

Annual Report 2021



Privately Owned. **Locally Invested.**



Chairman's Letter

Dear Customers and Friends:

I am pleased to report very strong performance in 2021. The Bank accomplished record earnings of \$101.1 million, which were \$23.5 million, or 30.3 percent higher than 2020 levels. Our performance was a result of continued strong growth as assets increased \$1.3 billion, or 13.0 percent to \$11.1 billion, which was driven by a significant influx of deposits. During the year, deposits grew \$1.2 billion, or 13.7 percent to \$9.9 billion, which was supported by new Paycheck Protection Program ("PPP") loans originated in the early part of the year, and strong organic deposit growth later in the year. Loans were down slightly during 2021, but forgiven PPP loans helped mask strong underlying loan demand by our customers. All of that balance sheet growth helped drive net interest revenue higher by \$26.8 million, or 9.8 percent to a record \$299.0 million.

The past several years have seen a succession of extraordinary events, a highly dynamic operating environment and challenges we never imagined facing. Those conditions have resulted in some surprising results that were well outside normal expectations. For example, I never imagined a year where deposits could grow \$1.2 billion, or 13.7 percent, while at the same time, loans would decline by \$55.5 million, or 1.0 percent. I also didn't think I would ever see net interest margin fall below 3.00 percent, while at the same time, be in a position for the Bank to report record earnings. Nor would I have ever expected to have record earnings in the same year return on assets equaled a below normal, 0.97 percent. These are truly interesting times and our performance this past year is a testament to the capabilities, adaptability and dedication of our team.

While higher deposits were the primary driver of overall balance sheet growth, loans ended the year lower by \$55.5 million and finished at \$5.5 billion. That small decline in loans might signal some real weakness across the economy and our customer base, but the actual forces at work were quite different. Our portfolio of PPP loans declined \$764.8 million through the Small Business Administration's loan forgiveness process, while actual organic loan growth from our customer book was very strong at \$709.3 million, or 15.4 percent (excluding PPP loan balances). During 2021, shareholders' equity increased \$20.9 million, or 2.7 percent to \$799.9 million, and the Bank's capital levels remain significantly above regulatory well capitalized minimums.

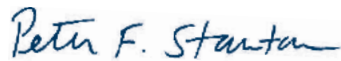
While net interest revenue growth was strong, noninterest revenue essentially finished the year unchanged, increasing just \$465,000 to \$67.9 million. Underneath that apparent lack of growth was a different story. Mortgage banking revenues in 2021 were lower by \$5.6 million as fewer loans were sold year-over-year and more loan originations were retained in our portfolio. Additionally, we recorded no bond gains in 2021, as compared with \$3.9 million in gains in 2020. Offsetting those business lines with lower revenues were higher fiduciary income from our wealth management business (up \$2.9 million, or 15.6 percent to \$21.8 million) and higher bank card revenue (up \$4.2 million, or 32.4 percent to \$17.1 million).

On the expense side of the business, given our substantial allowance for loan loss position and stable credit performance, provision expense for the year was just \$9.0 million, down considerably from the \$33.0 million in provision expense that we recorded in 2020. Additionally, we continue to invest heavily into our technology platform, compliance team, and overall governance as we grow and demands elevate. For the year, noninterest expense increased \$21.4 million, or 10.3 percent to \$228.6 million, with most of that increase coming in compensation expense, FDIC assessments and technology costs. We strengthened our leadership team by adding several high caliber people in senior positions and they are really making a big difference.

We have invested heavily in our systems and customer facing delivery, and those capabilities are bringing a lot of value both inside the Bank and to our clients. I remain impressed at how the entire team executed on our strategies in the face of the many challenges we confronted along the way. All these elements were key ingredients for a great year at the Bank.

As we stand here looking forward to 2022, it seems as if the intense economic worries of the pandemic driven recession are behind us, but in their place, we may have inflationary pressures, Fed policy actions and interest rate uncertainties to contend with. You can add to that the continued difficult political environment, lingering COVID pandemic challenges and a troublesome international scene. And of course, there is always the shifting competitive landscape and evolving impact of technology on our business to keep us sharp and focused. An evolving landscape of risk and opportunity has always been the case throughout my career, but our approach and positioning have remained fairly constant. We remain true to our relationship-based business model, we are devoted to maintaining balance sheet strength, and we empower our team to serve the customer and do the right thing.

