W.T.B. Financial Corp

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

January 26, 2023

Dear Shareholders:

It's during particularly dynamic and stressful times, that we are challenged as managers to shift our thinking and adapt to changing conditions. After relative rate stability spanning the past dozen years, a newly hawkish Federal Reserve orchestrated a steep rise in interest rates in 2022 in response to inflation levels I haven't seen since early in my adult life. Across seven separate rate moves during the year, the Fed's monetary policy arm abandoned its "zero interest rate policy" and raised rates a total of 425 basis points ("bps") to the highest levels in more than a decade. As a company whose balance sheet is comprised almost entirely of financial assets and financial liabilities, the dramatic, upward shift in rates presented both opportunities and challenges. That rate rise had ramifications across our entire business, from deposit pricing and balance flows, to earning asset yields, wholesale borrowing costs, net interest margin levels, bond valuations, interest costs for our borrowers, loan origination volumes and more. 2022 was a year that sharpened our focus on the financial management and interest rate risk management challenges that a highly dynamic rate environment can bring to the industry.

The Company was positioned to benefit from rising rates and so net interest revenue accelerated throughout the year to record levels in the fourth quarter, which contributed to the highest earnings in our history at $114.1 million for the year. The significant rise in rates brought higher yields on our variable rate assets, but also pricing pressure across our deposit base, which resulted in both higher funding costs and a decline in deposit balances as clients sought higher capital market returns on their excess cash. It is typical in the industry for there to be a lag effect from rising rates on funding costs and deposit balances, and this cycle was no different. While earning asset yields moved higher throughout the year, competitive pressures on the funding side seemed to be more pronounced late in the year and we expect those pressures to continue into 2023.

An overview of our performance in the fourth quarter and this past year should probably start with deposits, since that has been a real battleground for the industry as a result of the sharp rise in rates. During the COVID era, and in particular the massive fiscal and monetary response by the federal government, extraordinary amounts of liquidity were pushed into the financial system, much of which found its way to the deposit side of the industry's and Washington Trust Bank's balance sheet. From yearend 2019 to 2021, total deposits for the industry increased $5.2 trillion, or 36 percent, while deposits at the Bank increased $3.7 billion, or 59 percent ($1.7 billion of PPP loans and deposits helped add to our totals). This build-up in deposits for both the industry and Washington Trust Bank occurred at a time when prevailing market yields were at historic lows and therefore the opportunity costs of keeping these deposit balances in the banking industry were low.

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With the dramatic rise in market interest rates over the past nine months, pricing pressure has become significant and some portion of this build up in deposits has been leaving the industry in search of higher yields. For the Company, deposits for the quarter were down $158 million, or 1.7 percent and for the year, down $673 million, or 6.8 percent to $9.2 billion at yearend 2022. Over the past year, as the Fed pushed rates up 425 bps, the cost of interest-bearing deposits at Washington Trust Bank increased 43 bps to 0.56 percent (from 0.13 percent in the fourth quarter of 2021 to 0.56 percent in the fourth quarter of 2022). In the language of the industry, that indicates a deposit “beta” of 10 percent (a 43 bps increase in the Bank’s cost of deposits across an environment where there was a 425 bps rise in rates), though we can tell you that the trend of our funding costs indicates continued pressure is likely into 2023. Our significant portfolio of noninterest bearing demand deposits ($4.2 billion, or 46 percent of total deposits at yearend 2022) helped temper our overall cost of funding earning assets, which was 0.29 percent during the fourth quarter. While the vast majority of our customer deposits are considered core, we have not been immune to clients “warehousing” some funds with us over the past three years, and now some portion of those funds are seeking market level yields.

In addition to our core banking business, we have a significant wealth management and trust division that we have operated for many decades. That wealth management business complements our bank offerings, positioning us to be able to deliver a broad and valuable spectrum of financial solutions that serve our customers’ needs. In the current rate environment, as the Bank feels increasing deposit pricing pressure, our wealth management division is positioned to be able to offer our clients capital market returns on excess funds and those solutions helped capture over $300 million of customer deposits that might otherwise have left the Company. So while the Bank experienced a $673 million decline in deposits during the year, over $300 million of that transferred to our wealth management division and its suite of investment solutions.

With deposit balances down, total assets decreased $136 million, or 1.3 percent during the fourth quarter and $666 million, or 6.0 percent during the year, to $10.4 billion. Loan growth was strong during 2022, increasing $506 million, or 9.1 percent to $6.0 billion, while securities grew $433 million to $3.8 billion. The combination of deposit outflows and growth in bonds and loans decreased the Company’s cash position in 2022 by $1.7 billion to a yearend balance of $274 million. There were no borrowings outstanding at the end of 2022, though that funding source could come into play in 2023. Shareholders’ equity finished the year up $34 million, or 4.1 percent to a new record of $867 million, and with shareholders’ equity up and assets down, the Company’s equity to asset ratio improved 81 bps during the year to 8.32 percent.

