# W.T.B. Financial Corp

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

April 20, 2023

Dear Shareholders:

Central bank policies have been a dominant force shaping the interest rate and financial system landscape for more than a decade, and those forces intensified over the past several years. Sustained, ultra-low interest rates beginning way back in 2008, combined with a series of four quantitative easing policy actions by the Fed, drove liquidity into the financial system and significant industry deposit growth. Then last spring, persistent inflation prompted the Fed to raise rates faster and higher than even they were projecting. Whenever market conditions shift, all market participants adapt to the new landscape, and this past year was no exception. With rates up significantly, yields rose, margin widened, and performance remained strong over the past year. Higher rates also intensified the competitive landscape for funding as some of those deposits accumulated over the years finally had some compelling yield levels to consider. With this new environment, banks are raising rates to more competitive levels in order to meet client needs and retain customer funds. With that background information, let’s move to our quarterly performance.

Earnings for the first quarter totaled $22.3 million, up $1.5 million from the first quarter of last year, but down $3.7 million from the previous quarter’s results. For the quarter, diluted earnings per share totaled $8.88, which was up $0.66 per share from one-year ago, but down $1.47 from last quarter. Return on assets was 0.87 percent for the quarter, up 10 bps from last year, while return on equity was 10.49 percent, up 38 bps from last year.

A big driver of the Company’s better year-over-year performance was interest revenue, which grew by $26.8 million to $98.6 million, whereas interest expense, which tends to respond more slowly to rising rates, only increased $14.9 million to $16.8 million. With earning asset yields increasing faster than funding costs, net interest revenue increased $11.9 million, or 17 percent to $81.8 million year-over-year. In the most recent linked quarter view, that dynamic reversed as funding costs rose faster than interest revenue. For the March of 2023 versus December of 2022 quarters, interest revenue increased $1.2 million, while funding costs grew $9.7 million, resulting in net interest revenue decreasing $8.5 million to $81.8 million. Net interest margin year-over-year grew 63 basis points to 3.29 percent, while quarter-over-quarter, we gave some of that improvement back as margin declined 18 bps to 3.29 percent. Overall, for the quarter, the Bank's cost of interest bearing deposits was 0.93 percent, up 80 basis points ("bps") from one-year ago, while the cost of overall funding, which includes both borrowings and noninterest bearing demand deposits, came in at 0.73 percent, up 65 bps over one-year ago. We do expect continued funding cost and margin pressure in the future as I don't think we are through adapting our deposit pricing to current market conditions.

Higher rate levels over the past 12 months have had an impact on the balance sheet, and the funding side of the business was where most of the dynamic was, but let's start with assets. Total assets were up $92 million, or 0.9 percent over the previous quarter to $10.5 billion at the end of March, but down $569 million, or 5.1 percent year-over-year. The Bank's cash position declined from abnormally high levels one year ago of $1.6 billion to a still considerable position of $341 million at the end of the first quarter. Loan growth over the past year was strong at $648 million, or 11.9 percent, which helped deploy some of our cash. The sharp rise in market interest rates could well be finally having a dampening effect, as loan growth slowed in the first quarter to $57 million, leaving total loans at $6.1 billion at the end of March. Asset quality remained excellent as noncurrent loans totaled just $4.1 million, or 0.07 percent of total loans, while our allowance for credit losses position was substantial at $139 million, or 2.28 percent of loans, which remained well above industry averages (1.60 percent at the end of 2022).

The real dynamic in the balance sheet has been on deposits, with some sizeable funding outflows as our clients sought higher yields for their excess funds that had built up on our balance sheet over the past several years. Since the Fed started raising rates in March of last year through yearend 2022, deposit outflows totaled $687 million, which were largely attributable to excess deposits finally having the opportunity for more historically customary market returns. Two-thirds of those outflows were early in the year (during the second quarter of 2022), when the disparity between our deposit pricing and money market mutual fund yields, for example, was still rather small. And then later in the year, as that yield disparity grew, deposit outflows slowed. This likely reflects some seasonality influence as deposit growth early in the year is always difficult as clients make tax payments and sectors such as agriculture and construction firms fund business needs.

