

# Annual Report 2022



Privately Owned. **Locally Invested.**



# Chairman's Letter

Dear Customers and Friends:

It's during particularly dynamic and stressful times that we are challenged as managers to shift our thinking and adapt to changing conditions. After relative rate stability spanning the past dozen years, a newly hawkish Federal Reserve orchestrated a steep rise in interest rates in 2022 in response to inflation levels I haven't seen since early in my adult life. Across seven separate rate moves during the year, the Fed's monetary policy arm abandoned its "zero interest rate policy" and raised rates a total of 425 basis points ("bps") to the highest levels in more than a decade. 2022 was a year that sharpened our focus on the financial management and interest rate risk management challenges that a highly dynamic rate environment can bring to the industry. The Bank was positioned to benefit from rising rates and so net interest revenue accelerated throughout the year, which contributed to the highest earnings in our history at \$115.4 million for the year. The significant rise in rates brought higher yields on our variable rate assets, but also pricing pressure across our deposit base, which resulted in both higher funding costs and a decline in deposit balances as clients sought higher capital market returns on their excess cash.

An overview of our performance this past year should probably start with deposits, since that has been a real battleground for the industry as a result of the sharp rise in rates. For the year, deposits were down \$675 million, or 6.8 percent to \$9.2 billion at yearend 2022. Over the past year, the cost of interest-bearing deposits increased 43 bps to 0.56 percent (from 0.13 percent in the fourth quarter of 2021 to 0.56 percent in the fourth quarter of 2022). Our significant portfolio of noninterest bearing demand deposits (\$4.3 billion, or 46 percent of total deposits at yearend 2022) helped temper our overall cost of funding earning assets, which was 0.29 percent during the fourth quarter.

With deposit balances down, total assets decreased \$666 million, or 6.0 percent during the year, to \$10.4 billion. Loan growth was strong during 2022, increasing \$506 million, or 9.1 percent to \$6.0 billion, while securities grew \$433 million to \$3.8 billion. The combination of deposit outflows and growth in bonds and loans decreased the Bank's cash position in 2022 by \$1.7 billion to a yearend balance of \$274 million. There were no borrowings outstanding at the end of 2022, though that funding source has come into play early in 2023. Shareholders' equity finished the year up \$36.9 million, or 4.6 percent to \$836.8 million, and with shareholders' equity up and assets down, the Company's equity to asset ratio improved 82 bps during the year to 8.04 percent.

There were a number of contributors to the Bank's record earnings of \$115.4 million this past year. Higher net interest revenue (up \$24.1 million, or 8.1 percent to a record \$323 million) resulted from higher levels of year-over-year average earning assets (up \$363 million, or 3.6 percent to \$10.5 billion) and a wider margin (up 13 bps to 3.08 percent for the year). While the Company's net interest margin for the year was up 13 bps to 3.08 percent, we really saw acceleration in that metric late in the year, with margin widening to 3.47 percent in the fourth quarter. Another big contributor to increased year-over-year earnings was the rebalancing of our loan loss reserves and loss reserves for unfunded commitments, which were recorded in the second quarter of 2022. The net effect of that rebalancing benefited net income by \$14 million, after-tax (total provision expense for the year was negative \$20.5 million).

Noninterest items in 2022 had their own dynamics that deserve some discussion. One big change was reduced debit card interchange income beginning in July of 2022 as a result of crossing over \$10 billion in assets. Under what is known as the Durbin Amendment, for a bank with assets greater than \$10 billion, the revenue that debit card issuers receive when clients use their debit card for purchases at retail establishments is reduced. Bank and credit card fees for the year declined \$2.9 million to \$14.1 million, which was largely due to the half year impact of those lower debit card usage reimbursements. You will also note that mortgage banking revenue declined \$6.4 million to \$2.1 million for the year, which was primarily the result of higher market interest rates reducing single-family home loan origination volumes and a decision to retain a greater proportion of loan originations in the Bank's portfolio. In times of rising rates, we expect loan volumes to diminish, as they did in 2022. Overall, noninterest revenue for the year was down \$9.6 million, or 14.2 percent to \$58.3 million.

The Company's noninterest expense for the year increased \$25.7 million, or 11.3 percent to \$254.4 million. That increase reflected a few notable items. As part of the overall adjustment of our credit loss reserve position in the second quarter, we made a \$6.0 million addition to reserves for unfunded commitments, which was recorded as noninterest expense under prevailing accounting standards. Even without that unusual addition to reserves, noninterest expense increased significantly in 2022, which reflected both higher compensation expense in line with the Company's strong performance for the year and the significant investments we continue to make in our systems, and operational capabilities.

While the rate environment dynamics certainly captured our attention in 2022, we also remained focused on the fundamentals of our business. Taking care of our clients is always our top priority and so helping them navigate this fast-changing environment was a real area of emphasis for the team. Being in a strong position to serve our clients' financial needs also means paying attention to risk management, continuing to invest in our systems, ensuring our delivery platform keeps pace with the ever-improving capabilities of technology and taking good care of our people, who make everything we do possible.

