# AUDITED FINANCIAL STATEMENTS

2015

W.T.B. Financial Corporation

watrust.com

# W.T.B. FINANCIAL CORPORATION
## Selected Consolidated Financial Highlights

(dollars in thousands, except per share data)

| | At or for the Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2015** | 2014 | 2013 | 2012 | 2011 |
| **PERFORMANCE** | | | | | |
| Net interest revenue, fully tax-equivalent | **$ 165,150** | $ 157,228 | $ 147,571 | $ 147,491 | $ 146,730 |
| Fully tax-equivalent adjustment | **1,349** | 1,393 | 1,315 | 1,591 | 1,753 |
| Net interest revenue | **163,801** | 155,835 | 146,256 | 145,900 | 144,977 |
| Provision for loan losses | **2,667** | 6,000 | 6,767 | 22,333 | 46,800 |
| Net interest revenue after provision for loan losses | **161,134** | 149,835 | 139,489 | 123,567 | 98,177 |
| Noninterest revenue | **48,857** | 44,498 | 53,482 | 36,031 | 28,616 |
| Noninterest expense | **140,369** | 130,542 | 126,210 | 113,633 | 104,076 |
| Income before income taxes | **69,622** | 63,791 | 66,761 | 45,965 | 22,717 |
| Income taxes | **23,262** | 21,927 | 22,967 | 15,484 | 7,253 |
| **Net income** | **46,360** | 41,864 | 43,794 | 30,481 | 15,464 |
| Preferred stock dividends | **142** | 418 | 1,724 | 4,457 | 5,559 |
| Preferred stock discount accretion, net | **-** | - | - | - | 3,416 |
| **Net income available to common shareholders** | **$ 46,218** | $ 41,446 | $ 42,070 | $ 26,024 | $ 6,489 |
| **SELECTED YEAR-END DATA** | | | | | |
| Interest-bearing deposits with banks | **$ 438,603** | $ 344,438 | $ 277,007 | $ 27,502 | $ 389,133 |
| Securities | **1,162,292** | 907,333 | 809,325 | 1,360,244 | 969,373 |
| Total loans | **3,556,598** | 3,351,052 | 3,175,764 | 2,896,570 | 2,641,312 |
| Allowance for loan losses | **84,969** | 81,210 | 82,427 | 76,535 | 70,051 |
| Earning assets | **5,165,726** | 4,615,066 | 4,280,783 | 4,270,042 | 3,993,303 |
| Total assets | **5,305,272** | 4,771,922 | 4,436,124 | 4,470,132 | 4,177,970 |
| Deposits | **4,540,548** | 4,082,517 | 3,793,077 | 3,789,561 | 3,513,926 |
| Interest-bearing liabilities | **2,980,365** | 2,770,756 | 2,527,040 | 2,651,816 | 2,507,723 |
| Preferred equity | **-** | 19,571 | 44,571 | 89,142 | 89,142 |
| Common equity | **464,407** | 422,027 | 393,498 | 369,129 | 341,549 |
| Total shareholders' equity | **464,407** | 441,598 | 438,069 | 458,271 | 430,691 |
| Full-time equivalent employees | **882** | 864 | 840 | 801 | 735 |
| **PER COMMON SHARE** | | | | | |
| Net income available to common shareholders (basic) | **$ 18.19** | $ 16.37 | $ 16.67 | $ 10.34 | $ 2.58 |
| Net income available to common shareholders (diluted) | **18.01** | 16.21 | 16.52 | 10.25 | 2.57 |
| Common cash dividends | **2.72** | 2.40 | 1.60 | 0.60 | - |
| Common shareholders' equity | **180.79** | 164.93 | 154.35 | 145.28 | 134.92 |
| **PERFORMANCE RATIOS** | | | | | |
| Return on average assets | **0.94%** | 0.92% | 1.00% | 0.72% | 0.39% |
| Return on average shareholders' equity | **10.12** | 9.14 | 10.21 | 6.79 | 3.44 |
| Margin on average earning assets | **3.42** | 3.57 | 3.48 | 3.61 | 3.86 |
| Noninterest expense to average assets | **2.83** | 2.87 | 2.89 | 2.67 | 2.63 |
| Efficiency ratio | **65.6** | 64.7 | 62.8 | 61.9 | 59.4 |
| Net loans to deposits | **76.5** | 80.1 | 81.6 | 74.4 | 73.2 |
| Total cash dividends to net income | **15.2** | 15.5 | 13.2 | 19.6 | 36.0 |
| **CAPITAL RATIOS** | | | | | |
| Common equity to total assets | **8.75%** | 8.84% | 8.87% | 8.26% | 8.17% |
| Total equity to total assets | **8.75** | 9.25 | 9.88 | 10.25 | 10.31 |
| Tier 1 leverage | **9.41** | 9.87 | 10.27 | 10.53 | 10.59 |
| Common equity tier 1 capital | **11.98** | N/A | N/A | N/A | N/A |
| Tier 1 risk-based capital | **11.98** | 12.70 | 12.91 | 13.67 | 14.43 |
| Total risk-based capital | **13.24** | 13.96 | 14.17 | 14.93 | 15.69 |
| **ASSET QUALITY RATIOS** | | | | | |
| Allowance for loan losses to total loans | **2.39%** | 2.42% | 2.60% | 2.64% | 2.65% |
| Allowance for loan losses to noncurrent loans | **453.98** | 285.36 | 260.64 | 194.89 | 123.37 |
| Net charge-offs (recoveries) to total average loans | **-0.03** | 0.22 | 0.03 | 0.57 | 1.72 |
| Noncurrent loans and ORE to assets | **0.36** | 0.62 | 0.84 | 1.06 | 1.88 |
| Noncurrent loans, ORE and TDRs to assets | **0.64** | 0.95 | 1.38 | 1.83 | 2.44 |

# W.T.B. FINANCIAL CORPORATION
## Consolidated Statements of Financial Condition

| | December 31, 2015 | 2014 |
|---|---|---|
| **ASSETS** | | |
| Cash and due from banks | **$ 79,795,019** | $ 86,738,022 |
| Interest-bearing deposits with banks | **438,603,226** | 344,438,344 |
| Securities available for sale, at fair value | **679,877,946** | 476,870,956 |
| Securities held to maturity, at amortized cost | **482,414,445** | 430,462,030 |
| Federal Home Loan Bank and Pacific Coast Bankers' Bancshares stock, at cost | **5,781,300** | 13,500,900 |
| Loans receivable: | | |
| Held for sale | **23,728,595** | 8,964,780 |
| Held in portfolio | **3,532,869,864** | 3,342,087,199 |
| Total loans | **3,556,598,459** | 3,351,051,979 |
| Allowance for loan losses | **(84,968,885)** | (81,209,935) |
| Loans net of allowance for loan losses | **3,471,629,574** | 3,269,842,044 |
| Premises and equipment, net | **44,659,499** | 45,833,178 |
| Other real estate, net | **355,500** | 1,076,462 |
| Deferred income taxes, net | **34,573,646** | 33,082,441 |
| Cash surrender value of life insurance | **20,245,980** | 32,267,232 |
| Accrued interest receivable | **13,682,150** | 12,982,577 |
| Prepaid expenses and other assets | **33,654,075** | 24,827,620 |
| Total assets | **$ 5,305,272,360** | $ 4,771,921,806 |
| **LIABILITIES** | | |
| Deposits: | | |
| Noninterest-bearing | **$ 1,825,070,343** | $ 1,518,055,367 |
| Interest-bearing | **2,715,477,707** | 2,564,461,682 |
| Total deposits | **4,540,548,050** | 4,082,517,049 |
| Securities sold under agreements to repurchase | **264,887,110** | 206,293,915 |
| Accrued interest payable | **526,585** | 1,112,429 |
| Other liabilities | **34,903,602** | 40,400,785 |
| Total liabilities | **4,840,865,347** | 4,330,324,178 |
| **COMMITMENTS AND CONTINGENCIES (NOTE 18)** | | |
| **SHAREHOLDERS' EQUITY** | | |
| Preferred stock, no par value, 500,000 shares authorized; | | |
| Class C Series C-3 preferred stock (liquidation preference $1,000 per share), no shares and 19,571 shares issued and outstanding at December 31, 2015 and 2014, respectively | **-** | 19,571,000 |
| Class A common stock, no par value, 25,000 shares authorized, issued and outstanding | **250,000** | 250,000 |
| Class B common stock, no par value, 3,475,000 shares authorized; 2,543,805 shares issued and outstanding at December 31, 2015; 2,660,046 shares issued and 2,533,856 shares outstanding at December 31, 2014 | **29,629,574** | 28,083,078 |
| Surplus | **32,665,000** | 32,665,000 |
| Undivided profits | **427,792,790** | 409,979,660 |
| | **490,337,364** | 490,548,738 |
| Less treasury stock, at cost (no shares and 126,190 Class B shares in 2015 and 2014, respectively) | **-** | (21,489,467) |
| | **490,337,364** | 469,059,271 |
| Accumulated other comprehensive loss | **(25,930,351)** | (27,461,643) |
| Total shareholders' equity | **464,407,013** | 441,597,628 |
| Total liabilities and shareholders' equity | **$ 5,305,272,360** | $ 4,771,921,806 |

See notes to consolidated financial statements.

# W.T.B. FINANCIAL CORPORATION
## Consolidated Statements of Income

| | Years Ended December 31, | | |
|---|---|---|---|
| | **2015** | 2014 | 2013 |
| **INTEREST REVENUE** | | | |
| Loans, including fees | **$ 151,464,308** | $ 147,675,052 | $ 137,771,580 |
| Deposits with banks | **989,400** | 770,513 | 404,191 |
| Securities: | | | |
| Taxable | **15,665,705** | 12,720,699 | 16,036,471 |
| Tax-exempt | **86,878** | 267,023 | 458,916 |
| Other interest and dividend income | **31,418** | 29,171 | 19,533 |
| Total interest revenue | **168,237,709** | 161,462,458 | 154,690,691 |
| **INTEREST EXPENSE** | | | |
| Demand and savings deposits | **2,361,846** | 2,398,198 | 2,662,249 |
| Time deposits | **1,838,692** | 3,030,539 | 5,587,813 |
| Securities sold under agreements to repurchase | **235,953** | 198,596 | 159,454 |
| Federal funds purchased | **27** | 199 | 3,092 |
| Federal Home Loan Bank and other borrowings | **5** | 101 | 21,969 |
| Total interest expense | **4,436,523** | 5,627,633 | 8,434,577 |
| Net interest revenue | **163,801,186** | 155,834,825 | 146,256,114 |
| Provision for loan losses | **2,666,700** | 6,000,000 | 6,766,666 |
| Net interest revenue after provision for loan losses | **161,134,486** | 149,834,825 | 139,489,448 |
| **NONINTEREST REVENUE** | | | |
| Fiduciary income | **13,864,892** | 13,001,381 | 12,311,921 |
| Investment services fees | **4,420,838** | 4,333,174 | 3,550,859 |
| Bank card and credit card fees, net | **11,020,060** | 10,345,150 | 9,642,086 |
| Mortgage banking revenue, net | **5,751,736** | 3,806,138 | 4,729,574 |
| Other fees on loans | **1,221,989** | 763,416 | 998,679 |
| Service charges on deposits | **6,464,820** | 6,959,916 | 7,223,830 |
| Other service charges, commissions and fees | **796,613** | 539,149 | 902,693 |
| Net gains on other real estate | **742,204** | 2,727,617 | 1,362,161 |
| Gains on sale of securities, net | **605,669** | 77,126 | 11,286,577 |
| Other income | **3,968,336** | 1,945,154 | 1,473,530 |
| Total noninterest revenue | **48,857,157** | 44,498,221 | 53,481,910 |
| **NONINTEREST EXPENSE** | | | |
| Salaries | **64,479,547** | 58,366,994 | 54,862,384 |
| Pension and employee benefits | **17,408,294** | 17,025,329 | 15,888,009 |
| Occupancy expense | **7,504,188** | 7,056,509 | 6,532,985 |
| Furniture and equipment expense | **6,236,960** | 6,149,387 | 5,612,915 |
| Software expense | **6,887,709** | 6,476,023 | 5,415,997 |
| Data processing expense | **8,834,374** | 8,693,438 | 11,117,217 |
| Marketing and public relations | **5,318,014** | 4,617,018 | 4,249,598 |
| Professional fees | **3,528,142** | 4,721,516 | 4,426,894 |
| State revenue taxes | **1,473,916** | 1,254,028 | 1,613,518 |
| FDIC assessments | **2,845,366** | 2,729,180 | 2,603,171 |
| Other real estate operations | **87,483** | 489,905 | 853,507 |
| Other expense | **15,765,948** | 12,962,898 | 13,034,435 |
| Total noninterest expense | **140,369,941** | 130,542,225 | 126,210,630 |
| Income before income taxes | **69,621,702** | 63,790,821 | 66,760,728 |
| Income taxes | **23,261,988** | 21,926,753 | 22,967,045 |
| **NET INCOME** | **$ 46,359,714** | $ 41,864,068 | $ 43,793,683 |

See notes to consolidated financial statements.

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# W.T.B. FINANCIAL CORPORATION
## Consolidated Statements of Income (continued)

| | Years Ended December 31, | | |
|---|---|---|---|
| | **2015** | 2014 | 2013 |
| **NET INCOME** | **$ 46,359,714** | $ 41,864,068 | $ 43,793,683 |
| Preferred stock dividends | **141,346** | 417,932 | 1,723,291 |
| **NET INCOME AVAILABLE TO COMMON SHAREHOLDERS** | **$ 46,218,368** | $ 41,446,136 | $ 42,070,392 |
| | | | |
| **PER SHARE DATA** | | | |
| **Weighted average number of common stock shares outstanding** | | | |
| Basic | **2,541,339** | 2,532,116 | 2,523,284 |
| Diluted | **2,566,077** | 2,556,515 | 2,547,025 |
| | | | |
| **Earnings per common share (based on weighted average shares outstanding)** | | | |
| Basic | **$ 18.19** | $ 16.37 | $ 16.67 |
| Diluted | **$ 18.01** | $ 16.21 | $ 16.52 |

See notes to consolidated financial statements.

# W.T.B. FINANCIAL CORPORATION
## Consolidated Statements of Comprehensive Income

| | Years Ended December 31, | | |
|---|---|---|---|
| | **2015** | 2014 | 2013 |
| **NET INCOME** | **$ 46,359,714** | $ 41,864,068 | $ 43,793,683 |
| Securities available for sale: | | | |
| Unrealized gains (losses) arising during the year | **(3,103,413)** | 5,194,876 | (22,229,720) |
| Income tax benefit (expense) related to unrealized gains (losses) | **1,086,195** | (1,818,206) | 7,780,402 |
| Reclassification adjustment for gains included in net income | **(605,669)** | (77,126) | (11,286,577) |
| Income tax expense related to reclassification adjustment for gains included in net income | **211,984** | 26,994 | 3,950,302 |
| Net change in unrealized gains (losses) | **(2,410,903)** | 3,326,538 | (21,785,593) |
| Defined benefit pension plan: | | | |
| Unrealized gain (loss) arising during the year | **2,210,949** | (19,690,141) | 7,821,638 |
| Income tax benefit (expense) related to unrealized gains (losses) | **(773,832)** | 6,891,549 | (2,737,573) |
| Reclassification adjustment for amounts included in net income | **3,853,966** | 2,152,594 | 3,331,862 |
| Income tax benefit related to reclassification adjustment for amounts included in net income | **(1,348,888)** | (753,408) | (1,166,152) |
| Net decrease (increase) in unrealized losses | **3,942,195** | (11,399,406) | 7,249,775 |
| **OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX** | **1,531,292** | (8,072,868) | (14,535,818) |
| **COMPREHENSIVE INCOME** | **$ 47,891,006** | $ 33,791,200 | $ 29,257,865 |

See notes to consolidated financial statements.

# W.T.B. FINANCIAL CORPORATION
## Consolidated Statements of Changes in Shareholders' Equity

| | Total Shareholders' Equity | Number of Common Shares Outstanding | Preferred Stock | Common Stock | | Treasury Stock | Surplus | Accumulated Other Comprehensive Loss | Undivided Profits |
|---|---|---|---|---|---|---|---|---|---|
| | | | Class C | Class A | Class B | | | | |
| **Balance, December 31, 2012** | $458,271,147 | 2,540,845 | $89,142,000 | $250,000 | $26,086,180 | $(21,600,760) | $32,665,000 | $(4,852,957) | $336,581,684 |
| Net income, 2013 | 43,793,683 | - | - | - | - | - | - | - | 43,793,683 |
| Other comprehensive loss, net of tax | (14,535,818) | - | - | - | - | - | - | (14,535,818) | - |
| Cash dividends of $1.60 per share | (4,038,472) | - | - | - | - | - | - | - | (4,038,472) |
| Preferred dividends | (1,723,291) | - | - | - | - | - | - | - | (1,723,291) |
| Repayment of Series C-3 preferred stock | (44,571,000) | - | (44,571,000) | - | - | - | - | - | - |
| Stock-based compensation | 692,301 | 7,315 | - | - | 692,301 | - | - | - | - |
| Stock-based directors' fees | 180,349 | 1,161 | - | - | 121,510 | 58,839 | - | - | - |
| **Balance, December 31, 2013** | 438,068,899 | 2,549,321 | 44,571,000 | 250,000 | 26,899,991 | (21,541,921) | 32,665,000 | (19,388,775) | 374,613,604 |
| Net income, 2014 | 41,864,068 | - | - | - | - | - | - | - | 41,864,068 |
| Other comprehensive loss, net of tax | (8,072,868) | - | - | - | - | - | - | (8,072,868) | - |
| Cash dividends of $2.40 per share | (6,080,080) | - | - | - | - | - | - | - | (6,080,080) |
| Preferred dividends | (417,932) | - | - | - | - | - | - | - | (417,932) |
| Repayment of Series C-3 preferred stock | (25,000,000) | - | (25,000,000) | - | - | - | - | - | - |
| Stock-based compensation | 1,055,212 | 8,500 | - | - | 1,055,212 | - | - | - | - |
| Stock-based directors' fees | 180,329 | 1,035 | - | - | 127,875 | 52,454 | - | - | - |
| **Balance, December 31, 2014** | 441,597,628 | 2,558,856 | 19,571,000 | 250,000 | 28,083,078 | (21,489,467) | 32,665,000 | (27,461,643) | 409,979,660 |
| Net income, 2015 | 46,359,714 | - | - | - | - | - | - | - | 46,359,714 |
| Other comprehensive income, net of tax | 1,531,292 | - | - | - | - | - | - | 1,531,292 | - |
| Cash dividends of $2.72 per share | (6,915,771) | - | - | - | - | - | - | - | (6,915,771) |
| Preferred dividends | (141,346) | - | - | - | - | - | - | - | (141,346) |
| Repayment of Series C-3 preferred stock | (19,571,000) | - | (19,571,000) | - | - | - | - | - | - |
| Stock-based compensation | 1,276,286 | 8,500 | - | - | 1,276,286 | - | - | - | - |
| Stock-based directors' fees | 270,210 | 1,449 | - | - | 270,210 | - | - | - | - |
| Retirement of treasury stock | - | - | - | - | - | 21,489,467 | - | - | (21,489,467) |
| **Balance, December 31, 2015** | $464,407,013 | 2,568,805 | $ - | $250,000 | $29,629,574 | $ - | $32,665,000 | $(25,930,351) | $427,792,790 |

See notes to consolidated financial statements.

