

# 2017 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:

Our objectives and expectations for 2017 were largely met and even exceeded in some ways. We had a strong growth year with increased customer deposits helping drive assets higher by nearly \$570 million to over \$6.2 billion. With deposit growth driving earning assets and margins widening, net interest revenue increased by nearly 14 percent to record levels. We maintained balance sheet strength, liquidity ended the year at significant levels and asset quality continued to be excellent. While we had considerable success against our own, internal performance markers, our team remained very focused on how innovation is reshaping our industry. With the continuous evolution of technology in financial services taking place, it is imperative that we keep pace with new opportunities to serve our customers in innovative ways. It seems apparent that there is a long runway for technology to continue transforming financial services, so we expect this crucial industry trend to continue to demand a substantial investment and resource commitment well into the future.

Washington D.C. was busy this past year as well, with three more upward rate moves by the Federal Reserve and a major tax reform bill passed just before year end. While the impact of lower corporate income tax rates will clearly be favorable for us in 2018 and beyond, the irony is that lower tax rates in the future required a significant adjustment to the carrying value of deferred tax assets in 2017. That adjustment was in the form of increased tax expense in the fourth quarter. The accounting for this change in tax rates is complex, but essentially a 21 percent future federal income tax rate reduced the value of deferred tax assets on the books in 2017, which were previously calibrated at 35 percent. The impact of this non-cash accounting entry was an increase in tax expense in 2017 of \$17.9 million, which resulted in a small reported loss for the fourth quarter and lowered full year earnings. While we regret the difficulty this poses for comparing performance over time, lower federal income tax rates are favorable and will provide additional financial resources in 2018 and beyond to reinvest in our business, including important technology initiatives.

The Company had a strong year of deposit growth, which helped drive both earning assets and total assets higher. Deposits were up \$522 million, or 10.6 percent for the year to a historic high of more than \$5.4 billion. Total assets grew \$569 million, or 10.0 percent to more than \$6.2 billion and earning assets grew \$576 million, or 10.4 percent to \$6.1 billion. While deposit growth was very strong, loan growth was moderate at \$147 million, or 3.9 percent to \$3.9 billion. That loan growth and three upward rate moves by the Fed during the year helped margins improve by 11 basis points year over year to 3.66 percent. Widening margins and a growing pool of earning assets combined to drive net interest revenue up more than \$25 million, or 13.9 percent to a record level of \$206.8 million for the year. Margin expansion was tempered somewhat by a growing pool of liquidity in the form of investment securities and cash, both earning moderate levels of interest, compared with loan yields. While we carry high levels of liquidity and our investment posture remains disciplined, we are comfortable with curtailing certain performance metrics in exchange for continued growth in our customer base and the flexibility a strong liquidity position provides.

Our risk metrics remained solid. Liquidity was ample with approximately one-third of the Company's balance sheet in either cash on deposit at the Federal Reserve, or in high quality, government issued bonds. Credit performance was excellent with noncurrent loans ending the year at just \$11.5 million, or 0.29 percent of total loans, the lowest level we have seen in a decade. Despite not recording any provision for loan loss expense in 2017, the Bank's allowance position finished at a historic high of \$86.8 million, or 2.21 percent of loans. The balance sheet strength we carry in the allowance position compliments the Company's capital levels, which remain well above regulatory minimums.

As a result of the necessity to write-down the value of deferred tax assets by \$17.9 million, what looked like a potential record year for earnings at the end of the third quarter, turned into a much more modest performance, with net income of \$41.3 million for the year, a decline of 20.8 percent over 2016 results. That accounting charge to revalue deferred tax assets also rippled through other performance metrics, including return on assets, which came in at 0.71 percent for the year and return on equity, which came in at 7.99 percent.

While those performance levels appropriately reflect the accounting impact of tax reform, they do not properly reflect the operating success we had in growing the business in 2017 and they make period over period comparisons difficult. Despite these comparability challenges, lower tax rates in the future will lead to higher after-tax returns and increased capital generation capabilities.

As we reflect back on 2017, many positive things were accomplished and the Company's performance across key growth and financial objectives was really very good. The economy seems to be strengthening and macro-economic trends appear to be on the uptick. We hope that the Fed finds enough strength in the economy to continue its efforts to normalize rates. Although credit performance is outstanding, the economic winds are not all going in the same direction, with generally low commodity prices still challenging the agricultural sector and recent dollar weakness shifting international trade dynamics. Despite largely positive macro news and the anticipated benefits of a more favorable tax environment, we remain vigilant against the optimism that seems to occur late in an economic cycle. We have worked hard to position the Company to perform at competitive levels across a broad spectrum of environments, but know that it is easy to get surprised by conditions we did not expect.

