W.T.B. Financial Corporation

2019
Audited Financial Statements

W.T.B. FINANCIAL CORPORATION AND SUBSIDIARY
Selected Consolidated Financial Highlights

(unaudited) (dollars in thousands, except per share data)

	At or for the Years Ended December 31,				
	2019	2018	2017	2016	2015
PERFORMANCE					
Net interest revenue, fully tax-equivalent	**$ 255,519**	$ 236,749	$ 208,018	$ 182,948	$ 165,150
Fully tax-equivalent adjustment	**461**	497	1,249	1,387	1,349
Net interest revenue	**255,058**	236,252	206,769	181,561	163,801
Provision for loan losses	**3,200**	2,700	-	2,250	2,667
Net interest revenue after provision for loan losses	**251,858**	233,552	206,769	179,311	161,134
Noninterest revenue	**48,297**	52,926	51,075	50,737	51,013
Noninterest expense	**193,416**	182,042	169,770	150,625	142,525
Income before provision for income taxes	**106,739**	104,436	88,074	79,423	69,622
Provision for income taxes	**23,455**	21,380	46,276	27,696	23,262
Net income	**83,284**	83,056	41,798	51,727	46,360
Preferred stock dividends	**-**	-	-	-	142
Net income available to common shareholders	**$ 83,284**	$ 83,056	$ 41,798	$ 51,727	$ 46,218
SELECTED YEAR-END DATA					
Interest-bearing deposits with banks	**$ 523,953**	$ 751,180	$ 748,822	$ 326,002	$ 438,603
Debt securities	**1,895,823**	1,589,251	1,387,176	1,384,817	1,162,292
Total loans	**4,542,597**	4,047,398	3,932,076	3,785,076	3,556,598
Allowance for loan losses	**96,415**	90,749	86,784	85,787	84,969
Earning assets	**6,958,855**	6,420,888	6,095,353	5,522,413	5,165,726
Total assets	**7,164,664**	6,552,350	6,246,093	5,668,953	5,305,272
Deposits	**6,226,866**	5,638,923	5,448,866	4,923,690	4,540,548
Interest-bearing liabilities	**3,572,797**	3,485,267	3,313,797	3,106,707	2,980,365
Common equity	**695,904**	602,665	530,791	496,286	464,407
Total shareholders' equity	**695,904**	602,665	530,791	496,286	464,407
Full-time equivalent employees	**1,021**	996	965	927	882
PER COMMON SHARE					
Net income available to common shareholders (basic)	**$ 32.62**	$ 32.52	$ 16.42	$ 20.33	$ 18.19
Net income available to common shareholders (diluted)	**32.56**	32.42	16.36	20.29	18.01
Common cash dividends	**7.00**	4.60	3.36	3.00	2.72
Common shareholders' equity	**272.23**	234.45	206.48	193.66	180.79
PERFORMANCE RATIOS					
Return on average assets	**1.26%**	1.30%	0.72%	0.98%	0.94%
Return on average shareholders' equity	**12.70%**	14.94%	7.93%	10.53%	10.12%
Margin on average earning assets	**3.97%**	3.77%	3.66%	3.53%	3.42%
Noninterest expense to average assets	**2.93%**	2.86%	2.92%	2.85%	2.88%
Efficiency ratio	**63.7%**	62.8%	65.5%	64.5%	65.9%
Net loans to deposits	**71.4%**	70.2%	70.6%	75.1%	76.5%
Total cash dividends to net income	**21.5%**	14.2%	20.5%	14.8%	15.2%
CAPITAL RATIOS					
Common equity to total assets	**9.71%**	9.20%	8.50%	8.75%	8.75%
Total equity to total assets	**9.71%**	9.20%	8.50%	8.75%	8.75%
Tier 1 leverage	**10.34%**	9.81%	9.32%	9.59%	9.41%
Common equity tier 1 capital	**13.02%**	13.36%	12.41%	11.90%	11.98%
Tier 1 risk-based capital	**13.02%**	13.36%	12.41%	11.90%	11.98%
Total risk-based capital	**14.28%**	14.62%	13.67%	13.16%	13.24%
ASSET QUALITY RATIOS					
Allowance for loan losses to total loans	**2.12%**	2.24%	2.21%	2.27%	2.39%
Allowance for loan losses to noncurrent loans	**671.10%**	755.32%	755.32%	597.57%	453.98%
Net charge-offs (recoveries) to total average loans	**(0.06%)**	(0.03%)	(0.03%)	0.04%	(0.03%)
Noncurrent loans and ORE to assets	**0.20%**	0.18%	0.19%	0.27%	0.36%
Noncurrent loans, ORE and TDRs to assets	**0.22%**	0.20%	0.21%	0.33%	0.64%

W.T.B. FINANCIAL CORPORATION AND SUBSIDIARY
Consolidated Statements of Financial Condition

	December 31, 2019	December 31, 2018
ASSETS		
Cash and due from banks	**$ 102,602,803**	$ 106,555,393
Interest-bearing deposits with banks	**523,953,345**	751,180,001
Securities available for sale, at fair value	**1,247,616,516**	1,031,058,762
Securities held to maturity, at amortized cost	**648,206,906**	558,191,770
Federal Home Loan Bank and Pacific Coast Bankers' Bancshares stock, at cost	**7,911,600**	7,540,600
Loans receivable:		
Held for sale	**29,266,232**	4,125,682
Held in portfolio	**4,513,330,620**	4,043,272,737
Total loans	**4,542,596,852**	4,047,398,419
Allowance for loan losses	**(96,414,721)**	(90,748,593)
Loans net of allowance for loan losses	**4,446,182,131**	3,956,649,826
Premises and equipment, net	**86,682,368**	55,522,989
Operating lease right of use assets	**18,907,385**	-
Deferred income taxes, net	**18,746,258**	25,935,646
Cash surrender value of life insurance, net	**8,503,304**	8,173,904
Accrued interest receivable	**21,158,214**	20,929,201
Prepaid expenses and other assets	**34,193,349**	30,612,186
Total assets	**$ 7,164,664,179**	$ 6,552,350,278
LIABILITIES		
Deposits:		
Noninterest-bearing	**$ 2,817,138,103**	$ 2,413,512,717
Interest-bearing	**3,409,727,898**	3,225,410,150
Total deposits	**6,226,866,001**	5,638,922,867
Securities sold under agreements to repurchase	**163,069,316**	259,857,022
Operating lease liabilities	**19,981,257**	-
Accrued interest payable	**1,134,357**	2,084,277
Other liabilities	**57,709,200**	48,821,466
Total liabilities	**6,468,760,131**	5,949,685,632
COMMITMENTS AND CONTINGENCIES (NOTE 19)		
SHAREHOLDERS' EQUITY		
Class C preferred stock, no par value, 500,000 shares authorized; no shares issued and outstanding	**-**	-
Class A common stock, no par value, 25,000 shares authorized, issued and outstanding	**250,000**	250,000
Class B common stock, no par value, 3,475,000 shares authorized; 2,531,451 shares issued and 2,531,403 outstanding at December 31, 2019; 2,545,547 shares issued and outstanding at December 31, 2018	**26,505,819**	32,174,650
Surplus	**32,665,000**	32,665,000
Undivided profits	**649,845,770**	584,433,474
	709,266,589	649,523,124
Less treasury stock, at cost (48 Class B shares in 2019 and no shares in 2018)	**(18,428)**	-
	709,248,161	649,523,124
Accumulated other comprehensive loss	**(13,344,113)**	(46,858,478)
Total shareholders' equity	**695,904,048**	602,664,646
Total liabilities and shareholders' equity	**$ 7,164,664,179**	$ 6,552,350,278

See notes to consolidated financial statements.

W.T.B. FINANCIAL CORPORATION AND SUBSIDIARY
Consolidated Statements of Income

	Years Ended December 31,		
	2019	2018	2017
INTEREST REVENUE			
Loans, including fees	**$ 224,315,382**	$ 202,233,603	$ 179,649,629
Deposits with banks	**7,713,318**	15,399,484	4,173,196
Securities:			
Taxable	**41,792,108**	29,746,080	27,029,269
Tax-exempt	**225,264**	181,794	104,953
Other interest and dividend income	**308,245**	322,200	91,610
Total interest revenue	**274,354,317**	247,883,161	211,048,657
INTEREST EXPENSE			
Demand and savings deposits	**13,297,267**	8,021,236	2,931,580
Time deposits	**3,547,451**	3,158,146	1,164,993
Securities sold under agreements to repurchase and other borrowings	**2,451,948**	452,236	182,936
Total interest expense	**19,296,666**	11,631,618	4,279,509
Net interest revenue	**255,057,651**	236,251,543	206,769,148
Provision for loan losses	**3,200,000**	2,700,000	-
Net interest revenue after provision for loan losses	**251,857,651**	233,551,543	206,769,148
NONINTEREST REVENUE			
Fiduciary income	**17,667,082**	18,137,249	14,643,254
Investment services fees	**3,091,788**	3,528,012	3,999,719
Bank card and credit card fees, net	**11,122,759**	12,373,651	11,667,417
Mortgage banking revenue, net	**4,015,838**	5,820,035	6,184,067
Other fees on loans	**1,210,720**	1,005,992	974,228
Service charges on deposits	**6,819,967**	6,890,245	6,909,474
Other service charges, commissions and fees	**927,340**	856,015	816,082
Net losses on other real estate	**-**	(92,638)	(11,649)
Losses on sale of securities available for sale, net	**(1,853,033)**	-	-
Rental income	**4,474,614**	1,917,723	1,937,355
Other income	**820,172**	2,489,859	3,954,696
Total noninterest revenue	**48,297,247**	52,926,143	51,074,643
NONINTEREST EXPENSE			
Salaries	**95,498,571**	87,933,587	81,343,395
Pension and employee benefits	**20,074,387**	18,443,654	17,167,529
Occupancy expense	**13,935,153**	13,140,833	11,125,347
Furniture and equipment expense	**7,265,623**	6,794,743	6,399,417
Software expense	**9,091,158**	8,526,011	8,549,694
Data processing expense	**10,459,869**	9,493,584	9,506,732
Marketing and public relations	**5,467,400**	5,275,673	6,751,104
Professional fees	**4,856,576**	6,099,407	3,817,597
State revenue taxes	**2,598,849**	2,695,992	1,986,543
FDIC assessments	**885,276**	2,436,447	2,382,974
Other expense	**23,282,817**	21,202,042	20,739,440
Total noninterest expense	**193,415,679**	182,041,973	169,769,772
Income before provision for income taxes	**106,739,219**	104,435,713	88,074,019
Provision for income taxes	**23,454,869**	21,379,897	46,276,428
NET INCOME	**$ 83,284,350**	$ 83,055,816	$ 41,797,591

See notes to consolidated financial statements.