# W.T.B. FINANCIAL CORPORATION
## Consolidated Statements of Cash Flows

| | Years Ended December 31, | | |
|---|---|---|---|
| | **2015** | 2014 | 2013 |
| **Cash flows from operating activities:** | | | |
| Net income | **$ 46,359,714** | $ 41,864,068 | $ 43,793,683 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Provision for loan losses | **2,666,700** | 6,000,000 | 6,766,666 |
| Provision for losses on other real estate | **39,000** | 34,642 | 6,332 |
| Deferred income taxes (benefit) | **(1,615,251)** | 5,671,045 | 233,440 |
| Depreciation | **6,386,618** | 6,337,769 | 5,901,674 |
| Amortization of software | **1,755,875** | 1,684,939 | 770,228 |
| Amortization of intangibles | **543,045** | 13,450 | 17,079 |
| Net premium amortization of securities | **4,276,157** | 3,753,449 | 6,976,489 |
| Change in mortgage servicing rights | **207,423** | (281,372) | 34,033 |
| Gains on sales of securities, net | **(605,669)** | (77,126) | (11,286,577) |
| (Gains) losses on sales of premises and equipment | **68,939** | (56,207) | 143 |
| Gains on sale of investments | **-** | (568,305) | - |
| Gains on sale of other real estate, net | **(781,204)** | (2,762,259) | (1,368,493) |
| Origination of loans held for sale | **(265,470,392)** | (156,738,411) | (207,223,865) |
| Proceeds from sales of loans held for sale | **256,462,995** | 206,931,106 | 217,299,095 |
| Gains on sales of loans | **(5,756,418)** | (3,189,091) | (4,415,941) |
| (Increase) decrease in accrued interest receivable | **(699,573)** | (965,210) | 4,231,798 |
| Increase in cash surrender value of life insurance | **(4,161,285)** | (1,627,968) | (1,567,968) |
| Stock-based compensation | **1,276,286** | 1,055,212 | 692,301 |
| Stock-based directors' fees | **270,210** | 180,329 | 180,349 |
| Change in FDIC indemnification asset | **-** | 1,432,374 | 3,841,295 |
| Contributions to pension plan | **(6,000,000)** | (11,600,000) | (5,000,000) |
| (Increase) decrease in other assets | **4,060,108** | (3,578,367) | 4,193,837 |
| Increase in accrued expenses and other liabilities | **6,030,816** | 6,328,219 | 5,659,344 |
| Net cash provided by operating activities | **45,314,094** | 99,842,286 | 69,734,942 |
| **Cash flows from investing activities:** | | | |
| Net increase in interest-bearing deposits with banks | **(94,164,882)** | (67,431,587) | (249,504,283) |
| Securities available for sale: | | | |
| Payments for purchases | **(365,604,858)** | (155,052,661) | (9,970,312) |
| Proceeds from sales | **74,244,982** | 132,301,398 | 506,971,737 |
| Proceeds from maturities, calls, and paydowns | **82,065,456** | 64,082,409 | 177,547,966 |
| Securities held to maturity: | | | |
| Payments for purchases | **(128,899,292)** | (165,803,892) | (177,003,547) |
| Proceeds from maturities, calls, and paydowns | **75,854,737** | 27,906,142 | 24,166,863 |
| Proceeds from the redemption of Federal Home Loan Bank stock | **7,719,600** | 1,326,700 | 554,500 |
| Net increase in loans held in portfolio | **(190,763,463)** | (228,965,801) | (287,279,626) |
| Purchases of premises and equipment | **(5,722,212)** | (8,737,050) | (8,935,435) |
| Proceeds from sales of premises and equipment | **659,431** | 102,789 | 100 |
| Purchases of software | **(231,930)** | (1,151,961) | (7,699,611) |
| Proceeds from investments | **101,969** | 441,356 | - |
| Proceeds from sales of other real estate | **2,536,214** | 7,958,610 | 5,194,337 |
| Net cash used in investing activities | **(542,204,248)** | (393,023,548) | (25,957,311) |

See notes to consolidated financial statements.

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# W.T.B. FINANCIAL CORPORATION
## Consolidated Statements of Cash Flows (continued)

| | Years Ended December 31, | | |
|---|---|---|---|
| | **2015** | 2014 | 2013 |
| **Cash flows from financing activities:** | | | |
| Net increase in deposits | **$ 458,031,001** | $ 289,437,426 | $ 3,516,300 |
| Net decrease in Federal Home Loan Bank advances | **-** | - | (15,000,000) |
| Net increase in securities sold under repurchase agreements | **58,593,195** | 33,767,996 | 6,237,470 |
| Repurchase of preferred stock | **(19,571,000)** | (25,000,000) | (44,571,000) |
| Common stock dividends paid | **(6,915,771)** | (6,080,080) | (4,038,472) |
| Preferred stock dividends paid | **(190,274)** | (480,432) | (2,726,139) |
| Net cash (used in) provided by financing activities | **489,947,151** | 291,644,910 | (56,581,841) |
| Decrease in cash and cash equivalents | **(6,943,003)** | (1,536,352) | (12,804,210) |
| Cash and cash equivalents at beginning of year | **86,738,022** | 88,274,374 | 101,078,584 |
| Cash and cash equivalents at end of year | **$ 79,795,019** | $ 86,738,022 | $ 88,274,374 |
| | | | |
| **Supplemental disclosures of cash flow information:** | | | |
| Cash paid for interest | **$ 5,022,367** | $ 5,910,302 | $ 8,941,155 |
| Cash paid for income taxes | **24,534,843** | 13,327,748 | 26,532,535 |
| Transfer from loans to other real estate | **1,073,048** | 488,351 | 1,558,722 |
| Transfer from cash surrender value life insurance to other assets | **16,182,537** | - | - |
| Transfer from premises and equipment to loans | **-** | 988,273 | - |
| Transfer from premises and equipment to prepaid expenses and other assets | **219,097** | 988,273 | - |
| Transfer from loans held in portfolio to loans held for sale | **-** | 46,847,538 | - |

See notes to consolidated financial statements.

## Note 1: Summary of Significant Accounting Policies

### *Nature of Operations*

W.T.B. Financial Corporation ("W.T.B.") is a bank holding company headquartered in Spokane, Washington, and through its subsidiary, Washington Trust Bank (the "Bank"), is primarily engaged in the business of financial services in Washington, Idaho and Oregon. The Bank was originally chartered in 1902 and provides a wide range of banking, fiduciary, asset management, mortgage banking, and other financial services to corporate and individual customers. West Sprague Holding Company, LLC is a wholly-owned subsidiary of the Bank.

### *Basis of Financial Statement Presentation and Consolidation*

The consolidated financial statements of W.T.B. include the accounts of W.T.B. and its wholly-owned subsidiary. Intercompany transactions and balances have been eliminated in consolidation. The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") in the United States requires management to make certain estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, valuation of the defined benefit pension obligation, and valuation of other real estate.

### *Segment Reporting*

W.T.B. has not established any independent business activity apart from acting as the parent company of the Bank. W.T.B. and the Bank are managed as a single entity and not by departments or lines of business. Based on management's analysis, no department or line of business meets the criteria established in Accounting Standards Codification ("ASC") 280, *Segment Reporting*, for reporting of selected information about operating segments.

### *Subsequent Events*

W.T.B. has evaluated events and transactions for potential recognition or disclosure through March 16, 2016, the date these consolidated financial statements were available to be issued.

### *Cash Equivalents*

Cash equivalents include amounts due from banks, federal funds sold, and securities purchased under resale agreements. Generally, federal funds sold and securities purchased under resale agreements are for periods of one week or less.

### *Securities*

Securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Securities are classified as available for sale when they might be sold before maturity. Securities classified as available for sale are carried at fair value, with any unrealized gains and losses, net of tax, reported as a component of other comprehensive income ("OCI") and shareholders' equity. Other-than-temporary impairment ("OTTI") losses relating to credit impairment are included in noninterest revenue. Gains and losses realized on the sale of securities are computed on the specific-identification method and are included in noninterest revenue. Interest and dividends on securities are included in interest revenue. Interest revenue includes amortization of purchase premiums or discounts. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are factored into the amortization method.

W.T.B. considers the following factors when determining OTTI for a security: the length of time and the extent to which the market value has been less than amortized cost, the financial condition and near-term prospects of the issuer, terms and structure of the security, the underlying fundamentals of the relevant market and the outlook for such market for the near future. Management also makes an assessment of whether W.T.B. has (1) the intent to sell the security, or (2) more likely than not will be required to sell the security before its anticipated market recovery. If the security is likely to be sold or if it is likely the security will be required to be sold before recovering its cost basis, the entire impairment loss would be recognized in earnings as OTTI. If W.T.B. does not intend to sell the security and it is not likely the security will be required to be sold, but management does not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings as OTTI. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Projected cash flows are discounted by the original interest rate when a security is analyzed for potential OTTI. The remaining impairment related to all other factors, the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to OCI.

### *Federal Home Loan Bank and Pacific Coast Bankers' Bancshares Stock*

The Federal Home Loan Bank of Seattle successfully completed a merger with the Federal Home Loan Bank of Des Moines on June 1, 2015. The Bank was a member of the Federal Home Loan Bank of Seattle and, as a result of the merger, is now a member of the Federal Home Loan Bank of Des Moines. As a member of the Federal Home Loan Bank ("FHLB"), the Bank is required to maintain a minimum level of investment in FHLB stock, plus additional investments in FHLB stock based on its outstanding FHLB borrowings. The FHLB provides a wide range of secured lending facilities and structures, which are an important source of supplemental funding and liquidity to the Bank. The Bank's investment in FHLB stock has no quoted market value and is carried at par value ($100 per share). Ownership of FHLB stock is restricted to members and former members of the FHLB, and is purchased and redeemed at par. At December 31, 2015 and 2014, the Bank's investment in FHLB stock was $5,721,300 and $13,440,900, respectively.

The Bank's investment in Pacific Coast Bankers' Bancshares ("PCBB") consists of shares of PCBB's common stock. No ready market exists for PCBB stock, and it has no quoted market value. This investment is carried at cost. At December 31, 2015 and 2014, the Bank's investment in PCBB stock was $60,000.

**Note 1: Summary of Significant Accounting Policies (continued)**

***Federal Home Loan Bank and Pacific Coast Bankers' Bancshares Stock (continued)***

Management periodically evaluates FHLB and PCBB stock for impairment. Management's determination of whether these investments are impaired is based on its assessment of the ultimate recoverability of cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of cost is influenced by criteria such as (1) the significance of any deterioration in earnings performance, credit rating or asset quality of the issuer, (2) the significance of any adverse changes in the regulatory or economic environment, and (3) the significance of adverse changes in the general market condition of either the geographic area or the industry in which they operate. Management has reviewed the financial statements of the FHLB and PCBB and has determined there is not an other-than-temporary impairment on the stock investments as of December 31, 2015.

***Cash Surrender Value of Life Insurance***

The Bank has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at its cash surrender value, or the amount that can be realized.

***Loans***

Loans held in portfolio are carried at the principal amount outstanding, net of unearned income. Loans held for sale are carried at the lower of aggregate cost or market.

Interest income on loans is accrued on the principal amount outstanding. Loan origination fees and costs are capitalized and recognized as an adjustment to the yield of the related loan over its estimated life.

Loans are classified as impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal and interest when due, in accordance with the terms of the original loan agreement. The carrying value of impaired loans is based on the present value of expected future cash flows discounted at each loan's effective interest rate, the loan's observable market price, or for collateral dependent loans, at the fair value of the collateral, less selling costs. If the measurement of each impaired loan's value is less than the recorded investment in the loan, the Bank recognizes this impairment and adjusts the carrying value of the loan through the allowance for loan losses. This recognition of impairment is accomplished by charging-off the impaired portion of the loan, or establishing a specific amount to be provided for in the allowance for loan losses. In general, any portion of the recorded investment in a collateral dependent loan in excess of the fair value of the collateral that can be identified as uncollectible is a confirmed loss and charged-off against the allowance for loan losses.

***Purchased Loans***

Purchased loans are recorded at their estimated fair values on the purchase date and are accounted for prospectively based on expected cash flows. No allowance for credit losses is recorded on these loans at the acquisition date. Expected future cash flows in excess of the fair value of loans ("accretable yield") at the purchase date are recorded as interest income over the life of the loans if the timing and amount of the future cash flows can be reasonably estimated. The nonaccretable difference represents estimated losses in the portfolio and is equal to the difference between contractually required payments and the cash flows expected to be collected. Subsequent to the purchase date, increases in cash flows for purchased loans over those expected at the purchase date that can be reasonably estimated are recognized as interest income prospectively. Subsequent to the purchase date, the present value of any decreases in expected cash flows under those expected at the purchase date is recognized by recording a charge-off through the allowance for loan losses.

***Income Recognition on Nonaccrual and Impaired Loans***

Loans are classified as nonaccrual if the collection of principal and interest is doubtful. Generally, this occurs when a loan is past due as to maturity, or payment of principal or interest by 90 days or more, unless such loans are well-secured and in the process of collection. Generally, if a loan, or portion thereof, is partially charged-off, the loan is considered impaired and classified as nonaccrual. Loans that are less than 90 days past due may also be classified as nonaccrual if repayment in full of principal and/or interest is in doubt.

When a loan is classified as nonaccrual, all uncollected accrued interest is reversed from interest income and the accrual of interest income is discontinued. Generally, any subsequent cash payments are applied as a reduction of principal outstanding. In cases where the future collectability of the principal balance in full is expected, interest income may be recognized on a cash basis. A loan may be restored to accrual status when the borrower's financial condition improves so that full collection of future contractual payments is considered likely. Restoration to accrual status for those loans placed on nonaccrual status due to payment delinquency will generally not occur until the borrower demonstrates repayment ability over a period of not less than six months.

***Troubled Debt Restructuring***

Loans may occasionally be restructured due to economic or legal reasons relating to the borrower's financial condition by granting a concession in order to protect the Bank's investment. Examples of such concessions may include forgiving principal or accrued interest, extending maturity date(s), or providing lower interest rates than would normally be available for transactions of similar risk. This generally occurs when the financial condition of the borrower necessitates temporary or permanent relief from the original contractual terms of the loan. A loan restructured in a troubled debt restructuring ("TDR") is an impaired loan and is accounted for as such. If a borrower on a restructured accruing loan has demonstrated performance under the previous terms and shows the capacity to continue to perform under the restructured terms, the loan will remain on accrual status. Otherwise the loan will be placed on nonaccrual status until the borrower demonstrates repayment ability over a period of not less than six months. A TDR that has been in compliance with its modified terms and which yields a market rate will not be reported as a troubled debt restructuring in calendar years after the year in which the restructuring took place.

**Note 1: Summary of Significant Accounting Policies (continued)**

***Allowance for Loan Losses***

The allowance for loan losses is a valuation allowance for known and inherent losses in the portfolio. Management's determination of the allowance is based on an evaluation of the loan portfolio, impaired loans, past loan loss experience, economic conditions, volume, growth and composition of the loan portfolio, and other risks inherent in the portfolio. Management applies risk factors to categories of loans and individually reviews all impaired loans above a de minimus threshold. Management uses risk grades for loans in the commercial, agricultural, real estate secured, and consumer categories. For homogenous consumer portfolios, management relies heavily on statistical analysis, past loan loss experience, current payment performance and industry trends to estimate losses. Management evaluates the adequacy of the allowance at least quarterly, by reviewing relevant internal and external factors that affect credit quality.

***FDIC Indemnification Asset***

On February 13, 2009, Washington Trust Bank entered into a purchase and assumption agreement with the FDIC in connection with certain assets and liabilities of Pinnacle Bank located in Beaverton, Oregon (the "Purchase and Assumption Agreement"). The loans and other real estate purchased from the FDIC were covered by a loss share provision within the Purchase and Assumption Agreement between the FDIC and Washington Trust Bank that afforded the Bank significant protection from losses on the assets acquired. At the time of acquisition, the FDIC indemnification asset was recorded at fair value based on the discounted expected cash flows under the Purchase and Assumption Agreement.

The balance of the FDIC indemnification asset is adjusted periodically to reflect changes in expectations of discounted estimated cash flows on covered loans if they can be reasonably estimated. Increases in expected cash flows on covered loans are recorded prospectively through interest income and decreases in expected cash flows are recorded as a charge-off through the allowance for loan losses. These adjustments are recorded net of a corresponding increase or decrease to the FDIC indemnification asset for the covered portion of the loans. Payments for reimbursement of losses received from the FDIC are accounted for as a reduction to the FDIC indemnification asset.

As of December 31, 2014, loans acquired in connection with the Purchase and Assumption Agreement, with the exception of single family one-to-four residential mortgage loans, were no longer eligible for submission to the FDIC for reimbursement. As of December 31, 2014, the recorded investment in covered loans was $629,703 and the value of the indemnification asset was zero. On August 4, 2015, the Purchase and Assumption Agreement between the FDIC and Washington Trust Bank was terminated.

***Mortgage Servicing Rights***

Mortgage servicing rights result from the sale of mortgage loans while retaining loan servicing responsibilities. Mortgage servicing rights are carried at the original capitalized fair value, net of accumulated amortization and impairment. The original capitalized value is determined using discounted cash flows of expected future loan servicing revenue based on market interest rates and loan prepayment assumptions at the time the loan is sold. Mortgage servicing rights are amortized in proportion to, and over the period of, the estimated net servicing revenues. Impairment of mortgage servicing rights is assessed based on the fair value of those rights. Fair values are estimated using discounted cash flows of expected future loan servicing revenue based on current market interest rates and current prepayment assumptions. The current market interest rate is to reflect expected marketplace yield requirements for loan servicing portfolios. For purposes of measuring impairment, mortgage servicing rights are stratified based on the characteristics of the underlying loans, including loan type, size, note rate, origination date and term. Subsequent loan prepayments and elevated prepayment assumptions in excess of those forecasted can adversely impact the carrying value of mortgage servicing rights. The amount of impairment recognized is the amount by which the capitalized mortgage servicing rights for each class exceed their fair value.

