618,426	4,033,136
Total noninterest revenue	<u>48,534,805</u>	<u>48,951,957</u>
NONINTEREST EXPENSE		
Salaries and benefits	89,957,662	81,153,975
Occupancy, furniture and equipment expense	14,057,740	13,529,441
Other expense	43,745,034	44,987,758
Total noninterest expense	<u>147,760,436</u>	<u>139,671,174</u>
Income before income taxes	80,072,183	70,411,372
Income taxes	27,917,146	23,533,378
NET INCOME	<u>\$ 52,155,037</u>	<u>\$ 46,877,994</u>

Statements of Financial Condition

(unaudited)

	December 31, 2016	December 31, 2015
ASSETS		
Cash and due from banks	\$ 97,412,042	\$ 79,795,019
Interest-bearing deposits with banks	326,001,529	438,603,226
Securities available for sale, at fair value	931,788,383	678,882,087
Securities held to maturity, at amortized cost	452,029,006	482,414,445
Federal Home Loan Bank and PCBB stock, at cost	6,421,500	5,781,300
Loans receivable	3,785,076,118	3,556,598,459
Allowance for loan losses	(85,786,743)	(84,968,885)
Loans net of allowance for loan losses	<u>3,699,289,375</u>	<u>3,471,629,574</u>
Premises and equipment, net	41,829,947	43,400,098
Other real estate	870,500	355,500
Accrued interest receivable	17,056,295	13,676,953
Other assets	91,959,139	86,633,593
Total assets	<u><u>\$ 5,664,657,716</u></u>	<u><u>\$ 5,301,171,795</u></u>
LIABILITIES		
Deposits:		
Noninterest-bearing	\$ 2,032,694,583	\$ 1,827,269,658
Interest-bearing	2,895,244,374	2,715,477,707
Total deposits	<u>4,927,938,957</u>	<u>4,542,747,365</u>
Securities sold under agreements to repurchase	211,462,438	264,887,110
Accrued interest payable	439,921	526,585
Other liabilities	37,467,888	35,299,161
Total liabilities	<u>5,177,309,204</u>	<u>4,843,460,221</u>
SHAREHOLDER'S EQUITY		
Common stock	7,534,503	7,534,503
Surplus	35,664,248	35,664,248
Undivided profits	480,957,874	440,441,837
	<u>524,156,625</u>	<u>483,640,588</u>
Accumulated other comprehensive loss	(36,808,113)	(25,929,014)
Total shareholder's equity	<u>487,348,512</u>	<u>457,711,574</u>
Total liabilities and shareholder's equity	<u><u>\$ 5,664,657,716</u></u>	<u><u>\$ 5,301,171,795</u></u>

Directors & Officers

(as of April 1, 2017)

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

President and Chief Executive Officer, Lakeside Capital Group, LLC

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

Scott H. Luttinen

Executive Vice President, Commercial Division and President, Western Washington Region

J. Jay Lewis

Senior Vice President

Michael L. Shellenberger

Senior Vice President

David J. Terrell

President, Southern Idaho Region

Linda A. Williams

President, Oregon Region

Credit Administration

Paul M. Koenigs

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

Information Technology and Operations

James E. Brockett

Senior Vice President and Bank Support Service Director

Sharry J. Ditzler

Senior Vice President and Chief Information Officer

Mack Wood

Senior Vice President and Director of Operations

Internal Audit

Daniel A. Clark

Senior Vice President and Director of Internal Audit

Legal

Burke D. Jackowich

Senior Vice President and General Counsel

Retail Banking

Jim D. Branson

Senior Vice President

Wealth Management & Advisory Services

Robert A. Blume

Senior Vice President

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 – 611 East 31st Avenue

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

309 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

Rathdrum

Stein's IGA – 16102 North Highway 41

Sandpoint

509 North 5th Avenue, Suite E

Oregon

Beaverton

8905 Southwest Nimbus Avenue, Suite 125

Portland

760 SW Ninth Avenue, Suite 1900

Our Guiding Principles

We act with integrity, honesty and a sense of ethics. We keep our commitments to our customers and to each other.

We succeed because we out perform other financial institutions at meeting our customers' financial needs with creative solutions, proactive selling efforts and excellent service.

We have a sense of urgency in all we do. We are accurate and timely in our work and we continue to improve the quality of everything we do to assure long-term profitability.

We rely on the participation and initiative of each employee. We are empowered to make decisions that create value for our customers and for the Bank.

We support each other personally and professionally. We respect and value each other's contribution along with everyone's ideas and suggestions offered in the spirit of these principles. We resolve conflict promptly and fairly.

We promote an environment in which individual and team accomplishments are recognized and rewarded.

We will be actively involved in the communities where we work and live.

We recognize that change is an ongoing challenge, but we also recognize that change is an opportunity to improve our competencies as employees and as an organization.

**Additional information or
copies of this report may
be obtained by writing to:**

**Washington Trust Bank
P.O. Box 2127
Spokane, WA 992**

