W.T.B. Financial Corp

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

January 28, 2021

Dear Shareholders:

One year ago, I would have found it very hard to take someone seriously if they predicted that the world would be nearly shuttered as a result of a global pandemic, that GDP would contract by 31.4 percent, that the unemployment rate would spike to 14.8 percent and that interest rates would plummet nearly 200 basis points to record lows. I would have found it equally difficult to believe that through such a severe operating environment, Washington Trust Bank would grow assets more than $2.6 billion, increase shareholders' equity by $111 million, fortify our allowance for loan loss position by $36 million and earn $76.3 million. And yet that is what I am able to reflect back on and report to you today.

In many ways, this year validated our business model and operating philosophy. Our discipline of maintaining a strong balance sheet positioned us to withstand the unexpected and continue to deliver banking services to our clients and the communities we serve. That strategy withstood the extraordinary conditions that 2020 threw at us. We are a relationship bank, and we delivered on that partnership with our clients. We successfully shifted a majority of our employees to remote work status, with little noticeable disruption in our operations. For over 5,000 of our commercial customers feeling the strain of very difficult operating conditions, we delivered crucial relief through more than $1.2 billion in Paycheck Protection Program (PPP) loans. We were also able to provide important loan payment accommodations to more than 600 clients on better than $500 million in outstanding loans. And all of that was possible due to our employees, who have shown time and again, how capable and adaptable they are. Their dedication to the bank and to our mission of serving customer needs made this year possible.

Given all the challenges of 2020, our financial performance was impressive, though some of our performance metrics were thrown out of kilter by a very dynamic year and an equally dynamic balance sheet. I will explain those impacts as I walk through our numbers.

For the year, assets increased more than $2.6 billion, or 37.0 percent to $9.8 billion. That extraordinary growth was funded almost entirely by deposits, which grew nearly $2.5 billion, or 39.7 percent over the course of the year. Deposit growth started with the PPP early in the second quarter, but continued through the second half of the year as our core clients brought significant levels of liquidity to the bank.

All of that deposit growth provided the funding for extraordinary earning asset growth. Investable cash levels increased $939 million to nearly $1.5 billion. Our securities portfolio grew by $683 million, or 36.0 percent to $2.6 billion. Our loan portfolio increased $1.0 billion, or 23.1 percent to $5.6 billion. Collectively, this significant earning asset growth helped offset the impact record low interest rates had on net interest margin. The low rate environment, increased balances in low yielding cash and bonds, and generally unattractive reinvestment yields during the year helped shrink net interest margin by 69 basis points (bps) to 3.28 percent. But despite the significant contraction in net interest margin, net interest revenue increased by $17.2 million, or 6.7 percent to $272 million. It is strange to end up at a fairly customary level of annual net interest revenue growth in the face of such stunning moves in rates, margin, cash levels and earning assets, but that is the kind of strange year it has been.

Another way to put our performance in context is that the balance sheet generated enough earning power to achieve very solid net income of $76.3 million, despite posting $33.0 million in provision expense, which was more than ten times the $3.2 million we took in 2019. The higher provision expense levels we took reflected massive uncertainty around the macro credit environment and helped grow our allowance position by $36.4 million to $132.8 million, or 2.38 percent of loans. If you exclude from the denominator the $971 million in PPP loans remaining at year end, which are fully guaranteed by the Small Business Administration (SBA), our allowance position would have been reported at 2.87 percent of loans.

While the external environment continues to be under significant stress, that stress seems to be concentrated in industries naturally impacted by society's response to COVID-19, like restaurants and hotels. And given all the relief that has been targeted on the economy as a whole, and hard-hit sectors in particular, traditional indicators of loan payment difficulties sometimes do not reflect truly the challenges some customers are facing. For example, noncurrent loans at year end totaled just $11.4 million, or 0.2 percent of total loans, down $2.9 million year-over-year. Additionally, charge-offs for the year totaled $2.1 million, down from $5.2 million last year. Those metrics remain at historic lows and even suggest improving credit performance, while we know the external environment is decidedly less favorable today than one year ago. Helping to buffer whatever financial challenges certain borrowers are enduring are literally trillions of dollars of indirect macro support by the federal government and more directly, over a billion dollars of relief from the bank through forgivable PPP loans and the loan payment accommodations we granted.