Servicing fee income is recorded as noninterest income for fees earned for servicing loans and included in mortgage banking revenue, net. The fees are based on a contractual percentage of the outstanding principal and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

***Derivatives***

Derivative financial instruments are used to meet the ongoing credit needs of customers and the market exposure of certain types of interest rate risk. Derivative instruments are recognized as either assets or liabilities in the consolidated statements of financial condition at fair value. Changes in the fair value of a derivative are recorded in the consolidated statements of income.

W.T.B.'s pipeline of rate-locked residential mortgage loan commitments and forward sales contracts to investors are considered derivatives. W.T.B. utilizes forward sales contracts to hedge the risk of changes in fair value, due to changes in interest rates, of both locked residential mortgage loan commitments and residential loans held for sale. The estimated fair values of these derivatives are determined by the changes in the market value of the related loans, caused by changes in market interest rates, during the period from the commitment date or contract date to the valuation date. At December 31, 2015, the estimated fair value of rate locks was $11,526 and the estimated fair value of forward sales agreements was $36,300. At December 31, 2014, the estimated fair value of rate locks was $171,849 and the estimated fair value of forward sales agreements was $(77,536).

W.T.B. engages in interest rate swap transactions to meet customer needs that serve as hedges to an equal amount of fixed rate loans, which include market value prepayment penalties that mirror the termination costs of the specifically matched interest rate swaps. The fair value adjustments for these swaps and the related loans are reflected in other assets or other liabilities, as appropriate, and in the carrying value of the hedged loans.

## Note 1: Summary of Significant Accounting Policies (continued)

### *Transfers of Financial Assets*

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

### *Premises and Equipment*

Premises and equipment, including leasehold improvements, are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed on both the straight-line and accelerated methods over the estimated useful lives of the assets, or the terms of the associated operating leases. Gains or losses on disposition are reflected in current income. Normal costs of maintenance and repairs are treated as current expenses.

W.T.B. reviews long-lived and intangible assets any time that a change in circumstance indicates that the carrying amount of these assets may not be recoverable. Recoverability of these assets is determined by comparing the carrying value of the asset to the forecasted undiscounted cash flows of the operation associated with the asset. If the evaluation of the forecasted cash flows indicates that the carrying value of the asset is not recoverable, the asset is written down to fair value.

### *Other Real Estate*

Other real estate ("ORE") acquired through, or in lieu of, loan foreclosure is recorded at the fair value of the property. A provision to the valuation allowance on ORE is made for subsequent declines in the fair value on a specific property basis. Direct costs incurred in connection with holding ORE are charged to expense when incurred.

### *Advertising Costs*

W.T.B. expenses as incurred advertising costs, which are included in marketing and public relations expense. Advertising expenses were $1,706,577, $1,770,216 and $1,708,448 for 2015, 2014 and 2013, respectively.

### *Income Taxes*

W.T.B. accounts for income taxes in accordance with income tax accounting guidance, ASC 740, *Income Taxes*. The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. W.T.B. determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

W.T.B. recognizes interest and penalties on income taxes, if any, as a component of income tax expense.

### *Stock-Based Compensation*

Compensation cost is recognized for restricted stock awards issued to executive officers, based on fair value at the date of grant. The fair value of the awards is estimated using the market value of W.T.B.'s common stock. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

### *Earnings Per Common Share*

W.T.B.'s basic earnings per common share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during the period, excluding nonvested restricted stock. Diluted earnings per common share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding, which includes dilutive common shares related to nonvested restricted stock.

### *Class C Stock*

During 2011, 89,142 shares of Class C Series C-3 preferred stock were issued in connection with W.T.B.'s participation in the United States Treasury Department's Small Business Lending Fund program. During 2015 and 2014, 19,571 and 25,000 shares, respectively, were redeemed. There were no Class C Series C-3 preferred stock shares outstanding at December 31, 2015 and 19,571 shares at December 31, 2014. See Note 21 for further discussion on W.T.B.'s participation in the Small Business Lending Fund program.

**Note 1: Summary of Significant Accounting Policies (continued)**

***Common Stock***

At December 31, 2015 and 2014, 25,000 shares of Class A voting common stock were outstanding. Class B nonvoting common stock shares outstanding were 2,543,805 and 2,533,856 at December 31, 2015 and 2014, respectively.

***Treasury Stock***

Repurchased common stock shares are recorded as treasury stock at cost. Treasury shares are not deemed outstanding for earnings per share calculations. During 2015, all 126,190 Class B treasury shares were retired. Class B treasury shares held for reissue at December 31, 2014 were 126,190.

***Comprehensive Income***

Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale and unrealized gains and losses related to the defined benefit pension plan, which are reported as a separate component of equity.

***Fair Value of Financial Instruments***

Fair values of financial instruments are estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, and other factors, especially the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates. See Note 16 for further discussion.

***Reclassifications***

Certain amounts appearing in the consolidated financial statements and notes thereto for the years ended December 31, 2014 and 2013 have been reclassified to conform to the December 31, 2015 presentation. These reclassifications had no effect on retained earnings or net income as previously reported and the effect of these reclassifications is not considered material.

***Recent Accounting Pronouncements***

ASU 2014-12, *Compensation-Stock Compensation (Topic 718)*. The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718 as it relates to awards with performance conditions that affect vesting to account for such awards. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. As indicated in the definition of vest, the stated vesting period (which includes the period in which the performance target could be achieved) may differ from the requisite service period. The amendments of this update are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early application is permitted. The ASU is not expected to have a significant impact on W.T.B.'s consolidated financial statements.

ASU 2015-02, *Consolidation (Topic 810)*. The amendments in this update affect an entity's evaluation of consolidation requirements. The amendment specifically affects an entity's evaluation of whether (1) the fees it receives from managing a fund or asset-backed financing structure should result in the consolidation of the entity, (2) limited partnerships and similar entities should be consolidated, and (3) variable interests held by the reporting entity's related parties or de facto agents affect its consolidation conclusion. The amendments of this update are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. The ASU is not expected to have a significant impact on W.T.B.'s consolidated financial statements.

ASU 2015-03, *Interest-Imputation of Interest (Subtopic 835-30)*. This ASU changes the presentation of debt issuance costs in financial statements. Under previous guidance, an entity reported debt issuance costs in the balance sheet as deferred charges (i.e. as an asset). Under this ASU, an entity presents such costs in the balance sheet as a direct deduction from the related debt liability, consistent with debt discounts. Amortization of the costs is reported in interest expense. The amendments of this update are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. The ASU is not expected to have a significant impact on W.T.B.'s consolidated financial statements.

ASU 2016-01, *Financial Instruments--Overall (Topic 825-10)*. This ASU helps to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments in this ASU address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments of this update are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The ASU is not expected to have a significant impact on W.T.B.'s consolidated financial statements.

## Note 1: Summary of Significant Accounting Policies (continued)

***Recent Accounting Pronouncements (continued)***

ASU 2016-02, *Leases (Topic 842)*. The new standard requires substantially all leases to be recognized by lessees on their balance sheets as a right-of-use asset and a corresponding lease liability but recognize expenses in their income statements in a manner similar to current practice. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. The amendments of this update are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. W.T.B. is currently evaluating the provisions of this ASU to determine the potential impact the new standard will have on W.T.B.'s consolidated financial statements.

## Note 2: Cash and Due from Banks

Federal Reserve Board regulations require depository institutions to maintain minimum reserve balances in the form of cash on hand or deposits with the Federal Reserve Bank. At December 31, 2015 and 2014, these reserve balance requirements were $20,953,000 and $16,843,000, respectively, which were met by the Bank.

## Note 3: Securities

The amortized costs and fair values for securities as of December 31, 2015 and 2014 were as follows:

| | 2015 | | | |
|---|---|---|---|---|
| **Securities Available for Sale:** | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| U.S. Treasury and federal agencies | $ 208,344,764 | $ 137,136 | $ 836,078 | $ 207,645,822 |
| States and political subdivisions | 1,510,804 | 71,642 | - | 1,582,446 |
| Mortgage-backed securities | 472,472,981 | 1,624,665 | 3,447,968 | 470,649,678 |
| | $ 682,328,549 | $ 1,833,443 | $ 4,284,046 | $ 679,877,946 |

| | 2014 | | | |
|---|---|---|---|---|
| **Securities Available for Sale:** | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| U.S. Treasury and federal agencies | $ 222,338,501 | $ 893 | $ 2,166,612 | $ 220,172,782 |
| States and political subdivisions | 2,516,026 | 76,803 | 3,630 | 2,589,199 |
| Mortgage-backed securities | 250,757,950 | 3,734,437 | 383,412 | 254,108,975 |
| | $ 475,612,477 | $ 3,812,133 | $ 2,553,654 | $ 476,870,956 |

| | 2015 | | | |
|---|---|---|---|---|
| **Securities Held to Maturity:** | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| U.S. Treasury and federal agencies | $ 302,005,672 | $ 598,724 | $ 1,069,710 | $ 301,534,686 |
| States and political subdivisions | 2,533,835 | 14,157 | 488 | 2,547,504 |
| Mortgage-backed securities | 177,874,938 | 281,052 | 1,249,722 | 176,906,268 |
| | $ 482,414,445 | $ 893,933 | $ 2,319,920 | $ 480,988,458 |

| | 2014 | | | |
|---|---|---|---|---|
| **Securities Held to Maturity:** | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| U.S. Treasury and federal agencies | $ 252,753,484 | $ - | $ 2,443,170 | $ 250,310,314 |
| Mortgage-backed securities | 177,708,546 | 506,133 | 821,481 | 177,393,198 |
| | $ 430,462,030 | $ 506,133 | $ 3,264,651 | $ 427,703,512 |

**Note 3: Securities (continued)**

The following tables show the gross unrealized losses and fair value, aggregated by category and the length of time that individual securities have been in a continuous unrealized loss position at December 31, 2015 and 2014.

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than 12 Months | | 12 Months or More | | Total | |
| **Securities Available for Sale:** | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. Treasury and federal agencies | $ 142,271,573 | $ 836,078 | $ - | $ - | $ 142,271,573 | $ 836,078 |
| Mortgage-backed securities | 372,052,858 | 3,135,905 | 15,838,192 | 312,063 | 387,891,050 | 3,447,968 |
| | $ 514,324,431 | $ 3,971,983 | $ 15,838,192 | $ 312,063 | $ 530,162,623 | $ 4,284,046 |

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than 12 Months | | 12 Months or More | | Total | |
| **Securities Available for Sale:** | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. Treasury and federal agencies | $ 80,354,700 | $ 200,628 | $ 138,818,160 | $ 1,965,984 | $ 219,172,860 | $ 2,166,612 |
| States and political subdivisions | - | - | 1,003,270 | 3,630 | 1,003,270 | 3,630 |
| Mortgage-backed securities | 43,844,162 | 202,678 | 20,474,884 | 180,734 | 64,319,046 | 383,412 |
| | $ 124,198,862 | $ 403,306 | $ 160,296,314 | $ 2,150,348 | $ 284,495,176 | $ 2,553,654 |

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than 12 Months | | 12 Months or More | | Total | |
| **Securities Held to Maturity:** | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. Treasury and federal agencies | $ 70,795,807 | $ 455,248 | $ 57,301,470 | $ 614,462 | $ 128,097,277 | $ 1,069,710 |
| States and political subdivisions | 597,230 | 488 | - | - | 597,230 | 488 |
| Mortgage-backed securities | 100,833,184 | 658,072 | 33,564,481 | 591,650 | 134,397,665 | 1,249,722 |
| | $ 172,226,221 | $ 1,113,808 | $ 90,865,951 | $ 1,206,112 | $ 263,092,172 | $ 2,319,920 |

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than 12 Months | | 12 Months or More | | Total | |
| **Securities Held to Maturity:** | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. Treasury and federal agencies | $ 55,799,788 | $ 739,880 | $ 194,510,526 | $ 1,703,290 | $ 250,310,314 | $ 2,443,170 |
| Mortgage-backed securities | 92,533,653 | 367,497 | 32,323,277 | 453,984 | 124,856,930 | 821,481 |
| | $ 148,333,441 | $ 1,107,377 | $ 226,833,803 | $ 2,157,274 | $ 375,167,244 | $ 3,264,651 |

The above table represents 49 available-for-sale and 25 held-to-maturity securities for which the fair value at December 31, 2015, was less than the amortized cost. There were 20 available-for-sale securities and 25 held-to-maturity securities in an unrealized loss position as of December 31, 2014.

W.T.B. reviews investment securities on an ongoing basis for the presence of OTTI. As of December 31, 2015, there were 2 available-for-sale and 7 held-to-maturity securities in the gross unrealized loss position for twelve months or more. Management takes into consideration current market conditions, fair value in relationship to cost, extent and nature of the decline in fair value, issuer rating changes and trends, intent to sell the security or if it is likely that we will be required to sell the security before recovery of our amortized cost basis, or recorded cost if previously written down, of the investment and other factors. We do not consider the unrealized losses on these securities to be OTTI as of December 31, 2015.

W.T.B. adopted a provision of GAAP that provides for the bifurcation of OTTI into two categories: (a) the amount of the total OTTI related to the decrease in cash flows expected to be collected from the debt security (the credit loss) that is recognized in earnings and (b) the amount of the total OTTI related to all other factors that is recognized net of income taxes, as a component of OCI. W.T.B. recorded, during the year ended December 31, 2015, 2014 and 2013, no impairments through OCI or through earnings. There were no securities with OTTI losses recognized as of December 31, 2015 and 2014.

**Note 3: Securities (continued)**

As of December 31, 2015, investment securities were pledged for the following obligations:

| | Securities Available for Sale | | Securities Held to Maturity | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Repurchase agreements | $ 93,302,551 | $ 93,447,589 | $ 215,241,117 | $ 213,894,378 |
| State and local government public deposits | 25,295,695 | 25,054,250 | 57,789,749 | 57,762,942 |
| Other | 19,723,680 | 19,718,743 | 69,060,540 | 68,963,995 |
| | $ 138,321,926 | $ 138,220,582 | $ 342,091,406 | $ 340,621,315 |

Proceeds from the sale of available-for-sale securities in 2015 were $74,244,982, resulting in gross gains of $605,669 and no gross losses. Proceeds from the sale of available-for-sale securities in 2014 were $132,301,398, resulting in gross gains of $271,129 and gross losses of $194,003. Proceeds from the sale of available-for-sale securities in 2013 were $506,971,737, resulting in gross gains of $11,422,361 and gross losses of $135,784.

The amortized costs and fair values of debt securities by years to maturity as of December 31, 2015 are in the table below. Maturities of mortgage-backed securities are classified in accordance with the contractual maturity dates. Expected maturities will differ from contractual maturities since issuers may have the right to call or prepay obligations.

| | Securities Available for Sale | | Securities Held to Maturity | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Due after one year through five years | $ 208,760,950 | $ 208,125,215 | $ 160,321,124 | $ 159,435,466 |
| Due after five years through ten years | 78,082,476 | 78,917,190 | 143,777,829 | 144,287,583 |
| Due after ten years | 395,485,123 | 392,835,541 | 178,315,492 | 177,265,409 |
| | $ 682,328,549 | $ 679,877,946 | $ 482,414,445 | $ 480,988,458 |

**Note 4: Loans and Allowance for Loan Losses**

***Loans***

Loans held in portfolio as of December 31 were as follows:

| | 2015 | 2014 |
|---|---|---|
| Commercial and industrial | $ 1,107,661,571 | $ 1,009,506,022 |
| Agricultural | 205,604,698 | 216,929,474 |
| Commercial real estate | | |
| Owner occupied | 548,585,051 | 489,343,374 |
| Non-owner occupied | 587,725,001 | 554,065,922 |
| Construction and development | | |
| Commercial | 221,231,546 | 207,843,325 |
| Residential | 167,483,319 | 158,659,375 |
| Residential real estate | | |
| First mortgage | 356,365,041 | 340,846,195 |
| Junior mortgage | 30,633,446 | 28,274,085 |
| Revolving | 211,930,363 | 225,396,206 |
| Consumer | 95,649,828 | 111,223,221 |
| Total portfolio loans | $ 3,532,869,864 | $ 3,342,087,199 |

Loans are presented net of unamortized deferred fees and costs of $5,346,239 and $5,006,503 at December 31, 2015 and 2014, respectively. Loans of $1,866,780,759 and $2,400,666,678 were pledged at December 31, 2015 and 2014, respectively, to the FHLB and Federal Reserve to secure open borrowing lines of credit.

