

Consolidated Balance Sheets

December 31, 2016 and 2015 (Dollars in Thousands, Except Share Amounts)

	2016	2015
Assets		
Cash and Cash Equivalents:		
Cash and due from banks	\$19,516	\$18,521
Interest-bearing deposits at other financial institutions	95,337	57,146
Federal funds sold	10,591	5,648
Total Cash and Cash Equivalents	125,444	81,315
Securities available for sale at fair value	421,261	414,560
Securities held to maturity (fair value of \$1,533 and \$1,066)	1,551	1,069
Federal Home Loan Bank (FHLB) stock, at cost	1,757	1,699
Pacific Coast Banker's Bancshares (PCBB) stock, at cost	238	238
Loans held for sale	397	540
Loans and leases	864,924	847,547
Allowance for credit losses	(11,037)	(12,589)
Net loans and leases	853,887	834,958
Premises and equipment, net	14,250	13,393
Accrued interest receivable	4,504	4,394
Foreclosed real estate	66	343
Bank owned life insurance	14,118	13,627
Goodwill	6,820	6,820
Intangibles	4	10
Mortgage servicing rights	1,723	1,768
Other assets	8,219	6,929
Total assets	\$1,454,239	\$1,381,663
Liabilities		
Deposits:		
Demand	\$199,633	\$181,853
Savings and interest-bearing demand	830,310	782,474
Time	239,083	239,489
Total deposits	1,269,026	1,203,816
Accrued interest payable	445	407
Short-term borrowings	11,467	12,201
Long-term borrowings	2,404	2,671
Other liabilities	5,018	7,225
Total liabilities	1,288,360	1,226,320
Commitments and Contingencies (see Note 11)		
Shareholders' Equity		
Common stock (no par value); authorized 10,000,000 shares;		
Issued and outstanding: 2016 – 4,095,966; 2015 – 4,079,179	--	--
Additional Paid in Capital	1,962	1,472
Retained earnings	161,939	148,425
Accumulated other comprehensive income	1,978	5,446
Total shareholders' equity	165,879	155,343
Total liabilities and shareholders' equity	\$1,454,239	\$1,381,663

See notes to consolidated financial statements.

Consolidated Statements of Income and Comprehensive Income

Years Ended December 31, 2016 and 2015 <i>(Dollars in Thousands, Except Per Share Amounts)</i>	2016	2015
Interest Income:		
Loans and leases	\$33,282	\$32,557
Federal Funds sold and deposits at other financial institutions	191	91
Securities available for sale:		
Taxable	5,605	6,038
Tax-exempt	4,738	4,153
Securities held to maturity - tax-exempt	36	20
Total interest income	<u>43,852</u>	<u>42,859</u>
Interest Expense:		
Deposits	4,296	4,390
Short-term borrowings	28	33
Long-term borrowings	151	167
Total interest expense	<u>4,475</u>	<u>4,590</u>
Net interest income	39,377	38,269
(Recovery)/Provision for Credit Losses	(735)	1,200
Net interest income after provision for credit losses	40,112	37,069
Non-Interest Income:		
Service charges on deposit accounts	1,127	1,029
Mortgage banking operations	2,360	2,182
Net (loss)/gain on sales of securities available for sale	(1,925)	212
Brokerage commissions	518	684
Insurance commissions and fees	1,833	1,708
Net interchange income	1,716	1,634
BOLI cash value	492	460
Other	1,538	1,659
Total non-interest income	<u>7,659</u>	<u>9,568</u>
Non-Interest Expense:		
Salaries and employee benefits	14,011	13,265
Occupancy and equipment	4,155	4,252
Audits and examinations	431	440
State and local business and occupation taxes	615	428
FDIC Insurance & WA State Assessments	828	696
Legal and professional fees	439	555
Net (gain)/loss on foreclosed real estate	(26)	616
Check losses and charge-offs	252	305
Low Income Housing Fund Losses	341	470
Data Processing	775	762
Product Delivery	1,231	1,321
Other	2,642	2,588
Total non-interest expense	<u>25,694</u>	<u>25,698</u>
Income before income taxes	22,077	20,939
Income Taxes	4,553	4,175
Net Income	<u>\$17,524</u>	<u>\$16,764</u>
Change in the fair value of securities available for sale, net of tax	(3,468)	(492)
Comprehensive Income	<u>\$14,056</u>	<u>\$16,272</u>
Earnings per share – Basic	\$4.29	\$4.12
Earnings per share – Diluted	\$4.27	\$4.10

See notes to consolidated financial statements.