Continued

W.T.B. FINANCIAL CORPORATION AND SUBSIDIARY
Consolidated Statements of Income (continued)

	Years Ended December 31,		
	2019	2018	2017
PER SHARE DATA			
Weighted average number of common stock shares outstanding			
Basic	**2,553,001**	2,553,971	2,545,414
Diluted	**2,557,839**	2,562,199	2,554,837
Earnings per common share (based on weighted average shares outstanding)			
Basic	**$ 32.62**	$ 32.52	$ 16.42
Diluted	**$ 32.56**	$ 32.42	$ 16.36

See notes to consolidated financial statements.

W.T.B. FINANCIAL CORPORATION AND SUBSIDIARY
Consolidated Statements of Comprehensive Income

	Years Ended December 31,		
	2019	2018	2017
NET INCOME	**$ 83,284,350**	$ 83,055,816	$ 41,797,591
Securities available for sale:			
Unrealized gains (losses) arising during the year	**35,095,386**	(5,096,261)	(325,412)
Income tax benefit (expense) related to unrealized gains (losses)	**(7,370,031)**	1,070,215	113,894
Reclassification adjustment for amounts included in net income	**1,853,033**	-	-
Income tax benefit related to reclassification adjustment for losses included in net income	**(389,137)**	-	-
Net change in unrealized gains (losses)	**29,189,251**	(4,026,046)	(211,518)
Defined benefit pension plan:			
Unrealized gain (loss) arising during the year	**2,300,056**	(330,117)	(3,393,248)
Income tax benefit (expense) related to unrealized gain (loss)	**(483,012)**	69,325	1,187,637
Reclassification adjustment for amounts included in net income	**3,174,773**	3,295,205	3,161,683
Income tax benefit related to reclassification adjustment for amounts included in net income	**(666,703)**	(691,993)	(1,106,589)
Net change in unrealized losses	**4,325,114**	2,342,420	(150,517)
OTHER COMPREHENSIVE GAIN (LOSS), NET OF TAX	**33,514,365**	(1,683,626)	(362,035)
COMPREHENSIVE INCOME	**$ 116,798,715**	$ 81,372,190	$ 41,435,556

See notes to consolidated financial statements.

W.T.B. FINANCIAL CORPORATION AND SUBSIDIARY
Consolidated Statements of Changes in Shareholders' Equity

	Number of Common Shares Outstanding	Total Shareholders' Equity	Common Stock Class A	Common Stock Class B	Treasury Stock	Surplus	Accumulated Other Comprehensive Loss	Undivided Profits
Balance, December 31, 2016	2,562,618	$ 496,285,908	$ 250,000	$ 28,292,925	$ -	$ 32,665,000	$ (36,807,147)	$ 471,885,130
Net income, 2017	-	41,797,591	-	-	-	-	-	41,797,591
Other comprehensive loss, net of tax	-	(362,035)	-	-	-	-	(362,035)	-
Reclassification of certain tax effects	-	-	-	-	-	-	(8,005,670)	8,005,670
Cash dividends of $3.36 per share	-	(8,556,831)	-	-	-	-	-	(8,556,831)
Stock-based compensation	7,150	1,355,629	-	1,355,629	-	-	-	-
Stock-based directors' fees	846	270,721	-	270,721	-	-	-	-
Balance, December 31, 2017	2,570,614	530,790,983	250,000	29,919,275	-	32,665,000	(45,174,852)	513,131,560
Net income, 2018	-	83,055,816	-	-	-	-	-	83,055,816
Other comprehensive loss, net of tax	-	(1,683,626)	-	-	-	-	(1,683,626)	-
Cash dividends of $4.60 per share	-	(11,753,902)	-	-	-	-	-	(11,753,902)
Share repurchases, net of retirements	(2,444)	(890,447)	-	(890,447)		-	-	-
Stock-based compensation	865	2,605,872	-	2,605,872	-	-	-	-
Stock-based directors' fees	1,512	539,950	-	539,950	-	-	-	-
Balance, December 31, 2018	2,570,547	602,664,646	250,000	32,174,650	-	32,665,000	(46,858,478)	584,433,474
Net income, 2019	-	83,284,350	-	-	-	-	-	83,284,350
Other comprehensive gain, net of tax	-	33,514,365	-	-	-	-	33,514,365	-
Cash dividends of $7.00 per share	-	(17,872,054)	-	-	-	-	-	(17,872,054)
Share repurchases, net of retirements	(23,245)	(8,517,846)	-	(8,499,418)	(18,428)	-	-	-
Stock-based compensation	7,550	2,289,267	-	2,289,267	-	-	-	-
Stock-based directors' fees	1,503	541,320	-	541,320	-	-	-	-
Balance, December 31, 2019	2,556,355	$ 695,904,048	$ 250,000	$ 26,505,819	$ (18,428)	$ 32,665,000	$ (13,344,113)	$ 649,845,770

See notes to consolidated financial statements.

W.T.B. FINANCIAL CORPORATION AND SUBSIDIARY
Consolidated Statements of Cash Flows

	Years Ended December 31,		
	2019	2018	2017
Cash flows from operating activities:			
Net income	**$ 83,284,350**	$ 83,055,816	$ 41,797,591
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	**3,200,000**	2,700,000	-
Provision for losses on other real estate	**-**	92,709	-
Deferred income taxes expense (benefit)	**(1,947,683)**	(2,004,409)	16,113,073
Depreciation	**6,853,908**	6,372,906	6,078,389
Amortization of software	**1,054,819**	1,136,959	1,325,692
Net premium amortization of securities	**5,177,918**	2,858,093	2,769,562
Change in mortgage servicing rights	**126,346**	104,190	151,310
Losses on sales of securities available for sale, net	**1,853,033**	-	-
(Gains) losses on sales of premises and equipment	**(762,361)**	(664,431)	892,546
(Gains) losses on sale of other real estate, net	**-**	(71)	11,649
Origination of loans held for sale	**(175,364,807)**	(192,090,620)	(210,035,622)
Proceeds from sales of loans held for sale	**154,374,748**	214,625,235	223,239,431
Gains on sales of loans	**(4,150,491)**	(5,591,932)	(6,299,566)
Increase in accrued interest receivable	**(229,013)**	(1,354,849)	(2,512,860)
Increase in cash surrender value of life insurance, net	**(329,400)**	(314,400)	(4,710,667)
Stock-based compensation	**2,289,267**	2,605,872	1,355,629
Stock-based directors' fees	**541,320**	539,950	270,721
Contributions to pension plan	**-**	(10,000,000)	(1,000,000)
Decrease in other assets	**1,059,993**	11,863,243	1,873,757
Increase in accrued expenses and other liabilities	**9,011,686**	6,605,437	6,785,261
Net cash provided by operating activities	**86,043,633**	120,539,698	78,105,896
Cash flows from investing activities:			
Net (increase) decrease in interest-bearing deposits with banks	**227,226,656**	(2,358,049)	(422,820,423)
Securities available for sale:			
Payments for purchases	**(741,058,713)**	(193,819,177)	(45,028,082)
Proceeds from sales	**491,916,383**	-	-
Proceeds from maturities, calls, and paydowns	**64,397,497**	62,823,712	69,235,914
Securities held to maturity:			
Payments for purchases	**(176,541,098)**	(150,562,410)	(177,933,803)
Proceeds from maturities, calls, and paydowns	**84,630,509**	71,528,771	148,272,682
Net change in Federal Home Loan Bank stock	**(371,000)**	(683,000)	(436,100)
Net increase in loans held in portfolio	**(467,591,755)**	(131,001,193)	(152,934,084)
Purchases of premises and equipment	**(38,119,918)**	(12,632,657)	(15,570,660)
Proceeds from sales of premises and equipment	**842,841**	2,081,468	170,697
Purchases of software	**(149,200)**	(28,308)	(226,687)
Proceeds from investments	**56,047**	980,255	35,484
Proceeds from sales of other real estate	**-**	217,862	576,251
Proceeds from the settlement of life insurance	**-**	18,182,831	-
Net cash used in investing activities	**(554,761,751)**	(335,269,895)	(596,658,811)

See notes to consolidated financial statements.