**Note 4: Loans and Allowance for Loan Losses (continued)**

***Allowance for Loan Losses***

The following table summarizes activity related to the allowance for loan losses and the recorded investment in loans by loan category and based on impairment method as of December 31:

| | 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Commercial and Agricultural | Real Estate Secured Commercial | Real Estate Secured Construction | Real Estate Secured Residential | Consumer | Unallocated | Total |
| Allowance for loan losses: | | | | | | | |
| Beginning balance | $ 30,588,023 | $ 13,777,999 | $ 14,738,825 | $ 19,247,065 | $ 1,812,074 | $ 1,045,949 | $ 81,209,935 |
| Charge-offs | (2,982,942) | - | (281,300) | (678,300) | (580,941) | - | (4,523,483) |
| Recoveries | 2,775,492 | 79,737 | 930,445 | 1,315,341 | 514,718 | - | 5,615,733 |
| Provision (recapture) | 2,877,466 | (3,220,507) | 4,289,444 | (868,098) | (207,284) | (204,321) | 2,666,700 |
| Ending balance | $ 33,258,039 | $ 10,637,229 | $ 19,677,414 | $ 19,016,008 | $ 1,538,567 | $ 841,628 | $ 84,968,885 |
| Ending allowance balance attributable to loans: | | | | | | | |
| Individually evaluated for impairment | $ 983,702 | $ - | $ 2,920,767 | $ 520,208 | $ - | $ - | $ 4,424,677 |
| Collectively evaluated for impairment | 32,274,336 | 10,637,230 | 16,756,647 | 18,495,800 | 1,538,567 | 841,628 | 80,544,208 |
| Total allowance for loan losses | $ 33,258,038 | $ 10,637,230 | $ 19,677,414 | $ 19,016,008 | $ 1,538,567 | $ 841,628 | $ 84,968,885 |
| Loans: | | | | | | | |
| Portfolio loans: | | | | | | | |
| Loans individually evaluated for impairment | $ 7,310,168 | $ 645,355 | $ 17,478,235 | $ 1,325,562 | $ - | | $ 26,759,320 |
| Loans collectively evaluated for impairment | 1,305,956,101 | 1,135,664,697 | 371,236,630 | 597,603,288 | 95,649,828 | | 3,506,110,544 |
| Total portfolio loans | $ 1,313,266,269 | $1,136,310,052 | $ 388,714,865 | $ 598,928,850 | $ 95,649,828 | | $ 3,532,869,864 |

| | 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Commercial and Agricultural | Real Estate Secured Commercial | Real Estate Secured Construction | Real Estate Secured Residential | Consumer | Unallocated | Total |
| Allowance for loan losses: | | | | | | | |
| Beginning balance | $ 23,252,033 | $ 11,759,551 | $ 18,576,408 | $ 25,332,948 | $ 1,831,323 | $ 1,674,469 | $ 82,426,732 |
| Charge-offs | (9,387,313) | (230,679) | (299,858) | (1,768,128) | (1,498,800) | - | (13,184,778) |
| Recoveries | 3,472,628 | 129,449 | 618,474 | 1,452,856 | 294,574 | - | 5,967,981 |
| Provision (recapture) | 13,250,675 | 2,119,678 | (4,156,199) | (5,770,611) | 1,184,977 | (628,520) | 6,000,000 |
| Ending balance | $ 30,588,023 | $ 13,777,999 | $ 14,738,825 | $ 19,247,065 | $ 1,812,074 | $ 1,045,949 | $ 81,209,935 |
| Ending allowance balance attributable to loans: | | | | | | | |
| Individually evaluated for impairment | $ 784,367 | $ - | $ 2,393,961 | $ 164,220 | $ - | $ - | $ 3,342,548 |
| Collectively evaluated for impairment | 29,803,656 | 13,777,999 | 12,344,864 | 19,082,845 | 1,812,074 | 1,045,949 | 77,867,387 |
| Total allowance for loan losses | $ 30,588,023 | $ 13,777,999 | $ 14,738,825 | $ 19,247,065 | $ 1,812,074 | $ 1,045,949 | $ 81,209,935 |
| Loans: | | | | | | | |
| Portfolio loans: | | | | | | | |
| Loans individually evaluated for impairment | $ 8,624,262 | $ 2,508,036 | $ 21,763,952 | $ 3,554,463 | $ - | | $ 36,450,713 |
| Loans collectively evaluated for impairment | 1,217,811,234 | 1,040,901,260 | 344,738,748 | 590,962,023 | 111,223,221 | | 3,305,636,486 |
| Total portfolio loans | $ 1,226,435,496 | $1,043,409,296 | $ 366,502,700 | $ 594,516,486 | $ 111,223,221 | | $ 3,342,087,199 |

**Note 4: Loans and Allowance for Loan Losses (continued)**

***Allowance for Loan Losses (continued)***

| | 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Commercial and Agricultural | Real Estate Secured Commercial | Real Estate Secured Construction | Real Estate Secured Residential | Consumer | Unallocated | Total |
| Allowance for loan losses: | | | | | | | |
| Beginning balance | $ 16,849,964 | $ 14,997,394 | $ 14,040,207 | $ 26,484,758 | $ 1,864,929 | $ 2,297,545 | $ 76,534,797 |
| Charge-offs | (2,114,255) | (42,468) | (840,799) | (3,304,562) | (589,126) | - | (6,891,210) |
| Recoveries | 2,270,341 | 204,627 | 1,715,846 | 1,487,325 | 338,340 | - | 6,016,479 |
| Provision (recapture) | 6,245,983 | (3,400,002) | 3,661,154 | 665,427 | 217,180 | (623,076) | 6,766,666 |
| Ending balance | $ 23,252,033 | $ 11,759,551 | $ 18,576,408 | $ 25,332,948 | $ 1,831,323 | $ 1,674,469 | $ 82,426,732 |
| Ending allowance balance attributable to loans: | | | | | | | |
| Individually evaluated for impairment | $ 1,048,900 | $ 311,816 | $ 2,012,223 | $ 312,325 | $ - | $ - | $ 3,685,264 |
| Collectively evaluated for impairment | 22,203,133 | 11,447,735 | 16,564,185 | 25,020,623 | 1,831,323 | 1,674,469 | 78,741,468 |
| Total allowance for loan losses | $ 23,252,033 | $ 11,759,551 | $ 18,576,408 | $ 25,332,948 | $ 1,831,323 | $ 1,674,469 | $ 82,426,732 |
| Loans: | | | | | | | |
| Portfolio loans: | | | | | | | |
| Loans individually evaluated for impairment | $ 8,868,800 | $ 7,351,840 | $ 27,081,188 | $ 4,590,308 | $ - | | $ 47,892,136 |
| Loans collectively evaluated for impairment | 1,073,302,683 | 981,525,282 | 342,314,829 | 612,468,952 | 109,139,716 | | 3,118,751,462 |
| Total portfolio loans | $ 1,082,171,483 | $ 988,877,122 | $ 369,396,017 | $ 617,059,260 | $ 109,139,716 | | $ 3,166,643,598 |

### *Impaired Loans*

The following table presents impaired loans and the related valuation allowance.

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| December 31: | | | |
| Nonaccrual loans | $ 18,426,803 | $ 28,281,113 | $ 30,579,280 |
| Accruing troubled debt restructurings | 14,814,920 | 15,646,589 | 23,825,825 |
| Loans past due 90 days or more and still accruing | 289,618 | 177,990 | 731,223 |
| Total impaired loans | $ 33,531,341 | $ 44,105,692 | $ 55,136,328 |
| Impaired loans with no valuation allowance | $ 5,512,082 | $ 13,500,330 | $ 17,094,108 |
| Impaired loans with a valuation allowance | 28,019,259 | 30,605,362 | 38,042,220 |
| Total impaired loans | $ 33,531,341 | $ 44,105,692 | $ 55,136,328 |
| Allowance on impaired loans | $ 5,361,248 | $ 4,260,046 | $ 4,608,563 |
| For the years ended December 31: | | | |
| Average impaired loans | $ 38,162,910 | $ 50,312,765 | $ 65,849,365 |
| Cash-basis interest income | $ 1,131,725 | $ 1,770,940 | $ 1,452,446 |

Commitments to advance additional funds in connection with impaired loans were $935,369 and $948,068 at December 31, 2015 and 2014, respectively.

W.T.B. recognizes the charge-off in the period in which it arises for collateral dependent loans. Therefore, impaired collateral dependent loans have been written-down to their estimated net realizable value, based on disposition value.

**Note 4: Loans and Allowance for Loan Losses (continued)**

***Impaired Loans (continued)***

The following table presents impaired loans by category as of December 31:

| | 2015 | | | | |
|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Contractual Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
| Loans with no related allowance recorded: | | | | | |
| Commercial and industrial | $ 266,000 | $ 1,495,203 | $ - | $ 431,935 | $ 34,889 |
| Agricultural | 393,017 | 1,170,457 | - | 483,469 | 693 |
| Commercial real estate | | | | | |
| Owner occupied | 645,354 | 937,112 | - | 1,231,830 | 358,789 |
| Non-owner occupied | - | - | - | 34,601 | - |
| Construction and development | | | | | |
| Commercial | - | - | - | 574,192 | - |
| Residential | 3,707,519 | 5,790,436 | - | 6,719,439 | 9,662 |
| Residential real estate | | | | | |
| First mortgage | 500,192 | 709,476 | - | 954,134 | - |
| Junior mortgage | - | - | - | - | - |
| Revolving | - | - | - | - | - |
| Consumer | - | - | - | - | - |
| Total loans with no related allowance recorded | 5,512,082 | 10,102,684 | - | 10,429,600 | 404,033 |
| Loans with related allowance recorded: | | | | | |
| Commercial and industrial | 7,772,127 | 8,241,249 | 1,120,029 | 8,660,227 | 261,760 |
| Agricultural | 721,788 | 734,304 | 118,528 | 803,388 | - |
| Commercial real estate | | | | | |
| Owner occupied | 477,001 | 578,747 | 65,969 | 708,366 | 51,843 |
| Non-owner occupied | 273,870 | 291,155 | 37,876 | 341,664 | 13,961 |
| Construction and development | | | | | |
| Commercial | 48,696 | 128,528 | 2,570 | 4,641,167 | - |
| Residential | 14,170,943 | 25,258,259 | 2,980,283 | 8,095,599 | 340,579 |
| Residential real estate | | | | | |
| First mortgage | 2,206,782 | 4,092,596 | 711,257 | 2,124,082 | 7,359 |
| Junior mortgage | 1,279,743 | 1,541,620 | 176,989 | 1,356,275 | 33,408 |
| Revolving | 681,882 | 971,582 | 94,304 | 728,036 | 2,369 |
| Consumer | 386,427 | 385,154 | 53,443 | 274,506 | 16,413 |
| Total loans with related allowance recorded | 28,019,259 | 42,223,194 | 5,361,248 | 27,733,310 | 727,692 |
| Total impaired loans: | | | | | |
| Commercial and industrial | 8,038,127 | 9,736,452 | 1,120,029 | 9,092,162 | 296,649 |
| Agricultural | 1,114,805 | 1,904,761 | 118,528 | 1,286,857 | 693 |
| Commercial real estate | | | | | |
| Owner occupied | 1,122,355 | 1,515,859 | 65,969 | 1,940,196 | 410,632 |
| Non-owner occupied | 273,870 | 291,155 | 37,876 | 376,265 | 13,961 |
| Construction and development | | | | | |
| Commercial | 48,696 | 128,528 | 2,570 | 5,215,359 | - |
| Residential | 17,878,462 | 31,048,695 | 2,980,283 | 14,815,038 | 350,241 |
| Residential real estate | | | | | |
| First mortgage | 2,706,974 | 4,802,072 | 711,257 | 3,078,216 | 7,359 |
| Junior mortgage | 1,279,743 | 1,541,620 | 176,989 | 1,356,275 | 33,408 |
| Revolving | 681,882 | 971,582 | 94,304 | 728,036 | 2,369 |
| Consumer | 386,427 | 385,154 | 53,443 | 274,506 | 16,413 |
| Total impaired loans | $ 33,531,341 | $ 52,325,878 | $ 5,361,248 | $ 38,162,910 | $ 1,131,725 |

**Note 4: Loans and Allowance for Loan Losses (continued)**
***Impaired Loans (continued)***

| | 2014 | | | | |
|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Contractual Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
| Loans with no related allowance recorded: | | | | | |
| Commercial and industrial | $ 263,198 | $ 304,425 | $ - | $ 955,695 | $ 56,855 |
| Agricultural | 569,729 | 587,935 | - | 444,833 | 296,810 |
| Commercial real estate | | | | | |
| Owner occupied | 2,001,541 | 2,593,443 | - | 2,950,725 | 15,030 |
| Non-owner occupied | 780,159 | 891,593 | - | 1,102,520 | 26,411 |
| Construction and development | | | | | |
| Commercial | - | - | - | 291,688 | - |
| Residential | 8,064,881 | 18,815,897 | - | 9,208,198 | 190,418 |
| Residential real estate | | | | | |
| First mortgage | 1,820,822 | 1,976,170 | - | 1,991,213 | 89,802 |
| Junior mortgage | - | - | - | 23,025 | 33,497 |
| Revolving | - | - | - | - | - |
| Consumer | - | - | - | - | - |
| Total loans with no related allowance recorded | 13,500,330 | 25,169,463 | - | 16,967,897 | 708,823 |
| Loans with related allowance recorded: | | | | | |
| Commercial and industrial | 9,393,115 | 10,353,173 | 983,468 | 7,842,748 | 256,023 |
| Agricultural | 260,857 | 265,166 | 32,424 | 239,102 | - |
| Commercial real estate | | | | | |
| Owner occupied | 573,300 | 618,378 | 71,261 | 1,230,538 | 34,699 |
| Non-owner occupied | 445,780 | 457,752 | 55,410 | 2,255,523 | 94,284 |
| Construction and development | | | | | |
| Commercial | 604,622 | 664,462 | 45,614 | 434,961 | 167,474 |
| Residential | 13,417,970 | 16,540,850 | 2,388,561 | 14,524,187 | 356,144 |
| Residential real estate | | | | | |
| First mortgage | 3,320,597 | 5,592,295 | 361,479 | 4,022,905 | 50,555 |
| Junior mortgage | 1,393,922 | 1,615,625 | 173,265 | 1,522,326 | 55,246 |
| Revolving | 890,857 | 1,201,222 | 110,734 | 875,221 | 4,876 |
| Consumer | 304,342 | 304,343 | 37,830 | 397,357 | 42,816 |
| Total loans with related allowance recorded | 30,605,362 | 37,613,266 | 4,260,046 | 33,344,868 | 1,062,117 |
| Total impaired loans: | | | | | |
| Commercial and industrial | 9,656,313 | 10,657,598 | 983,468 | 8,798,443 | 312,878 |
| Agricultural | 830,586 | 853,101 | 32,424 | 683,935 | 296,810 |
| Commercial real estate | | | | | |
| Owner occupied | 2,574,841 | 3,211,821 | 71,261 | 4,181,263 | 49,729 |
| Non-owner occupied | 1,225,939 | 1,349,345 | 55,410 | 3,358,043 | 120,695 |
| Construction and development | | | | | |
| Commercial | 604,622 | 664,462 | 45,614 | 726,649 | 167,474 |
| Residential | 21,482,851 | 35,356,747 | 2,388,561 | 23,732,385 | 546,562 |
| Residential real estate | | | | | |
| First mortgage | 5,141,419 | 7,568,465 | 361,479 | 6,014,118 | 140,357 |
| Junior mortgage | 1,393,922 | 1,615,625 | 173,265 | 1,545,351 | 88,743 |
| Revolving | 890,857 | 1,201,222 | 110,734 | 875,221 | 4,876 |
| Consumer | 304,342 | 304,343 | 37,830 | 397,357 | 42,816 |
| Total impaired loans | $ 44,105,692 | $ 62,782,729 | $ 4,260,046 | $ 50,312,765 | $ 1,770,940 |

**Note 4: Loans and Allowance for Loan Losses (continued)**
***Impaired Loans (continued)***

| | 2013 | | | | |
|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Contractual Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
| Loans with no related allowance recorded: | | | | | |
| Commercial and industrial | $ 1,943,233 | $ 2,742,888 | $ - | $ 2,044,147 | $ - |
| Agricultural | - | - | - | - | - |
| Commercial real estate | | | | | |
| Owner occupied | 881,924 | 1,067,313 | - | 751,773 | - |
| Non-owner occupied | 1,962,779 | 2,162,543 | - | 3,361,561 | - |
| Construction and development | | | | | |
| Commercial | 740,548 | 765,550 | - | 249,826 | - |
| Residential | 9,935,657 | 20,475,232 | - | 12,231,489 | - |
| Residential real estate | | | | | |
| First mortgage | 1,629,967 | 1,920,825 | - | 1,651,233 | - |
| Junior mortgage | - | - | - | 15,526 | - |
| Revolving | - | - | - | - | - |
| Consumer | - | - | - | 19,286 | - |
| Total loans with no related allowance recorded | 17,094,108 | 29,134,351 | - | 20,324,841 | - |
| Loans with related allowance recorded: | | | | | |
| Commercial and industrial | 7,769,773 | 9,023,391 | 1,210,877 | 8,055,560 | 292,268 |
| Agricultural | - | - | - | - | - |
| Commercial real estate | | | | | |
| Owner occupied | 2,672,279 | 3,099,637 | 172,996 | 2,871,710 | 18,919 |
| Non-owner occupied | 3,261,167 | 3,285,457 | 302,651 | 5,647,530 | 136,058 |
| Construction and development | | | | | |
| Commercial | 8,991,809 | 12,742,374 | 483,241 | 9,971,160 | 626,774 |
| Residential | 7,578,758 | 8,913,087 | 1,548,002 | 8,769,180 | 104,293 |
| Residential real estate | | | | | |
| First mortgage | 4,811,228 | 7,688,516 | 551,120 | 7,186,935 | 212,086 |
| Junior mortgage | 1,671,211 | 1,757,708 | 191,962 | 1,745,768 | 37,157 |
| Revolving | 853,854 | 1,131,493 | 98,077 | 794,521 | 8,516 |
| Consumer | 432,141 | 440,173 | 49,637 | 482,160 | 16,375 |
| Total loans with related allowance recorded | 38,042,220 | 48,081,836 | 4,608,563 | 45,524,524 | 1,452,446 |
| Total impaired loans: | | | | | |
| Commercial and industrial | 9,713,006 | 11,766,279 | 1,210,877 | 10,099,707 | 292,268 |
| Agricultural | - | - | - | - | - |
| Commercial real estate | | | | | |
| Owner occupied | 3,554,203 | 4,166,950 | 172,996 | 3,623,483 | 18,919 |
| Non-owner occupied | 5,223,946 | 5,448,000 | 302,651 | 9,009,091 | 136,058 |
| Construction and development | | | | | |
| Commercial | 9,732,357 | 13,507,924 | 483,241 | 10,220,986 | 626,774 |
| Residential | 17,514,415 | 29,388,319 | 1,548,002 | 21,000,669 | 104,293 |
| Residential real estate | | | | | |
| First mortgage | 6,441,195 | 9,609,341 | 551,120 | 8,838,168 | 212,086 |
| Junior mortgage | 1,671,211 | 1,757,708 | 191,962 | 1,761,294 | 37,157 |
| Revolving | 853,854 | 1,131,493 | 98,077 | 794,521 | 8,516 |
| Consumer | 432,141 | 440,173 | 49,637 | 501,446 | 16,375 |
| Total impaired loans | $ 55,136,328 | $ 77,216,187 | $ 4,608,563 | $ 65,849,365 | $ 1,452,446 |

**Note 4: Loans and Allowance for Loan Losses (continued)**
***Troubled Debt Restructurings***
Included in impaired loans are troubled debt restructurings. At December 31, 2015 and 2014, respectively, W.T.B. reported loans totaling $12,019,757 and $17,182,609 that were troubled debt restructurings and on nonaccrual status. In addition to these amounts, W.T.B. had troubled debt restructurings of $14,814,920 and $15,646,589 at December 31, 2015 and 2014, respectively, which were performing in accordance with their modified terms and were on accrual status. W.T.B. has committed to lend additional amounts totaling up to $865,836 and $470,759 to customers with outstanding loans that were classified as troubled debt restructurings as of December 31, 2015 and 2014, respectively.