Warm Regards,



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

# Statements of Financial Condition

(unaudited)

|  | December 31,<br>2022     | December 31,<br>2021     |
|--|--------------------------|--------------------------|
| <b>ASSETS</b>                                    |                          |                          |
| Cash and due from banks                          | \$ 119,932,630           | \$ 62,283,161            |
| Interest-bearing deposits with banks             | 273,938,004              | 1,987,135,451            |
| Securities available for sale, at fair value     | 536,229,617              | 537,718,196              |
| Securities held to maturity, at amortized cost   | 3,221,994,093            | 2,787,035,395            |
| Federal Home Loan Bank and PCBB stock, at cost   | 10,060,000               | 10,060,000               |
| Loans receivable                                 | 6,042,262,030            | 5,536,075,557            |
| Allowance for loan losses                        | (120,838,526)            | (140,603,388)            |
| Loans, net of allowance for loan losses          | 5,921,423,504            | 5,395,472,169            |
| Premises and equipment, net                      | 78,765,682               | 78,837,439               |
| Accrued interest receivable                      | 32,240,946               | 23,666,835               |
| Other assets                                     | 218,139,664              | 196,482,053              |
| Total assets                                     | <u>\$ 10,412,724,140</u> | <u>\$ 11,078,690,699</u> |
| <b>LIABILITIES</b>                               |                          |                          |
| Deposits:  |                          |                          |
| Noninterest-bearing                              | \$ 4,264,985,673         | \$ 4,614,761,958         |
| Interest-bearing                                 | 4,971,470,925            | 5,297,117,374            |
| Total deposits                                   | 9,236,456,598            | 9,911,879,332            |
| Securities sold under agreements to repurchase   | 209,031,623              | 239,510,563              |
| Other borrowings                                 | -                        | 20,063,287               |
| Accrued interest payable                         | 370,567                  | 662,208                  |
| Other liabilities                                | 130,100,576              | 106,680,913              |
| Total liabilities                                | 9,575,959,364            | 10,278,796,303           |
| <b>SHAREHOLDER'S EQUITY</b>                      |                          |                          |
| Common stock                                     | 7,534,503                | 7,534,503                |
| Surplus  | 35,664,248               | 35,664,248               |
| Undivided profits                                | 841,715,729              | 759,295,416              |
| Accumulated other comprehensive loss, net of tax | (48,149,704)             | (2,599,771)              |
| Total shareholder's equity                       | 836,764,776              | 799,894,396              |
| Total liabilities and shareholder's equity       | <u>\$ 10,412,724,140</u> | <u>\$ 11,078,690,699</u> |

# Statements of Income

(unaudited)

|  | Years Ended December 31, |                       |
|--|--------------------------|-----------------------|
|  | 2022                     | 2021                  |
| <b>INTEREST REVENUE</b>                              |                          |                       |
| Loans, including fees                                | \$ 257,234,036           | \$ 243,317,105        |
| Deposits with banks                                  | 13,712,397               | 2,037,865             |
| Securities   | 64,582,390               | 62,925,385            |
| Other interest and dividend income                   | 308,459                  | 332,347               |
| Total interest revenue                               | 335,837,282              | 308,612,702           |
| <b>INTEREST EXPENSE</b>                              |                          |                       |
| Deposits   | 12,378,240               | 8,479,987             |
| Funds purchased and other borrowings                 | 351,710                  | 1,100,531             |
| Total interest expense                               | 12,729,950               | 9,580,518             |
| Net interest revenue                                 | 323,107,332              | 299,032,184           |
| (Recapture of) provision for loan losses             | (20,500,000)             | 9,000,004             |
| Net interest revenue after provision for loan losses | 343,607,332              | 290,032,180           |
| <b>NONINTEREST REVENUE</b>                           |                          |                       |
| Fiduciary income                                     | 21,596,123               | 21,811,428            |
| Mortgage banking revenue, net                        | 2,140,229                | 8,566,457             |
| Other fees on loans                                  | 1,173,917                | 1,478,571             |
| Service charges, commissions and fees                | 25,953,178               | 28,045,739            |
| Other income   | 7,432,360                | 8,040,083             |
| Total noninterest revenue                            | 58,295,807               | 67,942,278            |
| <b>NONINTEREST EXPENSE</b>                           |                          |                       |
| Salaries and benefits                                | 153,553,044              | 141,032,722           |
| Occupancy, furniture and equipment expense           | 23,807,067               | 23,227,508            |
| Other expense  | 77,008,184               | 64,362,640            |
| Total noninterest expense                            | 254,368,295              | 228,622,870           |
| Income before income taxes                           | 147,534,844              | 129,351,588           |
| Income taxes   | 32,119,531               | 28,261,989            |
| <b>NET INCOME</b>                                    | <b>\$ 115,415,313</b>    | <b>\$ 101,089,599</b> |



# Directors and Officers

## 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**

*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**

*President, JDL Enterprises, LLC*

**Dennis P. Murphy**

*Chief Executive Officer, Hayden Homes, LLC*

**Peter D. Nickerson**

*Director and Co-founder, Chinus Asset Management*

**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*

## 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

---

**John B. Eagan**

*Senior Vice President, General Counsel and Corporate Secretary*

## 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

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