Continued

W.T.B. FINANCIAL CORPORATION AND SUBSIDIARY
Consolidated Statements of Cash Flows (continued)

	Years Ended December 31,		
	2019	2018	2017
Cash flows from financing activities:			
Net increase in deposits	**$ 587,943,134**	$ 190,056,887	$ 525,176,172
Net increase (decrease) in securities sold under repurchase agreements	**(96,787,706)**	37,721,497	10,673,087
Repurchase of common stock	**(8,517,846)**	(890,447)	-
Common stock dividends paid	**(17,872,054)**	(11,753,902)	(8,556,831)
Net cash provided by financing activities	**464,765,528**	215,134,035	527,292,428
Increase (decrease) in cash and cash equivalents	**(3,952,590)**	403,838	8,739,513
Cash and cash equivalents at beginning of year	**106,555,393**	106,151,555	97,412,042
Cash and cash equivalents at end of year	**$ 102,602,803**	$ 106,555,393	$ 106,151,555
Supplemental disclosures of cash flow information:			
Cash paid for interest	**$ 20,246,586**	$ 10,117,584	$ 4,149,187
Cash paid for income taxes	**24,379,454**	16,459,138	35,858,626
Transfer from loans to other real estate	**-**	-	27,900
Transfer from cash surrender value life insurance to other assets	**-**	-	18,182,831
Transfer between premises and equipment and prepaid expenses and other assets	**26,151**	208,400	526,968

See notes to consolidated financial statements.

Note 1: Summary of Significant Accounting Policies

Nature of Operations

W.T.B. Financial Corporation ("W.T.B.") is a bank holding company headquartered in Spokane, Washington, and through its wholly-owned subsidiary, Washington Trust Bank (the "Bank"), is primarily engaged in the business of financial services in Washington, Idaho and Oregon. The Bank was originally chartered in 1902 and provides a wide range of banking, fiduciary, asset management, mortgage banking and other financial services to corporate and individual customers. West Sprague Holding Company, LLC is a wholly-owned subsidiary of the Bank.

Basis of Financial Statement Presentation and Consolidation

The consolidated financial statements of W.T.B. include the accounts of W.T.B. and its wholly-owned subsidiary. Intercompany transactions and balances have been eliminated in consolidation. The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") in the United States requires management to make certain estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, valuation of the defined benefit pension obligation, and fair value of financial instruments.

Segment Reporting

W.T.B. has not established any independent business activity apart from acting as the parent company of the Bank. W.T.B. and the Bank are managed as a single entity and not by departments or lines of business. Based on management's analysis, no department or line of business meets the criteria established in Accounting Standards Codification ("ASC") 280, Segment Reporting, for reporting of selected information about operating segments.

Subsequent Events

Subsequent events are events or transactions that occur after the date of the statement of financial condition but before the consolidated financial statements are available to be issued. W.T.B. recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial condition, including the estimates inherent in the process of preparing the financial statements. W.T.B.'s consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial condition but arose after the date of the statement of financial condition and before the financial statements are available to be issued.

W.T.B. has evaluated subsequent events through March 23, 2020, the date these consolidated financial statements were available to be issued.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold, and securities purchased under resale agreements. Federal funds sold and securities purchased under resale agreements all have original maturities of three months or less.

Securities

Debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available for sale when they might be sold before maturity. Securities classified as available for sale are carried at fair value, with any unrealized gains and losses, net of tax, reported as a component of other comprehensive income ("OCI") and shareholders' equity. Equity securities are carried at fair value, with changes reported in net income. Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment. Other-than-temporary impairment ("OTTI") losses relating to credit impairment are included in noninterest revenue. Gains and losses realized on the sale of securities are computed on the specific-identification method and are included in noninterest revenue. Interest and dividends on debt securities are included in interest revenue. Interest revenue includes amortization of purchase premiums or discounts. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are factored into the amortization method.

W.T.B. considers the following factors when determining OTTI for a security: the length of time and the extent to which the market value has been less than amortized cost, the financial condition and near-term prospects of the issuer, terms and structure of the security, the underlying fundamentals of the relevant market and the outlook for such market for the near future. Management also makes an assessment of whether W.T.B. has (1) the intent to sell the security, or (2) more likely than not will be required to sell the security before its anticipated market recovery. If the security is likely to be sold or if it is likely the security will be required to be sold before recovering its cost basis, the entire impairment loss would be recognized in earnings as OTTI. If W.T.B. does not intend to sell the security and it is not likely the security will be required to be sold, but management does not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings as OTTI. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Projected cash flows are discounted by the original interest rate when a security is analyzed for potential OTTI. The remaining impairment related to all other factors, calculated as the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to OCI.

Federal Home Loan Bank and Pacific Coast Bankers' Bancshares Stock

The Bank is a member of the Federal Home Loan Bank of Des Moines ("FHLB") and is required to maintain a minimum level of investment in FHLB stock based on the Bank's membership, the level of FHLB borrowings and other factors, and may invest in additional amounts. The FHLB provides a wide range of secured lending facilities and structures, which are an important source of supplemental funding and liquidity to the Bank. The Bank's investment in FHLB stock has no quoted market value, is carried at par value ($100 per share), and is classified as a restricted security. Ownership of FHLB stock is restricted to members and former members of the FHLB, and is purchased and redeemed at par. At December 31, 2019 and 2018, the Bank's investment in FHLB stock was $7,851,600 and $7,480,600, respectively.

The Bank's investment in Pacific Coast Bankers' Bancshares ("PCBB") consists of shares of PCBB's common stock. No ready market exists for PCBB stock, and it has no quoted market value. This investment is carried at cost and classified as a restricted security. At December 31, 2019 and 2018, the Bank's investment in PCBB stock was $60,000.

Management periodically evaluates FHLB and PCBB stock for impairment. Management's determination of whether these investments are impaired is based on its assessment of the ultimate recoverability of cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of cost is influenced by criteria such as (1) the significance of any deterioration in earnings performance, credit rating or asset quality of the issuer, (2) the significance of any adverse changes in the regulatory or economic environment, and (3) the significance of adverse changes in the general market condition of either the geographic area or the industry in which they operate. Management has determined there is no other-than-temporary impairment on its investments in FHLB or PCBB stock as of December 31, 2019.

Cash Surrender Value of Life Insurance

The Bank has purchased life insurance policies on certain current and/or former key executives. Bank owned life insurance is recorded at its cash surrender value, net of surrender charges, or the amount that can be realized.

Loans

Loans held in portfolio are carried at the principal amount outstanding, net of unearned income. Loans held for sale are carried at the lower of aggregate cost or market, as determined based on quoted secondary market prices for similar loans. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Interest income on loans is accrued on the principal amount outstanding. Loan origination fees and costs are capitalized and recognized as an adjustment to the yield of the related loan over its estimated life.

Loans are classified as impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal and interest when due, in accordance with the terms of the original loan agreement. Impaired loans above a de minimis threshold are individually evaluated for impairment. The carrying value of individually evaluated impaired loans is based on the present value of expected future cash flows discounted at each loan's effective interest rate, the loan's observable market price, or for collateral dependent loans, at the fair value of the collateral, less selling costs. If the measurement of each impaired loan's value is less than the recorded investment in the loan, the Bank recognizes this impairment and adjusts the carrying value of the loan through the allowance for loan losses. This recognition of impairment is accomplished by charging-off the impaired portion of the loan, or establishing a specific amount to be provided for in the allowance for loan losses. In general, any portion of the recorded investment in a collateral dependent loan in excess of the fair value of the collateral that can be identified as uncollectible is a confirmed loss and charged-off against the allowance for loan losses.

Income Recognition on Nonaccrual and Impaired Loans

Loans are classified as nonaccrual if the collection of principal and interest is doubtful. Generally, this occurs when a loan is past due as to maturity, or payment of principal or interest by 90 days or more, unless such loans are well-secured and in the process of collection. Generally, if a loan, or portion thereof, is partially charged-off, the loan is considered impaired and classified as nonaccrual. Loans that are less than 90 days past due may also be classified as nonaccrual if repayment in full of principal and/or interest is in doubt.

When a loan is classified as nonaccrual, all uncollected accrued interest is reversed from interest income and the accrual of interest income is discontinued. Generally, any subsequent cash payments are applied as a reduction of principal outstanding. In cases where the future collectability of the principal balance in full is expected, interest income may be recognized on a cash basis. A loan may be restored to accrual status when the borrower's financial condition improves so that full collection of future contractual payments is considered likely. Restoration to accrual status for those loans placed on nonaccrual status due to payment delinquency will generally not occur until the borrower demonstrates repayment ability over a period of not less than six months.

Troubled Debt Restructuring

Loans may occasionally be restructured due to economic or legal reasons relating to the borrower's financial condition by granting a concession in order to protect the Bank's investment. Examples of such concessions may include forgiving principal or accrued interest, extending maturity date(s), or providing lower interest rates than would normally be available for transactions of similar risk. This generally occurs when the financial condition of the borrower necessitates temporary or permanent relief from the original contractual terms of the loan. A loan restructured in a troubled debt restructuring ("TDR") is an impaired loan and is accounted for as such. If a borrower on a restructured accruing loan has demonstrated performance under the previous terms and shows the capacity to continue to perform under the restructured terms, the loan will remain on accrual status. Otherwise, the loan will be placed on nonaccrual status until the borrower demonstrates repayment ability over a period of not less than six months.

Allowance for Loan Losses
The allowance for loan losses is a valuation allowance for probable incurred credit losses in the portfolio. Management's determination of the allowance is based upon an evaluation of the loan portfolio, impaired loans, past loan loss experience, economic conditions, volume, growth and composition of the loan portfolio, and other risks inherent in the portfolio. Management applies risk factors to categories of loans and individually reviews all impaired loans above a de minimis threshold. Management uses risk grades for loans in the commercial, agricultural, real estate secured, and consumer categories. For homogenous consumer portfolios, management relies heavily on statistical analysis, past loan loss experience, current payment performance and industry trends to estimate losses. Management evaluates the adequacy of the allowance at least quarterly, by reviewing relevant internal and external factors that could affect credit performance.