In the first quarter of this year, as elevated capital market yields and deposit seasonality factors came into play, we saw outflows accelerate to $889 million. While a sizeable number, the vast majority of those outflows (80 percent) occurred prior to the string of bank failures, which dominated the news cycle in the middle of March. Additionally, we have had considerable success in helping clients attain the yields they were seeking through our Wealth Management and Investment Services units, which were the recipients of $660 million of depositors' funds during the past 15 months.

A strong liquidity position and significant liquidity resources are a fundamental building block of bank management and were essential to cover loan growth and the deposit outflows we experienced. Cash was the first liquidity resource we relied on and then borrowings helped cover the balance. Wholesale borrowings totaled $1.1 billion at the end of the quarter, with $850 million of that borrowed from the Federal Reserve under its Bank Term Funding Program ("BTFP"). The Bank's BTFP borrowings have a one-year term, can be repaid at any time without penalty and carry the favorable borrowing rate of 4.38 percent. Additionally, given our high quality loan and bond collateral, we have $4.9 billion of secured, on-demand borrowing capacity available from the FHLB and the Federal Reserve, which provides significant capacity to cover any foreseeable funding need.

The Company's capital position remained strong over the past year growing $43.8 million, or 5.3 percent to $872 million. The Company's equity to asset ratio improved by 82 bps since March of 2022 to 8.29 percent in the current quarter. On January 1, 2023, the Bank adopted the Current Expected Credit Loss ("CECL") accounting standard, which essentially requires an allowance position that reflects expected credit losses over the remaining life of portfolio loans. The adoption of this new accounting standard added $21 million to the Bank's loan and unfunded commitment allowance position. The accounting standard allows the "Day 1" incremental change of $21 million to be recorded directly against capital (a $17 million after-tax reduction to equity). And finally, book value per share improved $20.01, or 6.1 percent over the past year to $345.77, while the quarterly improvement of $1.18 per share was reduced by the impact of adopting the CECL accounting standard.

As you know, on March 3, 2023, the Board of Directors reauthorized a share repurchase plan for up to $15.0 million of Class B common stock, which will be in effect over a twelve-month period. Common share repurchases under this plan, if any, may be made from time to time on the open market through broker dealers or in privately negotiated transactions, at the discretion of Company management. The extent to which the Company purchases shares and the timing of any such purchases will depend upon a variety of factors, including market conditions and relevant corporate considerations. The share repurchase program will be conducted in a manner intended to comply with the safe harbor provisions of Rule 10b-18 under the Securities and Exchange Act of 1934. Under the current authorization, we have not purchased any shares thus far and any purchases later in the year will be dependent upon market conditions and the external environment in which we operate. Under the preceding share repurchase authorization of $10 million, the Company repurchased 28,728 shares in total for $10.0 million, and 1,138 of those shares were repurchased in the first quarter of 2023.

While these times are posing some challenges, we remain focused on serving our customers, growing our business and managing our financial performance across the cycle. From a client perspective, our posture really hasn't changed. We typically have long-standing, close relationships with our customers and as important financial partners, we are actively helping them adapt their financial needs to the moment. It means a lot when you have known these people personally for years, and they rely on you for solutions that fit their needs. Doing what's best for the customer has always been a key business principle for Washington Trust Bank.

And we so appreciate your trust in us as shareholders as we navigate the evolving banking landscape, and we look forward to seeing many of you at our upcoming annual shareholders' meeting on April 24th at 1:30 p.m. at our headquarters building at 717 West Sprague Avenue, Spokane, Washington. For additional pertinent information, please also visit our Investor Relations webpage at watrust.com/about/investor-relations.

Warm Regards,

Peter F. Stanton

Pete Stanton
Chairman of the Board and CEO
Enclosure

W.T.B. Financial Corp

# Summary Financial Statements and Selected Financial Highlights Q1 2023

(unaudited)