The carrying value of loans modified in troubled debt restructurings is measured by either the present value of expected future cash flows, or for collateral dependent loans, at the fair value of the collateral, less selling costs. If the measurement of each troubled debt restructuring's value is less than the recorded investment in the loan, the Bank recognizes this impairment and adjusts the carrying value of the loan through the allowance for loan losses.

In certain circumstances, W.T.B. may offer one, or more, loan modifications to borrowers. The types of loan modifications offered typically impact loan payment amounts in the following ways:

- Rate Modification: A modification in which the interest rate is changed.
- Term Modification: A modification in which the maturity date, timing of payments, or frequency of payments is changed.
- Interest Only Modification: A modification in which the loan is converted to interest only payments for a period of time.
- Payment Modification: A modification in which the dollar amount of the payment is changed, other than as a result of any of the modifications described above.
- Combination Modification: Any other type of modification, including the use of multiple categories above.

Loans modified and recorded as troubled debt restructurings during the year ended December 31:

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| Commercial and industrial | 3 | $ 943,831 | $ 950,916 | - | $ - | $ - |
| Residential real estate | | | | | | |
| First mortgage | 1 | 4,948 | 4,698 | - | - | - |
| Consumer | 1 | 27,833 | 27,833 | 4 | 81,927 | 77,000 |
| Total | 5 | $ 976,612 | $ 983,447 | 4 | $ 81,927 | $ 77,000 |

| | 2013 | | |
|---|---|---|---|
| | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| Commercial and industrial | 4 | $ 154,180 | $ 152,800 |
| Commercial real estate | | | |
| Owner occupied | 1 | 343,259 | 343,259 |
| Non-owner occupied | 1 | 1,485,000 | 1,485,000 |
| Construction and development | | | |
| Commercial | 1 | 802,170 | 802,170 |
| Residential real estate | | | |
| Revolving | 1 | 135,000 | 129,722 |
| Consumer | 15 | 151,772 | 151,676 |
| Total | 23 | $ 3,071,381 | $ 3,064,627 |

**Note 4: Loans and Allowance for Loan Losses (continued)**

***Troubled Debt Restructurings (continued)***

During 2015, the Bank had only one restructured consumer loan with an interest only modification, which had no change in the recorded investment of balance of $27,833 as a result of the modification. All other restructured loans during 2015 were combination modifications. All restructured loans during 2014 and 2013 were combination modifications.

A default on a troubled debt restructuring is when a loan is more than 90 days delinquent on its contractual payment or is in nonaccrual status. The following table presents restructured loans which were on nonaccrual status at the time of restructuring or incurred a default within the years ended December 31, 2015, 2014 and 2013, respectively, for which the default occurred within twelve months of the restructure date.

| | 2015 | | 2014 | | 2013 | |
|---|---|---|---|---|---|---|
| | Number of Contracts | Recorded Investment | Number of Contracts | Recorded Investment | Number of Contracts | Recorded Investment |
| Troubled debt restructurings that subsequently defaulted: | | | | | | |
| Commercial and industrial | 2 | $ 154,404 | 2 | $ 125,914 | 1 | $ 353,052 |
| Construction and development | | | | | | |
| Commercial | - | - | - | - | 1 | 787,389 |
| Residential | - | - | - | - | 3 | 676,347 |
| Residential real estate | | | | | | |
| First mortgage | 1 | 13,001 | - | - | 1 | 62,127 |
| Junior mortgage | - | - | - | - | 2 | 80,639 |
| Revolving | - | - | - | - | 1 | 129,722 |
| Consumer | 1 | 19,702 | - | - | 2 | 17,156 |
| | 4 | $ 187,107 | 2 | $ 125,914 | 11 | $ 2,106,432 |

***Credit Quality Indicators***

The following table presents the recorded investment in noncurrent loans and an aging of loans as of December 31:

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Noncurrent Loans | | | | | |
| | Nonaccrual | Past Due 90 or More Days and Still Accruing | Total | Loans Past Due 30-89 Days Still Accruing | Current Loans | Total Loans |
| Commercial and industrial | $ 1,369,891 | $ 500 | $ 1,370,391 | $ 948,830 | $ 1,105,342,350 | $ 1,107,661,571 |
| Agricultural | 1,114,805 | - | 1,114,805 | - | 204,489,893 | 205,604,698 |
| Commercial real estate | | | | | | |
| Owner occupied | 821,630 | - | 821,630 | 87,957 | 547,675,464 | 548,585,051 |
| Non-owner occupied | 62,304 | - | 62,304 | - | 587,662,697 | 587,725,001 |
| Construction and development | | | | | | |
| Commercial | 48,696 | - | 48,696 | - | 221,182,850 | 221,231,546 |
| Residential | 11,290,085 | - | 11,290,085 | 1,733,119 | 154,460,115 | 167,483,319 |
| Residential real estate | | | | | | |
| First mortgage | 2,585,121 | 13,001 | 2,598,122 | 2,022,131 | 351,744,788 | 356,365,041 |
| Junior mortgage | 578,547 | - | 578,547 | 93,877 | 29,961,022 | 30,633,446 |
| Revolving | 530,724 | 85,000 | 615,724 | 225,887 | 211,088,752 | 211,930,363 |
| Consumer | 25,000 | 191,117 | 216,117 | 208,528 | 95,225,183 | 95,649,828 |
| Total portfolio loans | $ 18,426,803 | $ 289,618 | $ 18,716,421 | $ 5,320,329 | $ 3,508,833,114 | $ 3,532,869,864 |

**Note 4: Loans and Allowance for Loan Losses (continued)**
***Credit Quality Indicators (continued)***

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Noncurrent Loans | | | Loans Past Due 30-89 Days Still Accruing | Current Loans | Total Loans |
| | Nonaccrual | Past Due 90 or More Days and Still Accruing | Total | | | |
| Commercial and industrial | $ 4,067,743 | $ - | $ 4,067,743 | $ 942,245 | $ 1,004,496,034 | $ 1,009,506,022 |
| Agricultural | 710,101 | 120,485 | 830,586 | 501,601 | 215,597,287 | 216,929,474 |
| Commercial real estate | | | | | | |
| Owner occupied | 2,257,340 | - | 2,257,340 | 35,000 | 487,051,034 | 489,343,374 |
| Non-owner occupied | 861,614 | - | 861,614 | 359,063 | 552,845,245 | 554,065,922 |
| Construction and development | | | | | | |
| Commercial | 604,622 | - | 604,622 | - | 207,238,703 | 207,843,325 |
| Residential | 13,385,481 | - | 13,385,481 | - | 145,273,894 | 158,659,375 |
| Residential real estate | | | | | | |
| First mortgage | 5,002,148 | 204 | 5,002,352 | 1,688,069 | 334,155,774 | 340,846,195 |
| Junior mortgage | 637,590 | - | 637,590 | 138,971 | 27,497,524 | 28,274,085 |
| Revolving | 754,474 | 24,658 | 779,132 | 483,524 | 224,133,550 | 225,396,206 |
| Consumer | - | 32,643 | 32,643 | 257,667 | 110,932,911 | 111,223,221 |
| Total portfolio loans | $ 28,281,113 | $ 177,990 | $ 28,459,103 | $ 4,406,140 | $ 3,309,221,956 | $ 3,342,087,199 |

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors.

The Bank analyzes all loans as to credit risk. All extensions of credit have a loan risk grade assigned either individually or on a pooled basis. This analysis is performed on a monthly basis.

The Bank uses risk categories that have the following definitions:

- Pass: Loans classified as pass have minimal risk to acceptable risk, but may require additional monitoring, and do not meet the criteria of the higher risk grade categories.
- Special Mention: Loans classified as special mention have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.
- Substandard: Loans classified as substandard are inadequately protected by the current net worth and/or paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt in full. Substandard loans are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.
- Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and collateral values, highly questionable and improbable.
- Loss: Loans classified as loss are considered uncollectible, and therefore, continuing to reflect their balances on the books is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off the asset, even though partial recovery may be possible in the future.

All loans classified loss, doubtful, all non-accruing loans classified substandard, all loans over 90 days past due and still accruing interest, and all troubled debt restructurings (accruing interest and those on nonaccrual) are classified as impaired.

**Note 4: Loans and Allowance for Loan Losses (continued)**

***Credit Quality Indicators (continued)***

Loans by risk categories as of December 31 were as follows:

| | 2015 | | | | |
|---|---|---|---|---|---|
| | Pass | Special Mention | Substandard | Impaired | Total |
| Commercial and industrial | $ 1,039,007,469 | $ 45,273,136 | $ 15,342,839 | $ 8,038,127 | $ 1,107,661,571 |
| Agricultural | 192,775,480 | 9,344,432 | 2,369,981 | 1,114,805 | 205,604,698 |
| Commercial real estate | | | | | |
| Owner occupied | 529,675,765 | 16,880,994 | 905,937 | 1,122,355 | 548,585,051 |
| Non-owner occupied | 583,081,187 | 3,268,849 | 1,101,095 | 273,870 | 587,725,001 |
| Construction and development | | | | | |
| Commercial | 208,003,999 | 4,843,822 | 8,335,029 | 48,696 | 221,231,546 |
| Residential | 146,319,401 | 476,562 | 2,808,894 | 17,878,462 | 167,483,319 |
| Residential real estate | | | | | |
| First mortgage | 347,286,220 | 3,891,708 | 2,480,139 | 2,706,974 | 356,365,041 |
| Junior mortgage | 28,056,925 | 660,651 | 636,127 | 1,279,743 | 30,633,446 |
| Revolving | 208,260,379 | 947,832 | 2,040,270 | 681,882 | 211,930,363 |
| Consumer | 94,638,626 | 238,208 | 386,567 | 386,427 | 95,649,828 |
| Total portfolio loans | $ 3,377,105,451 | $ 85,826,194 | $ 36,406,878 | $ 33,531,341 | $ 3,532,869,864 |

| | 2014 | | | | |
|---|---|---|---|---|---|
| | Pass | Special Mention | Substandard | Impaired | Total |
| Commercial and industrial | $ 960,114,609 | $ 18,269,293 | $ 21,465,807 | $ 9,656,313 | $ 1,009,506,022 |
| Agricultural | 208,836,721 | 4,736,694 | 2,525,473 | 830,586 | 216,929,474 |
| Commercial real estate | | | | | |
| Owner occupied | 470,225,136 | 14,474,292 | 2,069,105 | 2,574,841 | 489,343,374 |
| Non-owner occupied | 543,424,825 | 7,360,960 | 2,054,198 | 1,225,939 | 554,065,922 |
| Construction and development | | | | | |
| Commercial | 195,463,994 | 6,304,732 | 5,469,977 | 604,622 | 207,843,325 |
| Residential | 135,585,670 | 155,726 | 1,435,128 | 21,482,851 | 158,659,375 |
| Residential real estate | | | | | |
| First mortgage | 330,542,452 | 3,224,163 | 1,938,161 | 5,141,419 | 340,846,195 |
| Junior mortgage | 25,738,635 | 434,127 | 707,401 | 1,393,922 | 28,274,085 |
| Revolving | 221,405,104 | 1,356,239 | 1,744,006 | 890,857 | 225,396,206 |
| Consumer | 110,108,005 | 353,079 | 457,795 | 304,342 | 111,223,221 |
| Total portfolio loans | $ 3,201,445,151 | $ 56,669,305 | $ 39,867,051 | $ 44,105,692 | $ 3,342,087,199 |

## Note 5: Loan Servicing

Mortgage loans serviced for others are not assets of the Bank and therefore are not included in the accompanying consolidated statements of financial condition. The unpaid principal balances of mortgage loans serviced for others at December 31, 2015 and 2014, were $191,161,497 and $225,297,809, respectively. Custodial escrow balances maintained in connection with the loan servicing, and included in the Bank's demand deposits, were $1,020,666 and $1,180,080 at December 31, 2015 and 2014, respectively. The balances of loans serviced for others related to servicing rights that have been capitalized at December 31, 2015 and 2014, were $190,403,907 and $224,465,261, respectively.

**Note 5: Loan Servicing (continued)**

A summary of the carrying values and fair values of mortgage servicing rights, included in other assets, at December 31 follows:

| | 2015 | 2014 |
|---|---|---|
| Unamortized cost | $ 1,134,504 | $ 1,374,246 |
| Valuation allowance | (432,400) | (464,719) |
| Carrying value | $ 702,104 | $ 909,527 |
| Fair value | $ 1,336,194 | $ 1,542,040 |

Originated loans that were sold with servicing retained were $8,626,814, $59,952,951 and $34,372,676 in 2015, 2014 and 2013, respectively. Following is an analysis of the activity for mortgage servicing rights and the related valuation allowance for the years ended December 31:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Unamortized cost: | | | |
| Balance at beginning of year | $ 1,374,246 | $ 1,156,214 | $ 1,271,774 |
| Mortgage servicing rights capitalized | 63,764 | 536,086 | 247,003 |
| Amortization | (303,506) | (318,054) | (362,563) |
| Balance at end of year | $ 1,134,504 | $ 1,374,246 | $ 1,156,214 |

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Valuation allowance: | | | |
| Balance at beginning of year | $ (464,719) | $ (528,059) | $ (609,586) |
| Additions | (91,673) | (20,745) | (25,861) |
| Reductions | 123,992 | 84,085 | 107,388 |
| Balance at end of year | $ (432,400) | $ (464,719) | $ (528,059) |

At December 31, 2015 and 2014, the key economic assumptions of the current fair value of mortgage servicing rights were as follows:

| | 2015 | 2014 |
|---|---|---|
| Prepayment speed assumption (constant prepayment rate) | 15.09% | 16.23% |
| Discount rate | 9.51% | 9.51% |

**Note 6: Other Real Estate**

The following table summarizes activity related to other real estate for the years ended December 31:

| | 2015 | 2014 |
|---|---|---|
| Balance at beginning of year | $ 1,076,462 | $ 5,819,104 |
| Properties acquired | 1,073,048 | 488,351 |
| Sales of foreclosed properties, net | (1,755,010) | (5,196,351) |
| Valuation adjustments | (39,000) | (34,642) |
| Balance at end of year | $ 355,500 | $ 1,076,462 |

Revenues and expenses related to maintaining, operating and disposing of other real estate included the following:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Gains on sales | $ 781,204 | $ 2,762,259 | $ 1,368,493 |
| Valuation adjustments on other real estate | (39,000) | (34,642) | (6,332) |
| Net gains on other real estate | 742,204 | 2,727,617 | 1,362,161 |
| Operating expenses | (87,483) | (489,905) | (853,507) |
| Total other real estate related net income | $ 654,721 | $ 2,237,712 | $ 508,654 |

The recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process was zero as of December 31, 2015.

### Note 7: Premises and Equipment

A summary of bank premises and equipment at December 31 follows:

| | 2015 | 2014 |
|---|---|---|
| Land | $ 15,793,508 | $ 16,016,542 |
| Buildings | 67,094,972 | 64,973,331 |
| Furniture and equipment | 56,544,458 | 54,039,288 |
| | 139,432,938 | 135,029,161 |
| Less accumulated depreciation | (94,773,439) | (89,195,983) |
| | $ 44,659,499 | $ 45,833,178 |

Depreciation on bank premises and equipment was charged to occupancy expense or furniture and equipment expense in the amounts of $6,386,618, $6,337,769 and $5,901,674 in 2015, 2014 and 2013, respectively.

### Note 8: Deposits

At December 31 deposits were as follows:

| | 2015 | 2014 |
|---|---|---|
| Noninterest-bearing demand | $ 1,825,070,343 | $ 1,518,055,367 |
| Interest-bearing: | | |
| Demand | 723,201,104 | 612,254,683 |
| Savings | 1,650,771,784 | 1,561,582,893 |
| Time deposits under $250,000 | 235,087,067 | 288,209,662 |
| Time deposits $250,000 or more | 72,427,451 | 71,634,949 |
| Brokered time deposits | 33,990,301 | 30,779,495 |
| Total interest-bearing | 2,715,477,707 | 2,564,461,682 |
| | $ 4,540,548,050 | $ 4,082,517,049 |

At December 31, 2015, the scheduled maturities of time deposits, including brokered time deposits, were as follows:

| | |
|---|---|
| 2016 | $ 251,963,300 |
| 2017 | 49,188,946 |
| 2018 | 16,297,859 |
| 2019 | 11,951,773 |
| 2020 and thereafter | 12,102,941 |
| | $ 341,504,819 |

At December 31, 2015 and 2014, overdraft deposit accounts with balances of $1,548,477 and $1,158,837, respectively, have been reclassified and were reported as loans.

## Note 9: Securities Sold Under Agreements to Repurchase and Federal Funds Purchased

The following table presents information regarding securities sold under agreements to repurchase:

| | 2015 | 2014 |
|---|---|---|
| December 31: | | |
| Repurchase amount | $ 264,887,110 | $ 206,293,915 |
| Rate | 0.10% | 0.10% |
| Average for the year: | | |
| Amount | $ 238,652,599 | $ 202,845,970 |
| Rate | 0.10% | 0.10% |
| Maximum outstanding at any month end | $ 292,261,464 | $ 209,965,713 |

Securities sold under agreements to repurchase are performed with sweep accounts in conjunction with a master repurchase agreement on an overnight basis. Investment securities are pledged as collateral in an amount greater than the repurchase agreements. The Bank maintains custodial control over the securities.

At December 31, 2015 and 2014, the Bank had no outstanding federal funds purchased balances. The Bank had uncommitted federal funds line of credit agreements with financial institutions totaling $90,000,000 at December 31, 2015. Availability of the lines is subject to federal funds balances available for loan, continued borrower eligibility and are reviewed and renewed periodically by the issuing correspondent banks throughout the year. These lines are intended to support the Bank's short-term liquidity needs, and the agreements may restrict consecutive day usage. Federal funds purchased typically mature within one day and interest is payable at the then stated rate.

## Note 10: FHLB Borrowings

The Bank maintains a borrowing arrangement with the FHLB of Des Moines to borrow funds under a short-term floating-rate cash management advance program and fixed-term loan agreements. FHLB borrowings consist of FHLB notes and advances. The Bank's borrowing line with the FHLB allows borrowings up to the lesser of 25% of total assets or adjusted qualifying collateral pledged, which, based upon adjusted qualifying collateral pledged, provided a maximum available credit line of $627,538,000 at December 31, 2015.