Mortgage Servicing Rights
Mortgage servicing rights result from the sale of mortgage loans while retaining loan servicing responsibilities. Mortgage servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on a model that calculates the present value of estimated future net servicing income. Mortgage servicing rights are amortized in proportion to, and over the period of, the estimated net servicing revenues. Impairment of mortgage servicing rights is assessed based on the fair value of those rights. For purposes of measuring impairment, mortgage servicing rights are stratified based on the characteristics of the underlying loans, including loan type, size, note rate, origination date and term. Subsequent loan prepayments and elevated prepayment assumptions in excess of those forecasted can adversely impact the carrying value of mortgage servicing rights. The amount of impairment recognized is the amount by which the capitalized mortgage servicing rights for each class exceed their calculated fair value.

Fees earned for servicing loans are recorded as noninterest income and included in mortgage banking revenue, net. The fees are based on a contractual percentage of the outstanding principal and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

Derivatives
Derivative instruments are contracts between two or more parties that have a notional and an underlying variable, require no net investment, and allow for the net settlement of positions. Derivative financial instruments are used to meet the ongoing credit needs of customers and the market exposure of certain types of interest rate risk. Derivative instruments are recognized as either assets or liabilities in the consolidated statements of financial condition at fair value. The Bank is party to various interest rate swaps that are considered derivative instruments. For a fair value hedge, the gain or loss on the derivative, as well as the offsetting gain or loss on the hedged item, are recognized in current earnings as fair values change. For stand-alone derivatives that have no hedging designation, changes in the fair value of a derivative are recorded in the consolidated statements of income.

The Bank utilizes forward sales contracts associated with mortgage banking activities in its derivative risk management strategy. The Bank enters into forward sales contracts with brokers/dealers to hedge the risk of changes in fair value, due to changes in interest rates, of both locked residential mortgage loan commitments and residential loans held for sale. The estimated fair values of these derivatives are determined by the changes in the market value of the related loans, caused by changes in market interest rates, during the period from the commitment date or contract date to the valuation date. At December 31, 2019, the estimated fair value of rate locks is $111,498 and the estimate fair value of forward sales agreements is ($118,319). At December 31, 2018, the estimated fair value of rate locks is $71,075 and the estimate fair value of forward sales agreements was ($29,464).

Transfers of Financial Assets
Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Bank, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Premises and Equipment
Premises and equipment, including leasehold improvements, are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed on both the straight-line and accelerated methods over the estimated useful lives of the assets, or the terms of the associated operating leases. Gains or losses on disposition are reflected in current income. Normal costs of maintenance and repairs are treated as current expenses.

W.T.B. reviews long-lived and intangible assets any time that a change in circumstance indicates that the carrying amount of these assets may not be recoverable. Recoverability of these assets is determined by comparing the carrying value of the asset to the forecasted undiscounted cash flows of the operation associated with the asset. If the evaluation of the forecasted cash flows indicates that the carrying value of the asset is not recoverable, the asset is written down to fair value.

Other Real Estate
Other real estate ("ORE") acquired through, or in lieu of, loan foreclosure is recorded at the fair value of the property, which becomes the property's new basis. A provision to the valuation allowance on ORE is made for subsequent declines in the fair value on a specific property basis. Direct costs incurred in connection with holding ORE are charged to expense when incurred.

Advertising Costs
W.T.B. expenses advertising costs as incurred, which are included in marketing and public relations expense. Advertising expenses were $2,583,319, $1,631,641 and $1,454,424 for 2019, 2018 and 2017, respectively.

Income Taxes
Income tax expense is separated into two components: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the current tax law to the taxable income or excess of deductions over revenues. W.T.B. determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more-likely-than-not means a likelihood of more than 50%; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

W.T.B. recognizes interest and penalties on income taxes, if any, as a component of income tax expense.

Stock-Based Compensation
Compensation cost related to restricted stock awards issued to executive officers is based on fair value at the date of grant. The fair value of the awards is estimated using the market value of W.T.B.'s common stock. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Earnings per Common Share
W.T.B.'s basic earnings per common share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during the period, excluding nonvested restricted stock. Diluted earnings per common share is computed using the weighted-average number of common shares outstanding for the basic earnings per share computation plus the dilutive effects of nonvested restricted stock using the treasury stock method.

Stock
Class A common stock has the right to vote on certain matters. Class B common stock does not have voting rights except in those circumstances for which class voting is required by law. Class C preferred stock may be issued in one or more series. The Board of Directors of W.T.B. has the express authority to fix and designate the preferences and various other rights of Class C preferred stock. Repurchased common stock shares not retired are recorded as treasury stock at cost. Treasury shares are not deemed outstanding for earnings per share calculations.

Comprehensive Income
Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale and unrealized gains and losses related to the defined benefit pension plan, which are reported as a separate component of equity.

Fair Value of Financial Instruments
Fair values of financial instruments are estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, and other factors, especially in the absence of active markets that convey significant transaction-based pricing signals for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Reclassifications
Certain amounts appearing in the consolidated financial statements and notes thereto for the years ended December 31, 2018 and 2017 have been reclassified to conform to the December 31, 2019 presentation. These reclassifications had no effect on surplus or net income as previously reported and the effect of these reclassifications is not considered material.

Standards Adopted During the Current Period
Accounting Standards Update ("ASU") 2016-02, Leases (*Topic 842*). On January 1, 2019, W.T.B. adopted this amendment to the FASB Accounting Standards Codification and subsequent amendments thereto, which requires W.T.B. to recognize most leases on the balance sheet. W.T.B. adopted the standard under a modified retrospective approach as of the date of adoption and elected to apply several of the available expedients. These expedients included carryover of historical lease determination and lease classification conclusions, carryover of historical initial direct cost balances for existing leases, and accounting for lease and non-lease components in contracts in which W.T.B. is a lessee as a single lease component.

Adoption of the leasing standard resulted in the recognition of operating right-of-use assets of $17.4 million, and operating lease liabilities of $18.3 million as of January 1, 2019. These amounts were determined based on present value of remaining lease payments, discounted using W.T.B.'s incremental borrowing rate as of the date of adoption. There was no material impact to the timing of expense or income recognition in W.T.B.'s consolidated financial statements. Prior periods were not restated and continue to be presented under legacy GAAP.

ASU 2017-12, Derivatives and Hedging (*Topic 815*). W.T.B. adopted this standard on January 1, 2019. This standard more closely aligns the results of cash flow and fair value hedge accounting with risk management activities through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results in the financial statements. The standard addresses the specific limitations in current GAAP by expanding hedge accounting for both nonfinancial and financial components and by refining the measurement of hedge results to better reflect W.T.B.'s hedging strategies. This ASU did not have a significant impact on W.T.B.'s consolidated financial statements.

Standards Not Yet Adopted

ASU 2016-13, Financial Instruments – Credit Losses *(Topic 326)*. This standard broadens the information that an entity must consider in developing its expected credit loss estimate for loans and other financial assets measured either collectively or individually. This standard becomes effective for annual periods beginning after December 15, 2022, and interim periods within those annual periods for W.T.B. Current U.S. GAAP delays recognition of credit losses until it is probable a loss has occurred, generally only considering past events and current conditions in measuring the incurred loss. Once implemented, this new standard will eliminate the probable initial recognition threshold and instead, will require the measurement of expected credit losses based on historical experience, current conditions, and reasonable and supportable forecasts covering the entire term of the instrument through contractual maturity. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. This standard requires enhanced disclosures around significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of the portfolio. In addition, this standard amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. W.T.B. is currently evaluating the provisions of this ASU to determine the potential impact the new standard will have on W.T.B.'s consolidated financial statements, once it becomes effective for periods beginning after December 15, 2022.

Note 2: Cash and Due from Banks

Federal Reserve Board regulations require depository institutions to maintain minimum reserve balances in the form of cash on hand or deposits with the Federal Reserve Bank. At December 31, 2019 and 2018, these reserve balance requirements were $35,977,000 and $32,345,000, respectively, which were met by the Bank.