# W.T.B. Financial Corporation
## Condensed Consolidated Statements of Financial Condition
## (unaudited)

| | **March 31, 2023** | December 31, 2022 | March 31, 2022 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and due from banks | **$ 135,344,562** | $ 119,932,630 | $ 109,115,109 |
| Interest-bearing deposits with banks | **341,116,215** | 273,938,004 | 1,632,922,295 |
| Securities available for sale, at fair value | **532,966,873** | 537,169,969 | 594,095,225 |
| Securities held to maturity, at amortized cost | **3,197,382,433** | 3,221,994,093 | 3,121,276,543 |
| Federal Home Loan Bank and Pacific Coast Bankers' Bancshares stock, at cost | **18,780,000** | 10,060,000 | 10,060,000 |
| Loans receivable | **6,099,478,730** | 6,042,262,030 | 5,451,587,886 |
| Allowance for credit losses on loans | **(138,976,018)** | (120,838,526) | (140,903,957) |
| Loans, net of allowance for credit losses on loans | **5,960,502,712** | 5,921,423,504 | 5,310,683,929 |
| Premises and equipment, net | **86,811,932** | 87,432,873 | 88,293,788 |
| Accrued interest receivable | **30,176,665** | 32,246,663 | 24,397,597 |
| Other assets | **212,268,656** | 218,891,833 | 193,365,671 |
| Total assets | **$ 10,515,350,048** | $ 10,423,089,569 | $ 11,084,210,157 |
| **LIABILITIES** | | | |
| Deposits: | | | |
| Noninterest-bearing | **$ 3,907,575,581** | $ 4,245,614,949 | $ 4,604,567,856 |
| Interest-bearing | **4,420,554,317** | 4,971,470,925 | 5,299,960,728 |
| Total deposits | **8,328,129,898** | 9,217,085,874 | 9,904,528,584 |
| Securites sold under agreements to repurchase | **129,519,341** | 209,031,623 | 235,649,386 |
| Other borrowings | **1,068,000,000** | - | 20,063,287 |
| Accrued interest payable | **2,412,427** | 370,567 | 806,798 |
| Other liabilities | **115,301,187** | 129,472,253 | 94,982,263 |
| Total liabilities | **9,643,362,853** | 9,555,960,317 | 10,256,030,318 |
| **SHAREHOLDERS' EQUITY** | | | |
| Common stock | **11,143,217** | 11,101,840 | 18,649,519 |
| Surplus | **32,665,000** | 32,665,000 | 32,665,000 |
| Undivided profits | **872,207,430** | 871,561,981 | 799,737,498 |
| | **916,015,647** | 915,328,821 | 851,052,017 |
| Accumulated other comprehensive loss, net of tax | **(44,028,452)** | (48,199,569) | (22,872,178) |
| Total shareholders' equity | **871,987,195** | 867,129,252 | 828,179,839 |
| Total liabilities and shareholders' equity | **$ 10,515,350,048** | $ 10,423,089,569 | $ 11,084,210,157 |

