

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

October 18, 2018

Dear Shareholders:

The third quarter of 2018 can be characterized by solid deposit growth, which helped drive cash balances higher, rising earning asset yields, which helped grow net interest revenue, and continued strong financial performance. Earnings for the quarter totaled \$20.1 million, up \$3.2 million, or 18.9 percent year-over-year. Our results continued to be favorably impacted by Federal Reserve rate moves, which included a 25 basis point hike in September bringing the total upward adjustment in rates to 200 basis points since the end of 2015.

Strong deposit growth in the second half of the year is our typical pattern, and this past quarter was no exception. For the quarter, deposits increased \$169 million and were up \$315 million, or 6.0 percent year-over-year to more than \$5.5 billion. Loans were down slightly for the quarter in part due to some large pay-offs, but also due to an environment that is becoming very competitive on both loan price and loan terms. While loans for the quarter were down \$24.1 million, growth over the past year totaled \$98.0 million, or 2.5 percent. Despite moderate loan growth, loan yields continued to respond nicely to rising rates with yields increasing 13 basis points quarter-over-quarter and 38 basis points year-over-year to 5.10 percent. Rising rates are also pressuring funding costs across the industry, with the Bank's overall cost of funds increasing 8 basis points quarter-over-quarter and 15 basis points year-over-year to 0.22 percent.

With deposit growth out-pacing loan growth, the Company's liquidity position remained substantial. Year-over-year, balances of cash and investments increased \$260 million, or 12.8 percent to nearly \$2.3 billion. While the ability to continue to generate deposit growth is a real strength, the resulting growth in lower yielding asset classes tends to moderate earning asset yields and improvements in net interest margin. Margin for the

quarter declined 1 basis point as compared with the second quarter, but widened by 5 basis points year-over-year to 3.77 percent. While margin growth was influenced by asset mix, the more important determinant of financial performance is net interest revenue, which increased \$6.8 million, or 12.8 percent to \$60.3 million year-over-year.

Deposit growth also helped drive assets higher by \$346 million, or 5.7 percent year-over-year to \$6.4 billion. Capital remained substantial at \$567 million, or 8.85 percent of assets and the Bank's regulatory capital position was maintained well in excess of regulatory minimums. Tangible book value per share improved \$10.51 per share, or 5.0 percent year-over-year. Asset quality and credit performance is excellent with noncurrent loans and other real estate totaling just 0.15 percent of assets. The bank's allowance for loan loss position, which helps cover loan charge-offs, is substantial at \$91 million, or 2.24 percent of loans.

Noninterest income declined slightly, down \$171,000, or 1.4 percent year-over-year to \$11.6 million, which was largely due to losses on one-time asset disposals. While net interest revenue growth was strong and noninterest revenue was steady, operating expenses came in decidedly higher. Noninterest expense for the quarter totaled \$46.0 million, up \$6.9 million, or 17.5 percent year-over-year. Major factors that drove expense growth included higher technology spending, increased headcount driving higher salary expense, higher incentive and medical expense, elevated facilities costs reflecting expansion in Puget Sound and Portland, and spending related to a significant renovation of our operations center. Helping offset some of these costs was lower corporate income tax rates, which reduced tax expense year-over-year nearly \$4 million to \$5.2 million.

Collectively, those revenue and expense trends grew third quarter earnings \$3.2 million, or 18.9 percent to \$20.1 million as compared with last year. At a shareholder level, diluted earnings per share for the quarter came in at \$7.83, up \$1.23 per share, or 18.6 percent. Financial performance measures remained strong with return on assets coming in at 1.24 percent and return on shareholder's equity of 14.12 percent.

Consolidation continues to impact the competitive landscape, meaning fewer, but larger competitors. Looking back over just the past five years, the number of institutions in our three state footprint has declined 36 percent to 76 banks, and that trend seems likely to continue. Our business, technology and the external landscape in which we operate are also evolving rapidly. That evolution is driving higher operating costs as we make the necessary investments in technology, customer-facing applications and facilities to remain compelling to our customers and competitive in the marketplace. While we have the benefit of a growing balance sheet, rising rates and a favorable economic environment, our ongoing challenge will be to spend wisely, extract full value from the

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investments we make and position the Bank to leverage those investments into the future. The ability to scale our business and cost structure as we grow is an important objective and centerpiece of our strategic plan.