Note 3: Securities

The amortized costs and fair values for securities as of December 31, 2019 and 2018 were as follows:

2019				
Securities Available for Sale:	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury and federal agencies	$ 919,674,123	$ 14,937,656	$ 4,360,002	$ 930,251,777
States and political subdivisions	5,226,385	116,063	-	5,342,448
Mortgage-backed securities	311,286,130	2,943,111	2,206,950	312,022,291
	$ 1,236,186,638	$ 17,996,830	$ 6,566,952	$ 1,247,616,516

2018				
Securities Available for Sale:	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury and federal agencies	$ 704,345,693	$ 1,416,501	$ 17,032,711	$ 688,729,483
States and political subdivisions	5,317,612	38,354	17,066	5,338,900
Mortgage-backed securities	346,913,997	426,996	10,350,614	336,990,379
	$ 1,056,577,302	$ 1,881,851	$ 27,400,391	$ 1,031,058,762

2019				
Securities Held to Maturity:	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury and federal agencies	$ 448,791,418	$ 9,505,223	$ 4,071,425	$ 454,225,216
States and political subdivisions	3,704,089	100,422	-	3,804,511
Mortgage-backed securities	195,711,399	157,793	493,635	195,375,557
	$ 648,206,906	$ 9,763,438	$ 4,565,060	$ 653,405,284

2018				
Securities Held to Maturity:	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury and federal agencies	$ 324,367,386	$ 1,735,398	$ 3,268,999	$ 322,833,785
States and political subdivisions	2,349,760	-	8,983	2,340,777
Mortgage-backed securities	231,474,624	-	7,046,325	224,428,299
	$ 558,191,770	$ 1,735,398	$ 10,324,307	$ 549,602,861

The following tables show the gross unrealized losses and fair values, aggregated by category and the length of time that individual securities have been in a continuous unrealized loss position at December 31, 2019 and 2018:

2019						
	Less Than 12 Months		12 Months or More		Total	
Securities Available for Sale:	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and federal agencies	$ 317,218,931	$ 4,021,031	$ 84,633,603	$ 338,971	$ 401,852,534	$ 4,360,002
States and political subdivisions	-	-	-	-	-	-
Mortgage-backed securities	29,902,462	125,950	171,329,152	2,081,000	201,231,614	2,206,950
	$ 347,121,393	$ 4,146,981	$ 255,962,755	$ 2,419,971	$ 603,084,148	$ 6,566,952

2018						
	Less Than 12 Months		12 Months or More		Total	
Securities Available for Sale:	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and federal agencies	$ 999,141	$ 803	$ 571,119,391	$ 17,031,908	$ 572,118,532	$ 17,032,711
States and political subdivisions	4,004,707	17,066	-	-	4,004,707	17,066
Mortgage-backed securities	48,848,486	326,975	254,582,979	10,023,639	303,431,465	10,350,614
	$ 53,852,334	$ 344,844	$ 825,702,370	$ 27,055,547	$ 879,554,704	$ 27,400,391

	2019					
	Less Than 12 Months		12 Months or More		Total	
Securities Held to Maturity:	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and federal agencies	$ 213,929,899	$ 4,071,425	$ -	$ -	$ 213,929,899	$ 4,071,425
States and political subdivisions	-	-	-	-	-	-
Mortgage-backed securities	26,837,292	45,188	75,292,788	448,447	102,130,080	493,635
	$ 240,767,191	$ 4,116,613	$ 75,292,788	$ 448,447	$ 316,059,979	$ 4,565,060

	2018					
	Less Than 12 Months		12 Months or More		Total	
Securities Held to Maturity:	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and federal agencies	$ -	$ -	$ 170,538,671	$ 3,268,999	$ 170,538,671	$ 3,268,999
States and political subdivisions	1,787,967	2,566	552,810	6,417	2,340,777	8,983
Mortgage-backed securities	-	-	224,428,299	7,046,325	224,428,299	7,046,325
	$ 1,787,967	$ 2,566	$ 395,519,780	$ 10,321,741	$ 397,307,747	$ 10,324,307

The above tables represent 53 available-for-sale and 46 held-to-maturity securities for which the fair value at December 31, 2019, was less than the amortized cost. There were 70 available-for-sale securities and 55 held-to-maturity securities in an unrealized loss position as of December 31, 2018.

W.T.B. reviews investment securities on an ongoing basis for the presence of OTTI. As of December 31, 2019, there were 32 available-for-sale securities and 16 held-to-maturity securities in a gross unrealized loss position for twelve months or more. Management takes into consideration current market conditions, fair value in relationship to cost, extent and nature of the decline in fair value, issuer rating changes and trends, risk of issuer default and loss, its intent to sell the security or if it is likely that W.T.B. will be required to sell the security before recovery of our amortized cost basis, or recorded cost if previously written down, of the investment and other factors. The unrealized losses on these securities were largely due to increases in market interest rates and are not due to the underlying credit of the issuers. W.T.B. does not consider the unrealized losses on these securities to be OTTI as of December 31, 2019.

W.T.B. adopted a provision of GAAP that provides for the bifurcation of OTTI into two categories: (a) the amount of the total OTTI related to the decrease in cash flows expected to be collected from the debt security (the credit loss) that is recognized in earnings and (b) the amount of the total OTTI related to all other factors that is recognized net of income taxes, as a component of OCI. W.T.B. recorded, during the years ended December 31, 2019, 2018 and 2017, no impairments through OCI or earnings. There were no securities with OTTI losses recognized as of December 31, 2019 and 2018.

As of December 31, 2019, investment securities were pledged for the following obligations:

	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Repurchase agreements	$ 26,147,764	$ 26,147,764	$ 262,292,548	$ 263,623,329
State and local government public deposits	39,460,054	39,465,480	60,424,823	61,524,321
Other	8,357,117	8,357,117	14,304,669	14,248,621
	$ 73,964,935	$ 73,970,361	$ 337,022,040	$ 339,396,271

In 2019, proceeds from the sales of available-for-sale securities were $491,916,383 resulting in gross gains of $1,578,201 and gross losses of $3,431,234. In 2018 and 2017, W.T.B. did not sell any available-for-sale securities.

The amortized costs and fair values of debt securities by years to maturity as of December 31, 2019 are in the table below. Maturities of mortgage-backed securities are classified in accordance with the contractual maturity dates. Expected maturities will differ from contractual maturities since issuers may have the right to call or prepay obligations.

	2019			
	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 419,487	$ 428,980	$ -	$ -
Due after one year through five years	204,229,365	206,694,255	141,385,648	146,776,718
Due after five years through ten years	738,212,577	745,492,558	280,972,546	280,991,382
Due after ten years	293,325,209	295,000,723	225,848,712	225,637,184
	$ 1,236,186,638	$ 1,247,616,516	$ 648,206,906	$ 653,405,284

	2018			
	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 999,944	$ 999,141	$ -	$ -
Due after one year through five years	634,729,295	618,107,427	92,000,149	91,606,086
Due after five years through ten years	124,826,848	123,394,806	194,713,126	194,763,308
Due after ten years	296,021,215	288,557,388	271,478,495	263,233,467
	$ 1,056,577,302	$ 1,031,058,762	$ 558,191,770	$ 549,602,861

Note 4: Loans and Allowance for Loan Losses

Loans

Loans held in portfolio as of December 31 were as follows:

	2019	2018
Commercial and industrial	$ 1,324,356,200	$ 1,217,763,262
Agricultural	265,375,736	247,194,263
Commercial real estate		
Owner occupied	642,858,202	636,944,180
Non-owner occupied	842,174,267	667,340,276
Construction and development		
Commercial	281,711,676	260,575,245
Residential	179,354,931	165,770,174
Residential real estate		
First mortgage	635,721,975	504,786,763
Junior mortgage	34,463,416	41,323,872
Revolving	193,101,107	201,536,820
Consumer	114,213,110	100,037,882
Total portfolio loans	$ 4,513,330,620	$ 4,043,272,737

Loans are reduced by unamortized deferred fees and costs of $8,364,707 and $7,627,282 at December 31, 2019 and 2018, respectively. Loans with a principal balance of $2,297,343,685 and $2,386,042,030 were pledged at December 31, 2019 and 2018, respectively, to the FHLB and Federal Reserve to secure open borrowing lines of credit.

Allowance for Loan Losses

The following table summarizes credit performance activity related to the allowance for loan losses by loan category and the recorded investment in loans by loan category and balances individually or collectively evaluated for impairment as of December 31:

	2019						
	Commercial and Agricultural	Real Estate Secured Commercial	Real Estate Secured Construction	Real Estate Secured Residential	Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 37,418,069	$ 18,520,775	$ 13,785,289	$ 18,068,056	$ 1,362,596	$ 1,593,808	$ 90,748,593
Charge-offs	(4,285,256)	-	-	(320,376)	(568,665)	-	(5,174,297)
Recoveries	1,276,697	-	5,002,943	951,180	409,605	-	7,640,425
Provision (recapture)	2,617,692	2,799,352	(5,027,024)	(433,262)	355,677	2,887,565	3,200,000
Ending balance	$ 37,027,202	$ 21,320,127	$ 13,761,208	$ 18,265,598	$ 1,559,213	$ 4,481,373	$ 96,414,721
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 203,893	$ 71,624	$ -	$ 237,631	$ 91,220	$ -	$ 604,368
Collectively evaluated for impairment	36,823,309	21,248,503	13,761,208	18,027,967	1,467,993	4,481,373	95,810,353
Total allowance for loan losses	$ 37,027,202	$ 21,320,127	$ 13,761,208	$ 18,265,598	$ 1,559,213	$ 4,481,373	$ 96,414,721
Loans:							
Portfolio loans:							
Loans individually evaluated for impairment	$ 6,669,463	$ 736,875	$ 231,778	$ 2,644,158	$ 91,220		$ 10,373,494
Loans collectively evaluated for impairment	1,583,062,473	1,484,295,594	460,834,829	860,642,340	114,121,890		4,502,957,126
Total portfolio loans	$ 1,589,731,936	$ 1,485,032,469	$ 461,066,607	$ 863,286,498	$ 114,213,110		$ 4,513,330,620