# W.T.B. Financial Corporation
# Condensed Consolidated Statements of Income
# (unaudited)

| | Three Months Ended | | |
|---|---|---|---|
| | **March 31, 2023** | December 31, 2022 | March 31, 2022 |
| **INTEREST REVENUE** | | | |
| Loans, including fees | **$ 78,262,913** | $ 75,217,255 | $ 56,339,968 |
| Deposits with banks | **2,421,992** | 5,308,393 | 830,782 |
| Securities | **17,847,132** | 16,809,071 | 14,531,324 |
| Other interest and dividend income | **80,653** | 75,642 | 77,169 |
| Total interest revenue | **98,612,690** | 97,410,361 | 71,779,243 |
| **INTEREST EXPENSE** | | | |
| Deposits | **10,650,635** | 6,966,783 | 1,625,436 |
| Funds purchased and other borrowings | **6,162,564** | 110,206 | 250,794 |
| Total interest expense | **16,813,199** | 7,076,989 | 1,876,230 |
| Net interest revenue | **81,799,491** | 90,333,372 | 69,903,013 |
| Provision for credit losses | **2,400,000** | 2,500,000 | - |
| Net interest revenue after provision for credit losses | **79,399,491** | 87,833,372 | 69,903,013 |
| **NONINTEREST REVENUE** | | | |
| Fiduciary income | **5,721,962** | 5,300,071 | 5,436,861 |
| Investment services fees | **1,025,658** | 975,854 | 1,052,740 |
| Bank and credit card fees, net | **4,093,504** | 851,241 | 4,970,592 |
| Mortgage banking revenue, net | **241,535** | 369,798 | 521,889 |
| Other fees on loans | **240,870** | 269,788 | 237,795 |
| Service charges on deposits | **1,453,239** | 1,588,120 | 1,755,739 |
| Other income | **2,230,196** | 1,572,128 | 2,314,682 |
| Total noninterest revenue | **15,006,964** | 10,927,000 | 16,290,298 |
| **NONINTEREST EXPENSE** | | | |
| Salaries and benefits | **41,136,420** | 39,710,680 | 38,073,725 |
| Occupancy, furniture and equipment expense | **6,833,174** | 6,262,261 | 6,211,609 |
| Other expense | **18,012,250** | 19,617,169 | 15,411,518 |
| Total noninterest expense | **65,981,844** | 65,590,110 | 59,696,852 |
| Income before provision for income taxes | **28,424,611** | 33,170,262 | 26,496,459 |
| Provision for income taxes | **6,172,116** | 7,223,744 | 5,701,024 |
| **NET INCOME** | **$ 22,252,495** | $ 25,946,518 | $ 20,795,435 |
| **PER SHARE DATA** | | | |
| **Weighted average number of common stock shares outstanding** | | | |
| Basic | **2,502,465** | 2,504,228 | 2,524,702 |
| Diluted | **2,505,194** | 2,506,905 | 2,528,713 |
| **Earnings per common share (based on weighted average shares outstanding)** | | | |
| Basic | **$ 8.89** | $ 10.36 | $ 8.24 |
| Diluted | **$ 8.88** | $ 10.35 | $ 8.22 |

# W.T.B. Financial Corporation
## Selected Financial Highlights
## (unaudited)

(dollars in thousands)

| | Quarters Ended | | | | |
|---|---|---|---|---|---|
| | March 31, 2023 | December 31, 2022 | September 30, 2022 | June 30, 2022 | March 31, 2022 |
| **SELECTED DATA** | | | | | |
| Interest-bearing deposits with banks | $ 341,116 | $ 273,938 | $ 643,622 | $ 869,483 | $ 1,632,922 |
| Securities | 3,730,349 | 3,759,164 | 3,687,733 | 3,739,692 | 3,715,372 |
| Total loans | 6,099,479 | 6,042,262 | 5,903,011 | 5,685,124 | 5,451,588 |
| Allowance for credit losses (ACL) on loans | 138,976 | 120,839 | 118,231 | 117,253 | 140,904 |
| Earning assets [1] | 10,231,511 | 10,133,251 | 10,293,630 | 10,336,044 | 10,830,404 |
| Total assets | 10,515,350 | 10,423,090 | 10,559,417 | 10,624,427 | 11,084,210 |
| Deposits | 8,328,130 | 9,217,086 | 9,374,985 | 9,441,660 | 9,904,529 |
| Interest-bearing liabilities | 5,618,074 | 5,180,503 | 5,283,297 | 5,322,593 | 5,555,673 |
| Total shareholders' equity | 871,987 | 867,129 | 855,259 | 848,684 | 828,180 |
| Total equity to total assets | 8.29% | 8.32% | 8.10% | 7.99% | 7.47% |
| Full-time equivalent employees | 1,166 | 1,146 | 1,134 | 1,116 | 1,104 |
| **ASSET QUALITY RATIOS** | | | | | |
| ACL on loans to total loans | 2.28% | 2.00% | 2.00% | 2.06% | 2.58% |
| ACL on loans to noncurrent loans | 3417% | 3743% | 3842% | 3249% | 283% |
| Net charge-offs (recoveries) to total average loans | 0.01% | 0.00% | 0.00% | -0.01% | -0.01% |
| Noncurrent loans and ORE to assets | 0.04% | 0.03% | 0.03% | 0.03% | 0.45% |

(1) Includes only the amortized cost for securities. Includes non-accrual loans.