While the level of loan payment accommodations we delivered during the year helped many customers bridge difficult times, only 21 clients with loans totaling $37 million remained on some sort of payment deferral status at the end of 2020. Moreover, under the original PPP loan program that rolled out last spring, we delivered more than $1.2 billion in PPP loans to over 5,000 clients. Through the loan forgiveness process, which is already underway, PPP loan totals have declined to $971 million across 4,258 clients. And more relief is underway. The SBA rolled out a new PPP loan program shortly after the first of the year and we are busy helping our clients participate in that program, though we do not expect participation to reach the levels of the first round of PPP offered last spring.

Through our credit monitoring, we know there are emerging difficulties across the portfolio, though those borrowers with deteriorating financial prospects seem to be concentrated in business lines most impacted by COVID-19. So while the credit picture remains unclear, we feel confident that through the combination of balance sheet strength, significant loss absorbing capacity and various forms of relief being delivered to borrowers that need support, we are well-positioned.

Our financial performance measures were generally solid, with some distortions caused by the oddities of the operating environment and balance sheet dynamics. Diluted earnings per share for the year came in at $30.06, down $2.50, or 7.7 percent from 2019 performance. Major balance sheet growth and low yields on investable cash and bonds helped drive return on assets lower by 37 bps to 0.89 percent. Lower year-over-year earnings and a significant increase in shareholders' equity resulted in return on equity declining 280 bps to 9.90 percent. Shareholders' equity increased by $110.6 million, or 15.9 percent during the year, helped out by $57.5 million increase in undivided profits and a $54.6 million after-tax increase in unrealized gains on the available for sale bond portfolio. Book value per share showed similar improvement, increasing $44.07, or 16.2 percent to $316.30 per share.

Noninterest revenue was a big contributor to financial performance, increasing $19.1 million, or 39.5 percent year-over-year to $67.4 million. Our home lending division had a fantastic year, with low rates driving a refinancing boom and record loan originations. We elected to sell some of our loan production and mortgage banking revenue increased $10.1 million, or 251.7 percent to $14.1 million. Bond gains of $3.9 million also bolstered noninterest revenue as we both built our portfolio and repositioned our holdings throughout the year. Noninterest expense for the year came in at $208.7 million, up $15.3 million, or 7.9 percent over 2019 levels. The primary drivers of that increase were salaries and incentive compensation, which were up $12.0 million, or 12.6 percent to $107.5 million. That increase was primarily due to increased headcount and incentive compensation related to strong home loan originations, and overall loan and deposit growth during the year.

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Given the uncertainty of the macro environment, we were not significant purchasers of the company's Class B common stock under the existing share repurchase authorization. During the second half of the year, there were no share repurchases and total share repurchases during the year equaled 14,326 shares for an aggregate cost of $4.7 million, or almost $330 per share. At year end 2020, there was approximately $10 million in remaining repurchase capacity under the February 2020 board authorization. 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 and may be suspended or terminated at any time by the company's Board of Directors without prior notice. We will continue to keep you apprised of our progress on share repurchases over time.

2020 was a wild year that certainly expanded the scope of what kinds of operating conditions fall into the range of the possible. We need to be built to withstand the unexpected to ensure we are positioned to help our clients withstand that same unforeseen environment. As bankers, that is what we do, and while I cannot tell you we planned for the possibility of a global pandemic, we did manage to a position of strength to ensure we were here when our clients needed us most.

While we are not done with this difficult environment, we are certainly proud of what we achieved in 2020. Many challenges remain in the external market and we, as a country, are not back to anything that resembles normal yet. It always seems like there is great uncertainty and many unknowns facing the bank, but that seems truer than ever today. So as we enter 2021, we will continue our focus on strength, competitiveness, technology, credit quality and of course, our clients, our shareholders, our employees and the communities we serve. 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 F Stanton

Pete Stanton
Chairman of the Board and CEO

Enclosure

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W.T.B. Financial Corp

Summary Financial Statements and Selected Financial Highlights Q4 2020

(unaudited)