	2018						
	Commercial and Agricultural	Real Estate Secured Commercial	Real Estate Secured Construction	Real Estate Secured Residential	Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 34,886,108	$ 16,324,669	$ 13,749,921	$ 18,621,000	$ 1,508,090	$ 1,694,441	$ 86,784,229
Charge-offs	(4,087,466)	-	-	(398,402)	(793,673)	-	(5,279,541)
Recoveries	1,287,498	-	3,852,198	1,054,165	350,044	-	6,543,905
Provision (recapture)	5,331,929	2,196,106	(3,816,830)	(1,208,707)	298,135	(100,633)	2,700,000
Ending balance	$ 37,418,069	$ 18,520,775	$ 13,785,289	$ 18,068,056	$ 1,362,596	$ 1,593,808	$ 90,748,593
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 128,890	$ 192,774	$ 174,390	$ 62,322	$ 10,693	$ -	$ 569,069
Collectively evaluated for impairment	37,289,179	18,328,001	13,610,899	18,005,734	1,351,903	1,593,808	90,179,524
Total allowance for loan losses	$ 37,418,069	$ 18,520,775	$ 13,785,289	$ 18,068,056	$ 1,362,596	$ 1,593,808	$ 90,748,593
Loans:							
Portfolio loans:							
Loans individually evaluated for impairment	$ 1,965,025	$ 2,573,290	$ 1,692,323	$ 2,245,362	$ 102,520		$ 8,578,520
Loans collectively evaluated for impairment	1,462,992,500	1,301,711,166	424,653,096	745,402,093	99,935,362		4,034,694,217
Total portfolio loans	$ 1,464,957,525	$ 1,304,284,456	$ 426,345,419	$ 747,647,455	$ 100,037,882		$ 4,043,272,737

	2017						
	Commercial and Agricultural	Real Estate Secured			Consumer	Unallocated	Total
		Commercial	Construction	Residential			
Allowance for loan losses:							
Beginning balance	$ 33,705,783	$ 13,592,968	$ 14,670,051	$ 19,391,165	$ 1,487,414	$ 2,939,362	$ 85,786,743
Charge-offs	(4,404,767)	-	(53,112)	(916,416)	(914,119)	-	(6,288,414)
Recoveries	2,976,419	1,459,316	952,362	1,506,353	391,450	-	7,285,900
Provision (recapture)	2,608,673	1,272,385	(1,819,380)	(1,360,102)	543,345	(1,244,921)	-
Ending balance	$ 34,886,108	$ 16,324,669	$ 13,749,921	$ 18,621,000	$ 1,508,090	$ 1,694,441	$ 86,784,229
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 128,912	$ -	$ 338,402	$ 280,845	$ 24,111	$ -	$ 772,270
Collectively evaluated for impairment	34,757,196	16,324,669	13,411,519	18,340,155	1,483,979	1,694,441	86,011,959
Total allowance for loan losses	$ 34,886,108	$ 16,324,669	$ 13,749,921	$ 18,621,000	$ 1,508,090	$ 1,694,441	$ 86,784,229
Loans:							
Portfolio loans:							
Loans individually evaluated for impairment	$ 2,117,621	$ -	$ 2,406,652	$ 2,533,068	$ 193,662		$ 7,251,003
Loans collectively evaluated for impairment	1,462,539,135	1,258,898,601	396,678,798	671,750,224	113,889,419		3,903,756,177
Total portfolio loans	$ 1,464,656,756	$ 1,258,898,601	$ 399,085,450	$ 674,283,292	$ 114,083,081		$ 3,911,007,180

Impaired Loans

Impaired loans below a de minimis threshold are collectively evaluated for impairment. Impaired loans collectively evaluated for impairment were $5,058,162, $4,322,083 and $5,462,483 for the years ended December 31, 2019, 2018 and 2017, respectively. The following table presents impaired loans and the related valuation allowance.

	2019	2018	2017
December 31:			
Nonaccrual loans	$ 13,506,112	$ 10,670,965	$ 11,223,901
Accruing troubled debt restructurings	1,065,019	885,939	1,223,796
Loans past due 90 days or more and still accruing	860,524	1,343,699	265,789
Total impaired loans	$ 15,431,655	$ 12,900,603	$ 12,713,486
Impaired loans with no valuation allowance	$ 5,239,058	$ 4,033,367	$ 2,541,941
Impaired loans with a valuation allowance	10,192,597	8,867,236	10,171,545
Total impaired loans	$ 15,431,655	$ 12,900,603	$ 12,713,486
Allowance on impaired loans	$ 1,096,020	$ 1,019,861	$ 1,449,071
For the years ended December 31:			
Average impaired loans	$ 17,091,152	$ 11,572,342	$ 15,686,600
Interest income recognized on impaired loans	$ 2,520,860	$ 386,230	$ 399,897

Commitments to advance additional funds in connection with impaired loans were $166,456, $20,704 and $27,034 at December 31, 2019, 2018 and 2017, respectively.

W.T.B. recognizes the charge-off in the period in which it arises for collateral dependent loans. Therefore, impaired collateral dependent loans have been written-down to their estimated net realizable value, based on fair market value less selling costs.

The following table presents impaired loans by category as of December 31:

	2019				
	Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Loans with no related allowance recorded:					
Commercial and industrial	$ 4,807,783	$ 6,846,573	$ -	$ 5,413,983	$ 388,603
Agricultural	-	-	-	-	-
Commercial real estate					
Owner occupied	-	-	-	1,209,935	106,620
Non-owner occupied	-	-	-	718	14,490
Construction and development					
Commercial	-	-	-	-	-
Residential	231,778	355,813	-	896,712	1,630,314
Residential real estate					
First mortgage	-	-	-	140,493	69,064
Junior mortgage	199,497	199,497	-	806,254	95,917
Revolving	-	-	-	544,740	57,003
Consumer	-	-	-	21,756	2,639
Total loans with no related allowance recorded	5,239,058	7,401,883	-	9,034,591	2,364,650
Loans with related allowance recorded:					
Commercial and industrial	4,001,826	6,928,685	411,916	3,671,052	61,907
Agricultural	115,003	125,827	11,178	115,133	-
Commercial real estate					
Owner occupied	920,776	920,776	89,499	70,829	40,704
Non-owner occupied	303,417	303,417	29,492	308,471	9,898
Construction and development					
Commercial	56,441	56,441	5,486	56,441	-
Residential	-	-	-	-	-
Residential real estate					
First mortgage	2,867,402	4,163,079	278,721	2,492,869	25,510
Junior mortgage	1,098,384	1,328,679	106,763	801,587	2,755
Revolving	540,116	780,865	52,499	324,329	8,828
Consumer	289,232	317,311	110,466	215,850	6,608
Total loans with related allowance recorded	10,192,597	14,925,080	1,096,020	8,056,561	156,210
Total impaired loans:					
Commercial and industrial	8,809,609	13,775,258	411,916	9,085,035	450,510
Agricultural	115,003	125,827	11,178	115,133	-
Commercial real estate					
Owner occupied	920,776	920,776	89,499	1,280,764	147,324
Non-owner occupied	303,417	303,417	29,492	309,189	24,388
Construction and development					
Commercial	56,441	56,441	5,486	56,441	-
Residential	231,778	355,813	-	896,712	1,630,314
Residential real estate					
First mortgage	2,867,402	4,163,079	278,721	2,633,362	94,574
Junior mortgage	1,297,881	1,528,176	106,763	1,607,841	98,672
Revolving	540,116	780,865	52,499	869,069	65,831
Consumer	289,232	317,311	110,466	237,606	9,247
Total impaired loans	$ 15,431,655	$ 22,326,963	$ 1,096,020	$ 17,091,152	$ 2,520,860

	2018				
	Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Loans with no related allowance recorded:					
Commercial and industrial	$ 1,095,750	$ 2,595,750	$ -	$ 122,282	$ 19,279
Agricultural	-	-	-	-	-
Commercial real estate					
Owner occupied	1,051,452	1,051,452	-	808,809	-
Non-owner occupied	-	-	-	-	-
Construction and development					
Commercial	-	-	-	-	-
Residential	243,879	356,313	-	243,879	-
Residential real estate					
First mortgage	442,579	690,712	-	993,964	18,960
Junior mortgage	500,210	500,210	-	38,478	1,576
Revolving	699,497	699,497	-	699,497	-
Consumer	-	-	-	-	-
Total loans with no related allowance recorded	4,033,367	5,893,934	-	2,906,909	39,815
Loans with related allowance recorded:					
Commercial and industrial	2,150,434	2,381,014	262,515	2,032,637	39,716
Agricultural	116,695	125,827	12,171	131,684	61,150
Commercial real estate					
Owner occupied	1,521,838	1,521,838	192,774	492,025	176,377
Non-owner occupied	318,873	346,136	33,258	242,649	10,512
Construction and development					
Commercial	56,441	56,441	5,887	70,806	23,819
Residential	1,480,441	4,492,982	177,727	1,888,573	-
Residential real estate					
First mortgage	1,214,129	2,157,264	127,154	1,410,273	8,354
Junior mortgage	1,136,199	1,423,713	118,506	1,310,564	16,079
Revolving	688,970	1,000,955	70,760	862,781	6,540
Consumer	183,216	200,569	19,109	223,441	3,868
Total loans with related allowance recorded	8,867,236	13,706,739	1,019,861	8,665,433	346,415
Total impaired loans:					
Commercial and industrial	3,246,184	4,976,764	262,515	2,154,919	58,995
Agricultural	116,695	125,827	12,171	131,684	61,150
Commercial real estate					
Owner occupied	2,573,290	2,573,290	192,774	1,300,834	176,377
Non-owner occupied	318,873	346,136	33,258	242,649	10,512
Construction and development					
Commercial	56,441	56,441	5,887	70,806	23,819
Residential	1,724,320	4,849,295	177,727	2,132,452	-
Residential real estate					
First mortgage	1,656,708	2,847,976	127,154	2,404,237	27,314
Junior mortgage	1,636,409	1,923,923	118,506	1,349,042	17,655
Revolving	1,388,467	1,700,452	70,760	1,562,278	6,540
Consumer	183,216	200,569	19,109	223,441	3,868
Total impaired loans	$ 12,900,603	$ 19,600,673	$ 1,019,861	$ 11,572,342	$ 386,230