There were a number of contributors to the Company’s record earnings of $114.1 million this past year. Higher net interest revenue (up $24.1 million, or 8.0 percent to a record $323 million) resulted from higher levels of year-over-year average earning assets (up $363 million, or 3.6 percent to $10.5 billion) and a wider margin (up 13 bps to 3.08 percent for the year). While the Company’s net interest margin for the year was up 13 bps to 3.08 percent, we really saw acceleration in that metric late in the year, with margin widening to 3.47 percent in the fourth quarter. That suggests we will be carrying stronger earning power into 2023, but I would caution you somewhat, as our funding costs have not yet stabilized, nor fully adapted to higher rate levels, and the Fed is still expected to raise rates further in 2023. Another big contributor to increased year-over-year earnings was the rebalancing of our loan loss reserves and loss reserves for unfunded commitments, which were recorded in the second quarter of 2022. The net effect of that rebalancing benefitted net income by $14 million, after-tax (total provision expense for the year was negative $20.5 million). With our adoption of the Current Expected Credit Loss accounting standard effective on January 1, 2023, and the potential for an economic slowdown in the future, I would not expect to repeat this earnings benefit in the coming year.

Noninterest items in 2022 had their own dynamics that deserve some discussion. One big change was reduced debit card interchange income beginning in July of 2022 as a result of crossing over $10 billion in assets. Under what is known as the Durbin Amendment, for a bank with assets greater than $10 billion, the revenue that debit card issuers receive when clients use their debit card for purchases at retail establishments is reduced. You will note in the attached financial statements that bank and credit card fees for the year declined $2.9 million to $14.1 million, which was largely due to the half year impact of those lower debit card usage reimbursements. You will also note that mortgage banking revenue declined $6.4 million to $2.1 million for the year, which was primarily the result of higher market interest rates reducing single-family home loan origination volumes and a decision to retain a greater proportion of loan originations in the Bank's portfolio. Our home loan division is a valuable financial solution for our customers and also a reliable counter-cyclical line of business that tends to generate higher loan origination volumes when market interest rates are declining, which typically coincides with an economic slowdown. In times of rising rates, we expect loan volumes to diminish, as they did in 2022. Overall, noninterest revenue for the year was down $9.7 million, or 14.3 percent to $58.2 million.

The Company's noninterest expense for the year increased $26.1 million, or 11.4 percent to $256.0 million. That increase reflected a few notable items. As part of the overall adjustment of our credit loss reserve position in the second quarter, we made a $6.0 million addition to reserves for unfunded commitments, which was recorded as noninterest expense under prevailing accounting standards. Even without that unusual addition to reserves, noninterest expense increased significantly in 2022, which reflected both higher compensation expense in line with the Company's strong performance for the year and the significant investments we continue to make in our systems, and operational capabilities.

Overall, our financial performance was really strong in 2022 and that strength was reflected in our key performance metrics. Noncurrent loans totaled $3.2 million, representing just 0.05 percent of total loans, while our allowance for loan losses position remained significant at $120.8 million, or 2.00 percent of loans. Growth in diluted earnings per share was strong, rising $5.88, or 14.9 percent to $45.28, a new Company record. On a per share basis, tangible book value increased $16.48, or 5.0 percent to $344.59 per share. Return on assets was up 10 bps year-over-year to 1.06 percent, while return on equity increased 111 bps to 13.45 percent. And finally, dividends per share increased $1.00, or 10.6 percent to $10.40, and we were grateful to be able to deliver those returns to our shareholders.

Under the existing $10 million share repurchase authorization, which expires in February of this year, we have purchased 27,590 shares of W.T.B. Financial Corporation stock at an aggregate cost of $9.6 million, leaving $400,000 in remaining repurchase capacity. 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.