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 Financial Condition

(unaudited)

	December 31, 2021	December 31, 2020
ASSETS		
Cash and due from banks	\$ 62,283,161	\$ 101,564,883
Interest-bearing deposits with banks	1,987,135,451	1,463,300,093
Securities available for sale, at fair value	537,718,196	1,699,679,624
Securities held to maturity, at amortized cost	2,787,035,395	877,655,640
Federal Home Loan Bank and PCBB stock, at cost	10,060,000	8,642,400
Loans receivable	5,536,075,557	5,591,531,863
Allowance for loan losses	(140,603,388)	(132,811,083)
Loans, net of allowance for loan losses	5,395,472,169	5,458,720,780
Premises and equipment, net	78,837,439	82,191,636
Accrued interest receivable	23,666,835	29,003,210
Other assets	196,482,053	82,298,886
Total assets	<u>\$ 11,078,690,699</u>	<u>\$ 9,803,057,152</u>
LIABILITIES		
Deposits:		
Noninterest-bearing	\$ 4,614,761,958	\$ 4,167,608,430
Interest-bearing	5,297,117,374	4,547,496,931
Total deposits	9,911,879,332	8,715,105,361
Securities sold under agreements to repurchase	239,510,563	216,428,301
Other borrowings	20,063,287	-
Accrued interest payable	662,208	675,110
Other liabilities	106,680,913	91,888,396
Total liabilities	10,278,796,303	9,024,097,168
SHAREHOLDER'S EQUITY		
Common stock	7,534,503	7,534,503
Surplus	35,664,248	35,664,248
Undivided profits	759,295,416	693,556,817
	802,494,167	736,755,568
Accumulated other comprehensive (loss) gain, net of tax	(2,599,771)	42,204,416
Total shareholder's equity	799,894,396	778,959,984
Total liabilities and shareholder's equity	<u>\$ 11,078,690,699</u>	<u>\$ 9,803,057,152</u>

Statements of Income

(unaudited)

	Years Ended December 31,	
	2021	2020
INTEREST REVENUE		
Loans, including fees	\$ 243,317,105	\$ 237,474,817
Deposits with banks	2,037,865	2,490,312
Securities	62,925,385	47,172,640
Other interest and dividend income	332,347	307,834
Total interest revenue	<u>308,612,702</u>	<u>287,445,603</u>
INTEREST EXPENSE		
Deposits	8,479,987	13,623,061
Funds purchased and other borrowings	1,100,531	1,589,790
Total interest expense	<u>9,580,518</u>	<u>15,212,851</u>
Net interest revenue	299,032,184	272,232,752
Provision for loan losses	9,000,004	33,000,000
Net interest revenue after provision for loan losses	<u>290,032,180</u>	<u>239,232,752</u>
NONINTEREST REVENUE		
Fiduciary income	21,811,428	18,861,810
Mortgage banking revenue, net	8,566,457	14,122,775
Other fees on loans	1,478,571	1,057,232
Service charges, commissions and fees	28,045,739	23,198,376
Securities gains, net	-	3,889,108
Other income	8,040,083	6,347,983
Total noninterest revenue	<u>67,942,278</u>	<u>67,477,284</u>
NONINTEREST EXPENSE		
Salaries and benefits	141,032,722	129,340,599
Occupancy, furniture and equipment expense	23,227,508	21,597,176
Other expense	64,362,640	56,292,759
Total noninterest expense	<u>228,622,870</u>	<u>207,230,534</u>
Income before income taxes	129,351,588	99,479,502
Income taxes	28,261,989	21,926,410
NET INCOME	<u>\$ 101,089,599</u>	<u>\$ 77,553,092</u>

Directors and Officers

(as of January 31, 2022)

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 H. Ackerley

Managing Partner, Ackerley Partners, LLC

Craig O. Dawson

Founder, CEO and President, Retail Lockbox, Inc. and Black Business Warehouse

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

President, JDL Enterprises, LLC

Dennis P. Murphy

Chief Executive Officer, Hayden Homes, LLC

Peter D. Nickerson

Director and Co-founder, Chinus Asset Management

Nancy Sue Wallace

Community Volunteer

Jeffrey J. 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

Kevin L. Blair

Senior Vice President, Chief Lending Officer and Regional President, Western Washington 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, Chief Human Resources Officer

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

Internal Audit

Johanne Lapointe

Senior Vice President and Director of Internal Audit

Legal

Benjamin J. Loewen

Vice President and Corporate Counsel

Wealth Management & Advisory Services

Alicia C. O'Mary

Senior Vice President, Managing Director of 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

Bend

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

Portland

760 Southwest 9th Avenue, Suite 1900