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

	December 31, 2020	September 30, 2020	December 31, 2019
ASSETS			
Cash and due from banks	**$ 101,564,883**	$ 109,193,825	$ 102,602,803
Interest-bearing deposits with banks	**1,463,300,093**	903,065,828	523,953,345
Securities available for sale, at fair value	**1,700,704,116**	1,711,102,209	1,247,616,516
Securities held to maturity, at amortized cost	**877,655,640**	566,225,808	648,206,906
Federal Home Loan Bank and Pacific Coast Bankers' Bancshares stock, at cost	**8,642,400**	8,642,400	7,911,600
Loans receivable	**5,591,531,863**	5,871,073,297	4,542,596,852
Allowance for loan losses	**(132,811,083)**	(121,077,177)	(96,414,721)
Loans net of allowance for loan losses	**5,458,720,780**	5,749,996,120	4,446,182,131
Premises and equipment, net	**92,078,811**	91,523,731	86,682,368
Accrued interest receivable	**29,014,691**	28,159,479	21,158,214
Other assets	**82,281,539**	76,075,912	80,350,296
Total assets	**$ 9,813,962,953**	$ 9,243,985,312	$ 7,164,664,179
LIABILITIES			
Deposits:			
Noninterest-bearing	**$ 4,151,293,727**	$ 3,798,531,120	$ 2,817,138,103
Interest-bearing	**4,547,496,931**	4,353,387,684	3,409,727,898
Total deposits	**8,698,790,658**	8,151,918,804	6,226,866,001
Securites sold under agreements to repurchase	**216,428,301**	205,480,849	163,069,316
Accrued interest payable	**675,110**	693,227	1,134,357
Other liabilities	**91,551,137**	86,553,103	77,690,457
Total liabilities	**9,007,445,206**	8,444,645,983	6,468,760,131
SHAREHOLDERS' EQUITY			
Common stock	**24,240,662**	23,233,755	26,755,819
Surplus	**32,665,000**	32,665,000	32,665,000
Undivided profits	**707,388,777**	693,291,429	649,845,770
	764,294,439	749,190,184	709,266,589
Less treasury stock, at cost	**-**	-	(18,428)
	764,294,439	749,190,184	709,248,161
Accumulated other comprehensive income (loss)	**42,223,308**	50,149,145	(13,344,113)
Total shareholders' equity	**806,517,747**	799,339,329	695,904,048
Total liabilities and shareholders' equity	**$ 9,813,962,953**	$ 9,243,985,312	$ 7,164,664,179

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

	Three Months Ended		
	December 31, 2020	September 30, 2020	December 31, 2019
INTEREST REVENUE			
Loans, including fees	**$ 63,777,586**	$ 60,582,662	$ 56,314,001
Deposits with banks	**300,510**	224,357	1,044,882
Securities	**12,154,516**	11,505,316	11,901,999
Other interest and dividend income	**76,365**	76,260	81,542
Total interest revenue	**76,308,977**	72,388,595	69,342,424
INTEREST EXPENSE			
Deposits	**2,820,574**	3,086,395	4,052,313
Funds purchased and other borrowings	**291,546**	297,905	505,988
Total interest expense	**3,112,120**	3,384,300	4,558,301
Net interest revenue	**73,196,857**	69,004,295	64,784,123
Provision for loan losses	**9,500,000**	9,000,000	1,200,000
Net interest revenue after provision for loan losses	**63,696,857**	60,004,295	63,584,123
NONINTEREST REVENUE			
Fiduciary income	**4,803,327**	4,733,665	4,538,314
Investment services fees	**1,322,348**	880,868	732,049
Bank and credit card fees, net	**3,483,639**	3,725,160	3,257,608
Mortgage banking revenue, net	**6,007,859**	4,681,839	1,457,212
Other fees on loans	**342,260**	219,924	416,480
Service charges on deposits	**1,465,958**	1,368,941	1,656,250
Other income	**938,313**	1,778,367	1,749,841
Total noninterest revenue	**18,363,704**	17,388,764	13,807,754
NONINTEREST EXPENSE			
Salaries and benefits	**35,497,762**	32,592,089	28,940,405
Occupancy, furniture and equipment expense	**5,986,331**	5,576,155	5,714,744
Other expense	**16,497,352**	13,673,985	15,181,542
Total noninterest expense	**57,981,445**	51,842,229	49,836,691
Income before provision for income taxes	**24,079,116**	25,550,830	27,555,186
Provision for income taxes	**5,292,935**	5,663,480	6,047,475
NET INCOME	**$ 18,786,181**	$ 19,887,350	$ 21,507,711
PER SHARE DATA			
Weighted average number of common stock shares outstanding			
Basic	**2,534,772**	2,534,504	2,544,395
Diluted	**2,537,095**	2,535,688	2,550,164
Earnings per common share (based on weighted average shares outstanding)			
Basic	**$ 7.41**	$ 7.85	$ 8.45
Diluted	**$ 7.40**	$ 7.84	$ 8.43