W.T.B. Financial Corp

While the rate environment dynamics certainly captured our attention in 2022, we also remained focused on the fundamentals of our business. Taking care of our clients is always our top priority and so helping them navigate this fast-changing environment was a real area of emphasis for the team. Being in a strong position to serve our clients' financial needs also means paying attention to risk management, continuing to invest in our systems, ensuring our delivery platform keeps pace with the ever-improving capabilities of technology and taking good care of our people, who make everything we do possible. As always, we are grateful for the support of our shareholders and if we can help you in anyway, please let us know. 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 and CEO
Enclosure

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W.T.B. Financial Corp

Summary Financial Statements, Selected Financial Highlights and Selected Credit Performance Highlights Q4 2022

(unaudited)

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

	December 31, 2022	September 30, 2022	December 31, 2021
ASSETS			
Cash and due from banks	**$ 119,932,630**	$ 119,453,042	$ 62,283,161
Interest-bearing deposits with banks	**273,938,004**	643,622,224	1,987,135,451
Securities available for sale, at fair value	**537,169,969**	543,393,395	538,718,995
Securities held to maturity, at amortized cost	**3,221,994,093**	3,144,339,982	2,787,035,395
Federal Home Loan Bank and Pacific Coast Bankers' Bancshares stock, at cost	**10,060,000**	10,060,000	10,060,000
Loans receivable	**6,042,262,030**	5,903,011,291	5,536,075,557
Allowance for loan losses	**(120,838,526)**	(118,231,380)	(140,603,388)
Loans, net of allowance for loan losses	**5,921,423,504**	5,784,779,911	5,395,472,169
Premises and equipment, net	**87,432,873**	88,082,559	88,114,622
Accrued interest receivable	**32,246,663**	27,802,391	23,678,316
Other assets	**218,891,833**	197,883,073	197,069,385
Total assets	**$ 10,423,089,569**	$ 10,559,416,577	$ 11,089,567,494
LIABILITIES			
Deposits:			
Noninterest-bearing	**$ 4,245,614,949**	$ 4,312,452,221	$ 4,593,153,112
Interest-bearing	**4,971,470,925**	5,062,532,503	5,297,117,374
Total deposits	**9,217,085,874**	9,374,984,724	9,890,270,486
Securites sold under agreements to repurchase	**209,031,623**	220,764,309	239,510,563
Other borrowings	**-**	-	20,063,287
Accrued interest payable	**370,567**	204,541	662,208
Other liabilities	**129,472,253**	108,203,547	106,115,618
Total liabilities	**9,555,960,317**	9,704,157,121	10,256,622,162
SHAREHOLDERS' EQUITY			
Common stock	**11,101,840**	12,995,790	19,262,049
Surplus	**32,665,000**	32,665,000	32,665,000
Undivided profits	**871,561,981**	857,738,727	783,617,442
	915,328,821	903,399,517	835,544,491
Accumulated other comprehensive (loss) income, net of tax	**(48,199,569)**	(48,140,061)	(2,599,159)
Total shareholders' equity	**867,129,252**	855,259,456	832,945,332
Total liabilities and shareholders' equity	**$ 10,423,089,569**	$ 10,559,416,577	$ 11,089,567,494

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

	Three Months Ended		
	December 31, 2022	September 30, 2022	December 31, 2021
INTEREST REVENUE			
Loans, including fees	**$ 75,217,255**	$ 67,434,650	$ 61,706,891
Deposits with banks	**5,308,393**	5,350,739	839,926
Securities	**16,809,071**	16,338,705	20,417,612
Other interest and dividend income	**75,642**	75,319	87,560
Total interest revenue	**97,410,361**	89,199,413	83,051,989
INTEREST EXPENSE			
Deposits	**6,966,783**	2,237,341	1,772,467
Funds purchased and other borrowings	**110,206**	98,947	471,010
Total interest expense	**7,076,989**	2,336,288	2,243,477
Net interest revenue	**90,333,372**	86,863,125	80,808,512
Provision for loan losses	**2,500,000**	1,000,000	-
Net interest revenue after provision for loan losses	**87,833,372**	85,863,125	80,808,512
NONINTEREST REVENUE			
Fiduciary income	**5,300,071**	5,274,951	5,638,328
Investment services fees	**975,854**	971,614	974,786
Bank and credit card fees, net	**851,241**	3,610,873	4,510,168
Mortgage banking revenue, net	**369,798**	520,361	1,470,829
Other fees on loans	**269,788**	362,992	433,173
Service charges on deposits	**1,588,120**	1,808,262	1,631,678
Other income	**1,572,128**	1,931,645	2,677,774
Total noninterest revenue	**10,927,000**	14,480,698	17,336,736
NONINTEREST EXPENSE			
Salaries and benefits	**39,710,680**	38,229,282	36,350,006
Occupancy, furniture and equipment expense	**6,262,261**	5,912,064	5,818,939
Other expense	**19,617,169**	17,952,198	18,927,793
Total noninterest expense	**65,590,110**	62,093,544	61,096,738
Income before provision for income taxes	**33,170,262**	38,250,279	37,048,510
Provision for income taxes	**7,223,744**	8,300,995	8,026,881
NET INCOME	**$ 25,946,518**	$ 29,949,284	$ 29,021,629
PER SHARE DATA			
Weighted average number of common stock shares outstanding			
Basic	**2,504,228**	2,514,052	2,524,943
Diluted	**2,506,905**	2,515,409	2,529,573
Earnings per common share (based on weighted average shares outstanding)			
Basic	**$ 10.36**	$ 11.91	$ 11.49
Diluted	**$ 10.35**	$ 11.91	$ 11.47