In addition to keeping an eye on the day-to-day business, we are also looking into the future and mapping out strategies that will take us well into the next decade. This planning process is familiar to us all, but the focus in today's world includes much attention paid to technology, data, electronic delivery, customer experience and digital strategies. All of those technology themes must ultimately contribute to the Bank's ability to remain a valued business partner to our clients and an important solution to their financial needs. To a large degree, the future is unknown, the decisions we face are not always clear and speed is not always our friend, but we embrace the need to evolve and are energized by the challenge.

We are fortunate to be operating in a strong business environment and we plan to use this time wisely to make the necessary investments in our business. We recognize that the economy runs in cycles and the current expansion will turn at some point in the future. Our success will depend on our ability to continue to serve our customers' financial needs, but also to accomplish that efficiently with a platform that can scale as we grow. When the macro economy turns, we intend to be as ready as we can with a strong balance sheet and an efficient ability to continue serving our clients. We very much appreciate the hard work and contributions of our employees, the loyalty of our customers and the support of our shareholders. Please let us know if we can help you in anyway. For additional pertinent information, please also visit our Investor Relations webpage at watrust.com/about/investor-relations.

Warm Regards,



Pete Stanton
Chairman of the Board and CEO

Enclosure

Third Quarter : 2018

Summary Financial Statements and Selected Financial Highlights

(unaudited)

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

	September 30, 2018	June 30, 2018	September 30, 2017
ASSETS			
Cash and due from banks	\$ 106,029,130	\$ 91,719,702	\$ 95,718,872
Fed funds sold and resale agreements	225,000	260,000	-
Interest-bearing deposits with banks	650,873,185	647,779,104	449,352,864
Securities available for sale, at fair value	1,022,195,424	918,574,189	931,145,033
Securities held to maturity, at amortized cost	518,268,017	444,468,041	561,352,612
Federal Home Loan Bank and Pacific Coast Bankers' Bancshares stock, at cost	7,540,600	7,540,600	6,857,600
Loans receivable	4,054,934,767	4,079,035,309	3,956,974,473
Allowance for loan losses	(91,026,155)	(89,235,844)	(89,569,043)
Loans net of allowance for loan losses	3,963,908,612	3,989,799,465	3,867,405,430
Premises and equipment, net	54,128,425	52,509,834	45,755,456
Other real estate	-	-	338,400
Accrued interest receivable	20,922,133	19,971,546	17,947,975
Other assets	63,649,906	53,107,007	86,317,161
Total assets	\$ 6,407,740,432	\$ 6,225,729,488	\$ 6,062,191,403
LIABILITIES			
Deposits:			
Noninterest-bearing	\$ 2,375,481,763	\$ 2,332,047,750	\$ 2,196,968,589
Interest-bearing	3,173,508,190	3,048,015,739	3,036,594,027
Total deposits	5,548,989,953	5,380,063,489	5,233,562,616
Securities sold under agreements to repurchase	242,444,729	252,277,496	246,368,513
Accrued interest payable	1,468,208	1,088,826	455,177
Other liabilities	47,590,617	39,174,290	41,739,544
Total liabilities	5,840,493,507	5,672,604,101	5,522,125,850
SHAREHOLDERS' EQUITY			
Common stock	31,531,734	30,999,729	29,553,821
Surplus	32,665,000	32,665,000	32,665,000
Undivided profits	563,300,471	546,170,793	510,075,679
	627,497,205	609,835,522	572,294,500
Accumulated other comprehensive loss	(60,250,280)	(56,710,135)	(32,228,947)
Total shareholders' equity	567,246,925	553,125,387	540,065,553
Total liabilities and shareholders' equity	\$ 6,407,740,432	\$ 6,225,729,488	\$ 6,062,191,403