	2017				
	Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Loans with no related allowance recorded:					
Commercial and industrial	$ 1,155,986	$ 3,955,986	$ -	$ 96,332	$ 8,375
Agricultural	-	-	-	79,032	-
Commercial real estate					
Owner occupied	-	-	-	-	16,691
Non-owner occupied	-	-	-	-	11,086
Construction and development					
Commercial	-	-	-	-	-
Residential	243,879	356,313	-	2,436,631	-
Residential real estate					
First mortgage	442,579	690,712	-	258,171	11,344
Junior mortgage	-	-	-	-	14,891
Revolving	699,497	699,497	-	233,166	4,560
Consumer	-	-	-	-	4,128
Total loans with no related allowance recorded	2,541,941	5,702,508	-	3,103,332	71,075
Loans with related allowance recorded:					
Commercial and industrial	2,076,047	2,754,791	266,987	1,670,183	-
Agricultural	148,514	148,514	18,401	321,047	107,183
Commercial real estate					
Owner occupied	423,717	423,717	52,499	466,812	41,739
Non-owner occupied	230,539	255,413	28,564	266,202	47,675
Construction and development					
Commercial	56,441	56,441	6,993	28,221	-
Residential	2,325,228	6,668,686	358,530	4,282,822	54,271
Residential real estate					
First mortgage	2,340,698	3,309,014	392,224	2,521,303	67,010
Junior mortgage	1,195,030	1,514,252	148,064	1,542,534	10,944
Revolving	1,057,000	1,344,119	137,252	1,084,770	-
Consumer	318,331	330,742	39,557	399,374	-
Total loans with related allowance recorded	10,171,545	16,805,689	1,449,071	12,583,268	328,822
Total impaired loans:					
Commercial and industrial	3,232,033	6,710,777	266,987	1,766,515	8,375
Agricultural	148,514	148,514	18,401	400,079	107,183
Commercial real estate					
Owner occupied	423,717	423,717	52,499	466,812	58,430
Non-owner occupied	230,539	255,413	28,564	266,202	58,761
Construction and development					
Commercial	56,441	56,441	6,993	28,221	-
Residential	2,569,107	7,024,999	358,530	6,719,453	54,271
Residential real estate					
First mortgage	2,783,277	3,999,726	392,224	2,779,474	78,354
Junior mortgage	1,195,030	1,514,252	148,064	1,542,534	25,835
Revolving	1,756,497	2,043,616	137,252	1,317,936	4,560
Consumer	318,331	330,742	39,557	399,374	4,128
Total impaired loans	$ 12,713,486	$ 22,508,197	$ 1,449,071	$ 15,686,600	$ 399,897

Troubled Debt Restructurings

Included in impaired loans are troubled debt restructurings. At December 31, 2019 and 2018, respectively, the Bank reported loans totaling $6,331,426 and $2,909,619 that were troubled debt restructurings and on nonaccrual status. In addition to these amounts, the Bank had troubled debt restructurings of $1,065,019 and $885,939 at December 31, 2019 and 2018, respectively, which were performing in accordance with their modified terms and were on accrual status. The Bank has committed to lend additional amounts totaling up to $26,112 and $13,859 to customers with outstanding loans that were classified as troubled debt restructurings as of December 31, 2019 and 2018, respectively.

The carrying value of loans modified in troubled debt restructurings is measured by either the present value of expected future cash flows, or for collateral dependent loans, at the fair value of the collateral, less selling costs. If the measurement of each troubled debt restructuring's value is less than the recorded investment in the loan, the Bank recognizes this impairment and adjusts the carrying value of the loan through the allowance for loan losses.

In certain circumstances, the Bank may offer one, or more, loan modifications to borrowers. The types of loan modifications offered typically impact loan payment amounts in the following ways:

- Rate Modification: A modification in which the interest rate is changed.
- Term Modification: A modification in which the maturity date, timing of payments, or frequency of payments is changed.
- Interest Only Modification: A modification in which the loan is converted to interest only payments for a period of time.
- Payment Modification: A modification in which the dollar amount of the payment is changed, other than as a result of any of the modifications described above.
- Combination Modification: Any other type of modification, including the use of multiple categories above.

Loans modified and recorded as troubled debt restructurings during the years ended December 31:

	2019			2018		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial and industrial	6	$ 7,128,905	$ 6,501,047	-	$ -	$ -
Residential real estate						
First mortgage	-	-	-	-	-	-
Junior mortgage	2	682,789	682,779	-	-	-
Revolving	-	-	-	-	-	-
Total	8	$ 7,811,694	$ 7,183,826	-	$ -	$ -

	2017		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial and industrial	-	$ -	$ -
Residential real estate			
First mortgage	1	43,200	43,200
Junior mortgage	-	-	-
Revolving	1	687,013	687,013
Total	2	$ 730,213	$ 730,213

During 2019, the Bank restructured eight loans where seven were combination modifications and one was an interest only modification. During 2018, the Bank did not have any new restructured loans. During 2017, the Bank restructured two loans that were combination modifications.

A default on a troubled debt restructuring is when a loan is more than 90 days delinquent on its contractual payment subsequent to restructuring. The following table presents restructured loans which incurred a default within the years ended December 31, 2019, 2018 and 2017 for which the default occurred within twelve months of the restructure date:

	2019		2018		2017	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Troubled debt restructurings that subsequently defaulted:						
First mortgage	-	$ -	1	$ 516,800	-	$ -
	-	$ -	1	$ 516,800	-	$ -

Credit Quality Indicators

The following table presents the recorded investment in portfolio loans by payment status as of December 31:

	2019					
	Noncurrent Loans					
	Nonaccrual	Past Due 90 or More Days and Still Accruing	Total	Loans Past Due 30-89 Days Still Accruing	Current Loans	Total Loans
Commercial and industrial	$ 7,960,980	$ 114,241	$ 8,075,221	$ 520,841	$ 1,315,760,138	$ 1,324,356,200
Agricultural	115,003	-	115,003	-	265,260,733	265,375,736
Commercial real estate						
Owner occupied	183,901	736,875	920,776	131,751	641,805,675	642,858,202
Non-owner occupied	119,223	-	119,223	-	842,055,044	842,174,267
Construction and development						
Commercial	56,441	-	56,441	-	281,655,235	281,711,676
Residential	231,778	-	231,778	321,298	178,801,855	179,354,931
Residential real estate						
First mortgage	2,789,693	-	2,789,693	1,632,639	631,299,643	635,721,975
Junior mortgage	1,263,907	-	1,263,907	278,518	32,920,991	34,463,416
Revolving	540,116	-	540,116	150,704	192,410,287	193,101,107
Consumer	245,070	9,408	254,478	699,247	113,259,385	114,213,110
Total portfolio loans	$ 13,506,112	$ 860,524	$ 14,366,636	$ 3,734,998	$ 4,495,228,986	$ 4,513,330,620

	2018					
	Noncurrent Loans					
	Nonaccrual	Past Due 90 or More Days and Still Accruing	Total	Loans Past Due 30-89 Days Still Accruing	Current Loans	Total Loans
Commercial and industrial	$ 2,066,315	$ 819,145	$ 2,885,460	$ 4,637,886	$ 1,210,239,916	$ 1,217,763,262
Agricultural	116,695	-	116,695	-	247,077,568	247,194,263
Commercial real estate						
Owner occupied	2,573,290	-	2,573,290	-	634,370,890	636,944,180
Non-owner occupied	123,933	-	123,933	-	667,216,343	667,340,276
Construction and development						
Commercial	56,441	-	56,441	1,150,046	259,368,758	260,575,245
Residential	1,724,319	-	1,724,319	-	164,045,855	165,770,174
Residential real estate						
First mortgage	1,554,863	21,385	1,576,248	1,012,551	502,197,964	504,786,763
Junior mortgage	942,578	500,210	1,442,788	445,991	39,435,093	41,323,872
Revolving	1,388,468	-	1,388,468	346,530	199,801,822	201,536,820
Consumer	124,063	2,959	127,022	365,708	99,545,152	100,037,882
Total portfolio loans	$ 10,670,965	$ 1,343,699	$ 12,014,664	$ 7,958,712	$ 4,023,299,361	$ 4,043,272,737

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors.

The Bank analyzes all loans as to credit risk. All extensions of credit have a loan risk grade assigned either individually or on a pooled basis. This analysis is performed on a monthly basis.

The Bank uses risk categories that have the following definitions:

- Pass: Loans classified as pass have minimal risk to acceptable risk, but may require additional monitoring, and do not meet the criteria of the higher risk grade categories.
- Special Mention: Loans classified as special mention have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.
- Substandard: Loans classified as substandard are inadequately protected by the current net worth and/or paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt in full. Substandard loans are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.
- Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and collateral values, highly questionable and improbable.
- Loss: Loans classified as loss are considered uncollectible, and therefore, continuing to reflect their balances on the books is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off the asset, even though partial recovery may be possible in the future.