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

	Twelve Months Ended	
	December 31, 2022	December 31, 2021
INTEREST REVENUE		
Loans, including fees	**$ 257,234,036**	$ 243,317,106
Deposits with banks	**13,712,397**	2,037,865
Securities	**64,595,044**	62,949,831
Other interest and dividend income	**308,459**	332,345
Total interest revenue	**335,849,936**	308,637,147
INTEREST EXPENSE		
Deposits	**12,378,239**	8,479,988
Funds purchased and other borrowings	**351,711**	1,100,530
Total interest expense	**12,729,950**	9,580,518
Net interest revenue	**323,119,986**	299,056,629
(Recapture) provision for loan losses	**(20,500,000)**	9,000,004
Net interest revenue after provision for loan losses	**343,619,986**	290,056,625
NONINTEREST REVENUE		
Fiduciary income	**21,590,123**	21,805,428
Investment services fees	**3,985,839**	4,071,692
Bank and credit card fees	**14,119,585**	17,064,063
Mortgage banking revenue, net	**2,140,229**	8,566,457
Other fees on loans	**1,173,917**	1,478,571
Service charges on deposits	**6,895,594**	6,087,808
Other income	**8,277,408**	8,774,851
Total noninterest revenue	**58,182,695**	67,848,870
NONINTEREST EXPENSE		
Salaries and benefits	**154,433,385**	141,915,882
Occupancy, furniture and equipment expense	**24,950,100**	23,878,722
Other expense	**76,642,309**	64,115,466
Total noninterest expense	**256,025,794**	229,910,070
Income before provision for income taxes	**145,776,887**	127,995,425
Provision for income taxes	**31,723,646**	27,965,314
NET INCOME	**$ 114,053,241**	$ 100,030,111
PER SHARE DATA		
Weighted average number of common stock shares outstanding		
Basic	**2,516,636**	2,535,053
Diluted	**2,518,920**	2,538,529
Earnings per common share (based on weighted average shares outstanding)		
Basic	**$ 45.32**	$ 39.46
Diluted	**$ 45.28**	$ 39.40

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

(dollars in thousands)

	Quarters Ended				
	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022	December 31, 2021
SELECTED DATA					
Interest-bearing deposits with banks	$ 273,938	$ 643,622	$ 869,483	$ 1,632,922	$ 1,987,135
Securities	3,759,164	3,687,733	3,739,692	3,715,372	3,325,754
Total loans	6,042,262	5,903,011	5,685,124	5,451,588	5,536,076
Allowance for loan losses	120,839	118,231	117,253	140,904	140,603
Earning assets [1]	10,133,251	10,293,630	10,336,044	10,830,404	10,854,717
Total assets	10,423,090	10,559,417	10,624,427	11,084,210	11,089,567
Deposits	9,217,086	9,374,985	9,441,660	9,904,529	9,890,270
Interest-bearing liabilities	5,180,503	5,283,297	5,322,593	5,555,673	5,556,691
Total shareholders' equity	867,129	855,259	848,684	828,180	832,945
Total equity to total assets	8.32%	8.10%	7.99%	7.47%	7.51%
Full-time equivalent employees	1,146	1,134	1,116	1,104	1,092
ASSET QUALITY RATIOS					
Allowance for loan losses to total loans	2.00%	2.00%	2.06%	2.58%	2.54%
Allowance for loan losses to noncurrent loans	3743%	3842%	3249%	283%	273%
Net charge-offs (recoveries) to total average loans	0.00%	0.00%	-0.01%	-0.01%	-0.02%
Noncurrent loans and ORE to assets	0.03%	0.03%	0.03%	0.45%	0.46%
Noncurrent loans, ORE and TDRs to assets	0.04%	0.04%	0.04%	0.45%	0.47%

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

(dollars in thousands, except per share data)