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

	Three Months Ended		
	September 30, 2018	June 30, 2018	September 30, 2017
INTEREST REVENUE			
Loans, including fees	\$ 52,053,221	\$ 49,791,801	\$ 46,671,373
Deposits with banks	4,168,027	3,370,875	1,043,740
Securities	7,524,273	7,029,829	6,814,466
Other interest and dividend income	68,329	40,734	19,302
Total interest revenue	<u>63,813,850</u>	<u>60,233,239</u>	<u>54,548,881</u>
INTEREST EXPENSE			
Deposits	3,361,961	2,160,120	1,033,581
Funds purchased and other borrowings	143,980	45,396	46,287
Total interest expense	<u>3,505,941</u>	<u>2,205,516</u>	<u>1,079,868</u>
Net interest revenue	<u>60,307,909</u>	<u>58,027,723</u>	<u>53,469,013</u>
Provision for loan losses	600,000	1,300,000	-
Net interest revenue after provision for loan losses	<u>59,707,909</u>	<u>56,727,723</u>	<u>53,469,013</u>
NONINTEREST REVENUE			
Fiduciary income	4,178,519	4,254,429	3,758,281
Mortgage banking revenue, net	1,733,028	1,594,033	1,472,249
Other fees on loans	270,789	251,418	250,038
Service charges, commissions and fees	5,846,670	5,879,146	6,019,480
Net losses on other real estate	-	(92,638)	-
Other income	(416,374)	1,066,274	283,426
Total noninterest revenue	<u>11,612,632</u>	<u>12,952,662</u>	<u>11,783,474</u>
NONINTEREST EXPENSE			
Salaries and benefits	26,401,832	26,443,428	24,589,697
Occupancy, furniture and equipment expense	4,719,128	4,833,479	3,672,144
Other expense	14,917,972	12,515,002	10,916,577
Total noninterest expense	<u>46,038,932</u>	<u>43,791,909</u>	<u>39,178,418</u>
Income before income taxes	<u>25,281,609</u>	<u>25,888,476</u>	<u>26,074,069</u>
Income taxes	5,213,663	5,817,858	9,199,494
NET INCOME	<u>\$ 20,067,946</u>	<u>\$ 20,070,618</u>	<u>\$ 16,874,575</u>
PER SHARE DATA			
Weighted average number of common stock shares outstanding			
Basic	2,555,016	2,555,016	2,546,676
Diluted	2,563,132	2,561,649	2,556,320
Earnings per common share (based on weighted average shares outstanding)			
Basic	\$ 7.85	\$ 7.86	\$ 6.63
Diluted	\$ 7.83	\$ 7.84	\$ 6.60

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

	Nine Months Ended	
	September 30, 2018	September 30, 2017
INTEREST REVENUE		
Loans, including fees	\$ 148,622,878	\$ 133,186,418
Deposits with banks	10,456,911	2,062,334
Securities	21,395,418	20,009,593
Other interest and dividend income	258,322	63,513
Total interest revenue	180,733,529	155,321,858
INTEREST EXPENSE		
Deposits	7,347,189	2,936,041
Funds purchased and other borrowings	232,036	135,176
Total interest expense	7,579,225	3,071,217
Net interest revenue	173,154,304	152,250,641
Provision for loan losses	2,300,000	400,000
Net interest revenue after provision for loan losses	170,854,304	151,850,641
NONINTEREST REVENUE		
Fiduciary income	12,437,641	10,718,264
Mortgage banking revenue, net	4,879,278	4,816,012
Other fees on loans	728,001	739,699
Service charges, commissions and fees	17,658,136	17,647,378
Net losses on other real estate	(92,638)	(10,390)
Other income	1,433,718	841,145
Total noninterest revenue	37,044,136	34,752,108
NONINTEREST EXPENSE		
Salaries and benefits	79,770,025	74,328,025
Occupancy, furniture and equipment expense	13,593,180	11,449,079
Other expense	39,052,082	32,429,526
Total noninterest expense	132,415,287	118,206,630
Income before income taxes	75,483,153	68,396,119
Income taxes	16,499,437	23,787,946
NET INCOME	\$ 58,983,716	\$ 44,608,173

PER SHARE DATA

Weighted average number of common stock shares outstanding

Basic	2,553,396	2,544,936
Diluted	2,561,996	2,553,742

Earnings per common share (based on weighted average shares outstanding)

Basic	\$ 23.10	\$ 17.53
Diluted	\$ 23.02	\$ 17.47

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

(dollars in thousands)

	Quarters Ended				
	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
SELECTED DATA					
Interest-bearing deposits with banks	\$ 650,873	\$ 647,779	\$ 872,674	\$ 748,822	\$ 449,353
Securities	1,540,463	1,363,042	1,341,115	1,387,176	1,492,498
Total loans	4,054,935	4,079,035	3,939,242	3,932,076	3,956,974
Allowance for loan losses	91,026	89,236	87,551	86,784	89,569
Earning assets ¹	6,293,542	6,132,681	6,192,265	6,095,353	5,918,736
Total assets	6,407,740	6,225,729	6,281,292	6,246,093	6,062,191
Deposits	5,548,990	5,380,063	5,480,126	5,448,866	5,233,563
Interest-bearing liabilities	3,415,953	3,300,293	3,261,415	3,313,797	3,282,963
Total shareholders' equity	567,247	553,125	538,057	530,791	540,066
Total equity to total assets	8.85%	8.88%	8.57%	8.50%	8.91%
Full-time equivalent employees	992	977	973	960	972
ASSET QUALITY RATIOS					
Allowance for loan losses to total loans	2.24%	2.19%	2.22%	2.21%	2.26%
Allowance for loan losses to noncurrent loans	963%	902%	724%	755%	748%
Net charge-offs (recoveries) to total average loans	-0.03%	-0.01%	-0.01%	0.06%	-0.04%
Noncurrent loans and ORE to assets	0.15%	0.16%	0.20%	0.19%	0.20%
Noncurrent loans, ORE and TDRs to assets	0.16%	0.18%	0.22%	0.21%	0.22%