There were no outstanding FHLB advances as of December 31, 2015 and 2014, respectively. The following table summarizes FHLB advances for the years ended December 31:

| | 2015 | 2014 |
|---|---|---|
| Average for the year: | | |
| Amount | $ 1,507 | $ 33,973 |
| Rate | 0.31% | 0.29% |
| Maximum outstanding at any month-end | $ 25,000 | $ - |

## Note 11: Other Borrowings

Other borrowings consist of Federal Reserve Bank discount window borrowings. The Bank has established a borrowing line with the Federal Reserve Bank to borrow up to the qualifying collateral pledged, which provided a maximum available credit line of $686,124,000 at December 31, 2015 with interest payable at the then stated rate. Federal Reserve Bank discount window borrowings are intended to support short term liquidity needs. There were no Federal Reserve Bank discount window borrowings outstanding at December 31, 2015 or 2014.

## Note 12: Pension and Employee Benefit Plans

W.T.B. maintains a qualified defined benefit pension plan for employees hired before January 1, 2004. Benefits under the plan are based on the number of years of service and the employee's career average compensation during such years.

**Note 12: Pension and Employee Benefit Plans (continued)**
W.T.B. uses a December 31 measurement date for the plan. The following table provides a reconciliation of the changes in the plan's benefit obligation and fair value of assets over the two-year period ended December 31, 2015, and a statement of the funded status at December 31 of both years:

| | 2015 | 2014 |
|---|---|---|
| Accumulated benefit obligation at end of year | $ 79,889,341 | $ 85,314,533 |
| Change in projected benefit obligation: | | |
| Projected benefit obligation at beginning of year | $ 92,857,932 | $ 74,718,888 |
| Service cost - benefits earned during the period | 2,109,490 | 1,804,144 |
| Interest cost | 3,550,241 | 3,486,099 |
| Change in assumptions | (5,389,414) | 17,321,656 |
| Actuarial gain (loss) | (1,292,155) | 944,778 |
| Benefits paid | (5,715,298) | (5,417,633) |
| Projected benefit obligation at end of year | 86,120,796 | 92,857,932 |
| Change in plan assets: | | |
| Fair value of plan assets at beginning of year | 86,113,599 | 77,656,015 |
| Actual return (loss) on plan assets | (372,760) | 2,275,217 |
| Employer contributions | 6,000,000 | 11,600,000 |
| Benefits paid | (5,715,298) | (5,417,633) |
| Fair value of plan assets at end of year | 86,025,541 | 86,113,599 |
| Unfunded projected benefit obligation at end of year | $ (95,255) | $ (6,744,333) |
| Amounts recognized in the consolidated statements of financial condition at end of year: | | |
| Other liabilities | $ (95,255) | $ (6,744,333) |
| Amounts not yet reflected in net periodic pension cost and included in accumulated other comprehensive income (pre-tax): | | |
| Accumulated net loss | $ (37,432,437) | $ (43,489,315) |
| Prior service cost | (9,808) | (17,845) |
| Accumulated other comprehensive loss | (37,442,245) | (43,507,160) |
| Cumulative employer contributions in excess of net periodic pension cost | 37,346,990 | 36,762,827 |
| Amounts recognized in the consolidated statements of financial condition at end of year | $ (95,255) | $ (6,744,333) |

W.T.B. selects various assumptions in measuring the plan's defined benefit obligation and recording the net periodic benefit cost. W.T.B. selects the discount rate used to measure liabilities at year ends after reviewing both bond indices with similar durations to the plan as well as a supportable discount rate from an actuary's proprietary yield curve, under which the plan's projected benefit payments are matched against a series of spot rates derived from high quality fixed income securities.

W.T.B. adopted a new mortality table in 2014 reflecting improved longevity that increased the benefit obligation by $8,841,032 at December 31, 2014. The mortality table change in 2014 was from the RP-2000 mortality table as prepared by the IRS for funding requirements to the RP-2014 white collar separate employee and annuitant mortality tables projected generationally using the MP-2014 scale. W.T.B. adopted the MP-2015 mortality scale in 2015 that contained data in 2010 and 2011 published by the Social Security Administration which indicated mortality improvement had slowed compared to what the published MP-2014 projection scale anticipated. The change in mortality scale in 2015 reduced the benefit obligation by $1,345,791.

**Note 12: Pension and Employee Benefit Plans (continued)**

W.T.B.'s assumption for expected long-term return on plan assets is based on a periodic review and modeling of the plan's asset allocation over a long-term horizon. Expectations of returns for each asset class are used in the review and modeling, and are based on comprehensive reviews of historical data and economic/financial market theory. The expected long-term rate of return on assets was selected from within the reasonable range of rates determined by (a) historical real returns for the asset classes covered by the investment policy, and (b) projections of inflation over the long-term period during which benefits are payable to plan participants.

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Assumptions used in computing the present value of the accumulated benefit obligation and the projected benefit obligation at year-end: | | | |
| Discount rate | 4.30% | 3.95% | 4.75% |
| Rates of increase in compensation | 5.00% | 5.00% | 5.00% |
| Mortality table | RP-2014 | RP-2014 | RP-2000 |
| Expected long-term rate of return on assets used in computing the net pension expense determined at beginning of year | 4.75% | 4.75% | 5.00% |

Net periodic pension costs for 2015, 2014 and 2013, included the following components:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Service cost | $ 2,109,490 | $ 1,804,144 | $ 2,195,033 |
| Interest cost | 3,550,241 | 3,486,099 | 3,152,705 |
| Expected return on plan assets | (4,097,860) | (3,698,924) | (3,798,022) |
| Amortization of net loss | 3,845,929 | 2,144,557 | 3,323,825 |
| Amortization of prior service cost | 8,037 | 8,037 | 8,037 |
| Net periodic pension cost | $ 5,415,837 | $ 3,743,913 | $ 4,881,578 |

The estimated amortization from accumulated other comprehensive loss into net periodic benefit cost over the next year includes $3,347,312 of accumulated net loss and $8,037 of prior service cost. The amortization of prior service cost is attributable to plan amendments that updated past service benefits.

W.T.B.'s pension plan asset allocations at December 31, 2015 and 2014, by asset category, were as follows:

| | 2015 | 2014 |
|---|---|---|
| Asset category: | | |
| Equity securities | 49% | 50% |
| Fixed income securities | 48% | 46% |
| Cash equivalents | 3% | 4% |
| Total | 100% | 100% |

W.T.B.'s target asset allocation as of December 31, 2015, by asset category, is as follows:

| | |
|---|---|
| Asset category: | |
| Equity securities | 50% |
| Fixed income securities | 50% |
| Total | 100% |

W.T.B.'s investment policy provides direction regarding the investment philosophy, objectives and guidelines for the plan assets. Plan assets are to be invested in a diversified structure that appropriately balances risk and rewards. Diversification includes asset allocation between equity and fixed income securities, foreign and domestic securities, industry sectors and asset management styles. Plan assets are to be invested to maintain a balance between the objective to maximize total return and the need to manage the risks associated with the shortening time frame of the plan while providing sufficient liquidity to support normal Plan operations.

**Note 12: Pension and Employee Benefit Plans (continued)**
The investment policy is periodically reviewed by W.T.B.'s Retirement Benefits Committee. The investment policy is established and administered in a manner so as to comply at all times with applicable government regulations. The Retirement Benefits Committee sets funding targets to contribute amounts not less than the minimum required to be funded under ERISA.

A summary of estimated future pension benefit payments are as follows:

| | |
|---|---|
| 2016 | $ 3,837,651 |
| 2017 | 4,050,688 |
| 2018 | 4,305,205 |
| 2019 | 4,467,216 |
| 2020 | 4,589,425 |
| 2021 through 2025 | 25,942,989 |

The fair value of W.T.B.'s pension plan assets by asset category are as follows:

| | Fair Value Measurements at December 31, 2015 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Corporate obligations: | | | | |
| Aaa | $ 824,328 | $ - | $ 824,328 | $ - |
| Aa2 | 546,325 | - | 546,325 | - |
| Aa3 | 300,768 | - | 300,768 | - |
| AA | 550,248 | - | 550,248 | - |
| A1 | 1,938,404 | - | 1,938,404 | - |
| A2 | 4,059,298 | - | 4,059,298 | - |
| Baa1 | 494,320 | - | 494,320 | - |
| U.S. Treasury securities and government agencies: | | | | |
| Aaa | 15,109,020 | - | 15,109,020 | - |
| U.S. Treasury Inflation Indexed Bonds: | | | | |
| Aaa | 3,324,973 | - | 3,324,973 | - |
| State and Municipal: | | | | |
| Aa1 | 2,063,622 | - | 2,063,622 | - |
| AA+ | 677,072 | - | 677,072 | - |
| Mutual funds: | | | | |
| Market Neutral | 11,166,483 | 11,166,483 | - | - |
| Volatility Protection | 10,447,939 | 10,447,939 | - | - |
| International Equity Funds | 8,381,857 | 8,381,857 | - | - |
| High Yield | 4,541,930 | 4,541,930 | - | - |
| Domestic Equity Funds | 3,977,793 | 3,977,793 | - | - |
| Global Macro | 3,303,714 | 3,303,714 | - | - |
| Floating Rate | 3,022,276 | 3,022,276 | - | - |
| Diversified Real Estate | 2,160,232 | 2,160,232 | - | - |
| Managed Futures | 2,137,218 | 2,137,218 | - | - |
| Global Infrastructure | 1,964,355 | 1,964,355 | - | - |
| Diversified Commodities | 1,337,298 | 1,337,298 | - | - |
| Marketable CDs | 960,509 | - | 960,509 | - |
| Money market fund | 2,601,946 | - | 2,601,946 | - |
| | $ 85,891,928 | $ 52,441,095 | $ 33,450,833 | $ - |

**Note 12: Pension and Employee Benefit Plans (continued)**

| | Fair Value Measurements at December 31, 2014 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Corporate obligations: | | | | |
| Aaa | $ 860,968 | $ - | $ 860,968 | $ - |
| Aa2 | 565,165 | - | 565,165 | - |
| Aa3 | 705,925 | - | 705,925 | - |
| A1 | 1,485,618 | - | 1,485,618 | - |
| A2 | 4,869,875 | - | 4,869,875 | - |
| Unrated | 550,923 | - | 550,923 | - |
| U.S. Treasury securities and government agencies: | | | | |
| Aaa | 12,343,700 | - | 12,343,700 | - |
| U.S. Treasury Inflation Indexed Bonds: | | | | |
| Aaa | 2,362,031 | - | 2,362,031 | - |
| State and Municipal: | | | | |
| Aa1 | 993,421 | - | 993,421 | - |
| AA+ | 679,523 | - | 679,523 | - |
| Mutual funds: | | | | |
| Market Neutral | 11,688,461 | 11,688,461 | - | - |
| Volatility Protection | 10,302,719 | 10,302,719 | - | - |
| International Equity Funds | 8,774,401 | 8,774,401 | - | - |
| High Yield | 4,501,595 | 4,501,595 | - | - |
| Domestic Equity Funds | 4,157,909 | 4,157,909 | - | - |
| Global Macro | 3,219,179 | 3,219,179 | - | - |
| Floating Rate | 3,201,959 | 3,201,959 | - | - |
| Diversified Real Estate | 2,254,197 | 2,254,197 | - | - |
| Managed Futures | 2,245,621 | 2,245,621 | - | - |
| Global Infrastructure | 2,188,443 | 2,188,443 | - | - |
| Diversified Commodities | 1,772,216 | 1,772,216 | - | - |
| Marketable CDs | 2,920,454 | - | 2,920,454 | - |
| Money market fund | 3,469,296 | - | 3,469,296 | - |
| | $ 86,113,599 | $ 54,306,700 | $ 31,806,899 | $ - |

Included in total plan assets as of December 31, 2015 were dividends and interest receivable of $133,613 which were not included in fair value measurements. There were no accrued dividends or interest included in total plan assets as of December 31, 2014.

W.T.B. maintains a defined contribution retirement plan for employees hired after December 31, 2003. W.T.B.'s policy has been to make an annual contribution equal to at least three percent of eligible compensation into the plan for employees meeting certain eligibility requirements. The defined contribution expense for 2015, 2014 and 2013 was $1,030,000, $938,000 and $747,353, respectively.

W.T.B. sponsors an employee savings plan. This plan allows qualified employees, at their option, to make contributions of up to certain percentages of pre-tax base salary through salary deductions under Section 401(k) of the Internal Revenue Code. W.T.B. matches a portion of these contributions. Matching contribution expense for 2015, 2014 and 2013 was $1,635,864, $1,467,945 and $1,377,784, respectively. Contributions are invested at the employees' direction among a variety of investment alternatives.

W.T.B. offers medical, dental and vision plans to its employees and self insures many of these plans. W.T.B. contracts with third-parties to act as claims administrators. Funding for benefits is derived from employer and employee contributions. W.T.B. limits its potential losses through insurance policies with stop-loss carriers. Medical, dental and vision plan expenses were $4,103,268, $4,302,335 and $3,868,891 for 2015, 2014 and 2013, respectively. Self insurance reserves were $499,772 and $472,506 for 2015 and 2014, respectively, and were included in other liabilities.

**Note 12: Pension and Employee Benefit Plans (continued)**
W.T.B. is obligated under various nonqualified deferred compensation plans to help supplement the retirement income of certain executives, including certain retired executives. These unfunded plans are defined benefit plans, and provide for payments after the executive's retirement. For the year ended December 31, 2015, expenses were reduced by $436,972 relating to supplemental retirement and salary continuation plan benefits. For the years ended December 31, 2014 and 2013, expenses recorded for supplemental retirement and salary continuation plan benefits totaled $1,366,978 and $52,226, respectively. At December 31, 2015 and 2014, liabilities recorded for the various supplemental retirement and salary continuation plan benefits totaled $5,638,192 and $6,311,213, respectively, and were recorded in other liabilities.

## Note 13: Stock-Based Compensation Plans

W.T.B. has a nonqualified deferred compensation "phantom stock" plan for executive officers. The values of the phantom stock awards are indexed to W.T.B.'s book value per share and vest over a five-year period. The stock awards and the change in value of the prior years' stock awards are expensed as compensation over the vesting period. Related compensation expense for 2015, 2014 and 2013 was $1,156,524, $701,555 and $609,814, respectively. The phantom stock dividend payments are expensed as compensation expense on vested and unvested shares during the period in which they are paid. Phantom stock dividend payments for 2015, 2014 and 2013 were $121,807, $95,907 and $58,569, respectively.

A summary of changes in the phantom stock plan indexed shares follows:

| | Number of Shares | Total Share Value |
|---|---|---|
| Balance, December 31, 2012 | 34,371 | $ 5,036,726 |
| Granted | 2,986 | 437,500 |
| Increase in value | - | 334,841 |
| Settled | (1,502) | (221,966) |
| Balance, December 31, 2013 | 35,855 | 5,587,101 |
| Granted | 4,106 | 640,000 |
| Increase in value | - | 363,666 |
| Settled | - | - |
| Balance, December 31, 2014 | 39,961 | 6,590,767 |
| Granted | 4,821 | 795,000 |
| Increase in value | - | 710,370 |
| Settled | - | - |
| Balance, December 31, 2015 | 44,782 | $ 8,096,137 |

At December 31, 2015 and 2014, there were 7,762 and 5,523 unvested phantom shares with total share values of $1,403,292 and $910,908, and those unvested shares had related liabilities recorded in the amounts of $334,281 and $198,906, respectively. Included in other liabilities are phantom stock plan liabilities in the amounts of $7,027,127 and $5,878,765 at December 31, 2015 and 2014, respectively.

On February 23, 2010, the Board of Directors approved the W.T.B. Financial Corporation 2010 Restricted Stock Incentive Plan (the "Restricted Stock Plan") to enhance the long-term shareholder value of W.T.B. by offering opportunities to select persons to participate in the growth and success of W.T.B., encourage them to remain in service and to acquire stock and maintain ownership of W.T.B. Under the Restricted Stock Plan, W.T.B. is authorized to grant up to 150,000 shares of Class B common stock, of which 49,315 shares have been granted. The vesting period is determined by the plan administrator on an individual grant basis. For awards granted in 2013 and subsequent years, the vesting is 20% per year over five years. Recipients of unvested restricted shares do not have the right to receive dividends.

**Note 13: Stock-Based Compensation Plans (continued)**

The following is a summary of W.T.B.'s unvested restricted stock activity for the years ended December 31, 2015, 2014 and 2013:

| | Number of Shares | Weighted Average Grant Date Fair Value |
|---|---|---|
| Balance, December 31, 2012 | 21,800 | $ 98.07 |
| Granted | 7,315 | 131.97 |
| Vested | (5,000) | 91.76 |
| Forfeited | - | - |
| Balance, December 31, 2013 | 24,115 | 109.66 |
| Granted | 8,500 | 160.35 |
| Vested | (8,161) | 104.42 |
| Forfeited | - | - |
| Balance, December 31, 2014 | 24,454 | 129.03 |
| Granted | 8,500 | 177.81 |
| Vested | (8,161) | 114.91 |
| Forfeited | - | - |
| Balance, December 31, 2015 | 24,793 | 150.40 |

The grant date fair value of the restricted shares is estimated using recent observable sales. Compensation expense related to the restricted shares was $1,096,631, $895,469 and $633,293 for the years ended December 31, 2015, 2014 and 2013, respectively. The total income tax benefit recognized related to restricted stock awards was $563,477, $473,157 and $280,660 for the years ended December 31, 2015, 2014 and 2013, respectively. As of December 31, 2015, there was $2,788,095 of unrecognized compensation cost related to the unvested restricted stock awards, which is expected to be recognized over a weighted average period of 3.3 years.