	Quarters Ended			% Change	
	December 31, 2022	September 30, 2022	December 31, 2021	Sequential Quarter	Year over Year
PERFORMANCE					
Net interest revenue, fully tax-equivalent	$ 90,384	$ 86,906	$ 80,866	4.0%	11.8%
Fully tax-equivalent adjustment	51	43	57	18.6%	-10.5%
Net interest revenue	90,333	86,863	80,809	4.0%	11.8%
Provision for loan losses	2,500	1,000	-	150.0%	NM
Net interest revenue after provision for loan losses	87,833	85,863	80,809	2.3%	8.7%
Noninterest revenue	10,927	14,481	17,337	-24.5%	-37.0%
Noninterest expense	65,590	62,094	61,097	5.6%	7.4%
Income before provision for income taxes	33,170	38,250	37,049	-13.3%	-10.5%
Provision for income taxes	7,223	8,301	8,027	-13.0%	-10.0%
Net income	$ 25,947	$ 29,949	$ 29,022	-13.4%	-10.6%
PER COMMON SHARE					
Earnings per common share - basic	$ 10.36	$ 11.91	$ 11.49	-13.0%	-9.8%
Earnings per common share - diluted	10.35	11.91	11.47	-13.1%	-9.8%
Common cash dividends	4.85	1.85	3.85	162.2%	26.0%
Common shareholders' equity	344.59	338.95	328.11	1.7%	5.0%

	Quarters Ended			% Change	
	December 31, 2022	September 30, 2022	December 31, 2021	Sequential Quarter	Year over Year
PERFORMANCE RATIOS					
Return on average assets	0.97%	1.10%	1.05%	-0.13%	-0.08%
Return on average shareholders' equity	11.90%	13.81%	13.89%	-1.91%	-1.99%
Margin on average earning assets [2]	3.47%	3.28%	3.00%	0.19%	0.47%
Noninterest expense to average assets	2.46%	2.28%	2.21%	0.18%	0.25%
Noninterest revenue to average assets	0.41%	0.53%	0.63%	-0.12%	-0.22%
Efficiency ratio	64.7%	61.2%	62.2%	3.5%	2.5%
Common cash dividends to net income	46.72%	15.50%	33.50%	31.22%	-18.00%

(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 Financial Highlights
(unaudited)

	(dollars in thousands, except per share data)		
	Twelve Months Ended		% Change
	December 31, 2022	December 31, 2021	Year over Year
PERFORMANCE			
Net interest revenue, fully tax-equivalent	$ 323,305	$ 299,320	8.0%
Fully tax-equivalent adjustment	185	263	-29.7%
Net interest revenue	323,120	299,057	8.0%
(Recapture) provision for loan losses	(20,500)	9,000	-327.8%
Net interest revenue after provision for loan losses	343,620	290,057	18.5%
Noninterest revenue	58,183	67,849	-14.2%
Noninterest expense	256,026	229,911	11.4%
Income before provision for income taxes	145,777	127,995	13.9%
Provision for income taxes	31,724	27,965	13.4%
Net income	$ 114,053	$ 100,030	14.0%
PER COMMON SHARE			
Earnings per common share - basic	$ 45.32	$ 39.46	14.9%
Earnings per common share - diluted	45.28	39.40	14.9%
Common cash dividends	10.40	9.40	10.6%
Common shareholders' equity	344.59	328.11	5.0%
PERFORMANCE RATIOS			
Return on average assets	1.06%	0.96%	0.10%
Return on average shareholders' equity	13.45%	12.34%	1.11%
Margin on average earning assets [2]	3.08%	2.95%	0.13%
Noninterest expense to average assets	2.38%	2.21%	0.17%
Noninterest revenue to average assets	0.54%	0.65%	-0.11%
Efficiency ratio	67.1%	62.6%	4.5%
Common cash dividends to net income	22.89%	23.79%	-0.90%

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

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

	Quarters Ended		
Loans by Credit Risk Rating:	**December 31, 2022**	**September 30, 2022**	**December 31, 2021**
Pass	$ 5,837,975	$ 5,656,280	$ 5,251,410
Special Mention	117,568	139,896	158,369
Substandard	86,711	106,831	126,289
Doubtful	8	4	8
Total	$ 6,042,262	$ 5,903,011	$ 5,536,076

	Quarters Ended		
Loans by Payment Status:	**December 31, 2022**	**September 30, 2022**	**December 31, 2021**
Current Loans	$ 6,033,423	$ 5,897,996	$ 5,479,063
Loans Past Due 30-89 Days, Still Accruing	5,610	1,938	5,536
Noncurrent Loans	3,229	3,077	51,477
Total	$ 6,042,262	$ 5,903,011	$ 5,536,076

	Quarters Ended		
Allowance for Loan Losses Position:	**December 31, 2022**	**September 30, 2022**	**December 31, 2021**
Allowance for Loan Losses	$ 120,839	$ 118,231	$ 140,603
Allowance to Total Loans	2.00%	2.00%	2.54%