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

	Twelve Months Ended	
	December 31, 2020	December 31, 2019
INTEREST REVENUE		
Loans, including fees	**$ 237,474,817**	$ 224,315,382
Deposits with banks	**2,490,312**	7,713,318
Securities	**47,197,119**	42,017,372
Other interest and dividend income	**307,834**	308,245
Total interest revenue	**287,470,082**	274,354,317
INTEREST EXPENSE		
Deposits	**13,623,061**	16,844,718
Funds purchased and other borrowings	**1,589,790**	2,451,948
Total interest expense	**15,212,851**	19,296,666
Net interest revenue	**272,257,231**	255,057,651
Provision for loan losses	**33,000,000**	3,200,000
Net interest revenue after provision for loan losses	**239,257,231**	251,857,651
NONINTEREST REVENUE		
Fiduciary income	**18,855,810**	17,667,082
Investment services fees	**3,732,509**	3,091,788
Bank and credit card fees	**12,887,206**	11,122,759
Mortgage banking revenue, net	**14,122,775**	4,015,838
Other fees on loans	**1,057,232**	1,210,720
Service charges on deposits	**5,845,480**	6,819,967
Other income	**10,870,994**	4,369,093
Total noninterest revenue	**67,372,006**	48,297,247
NONINTEREST EXPENSE		
Salaries and benefits	**130,112,912**	115,572,958
Occupancy, furniture and equipment expense	**22,223,495**	21,200,776
Other expense	**56,403,518**	56,641,945
Total noninterest expense	**208,739,925**	193,415,679
Income before provision for income taxes	**97,889,312**	106,739,219
Provision for income taxes	**21,577,556**	23,454,869
NET INCOME	**$ 76,311,756**	$ 83,284,350
PER SHARE DATA		
Weighted average number of common stock shares outstanding		
Basic	**2,535,908**	2,553,001
Diluted	**2,538,290**	2,557,839
Earnings per common share (based on weighted average shares outstanding)		
Basic	**$ 30.09**	$ 32.62
Diluted	**$ 30.06**	$ 32.56

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

(dollars in thousands)