**Note 14: Income Taxes**

The current and deferred portions of income taxes for the years ended December 31 were as follows:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Current: | | | |
| Federal | $ 23,943,290 | $ 15,746,806 | $ 21,900,048 |
| State | 933,949 | 508,902 | 833,557 |
| | 24,877,239 | 16,255,708 | 22,733,605 |
| Deferred (benefit): | | | |
| Federal | (1,582,257) | 5,472,811 | 262,943 |
| State | (32,994) | 198,234 | (29,503) |
| | (1,615,251) | 5,671,045 | 233,440 |
| Income taxes | $ 23,261,988 | $ 21,926,753 | $ 22,967,045 |

Income taxes on pre-tax income differ from the statutory rate of 35% for the following reasons:

| | 2015 | | 2014 | | 2013 | |
|---|---|---|---|---|---|---|
| Federal income taxes at statutory rate | $24,367,595 | 35.00% | $22,326,788 | 35.00% | $23,366,254 | 35.00% |
| State income taxes, net of federal tax benefit | 585,620 | 0.84% | 473,966 | 0.74% | 522,638 | 0.78% |
| Decrease in income taxes due to tax-exempt interest on securities and loans of states and political subdivisions | (893,054) | -1.28% | (929,274) | -1.45% | (875,615) | -1.31% |
| Nondeductible interest expense from carrying tax-exempt assets | 16,389 | 0.02% | 20,582 | 0.03% | 20,871 | 0.03% |
| Bank owned life insurance | (1,279,275) | -1.84% | (392,614) | -0.62% | (371,614) | -0.56% |
| Other nondeductible expenses | 455,054 | 0.66% | 435,005 | 0.68% | 424,307 | 0.64% |
| Other | 9,659 | 0.00% | (7,700) | -0.02% | (119,796) | -0.15% |
| Income taxes | $23,261,988 | 33.40% | $21,926,753 | 34.36% | $22,967,045 | 34.43% |

## Note 14: Income Taxes (continued)

Included in income taxes are taxes of $211,984, $26,994 and $3,950,302 on net securities gains for the years ended December 31, 2015, 2014 and 2013, respectively.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the deferred assets and liabilities at December 31 were as follows:

| | 2015 | 2014 |
|---|---|---|
| Deferred tax assets: | | |
| Allowance for loan losses | $ 30,856,983 | $ 29,439,766 |
| Allowance for off-balance sheet credit exposures | 363,172 | 362,536 |
| Unrealized loss on securities available for sale | 857,711 | - |
| Deferred compensation | 6,181,998 | 6,001,505 |
| Financial-over-tax depreciation | 1,564,573 | 1,267,454 |
| Pension benefits | - | 1,029,558 |
| Other real estate | 99,872 | 333,371 |
| Interest on nonaccrual loans | 887,781 | - |
| Commitment fees | 124,601 | 124,383 |
| Other | 642,063 | 180,739 |
| Total deferred tax assets | 41,578,754 | 38,739,312 |
| Deferred tax liabilities: | | |
| Unrealized gain on acquisition | - | 190,993 |
| Unrealized gains on securities available for sale | - | 440,155 |
| Pension benefits | 1,911,282 | - |
| FHLB stock dividends | 1,770,936 | 1,767,836 |
| Deferred loan origination costs | 2,513,458 | 2,349,703 |
| Mortgage servicing | 254,984 | 329,737 |
| Prepaid expenses | 132,741 | 158,295 |
| Discount accretion | 5,366 | 5,356 |
| State income tax | 281,818 | 249,523 |
| Other | 134,523 | 165,273 |
| Total deferred tax liabilities | 7,005,108 | 5,656,871 |
| Net deferred tax assets | $ 34,573,646 | $ 33,082,441 |

W.T.B. files income tax returns in the U.S. federal jurisdiction and various states. With few exceptions, W.T.B. is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for years before 2012.

W.T.B. determined that it was not required to establish a valuation allowance for deferred tax assets in accordance with ASC 740, *Income Taxes,* since it is more likely than not that the deferred tax asset will be realized through carry back to taxable income in prior years, future reversals of existing taxable temporary differences, and, to a lesser extent, future taxable income. W.T.B.'s net deferred tax asset is recorded in the consolidated statements of financial condition as an asset.

At December 31, 2015 and 2014, W.T.B. had no unrecognized tax benefits. W.T.B. does not expect the total amount of unrecognized tax benefits to significantly increase within the next twelve months.

W.T.B. had no uncertain tax positions as of December 31, 2015 or 2014; therefore, no liabilities were necessary for unrecognized tax benefits.

## Note 15: Financial Instruments with Off-Balance-Sheet Risk

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. The Bank's financial instruments with off-balance-sheet risk include commitments to extend credit, standby letters of credit, and commercial letters of credit.

### Note 15: Financial Instruments with Off-Balance-Sheet Risk (continued)

Such commitments involve, to varying degrees, elements of credit, liquidity and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition. The Bank's exposure to credit losses is represented by the contractual amounts of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as used in the lending process.

Commitments to extend credit are agreements to lend to customers as long as there are no violations of any conditions established in the commitment contracts. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being completely drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates customers' creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the customer. Collateral varies, but may include accounts receivable; inventory; property, plant and equipment; residential real estate; or income producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of commercial customers to a third party. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers.

Through commercial letters of credit, the Bank guarantees customers' trade transactions to third parties, generally to finance commercial contracts for the shipment of goods. The Bank's credit risk in these transactions is limited, since the contracts are supported by the merchandise being shipped and are generally of short duration.

The Bank grants commercial and agricultural, real estate and consumer loans to customers, mainly in Washington, Idaho and Oregon, secured by business, real and personal property. The loans are expected to be repaid from cash flow or proceeds from the sale of selected assets of the borrowers. Although the loan portfolio is diversified, a substantial portion of the borrower's ability to honor their agreements is dependent upon economic conditions in Washington, Idaho and Oregon. The Bank has no significant exposure to foreign credits in its loan portfolio.

Following is a summary of the Bank's exposure to off-balance-sheet risk at December 31:

| | 2015 | 2014 |
|---|---|---|
| Financial instruments whose contract amounts represent credit risk: | | |
| Commitments to extend credit | $ 1,634,772,813 | $ 1,586,159,845 |
| Standby letters of credit | 66,660,209 | 66,616,985 |
| Commercial letters of credit | 135,001 | 2,701,067 |

A reserve for credit losses on off-balance-sheet credit exposures is maintained at a level management considers adequate. As of December 31, 2015 and 2014, the balance of the allowance was $1,000,000, which was included in other liabilities in the consolidated statements of financial condition.

### Note 16: Fair Value Measurements

W.T.B. measures some of its assets on a fair value basis. Fair value is used on a recurring basis for certain assets, such as securities available for sale and interest rate swaps, for which fair value is the primary basis of accounting. Fair value is defined as the price that would be received for the sale of an asset in an orderly transaction between market participants at the measurement date. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair value measurement, among other things, requires W.T.B. to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect W.T.B.'s market assumptions. Three types of inputs create the following fair value hierarchy:

Level 1 - Quoted prices for identical instruments in active markets that W.T.B. has the ability to access as of the measurement date.

Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable market data.

Level 3 - Valuations for instruments with inputs that are unobservable, are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and are not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such instruments.

**Note 16: Fair Value Measurements (continued)**
A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table presents information about W.T.B.'s assets and liabilities measured at fair value on a recurring basis and the level within the fair value hierarchy of the fair value measurements for those assets at December 31:

| | 2015 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Securities available for sale: | | | | |
| U.S. Treasury and federal agencies | $ 207,645,822 | $ - | $ 207,645,822 | $ - |
| States and political subdivisions | 1,582,446 | - | 1,582,446 | - |
| Mortgage-backed securities | 470,649,678 | - | 470,649,678 | - |
| Total assets | $ 679,877,946 | $ - | $ 679,877,946 | $ - |
| Interest rate swap liabilities | $ 457,623 | $ - | $ 457,623 | $ - |
| Total liabilities | $ 457,623 | $ - | $ 457,623 | $ - |

| | 2014 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Securities available for sale: | | | | |
| U.S. Treasury and federal agencies | $ 220,172,782 | $ - | $ 220,172,782 | $ - |
| States and political subdivisions | 2,589,199 | - | 2,589,199 | - |
| Mortgage-backed securities | 254,108,975 | - | 254,108,975 | - |
| Total assets | $ 476,870,956 | $ - | $ 476,870,956 | $ - |
| Interest rate swap liabilities | $ 647,851 | $ - | $ 647,851 | $ - |
| Total liabilities | $ 647,851 | $ - | $ 647,851 | $ - |

There were no assets measured at fair value on a nonrecurring basis as of December 31, 2015. The following tables present the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy of the fair value measurements for those assets at December 31:

| | 2014 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Impaired loans | $ 2,045,814 | $ - | $ - | $ 2,045,814 |
| Total | $ 2,045,814 | $ - | $ - | $ 2,045,814 |

The following table provides additional quantitative information about the unobservable inputs for W.T.B.'s assets and liabilities classified as Level 3 and measured at fair value on a nonrecurring basis at December 31:

| 2014 | | | | | |
|---|---|---|---|---|---|
| Financial Instrument | Fair Value | Valuation Technique | Unobservable Input | Range | Weighted Average |
| Impaired loans | $ 2,045,814 | Market approach | Selling costs | 0.0% - 10.0% | 5.3% |
| | | | Collateral discounts | 0.0% - 70.0% | 14.7% |
| | $ 2,045,814 | | | | |

**Note 16: Fair Value Measurements (continued)**

Carrying values of certain impaired loans are periodically evaluated to determine if valuation adjustments, or partial write-downs, should be recorded. When a collateral dependent loan is identified as impaired, the impairment is measured using the current fair value of the collateral, less selling costs. Depending on the characteristics of a loan, the fair value of collateral is generally estimated by obtaining external appraisals. Troubled debt restructurings that are not collateral dependent discount expected future cash flows based on the original contractual rate of the loan and are not considered to be at fair value. The significant unobservable inputs used in the fair value measurement of impaired loans may include discount rates used to determine the present value of the expected cash flows, the probability of default, estimated selling costs, discounts that may be required to dispose of the property, and management assumptions regarding market trends and other relevant factors. If the determined value of the impaired loan is less than the recorded investment in the loan, impairment is recognized by adjusting the carrying value of the loan through a charge-off to the allowance for loan losses. The carrying value of loans fully charged-off is zero.

W.T.B. is required to disclose the estimated fair value of financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate those values. These fair value estimates are made at December 31 based on relevant market information and information about the financial instruments. Fair value estimates are intended to represent the price an asset could be sold at or the price at which a liability could be settled. However, given there is no active market or observable market transactions for many of W.T.B.'s financial instruments, W.T.B.'s estimates of many of these fair values which are subjective in nature, involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimated values. Nonfinancial instruments are excluded from disclosure requirements. Specifically, land and buildings are not disclosed at fair value, nor is the value derived from retaining customer deposit relationships, commonly referred to as a customer deposit base intangible. Accordingly, the aggregate fair value amounts presented are not intended to represent the fair value of W.T.B.'s shareholders' equity.

The following methods and assumptions were used by W.T.B. in estimating its fair value disclosures for each class of financial instruments:

*Cash and cash equivalents:* The carrying amounts reported in the statements of financial condition for cash and short-term instruments approximate those assets' fair values.

*Securities:* W.T.B. estimates fair values using external, independent pricing models that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, live trading levels, trade execution data, market consensus prepayment speeds and credit spreads. Examples of such instruments that would generally be classified within Level 2 of the valuation hierarchy include government-sponsored entity obligations, corporate bonds and other securities. Mortgage-backed securities are included in Level 2 if observable inputs are available. In certain cases where there is limited activity or less transparency around inputs to the valuation, W.T.B. classifies those securities as Level 3.

*FHLB and PCBB stock:* The fair value is based upon the redemption value of the stock that equates to its carrying value.

*Loans held for sale:* Fair value is determined based on quoted secondary market prices for similar loans.

*Loans held in portfolio:* Fair values of loans are estimated using discounted cash flow analyses and interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for noncurrent loans are estimated using discounted cash flow analysis or underlying collateral values, where applicable. The fair values of lending commitments at year-end are estimated to approximate the remaining unamortized fees.

*Cash surrender value of life insurance:* The fair value of cash surrender value of life insurance is based upon the surrender value of the policies that equates to its carrying value.

*Mortgage servicing rights:* The fair value of mortgage servicing rights is estimated using discounted cash flows based on current market interest rates and current prepayment assumptions for serviced loans.

*Deposits:* The fair values disclosed for interest- and noninterest-bearing demand deposits and savings are equal to the amounts payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts for variable-rate time deposits approximate their fair values at the reporting date. Fair values for fixed-rate time deposits are estimated using a discounted cash flow calculation that applies interest rates currently offered on such deposits to a schedule of aggregated expected monthly maturities.

*Securities sold under agreements to repurchase:* The carrying amounts of securities sold under agreements to repurchase approximate their fair values.

*Interest rate swaps:* The fair value of interest rate swaps is estimated by discounting the estimated expected cash flows of the swap using a discount curve and implied forward rates.

### Note 16: Fair Value Measurements (continued)

The carrying amounts and estimated fair values of W.T.B.'s financial instruments at December 31 were as follows:

| 2015 | Level in Fair Value Hierarchy | | Carrying Amount | | Estimated Fair Value |
|---|---|---|---|---|---|
| Financial assets: | | | | | |
| Cash and due from banks and interest-bearing deposits with banks | 1 | $ | 518,398,245 | $ | 518,398,245 |
| Securities available for sale | 2 | | 679,877,946 | | 679,877,946 |
| Securities held to maturity | 2 | | 482,414,445 | | 480,988,458 |
| Federal Home Loan Bank and Pacific Coast Bankers' Bancshares stock | 2 | | 5,781,300 | | 5,781,300 |
| Loans held for sale | 2 | | 23,728,595 | | 23,728,595 |
| Loans held in portfolio, net of allowance | 3 | | 3,447,900,979 | | 3,445,006,045 |
| Cash surrender value of life insurance | 1 | | 20,245,980 | | 20,245,980 |
| Mortgage servicing rights | 3 | | 702,104 | | 1,336,194 |
| Financial liabilities: | | | | | |
| Demand and savings deposits | 1 | | 4,199,043,231 | | 4,199,043,231 |
| Time deposits | 2 | | 341,504,819 | | 342,194,064 |
| Securities sold under agreements to repurchase | 1 | | 264,887,110 | | 264,887,110 |
| Interest rate swaps | 2 | | 457,623 | | 457,623 |

| 2014 | Level in Fair Value Hierarchy | | Carrying Amount | | Estimated Fair Value |
|---|---|---|---|---|---|
| Financial assets: | | | | | |
| Cash and due from banks and interest-bearing deposits with banks | 1 | $ | 431,176,366 | $ | 431,176,366 |
| Securities available for sale | 2 | | 476,870,956 | | 476,870,956 |
| Securities held to maturity | 2 | | 430,462,030 | | 427,703,512 |
| Federal Home Loan Bank and Pacific Coast Bankers' Bancshares stock | 2 | | 13,500,900 | | 13,500,900 |
| Loans held for sale | 2 | | 8,964,780 | | 8,964,780 |
| Loans held in portfolio, net of allowance | 3 | | 3,260,877,264 | | 3,258,841,881 |
| Cash surrender value of life insurance | 1 | | 32,267,232 | | 32,267,232 |
| Mortgage servicing rights | 3 | | 909,527 | | 1,542,040 |
| Financial liabilities: | | | | | |
| Demand and savings deposits | 1 | | 3,691,892,943 | | 3,691,892,943 |
| Time deposits | 2 | | 390,624,106 | | 392,221,795 |
| Securities sold under agreements to repurchase | 1 | | 206,293,915 | | 206,293,915 |
| Interest rate swaps | 2 | | 647,851 | | 647,851 |

### Note 17: Interest Rate Swaps

For certain long-term, fixed rate loans, the Bank has entered into interest rate swap agreements with KeyBank in order to serve as a hedge to changes in interest rates. Under the swap agreements, the Bank pays KeyBank a fixed rate equal to the rate on the borrower's note. In return, the Bank receives a variable rate from KeyBank. These stand-alone derivative instruments derive their value from underlying interest rates. These transactions may involve both credit and market risk. The notional amount is the amount on which calculations, payments and the value of the derivative are based. The notional amount does not represent direct credit exposure. The direct credit exposure is derived from the net present value of the future payment streams to be paid and received based on current market conditions. Should the net present value of future payment streams to be received exceed those to be paid, then the Bank would be in an unrealized gain position, and the net difference would represent potential credit exposure. This difference also represents the fair value of the derivative instrument.

**Note 17: Interest Rate Swaps (continued)**

Credit risk of the financial contract is controlled through credit approval, limits, and monitoring procedures. W.T.B. is exposed to credit-related losses in the event of nonperformance by the counterparty to these agreements when W.T.B. is in an unrealized gain position. As of December 31, 2015 and 2014, W.T.B. was in an unrealized loss position and a liability was recorded relating to the interest rate swaps.

Information pertaining to outstanding interest rate swaps at December 31 was as follows:

| | 2015 | 2014 |
|---|---|---|
| Notional amount | $ 5,091,255 | $ 5,835,631 |
| Weighted-average pay rate | 6.08% | 6.05% |
| Weighted-average receive rate | 1.32% | 1.21% |
| Average maturity in years | 3.62 | 4.62 |
| Liability relating to interest rate swaps | $ (457,623) | $ (647,851) |

The net changes in fair value of the hedged asset and derivatives are recorded in loans and other liabilities. Net payments on interest rate swaps reduced interest revenue on loans by $262,937, $299,807 and $472,626 for 2015, 2014 and 2013, respectively.

**Note 18: Commitments and Contingencies**

*Lease Commitments:* W.T.B. has various operating leases covering the use of certain premises. The lease expense under such arrangements amounted to $2,500,394, $2,296,415 and $2,140,003 for the years ended December 31, 2015, 2014 and 2013, respectively. All leases expire prior to the year 2027. Certain leases contain renewal clauses and rent escalation clauses based on the Consumer Price Index (“CPI”), or other factors contained in the lease agreement.

A summary of future minimum lease commitments follows:

| | |
|---|---|
| Years ending December 31, | |
| 2016 | $ 2,082,561 |
| 2017 | 1,580,381 |
| 2018 | 1,489,920 |
| 2019 | 1,509,124 |
| 2020 | 1,369,677 |
| 2021 and thereafter | 3,916,816 |
| Total future minimum lease payments | $ 11,948,479 |

*Legal Proceedings:* A class action lawsuit is pending in the Federal District Court of Idaho against the Bank and its wholly-owned subsidiary West Sprague Holding Company, LLC. The suit, filed by former members of a failed golf course development, claims that Washington Trust Bank assumed liability for refunding golf club membership deposits when it took a deed in lieu of foreclosure on its collateral after a loan default by The Club at Black Rock, LLC. The trial for the case commenced on March 7, 2016 at the Federal courthouse in Coeur d’Alene, Idaho, and the facts of the case are still being presented to a jury. The Bank believes that the Plaintiffs’ claim is without merit and intends to vigorously defend its position that it has no liability to reimburse former golf club members for the membership deposits they paid to The Club at Black Rock, LLC. At this time the outcome of this litigation is uncertain as is the amount of any judgment should the plaintiffs prevail. However, the Bank estimates potential damages could range between $3 million and $45 million if the plaintiff is successful in this lawsuit.