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

(dollars in thousands, except per share data)

	Quarters Ended			% Change	
	September 30, 2018	June 30, 2018	September 30, 2017	Sequential Quarter	Year over Year
PERFORMANCE					
Net interest revenue, fully tax-equivalent	\$ 60,432	\$ 58,145	\$ 53,781	3.9%	12.4%
Fully tax-equivalent adjustment	124	117	312	6.0%	-60.3%
Net interest revenue	60,308	58,028	53,469	3.9%	12.8%
Provision for loan losses	600	1,300	-	-53.8%	NM
Net interest revenue after provision for loan losses	59,708	56,728	53,469	5.3%	11.7%
Noninterest revenue	11,613	12,953	11,783	-10.3%	-1.4%
Noninterest expense	46,039	43,793	39,178	5.1%	17.5%
Income before income taxes	25,282	25,888	26,074	-2.3%	-3.0%
Income taxes	5,214	5,817	9,199	-10.4%	-43.3%
Net income	\$ 20,068	\$ 20,071	\$ 16,875	0.0%	18.9%
PER COMMON SHARE					
Earnings per common share - basic	\$ 7.85	\$ 7.86	\$ 6.63	-0.1%	18.4%
Earnings per common share - diluted	7.83	7.84	6.60	-0.1%	18.6%
Common cash dividends	1.15	1.15	0.84	0.0%	36.9%
Common shareholders' equity	220.67	215.18	210.16	2.6%	5.0%

	Quarters Ended			% Change	
	September 30, 2018	June 30, 2018	September 30, 2017	Sequential Quarter	Year over Year
PERFORMANCE RATIOS					
Return on average assets	1.24%	1.29%	1.14%	-0.05%	0.10%
Return on average shareholders' equity	14.12%	14.74%	12.44%	-0.62%	1.68%
Margin on average earning assets ¹	3.77%	3.78%	3.72%	-0.01%	0.05%
Noninterest expense to average assets	2.83%	2.81%	2.65%	0.02%	0.18%
Noninterest revenue to average assets	0.71%	0.83%	0.80%	-0.12%	-0.09%
Efficiency ratio	63.9%	61.6%	59.8%	2.3%	4.1%
Common cash dividends to net income	14.64%	14.64%	12.68%	0.00%	1.90%

(1) Tax exempt interest has been adjusted to a taxable equivalent basis using a tax rate of 21% in 2018 and 35% in 2017.

NM = not meaningful

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

(dollars in thousands, except per share data)

	Nine Months Ended		% Change
	September 30, 2018	September 30, 2017	Year over Year
PERFORMANCE			
Net interest revenue, fully tax-equivalent	\$ 173,519	\$ 153,186	13.3%
Fully tax-equivalent adjustment	365	935	-61.0%
Net interest revenue	173,154	152,251	13.7%
Provision for loan losses	2,300	400	475.0%
Net interest revenue after provision for loan losses	170,854	151,851	12.5%
Noninterest revenue	37,044	34,752	6.6%
Noninterest expense	132,415	118,207	12.0%
Income before income taxes	75,483	68,396	10.4%
Income taxes	16,499	23,788	-30.6%
Net income	\$ 58,984	\$ 44,608	32.2%
PER COMMON SHARE			
Earnings per common share - basic	\$ 23.10	\$ 17.53	31.8%
Earnings per common share - diluted	23.02	17.47	31.8%
Common cash dividends	3.45	2.52	36.9%
Common shareholders' equity	220.67	210.16	5.0%
PERFORMANCE RATIOS			
Return on average assets	1.25%	1.05%	0.20%
Return on average shareholders' equity	14.39%	11.44%	2.95%
Margin on average earning assets ¹	3.73%	3.69%	0.04%
Noninterest expense to average assets	2.81%	2.78%	0.03%
Noninterest revenue to average assets	0.79%	0.82%	-0.03%
Efficiency ratio	62.9%	62.9%	0.0%
Common cash dividends to net income	14.94%	14.39%	0.55%

(1) Tax exempt interest has been adjusted to a taxable equivalent basis using a tax rate of 21% in 2018 and 35% in 2017.