	Quarters Ended				
	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019
SELECTED DATA					
Interest-bearing deposits with banks	$ 1,463,300	$ 903,066	$ 778,375	$ 381,067	$ 523,953
Securities	2,578,360	2,277,328	2,127,850	2,164,047	1,895,823
Total loans	5,591,532	5,871,073	5,726,372	4,608,602	4,542,597
Allowance for loan losses	132,811	121,077	111,716	103,946	96,415
Earning assets [1]	9,561,272	8,968,308	8,555,368	7,090,226	6,958,855
Total assets	9,813,963	9,243,985	8,826,055	7,353,289	7,164,664
Deposits	8,698,791	8,151,919	7,529,127	6,113,693	6,226,866
Interest-bearing liabilities	4,763,925	4,558,869	4,424,498	3,824,192	3,572,797
Total shareholders' equity	806,518	799,339	778,992	754,016	695,904
Total equity to total assets	8.22%	8.65%	8.83%	10.25%	9.71%
Full-time equivalent employees	1,066	1,060	1,048	1,023	1,017
ASSET QUALITY RATIOS					
Allowance for loan losses to total loans	2.38%	2.06%	1.95%	2.26%	2.12%
Allowance for loan losses to noncurrent loans	1162%	935%	780%	737%	671%
Net charge-offs (recoveries) to total average loans	-0.04%	-0.01%	0.00%	-0.01%	0.04%
Noncurrent loans and ORE to assets	0.12%	0.15%	0.18%	0.19%	0.20%
Noncurrent loans, ORE and TDRs to assets	0.13%	0.17%	0.19%	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	
	December 31, 2020	September 30, 2020	December 31, 2019	Sequential Quarter	Year over Year
PERFORMANCE					
Net interest revenue, fully tax-equivalent	$ 73,307	$ 69,084	$ 64,893	6.1%	13.0%
Fully tax-equivalent adjustment	110	80	109	37.5%	0.9%
Net interest revenue	73,197	69,004	64,784	6.1%	13.0%
Provision for loan losses	9,500	9,000	1,200	5.6%	691.7%
Net interest revenue after provision for loan losses	63,697	60,004	63,584	6.2%	0.2%
Noninterest revenue	18,364	17,389	13,808	5.6%	33.0%
Noninterest expense	57,982	51,842	49,837	11.8%	16.3%
Income before provision for income taxes	24,079	25,551	27,555	-5.8%	-12.6%
Provision for income taxes	5,293	5,664	6,047	-6.6%	-12.5%
Net income	$ 18,786	$ 19,887	$ 21,508	-5.5%	-12.7%
PER COMMON SHARE					
Earnings per common share - basic	$ 7.41	$ 7.85	$ 8.45	-5.6%	-12.3%
Earnings per common share - diluted	7.40	7.84	8.43	-5.6%	-12.2%
Common cash dividends	1.85	1.85	1.75	0.0%	5.7%
Common shareholders' equity	316.30	313.70	272.23	0.8%	16.2%

	Quarters Ended			% Change	
	December 31, 2020	September 30, 2020	December 31, 2019	Sequential Quarter	Year over Year
PERFORMANCE RATIOS					
Return on average assets	0.78%	0.88%	1.24%	-0.10%	-0.46%
Return on average shareholders' equity	9.30%	9.97%	12.30%	-0.67%	-3.00%
Margin on average earning assets [1]	3.14%	3.14%	3.85%	0.00%	-0.71%
Noninterest expense to average assets	2.42%	2.29%	2.87%	0.13%	-0.45%
Noninterest revenue to average assets	0.77%	0.77%	0.80%	0.00%	-0.03%
Efficiency ratio	63.3%	60.0%	63.3%	3.3%	0.0%
Common cash dividends to net income	24.96%	23.58%	20.70%	1.38%	2.88%

(1) 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 Financial Highlights
(unaudited)

(dollars in thousands, except per share data)

	Twelve Months Ended		% Change
	December 31, 2020	December 31, 2019	Year over Year
PERFORMANCE			
Net interest revenue, fully tax-equivalent	$ 272,625	$ 255,519	6.7%
Fully tax-equivalent adjustment	368	461	-20.2%
Net interest revenue	272,257	255,058	6.7%
Provision for loan losses	33,000	3,200	931.3%
Net interest revenue after provision for loan losses	239,257	251,858	-5.0%
Noninterest revenue	67,372	48,297	39.5%
Noninterest expense	208,740	193,416	7.9%
Income before provision for income taxes	97,889	106,739	-8.3%
Provision for income taxes	21,577	23,455	-8.0%
Net income	$ 76,312	$ 83,284	-8.4%
PER COMMON SHARE			
Earnings per common share - basic	$ 30.09	$ 32.62	-7.8%
Earnings per common share - diluted	30.06	32.56	-7.7%
Common cash dividends	7.40	7.00	5.7%
Common shareholders' equity	316.30	272.23	16.2%
PERFORMANCE RATIOS			
Return on average assets	0.89%	1.26%	-0.37%
Return on average shareholders' equity	9.90%	12.70%	-2.80%
Margin on average earning assets[1]	3.28%	3.97%	-0.69%
Noninterest expense to average assets	2.43%	2.93%	-0.50%
Noninterest revenue to average assets	0.79%	0.73%	0.06%
Efficiency ratio	61.4%	63.7%	-2.3%
Common cash dividends to net income	24.60%	21.46%	3.14%

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