As always, we remain cautious, but also maintain a strong belief in our organization, our customers and the communities we serve. Our strategy of relationship banking still seems to resonate with you, our customers, and we will continue to focus on doing our best to serve your financial needs. If we can help you in anyway, please reach out to us. For additional pertinent information, please visit our website at [watrust.com](http://watrust.com).

Warm Regards,



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

# Statements of Income

(unaudited)

	Years Ended December 31,	
	2017	2016
<b>INTEREST REVENUE</b>		
Loans, including fees	\$ 179,649,629	\$ 161,242,023
Deposits with banks	4,173,196	1,446,623
Securities	27,121,046	22,668,655
Other interest and dividend income	91,610	129,550
Total interest revenue	211,035,481	185,486,851
<b>INTEREST EXPENSE</b>		
Deposits	4,096,573	3,745,998
Funds purchased and other borrowings	182,936	193,039
Total interest expense	4,279,509	3,939,037
Net interest revenue	206,755,972	181,547,814
Provision for loan losses	—	2,250,000
Net interest revenue after provision for loan losses	206,755,972	179,297,814
<b>NONINTEREST REVENUE</b>		
Fiduciary income	14,644,454	13,567,032
Mortgage banking revenue, net	6,184,067	8,253,908
Other fees on loans	974,228	1,124,701
Service charges, commissions and fees	23,392,693	22,913,567
Securities gains, net	—	1,000,753
Net gains on other real estate	(11,649)	56,418
Other income	4,001,315	1,618,426
Total noninterest revenue	49,185,108	48,534,805
<b>NONINTEREST EXPENSE</b>		
Salaries and benefits	100,248,821	89,957,662
Occupancy, furniture and equipment expense	15,335,090	14,057,740
Other expense	51,355,733	43,745,034
Total noninterest expense	166,939,644	147,760,436
Income before income taxes	89,001,436	80,072,183
Income taxes	47,686,402	27,917,146
<b>NET INCOME</b>	\$ 41,315,034	\$ 52,155,037

# Statements of Financial Condition

(unaudited)

	December 31, 2017	December 31, 2016
<b>ASSETS</b>		
Cash and due from banks	\$ 106,151,555	\$ 97,412,042
Interest-bearing deposits with banks	748,821,952	326,001,529
Securities available for sale, at fair value	905,670,188	931,788,383
Securities held to maturity, at amortized cost	480,511,844	452,029,006
Federal Home Loan Bank and PCBB stock, at cost	6,857,600	6,421,500
Loans receivable	3,932,075,545	3,785,076,118
Allowance for loan losses	(86,784,229)	(85,786,743)
Loans net of allowance for loan losses	3,845,291,316	3,699,289,375
Premises and equipment, net	42,815,535	41,829,947
Other real estate	310,500	870,500
Accrued interest receivable	19,569,155	17,056,295
Other assets	77,807,464	91,959,139
Total assets	<u>\$ 6,233,807,109</u>	<u>\$ 5,664,657,716</u>
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing	\$ 2,358,268,545	\$ 2,032,694,583
Interest-bearing	3,091,661,772	2,895,244,374
Total deposits	5,449,930,317	4,927,938,957
Securities sold under agreements to repurchase	222,135,525	211,462,438
Accrued interest payable	570,243	439,921
Other liabilities	44,022,961	37,467,888
Total liabilities	5,716,659,046	5,177,309,204
<b>SHAREHOLDER'S EQUITY</b>		
Common stock	7,534,503	7,534,503
Surplus	35,664,248	35,664,248
Undivided profits	519,119,805	480,957,874
	562,318,556	524,156,625
Accumulated other comprehensive loss	(45,170,493)	(36,808,113)
Total shareholder's equity	517,148,063	487,348,512
Total liabilities and shareholder's equity	<u>\$ 6,233,807,109</u>	<u>\$ 5,664,657,716</u>

# Directors & Officers

(as of December 31, 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

**Peter Bentley**

Senior Vice President and Chief Credit Officer

**Paul M. Koenigs**

Senior Vice President

## 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 – 3103 S. Grand Blvd.

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**

7309 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 99210**