(dollars in thousands, except per share data)

| | Quarters Ended | | | % Change | |
|---|---|---|---|---|---|
| | March 31, 2023 | December 31, 2022 | March 31, 2022 | Sequential Quarter | Year over Year |
| **PERFORMANCE** | | | | | |
| Net interest revenue, fully tax-equivalent | $ 81,867 | $ 90,384 | $ 69,949 | -9.4% | 17.0% |
| Fully tax-equivalent adjustment | 68 | 51 | 46 | 33.3% | 47.8% |
| Net interest revenue | 81,799 | 90,333 | 69,903 | -9.4% | 17.0% |
| Provision for credit losses | 2,400 | 2,500 | - | -4.0% | NM |
| Net interest revenue after provision for credit losses | 79,399 | 87,833 | 69,903 | -9.6% | 13.6% |
| Noninterest revenue | 15,007 | 10,927 | 16,290 | 37.3% | -7.9% |
| Noninterest expense | 65,981 | 65,590 | 59,697 | 0.6% | 10.5% |
| Income before provision for income taxes | 28,425 | 33,170 | 26,496 | -14.3% | 7.3% |
| Provision for income taxes | 6,173 | 7,223 | 5,701 | -14.5% | 8.3% |
| **Net income** | $ 22,252 | $ 25,947 | $ 20,795 | -14.2% | 7.0% |
| **PER COMMON SHARE** | | | | | |
| Earnings per common share - basic | $ 8.89 | $ 10.36 | $ 8.24 | -14.2% | 7.9% |
| Earnings per common share - diluted | 8.88 | 10.35 | 8.22 | -14.2% | 8.0% |
| Common cash dividends | 1.85 | 4.85 | 1.85 | -61.9% | 0.0% |
| Common shareholders' equity | 345.77 | 344.59 | 325.76 | 0.3% | 6.1% |

| | Quarters Ended | | | % Change | |
|---|---|---|---|---|---|
| | March 31, 2023 | December 31, 2022 | March 31, 2022 | Sequential Quarter | Year over Year |
| **PERFORMANCE RATIOS** | | | | | |
| Return on average assets | 0.87% | 0.97% | 0.77% | -0.10% | 0.10% |
| Return on average shareholders' equity | 10.49% | 11.90% | 10.11% | -1.41% | 0.38% |
| Margin on average earning assets [2] | 3.29% | 3.47% | 2.66% | -0.18% | 0.63% |
| Noninterest expense to average assets | 2.59% | 2.46% | 2.21% | 0.13% | 0.38% |
| Noninterest revenue to average assets | 0.59% | 0.41% | 0.60% | 0.18% | -0.01% |
| Efficiency ratio | 68.1% | 64.7% | 69.2% | 3.4% | -1.1% |
| Common cash dividends to net income | 20.83% | 46.72% | 22.48% | -25.89% | 24.24% |

(2) Tax exempt interest has been adjusted to a taxable equivalent basis using a tax rate of 21%.
NM = not meaningful

# W.T.B. Financial Corporation
## Selected Credit Performance Highlights
## (unaudited) (dollars in thousands)

| | Quarters Ended | | |
|---|---|---|---|
| **Loans by Credit Risk Rating:** | **March 31, 2023** | **December 31, 2022** | **March 31, 2022** |
| Pass | $ 5,887,608 | $ 5,837,975 | $ 5,192,625 |
| Special Mention | 123,042 | 117,568 | 139,492 |
| Substandard | 88,801 | 86,711 | 119,467 |
| Doubtful | 28 | 8 | 4 |
| Total | $ 6,099,479 | $ 6,042,262 | $ 5,451,588 |

| | Quarters Ended | | |
|---|---|---|---|
| **Loans by Payment Status:** | **March 31, 2023** | **December 31, 2022** | **March 31, 2022** |
| Current Loans | $ 6,088,000 | $ 6,033,423 | $ 5,389,174 |
| Loans Past Due 30-89 Days, Still Accruing | 7,412 | 5,610 | 12,696 |
| Noncurrent Loans | 4,067 | 3,229 | 49,718 |
| Total | $ 6,099,479 | $ 6,042,262 | $ 5,451,588 |

| | Quarters Ended | | |
|---|---|---|---|
| **Allowance for Credit Losses on Loans Position:** | **March 31, 2023** | **December 31, 2022** | **March 31, 2022** |
| Allowance for Credit Losses on Loans | $ 138,976 | $ 120,839 | $ 140,904 |
| Allowance to Total Loans | 2.28% | 2.00% | 2.58% |