**Note 19: Parent Company Statements**

W.T.B.'s parent company statements are presented using the equity method of accounting; therefore, accounts of its subsidiary have not been included. Intercompany transactions and balances have not been eliminated. The condensed parent company statements follow:

| Statements of Financial Condition | December 31, 2015 | December 31, 2014 |
|---|---|---|
| **Assets** | | |
| Cash | $ 2,201,969 | $ 8,245,171 |
| U.S. Treasury securities available for sale, carried at fair value | 995,859 | 999,922 |
| Equity in underlying net book value of bank subsidiary | 457,711,574 | 428,951,111 |
| Premises and equipment, net | 1,259,402 | 1,384,899 |
| Other assets | 2,267,344 | 2,090,399 |
| Total assets | $ 464,436,148 | $ 441,671,502 |
| **Liabilities** | | |
| Other liabilities | $ 29,135 | $ 73,874 |
| **Shareholders' equity** | 464,407,013 | 441,597,628 |
| Total liabilities and shareholders' equity | $ 464,436,148 | $ 441,671,502 |

| Statements of Income | Years Ended December 31, 2015 | 2014 | 2013 |
|---|---|---|---|
| **Revenue** | | | |
| Dividends from banking subsidiary | $ 7,079,741 | $ 5,987,958 | $ 5,761,763 |
| Other | 1,133,177 | 1,357,416 | 806,599 |
| Total revenue | 8,212,918 | 7,345,374 | 6,568,362 |
| **Expense** | | | |
| Salaries and employee benefits | 733,866 | 710,812 | 687,133 |
| Other | 1,188,981 | 1,231,605 | 1,595,526 |
| Total expense | 1,922,847 | 1,942,417 | 2,282,659 |
| Income before income tax benefit and equity in undistributed net income of subsidiary | 6,290,071 | 5,402,957 | 4,285,703 |
| Income tax benefit | (271,390) | (205,785) | (514,786) |
| Income before equity in undistributed net income of subsidiary | 6,561,461 | 5,608,742 | 4,800,489 |
| Equity in undistributed net income of banking subsidiary | 39,798,253 | 36,255,326 | 38,993,194 |
| **Net income** | 46,359,714 | 41,864,068 | 43,793,683 |
| Preferred stock dividends | 141,346 | 417,932 | 1,723,291 |
| **Net income available to common shareholders** | $ 46,218,368 | $ 41,446,136 | $ 42,070,392 |

## Note 19: Parent Company Statements (continued)

| Statements of Cash Flows | Years Ended December 31, 2015 | 2014 | 2013 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net income | $ 46,359,714 | $ 41,864,068 | $ 43,793,683 |
| Adjustments to reconcile net income to cash provided by operating activities: | | | |
| Undistributed net income of subsidiary | (39,798,253) | (36,255,326) | (38,993,194) |
| Depreciation | 105,263 | 245,830 | 593,918 |
| Deferred income tax expense (benefit) | (16,021) | (48,706) | (149,130) |
| Gains on sales of investments | - | (568,305) | - |
| Stock-based compensation | 1,276,286 | 1,055,212 | 692,301 |
| Stock-based directors' fees | 270,210 | 180,329 | 180,349 |
| Other, net | 35,544 | 160,760 | 71,730 |
| Net cash provided by operating activities | 8,232,743 | 6,633,862 | 6,189,657 |
| **Cash flows from investing activities:** | | | |
| Purchase of securities available for sale | (997,891) | - | (997,031) |
| Proceeds from maturities of securities available for sale | 1,000,000 | - | 300,000 |
| Proceeds from investments in subsidiary | 12,571,000 | 25,000,000 | 44,571,000 |
| Purchases of premises and equipment | - | (5,694) | (37,938) |
| Purchase of other assets and investments | (273,978) | (23,529) | (11,337) |
| Proceeds from investments | 101,969 | 1,471,842 | 42,506 |
| Net cash provided by investing activities | 12,401,100 | 26,442,619 | 43,867,200 |
| **Cash flows from financing activities:** | | | |
| Repurchase of preferred stock | (19,571,000) | (25,000,000) | (44,571,000) |
| Common stock dividends paid | (6,915,771) | (6,080,080) | (4,038,472) |
| Preferred stock dividends paid | (190,274) | (480,432) | (2,726,139) |
| Net cash used in financing activities | (26,677,045) | (31,560,512) | (51,335,611) |
| Increase (decrease) in cash | (6,043,202) | 1,515,969 | (1,278,754) |
| Cash at beginning of year | 8,245,171 | 6,729,202 | 8,007,956 |
| Cash at end of year | $ 2,201,969 | $ 8,245,171 | $ 6,729,202 |

## Note 20: Related Parties

In the ordinary course of business, W.T.B. and its subsidiary make loans and enter into other transactions with certain related parties, its directors and entities having a specified relationship with the directors. Such transactions are made on substantially the same terms and conditions as transactions with other customers. Total deposits from these related parties were $35,217,517, $29,184,804 and $2,006,000 at December 31, 2015, 2014 and 2013, respectively. Related party loan amounts for the years ended December 31, 2015, 2014 and 2013, are summarized in the table below. The reclassifications represent loans that were not related party that subsequently became related party loans, or loans that were once considered related party but are no longer considered related party.

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Balance at beginning of year | $ 43,199,742 | $ 35,880,803 | $ 30,695,809 |
| New loans and advances | 11,229,802 | 15,420,416 | 6,461,914 |
| Repayments | (13,140,883) | (8,162,810) | (7,057,420) |
| Other and reclassifications | 1,892,500 | 61,333 | 5,780,500 |
| Balance at end of year | $ 43,181,161 | $ 43,199,742 | $ 35,880,803 |

Under current federal regulations, W.T.B. is limited in the amount that may be borrowed from Washington Trust Bank. At December 31, 2015, 2014 and 2013, a maximum of $4,319,875, $5,576,975 and $8,076,975, respectively, could be loaned to W.T.B. No such loans have been made.

## Note 21: Preferred Stock

On September 15, 2011, W.T.B. received $89,142,000 from the issuance of 89,142 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series C-3 (the "Series C-3 Preferred Stock"), having a liquidation preference of $1,000 per share, to the United States Department of Treasury pursuant to W.T.B.'s participation in the Treasury's Small Business Lending Fund program (the "SBLF"). The SBLF is a voluntary program intended to encourage small business lending at qualified banks by providing capital at favorable rates. W.T.B. redeemed 44,571 and 25,000 shares of Series C-3 Preferred Stock shares during 2013 and 2014, respectively. On September 21, 2015, W.T.B. redeemed all remaining Series C-3 Preferred Stock outstanding, which amounted to 19,571 shares representing a repayment of $19,571,000. All related dividends on redeemed shares were paid at the time of redemption.

At the time of issuance, the initial dividend rate on the Series C-3 Preferred Stock was 5%. In order to encourage the issuer to increase small business lending, the quarterly dividend rate could adjust to as low as 1% if loan growth to qualified small business lending segments increased by prescribed percentages. Based upon W.T.B.'s qualified loan growth as of September 30, 2013, the dividend rate became fixed at 1%. Dividends declared and accrued on the Series C-3 Preferred Stock totaled $48,928 and $111,427 as of December 31, 2014 and 2013, respectively.

## Note 22: Earnings Per Share

The numerators and denominators used in computing basic and diluted earnings per common share for the years ended December 31, 2015, 2014 and 2013, can be reconciled as follows:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Numerator: | | | |
| Net income | $ 46,359,714 | $ 41,864,068 | $ 43,793,683 |
| Preferred stock dividends | 141,346 | 417,932 | 1,723,291 |
| Net income available to common shareholders | $ 46,218,368 | $ 41,446,136 | $ 42,070,392 |
| Denominator: | | | |
| Weighted-average number of common shares outstanding - basic | 2,541,339 | 2,532,116 | 2,523,284 |
| Effect of potentially dilutive common shares | 24,738 | 24,399 | 23,741 |
| Weighted-average number of common shares - diluted | 2,566,077 | 2,556,515 | 2,547,025 |
| Earnings per common share: | | | |
| Basic | $ 18.19 | $ 16.37 | $ 16.67 |
| Diluted | $ 18.01 | $ 16.21 | $ 16.52 |

## Note 23: Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss includes the after tax change in unrealized market value adjustment of securities available for sale and the unrealized net losses and prior service costs related to W.T.B.'s defined benefit plan.

| | Unrealized Gains (Losses) on Securities Available for Sale | Unrealized Losses on Defined Benefit Pension Plan | Total |
|---|---|---|---|
| Balance, December 31, 2012 | $ 19,277,067 | $ (24,130,024) | $ (4,852,957) |
| Net change | (21,785,593) | 7,249,775 | (14,535,818) |
| Balance, December 31, 2013 | (2,508,526) | (16,880,249) | (19,388,775) |
| Net change | 3,326,538 | (11,399,406) | (8,072,868) |
| Balance, December 31, 2014 | 818,012 | (28,279,655) | (27,461,643) |
| Net change | (2,410,903) | 3,942,195 | 1,531,292 |
| Balance, December 31, 2015 | $ (1,592,891) | $ (24,337,460) | $ (25,930,351) |

## Note 23: Accumulated Other Comprehensive Loss (continued)

The following table shows the significant amounts reclassified out of each component of accumulated other comprehensive loss:

| Details About Accumulated Other Comprehensive Loss Components | Years Ended December 31, 2015 | 2014 | 2013 | Affected Line in the Consolidated Statements of Income |
|---|---|---|---|---|
| Securities available for sale: | | | | |
| Gains on sale of securities | $ (605,669) | $ (77,126) | $ (11,286,577) | Gains on sale of securities, net |
| Total before tax | (605,669) | (77,126) | (11,286,577) | |
| Income tax expense | 211,984 | 26,994 | 3,950,302 | Income taxes |
| Net of tax | (393,685) | (50,132) | (7,336,275) | |
| Defined benefit pension plan: | | | | |
| Amortization of net loss | 3,845,929 | 2,144,557 | 3,323,825 | Pension and employee benefits |
| Amortization of prior service cost | 8,037 | 8,037 | 8,037 | Pension and employee benefits |
| Total before tax | 3,853,966 | 2,152,594 | 3,331,862 | |
| Income tax benefit | (1,348,888) | (753,408) | (1,166,152) | Income taxes |
| Net of tax | 2,505,078 | 1,399,186 | 2,165,710 | |
| Total reclassifications for the period, net of tax | $ 2,111,393 | $ 1,349,054 | $ (5,170,565) | |

## Note 24: Regulatory Matters

W.T.B. (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can result in certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material adverse effect on W.T.B.'s and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, W.T.B. and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. W.T.B.'s and the Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors.

On January 1, 2015, the Federal Reserve and the Federal Deposit Insurance Corporation implemented new regulations (the "Basel III Capital Regulation"), that substantially amends the existing capital rules for banks. The Basel III Capital Regulation makes changes to the methods of calculating the risk-weighting of certain assets, which in turn affects risk-based capital ratios. Higher risk-weights are assigned to various categories of assets, including commercial real estate loans, credit facilities that finance the acquisition, development or construction of real property, loans or other exposures that are 90 days past due or are nonaccrual, securitization exposures, and in certain cases mortgage servicing rights and deferred tax assets.

The rules implement a new regulatory capital measure called Common Equity Tier 1 Capital. As adopted by W.T.B. and the Bank, Common Equity Tier 1 Capital generally consists of Tier 1 Capital, less all non-common equity forms of regulatory capital. The regulation also implemented a new regulatory ratio comparing Common Equity Tier 1 Capital to risk-weighted assets ("Common Equity Tier 1 Risk-Based Capital").

The Basel III Capital Regulation also implements a conservation buffer equal to 2.5% of risk-weighted assets that will be added to adequately capitalized regulatory minimums across all three risk-based capital ratios with a phase-in period beginning on January 1, 2016 and full implementation by January 1, 2019. An institution that does not maintain risk-based capital ratio levels above the sum of adequately capitalized levels plus the phased in portion of the conservation buffer, will be subject to restrictions on certain activities including payment of dividends, stock repurchases, and discretionary bonuses to executive officers.

The Basel III Capital Regulation modified the prompt corrective action rules for all insured institutions to include the Common Equity Tier 1 Risk-Based Capital Ratio and established a minimum threshold of 4.5% to be considered adequately capitalized and 6.5% to be considered well capitalized. For the Tier 1 Risk-Based Capital Ratio, the Basel III Capital Regulation established a new minimum threshold of 6.0% to be considered adequately capitalized and 8.0% to be considered well capitalized. W.T.B. and the Bank made a one-time election as of March 31, 2015 to exclude accumulated other comprehensive income or loss from regulatory capital. The implementation of certain provisions of the Basel III Capital Regulations will be phased-in through January 1, 2019.

The payment of cash dividends is subject to Federal regulatory requirements for capital levels and other restrictions. In addition, the cash dividends paid by Washington Trust Bank to W.T.B. are subject to both Federal and State regulatory requirements.

**Note 24: Regulatory Matters (continued)**

At December 31, 2015, the most recent notification from the Federal Deposit Insurance Corporation categorized Washington Trust Bank as well capitalized under the regulatory framework for prompt corrective action. W.T.B. is not subject to the regulatory framework for prompt corrective action. There have been no conditions or events since that notification that management believes have changed the institution's category. To be categorized as well capitalized, a bank must maintain minimum capital ratios as set forth in the table below.

The capital amounts and ratios, as calculated under regulatory guidelines of Basel III at December 31, 2015 and as calculated under regulatory guidelines of Basel I at December 31, 2014, are as follows (dollars in thousands):

| | Actual | | For Capital Adequacy Purposes | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| **December 31, 2015** | | | | | | |
| **Tier 1 capital to average assets:** | | | | | | |
| W.T.B. Financial Corporation | $490,337 | 9.41% | $208,330 | 4.00% | N/A | N/A |
| Washington Trust Bank | 483,641 | 9.29% | 208,165 | 4.00% | 260,206 | 5.00% |
| **Common equity tier 1 capital to risk-weighted assets:** | | | | | | |
| W.T.B. Financial Corporation | 490,337 | 11.98% | 184,243 | 4.50% | N/A | N/A |
| Washington Trust Bank | 483,641 | 11.82% | 184,102 | 4.50% | 265,924 | 6.50% |
| **Tier 1 risk-based capital to risk-weighted assets:** | | | | | | |
| W.T.B. Financial Corporation | 490,337 | 11.98% | 245,657 | 6.00% | N/A | N/A |
| Washington Trust Bank | 483,641 | 11.82% | 245,469 | 6.00% | 327,292 | 8.00% |
| **Total risk-based capital to risk-weighted assets:** | | | | | | |
| W.T.B. Financial Corporation | 541,945 | 13.24% | 327,543 | 8.00% | N/A | N/A |
| Washington Trust Bank | 535,210 | 13.08% | 327,292 | 8.00% | 409,115 | 10.00% |
| **December 31, 2014** | | | | | | |
| **Tier 1 capital to average assets:** | | | | | | |
| W.T.B. Financial Corporation | $468,516 | 9.87% | $189,956 | 4.00% | N/A | N/A |
| Washington Trust Bank | 455,870 | 9.61% | 189,756 | 4.00% | 237,195 | 5.00% |
| **Tier 1 risk-based capital to risk-weighted assets:** | | | | | | |
| W.T.B. Financial Corporation | 468,516 | 12.70% | 147,526 | 4.00% | N/A | N/A |
| Washington Trust Bank | 455,870 | 12.37% | 147,398 | 4.00% | 221,097 | 6.00% |
| **Total risk-based capital to risk-weighted assets:** | | | | | | |
| W.T.B. Financial Corporation | 515,024 | 13.96% | 295,052 | 8.00% | N/A | N/A |
| Washington Trust Bank | 502,378 | 13.63% | 294,796 | 8.00% | 368,495 | 10.00% |

# W.T.B. FINANCIAL CORPORATION
## Report of Independent Auditors

To the Board of Directors
W.T.B. Financial Corporation
Washington Trust Bank

**Report on Financial Statements**

We have audited the accompanying consolidated financial statements of W.T.B. Financial Corporation and subsidiary (W.T.B.), which comprise the consolidated statements of financial condition as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2015, and the related notes to the consolidated financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of W.T.B. Financial Corporation, as of December 31, 2015 and 2014, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

We also have examined, in accordance with attestation standards established by the American Institute of Certified Public Accountants, management's assertion that Washington Trust Bank, a wholly owned subsidiary of W.T.B. Financial Corporation, maintained effective internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 16, 2016, expressed an unmodified opinion.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Consolidated Financial Highlights on page 1 are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we express no opinion on it.

Moss Adams LLP

Spokane, Washington
March 16, 2016

# W.T.B. FINANCIAL CORPORATION
## Directors and Officers

(As of 3/16/2016)

### W.T.B. Financial Corporation

BOARD OF DIRECTORS

Peter F. Stanton
Chairman of the Board, President and Chief Executive Officer
John (Jack) E. Heath, III
Vice-Chairman of the Board, Executive Vice President and Chief Operating Officer
Steven M. Helmbrecht
President and Chief Executive Officer, Lakeside Capital Group, LLC
Thomas B. Tilford
Retired, President, Western Mine Services, Inc.
Parker G. Woodall
Retired President, North Idaho Region, Washington Trust Bank

ADMINISTRATION

Peter F. Stanton
Chairman of the Board, President and Chief Executive Officer
John (Jack) E. Heath, III
Vice-Chairman of the Board, Executive Vice President and Chief Operating Officer
Larry V. Sorensen
Senior Vice President and Chief Financial Officer
Burke D. Jackowich
Senior Vice President and General Counsel
Daniel A. Clark
Senior Vice President and Director of Internal Audit

### Washington Trust Bank

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
John J. Luger
President, JDL Enterprises, LLC
Dennis P. Murphy
Chief Executive Officer, Hayden Homes, LLC
Thomas B. Tilford
Retired President, Western Mine Services, Inc.
Nancy Sue Wallace
Community Volunteer
Jeffrey Wright
Chairman, Space Needle Corporation

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

**W.T.B. Financial Corporation**
**P.O. Box 2127**
**Spokane, Washington 99210-2127**

**Visit Washington Trust Bank's web site at www.watrust.com**

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
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Burke D. Jackowich
Senior Vice President and General Counsel

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Jim D. Branson
Senior Vice President

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Senior Vice President