Loans by risk categories as of December 31 were as follows:

	2019				
	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and industrial	$ 1,272,025,501	$ 20,129,069	$ 32,163,534	$ 38,096	$ 1,324,356,200
Agricultural	256,465,680	8,787,303	122,753	-	265,375,736
Commercial real estate					
Owner occupied	611,607,510	8,857,102	22,393,590	-	642,858,202
Non-owner occupied	841,886,305	168,739	119,223	-	842,174,267
Construction and development					
Commercial	279,792,918	-	1,918,758	-	281,711,676
Residential	179,123,153	-	231,778	-	179,354,931
Residential real estate					
First mortgage	627,682,226	2,681,616	5,358,133	-	635,721,975
Junior mortgage	32,769,433	-	1,657,231	36,752	34,463,416
Revolving	191,174,258	230,831	1,667,355	28,663	193,101,107
Consumer	113,473,643	75,731	654,328	9,408	114,213,110
Total portfolio loans	$ 4,406,000,627	$ 40,930,391	$ 66,286,683	$ 112,919	$ 4,513,330,620

	2018				
	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and industrial	$ 1,154,685,105	$ 22,215,134	$ 40,817,981	$ 45,042	$ 1,217,763,262
Agricultural	237,354,531	9,708,684	131,048	-	247,194,263
Commercial real estate					
Owner occupied	608,493,838	11,726,569	16,723,773	-	636,944,180
Non-owner occupied	663,831,811	2,362,380	1,146,085	-	667,340,276
Construction and development					
Commercial	259,433,804	1,085,000	56,441	-	260,575,245
Residential	163,605,068	-	2,165,106	-	165,770,174
Residential real estate					
First mortgage	496,081,273	3,781,180	4,924,310	-	504,786,763
Junior mortgage	39,665,892	128,491	1,492,737	36,752	41,323,872
Revolving	199,116,210	927,719	1,453,541	39,350	201,536,820
Consumer	99,306,546	81,793	646,584	2,959	100,037,882
Total portfolio loans	$ 3,921,574,078	$ 52,016,950	$ 69,557,606	$ 124,103	$ 4,043,272,737

Note 5: Loan Servicing

Mortgage loans serviced for others are not assets of the Bank and therefore are not included in the accompanying consolidated statements of financial condition. The unpaid principal balances of mortgage loans serviced for others at December 31, 2019 and 2018, were $97,864,370 and $116,525,398, respectively. Custodial escrow balances maintained in connection with the loan servicing, and included in the Bank's demand deposits, were $833,171 and $651,831 at December 31, 2019 and 2018, respectively. The balances of loans serviced for others related to servicing rights that have been capitalized at December 31, 2019 and 2018, were $97,687,272 and $116,211,692, respectively.

A summary of the carrying values and fair values of mortgage servicing rights, included in other assets, at December 31 follows:

	2019	2018
Unamortized cost	$ 210,102	$ 315,517
Valuation allowance	(36,835)	(15,904)
Carrying value	$ 173,267	$ 299,613
Fair value	$ 455,853	$ 986,689

At December 31, 2019 and 2018, the key economic assumptions of the current fair value of mortgage servicing rights were as follows:

	2019	2018
Prepayment speed assumption (constant prepayment rate)	28.37%	11.50%
Discount rate	11.00%	11.00%

Originated loans that were sold with servicing retained were $1,346,887, $3,425,604 and $2,844,866 in 2019, 2018 and 2017, respectively. Following is an analysis of the activity for mortgage servicing rights and the related valuation allowance for the years ended December 31:

	2019	2018	2017
Unamortized cost:			
Balance at beginning of year	$ 315,517	$ 789,127	$ 953,728
Mortgage servicing rights capitalized	8,050	30,446	23,501
Amortization	(113,465)	(504,056)	(188,102)
Balance at end of year	$ 210,102	$ 315,517	$ 789,127

	2019	2018	2017
Valuation allowance:			
Balance at beginning of year	$ (15,904)	$ (385,324)	$ (398,615)
Additions	(43,534)	(6,064)	(14,847)
Reductions	22,603	375,484	28,138
Balance at end of year	$ (36,835)	$ (15,904)	$ (385,324)

Note 6: Other Real Estate

The following table summarizes activity related to other real estate for the years ended December 31:

	2019	2018	2017
Balance at beginning of year	$ -	$ 310,500	$ 870,500
Properties acquired	-	-	27,900
Sales of foreclosed properties, net	-	(217,791)	(587,900)
Valuation adjustments	-	(92,709)	-
Balance at end of year	$ -	$ -	$ 310,500

Revenues and expenses related to maintaining, operating and disposing of other real estate included the following:

	2019	2018	2017
Gains (losses) on sales	$ -	$ 71	$ (11,649)
Valuation adjustments on other real estate	-	(92,709)	-
Net losses on other real estate	-	(92,638)	(11,649)
Operating expenses	-	(18,677)	(80,699)
Total other real estate related net loss	$ -	$ (111,315)	$ (92,348)

The recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process was $144,540 and $99,964 as of December 31, 2019 and 2018 respectively.

Note 7: Premises and Equipment

A summary of W.T.B. premises and equipment at December 31 follows:

	2019	2018
Land	$ 18,370,448	$ 16,406,115
Buildings	99,850,829	75,216,602
Furniture and equipment	67,345,824	64,053,768
	185,567,101	155,676,485
Less accumulated depreciation	(98,884,733)	(100,153,496)
	$ 86,682,368	$ 55,522,989

Depreciation on W.T.B. premises and equipment was charged to occupancy expense or furniture and equipment expense in the amounts of $6,853,908, $6,372,906 and $6,078,389 in 2019, 2018 and 2017, respectively.

Note 8: Deposits

At December 31 deposits were as follows:

	2019	2018
Noninterest-bearing demand	$ 2,817,138,103	$ 2,413,512,717
Interest-bearing:		
Demand	1,068,135,973	1,023,594,397
Savings	2,104,484,556	1,846,460,875
Time deposits under $250,000	176,538,001	227,320,863
Time deposits $250,000 or more	45,669,354	104,376,931
Brokered time deposits	14,900,014	23,657,084
Total interest-bearing	3,409,727,898	3,225,410,150
	$ 6,226,866,001	$ 5,638,922,867

At December 31, 2019, the scheduled maturities of time deposits, including brokered time deposits, were as follows:

2020	$ 172,732,782
2021	45,452,713
2022	7,644,558
2023	3,366,860
2024 and thereafter	7,910,456
	$ 237,107,369

At December 31, 2019 and 2018, overdraft deposit accounts with balances of $1,127,921 and $1,130,665, respectively, have been reclassified and were reported as loans.

Note 9: Securities Sold Under Agreements to Repurchase and Federal Funds Purchased

The following table presents information regarding securities sold under agreements to repurchase:

	2019	2018
December 31:		
Repurchase amount	$ 163,069,316	$ 259,857,022
Rate	0.73%	0.37%
Average for the year:		
Amount	$ 266,548,475	$ 242,449,072
Rate	0.89%	0.19%
Maximum outstanding at any month end	$ 381,347,884	$ 263,184,772

Securities sold under agreements to repurchase are performed with sweep accounts in conjunction with a master repurchase agreement on an overnight basis. Investment securities are pledged as collateral in an amount greater than the repurchase agreements. The Bank maintains custodial control over the securities.

At December 31, 2019 and 2018, the Bank had no outstanding federal funds purchased balances. The Bank had uncommitted federal funds line of credit agreements with financial institutions totaling $90,000,000 at December 31, 2019. Availability of the lines is subject to federal funds balances available for loan, continued borrower eligibility and are reviewed and renewed periodically by the issuing correspondent banks throughout the year. These lines are intended to support the Bank's short-term liquidity needs, and the agreements may restrict consecutive day usage. Federal funds purchased typically mature within one day and interest is payable at the then stated rate.

Note 10: FHLB Borrowings

The Bank maintains a borrowing arrangement with the FHLB to borrow funds under a short-term floating-rate cash management advance program and fixed-term loan agreements. FHLB borrowings consist of FHLB notes and advances. The Bank's borrowing line with the FHLB allows borrowings up to the lesser of 45% of total assets or adjusted qualifying collateral pledged, which, based upon adjusted qualifying collateral pledged, provided a maximum available credit line of $811,527,448 at December 31, 2019.

There were no outstanding FHLB advances as of December 31, 2019 and 2018, respectively. The following table summarizes FHLB advances for the years ended December 31:

	2019	2018
Average for the year:		
Amount	$ 3,746,301	$ 1,096
Rate	2.12%	2.05%
Maximum outstanding at any month-end	$ 109,000,000	$ -

Note 11: Other Borrowings

Other borrowings consist of Federal Reserve Bank discount window borrowings. The Bank has established a borrowing line with the Federal Reserve Bank to borrow up to the qualifying collateral pledged, which provided a maximum available credit line of $833,384,473 at December 31, 2019 with interest payable at the then stated rate. Federal Reserve Bank discount window borrowings are intended to support short term liquidity needs. There were no Federal Reserve Bank discount window borrowings outstanding at December 31, 2019 or 2018.

Note 12: Pension and Employee Benefit Plans

Qualified Defined Benefit Pension Plan

W.T.B. maintains a qualified defined benefit pension plan ("Pension Plan") for employees hired before January 1, 2004. Benefits under the Pension Plan are based on the number of years of service and the employee's career average compensation during such years.

W.T.B. uses a December 31 measurement date for the Pension Plan. The following table provides a reconciliation of the changes in the Pension Plan's benefit obligation and fair value of assets over the two-year period ended December 31, 2019, and a statement of the funded status at December 31 of both years:

	2019	2018
Accumulated benefit obligation at end of year	$ 87,289,781	$ 77,624,229
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$ 83,294,155	$ 95,038,167
Service cost - benefits earned during the period	1,491,013	1,871,238
Interest cost	3,337,008	3,221,713
Actuarial (gain) loss	11,723,874	(9,291,370)
Benefits paid	(5,587,273)	(7,545,593)
Projected benefit obligation at end of year	94,258,777	83,294,155
Change in Pension Plan assets:		
Fair value of Pension Plan assets at beginning of year	95,132,745	97,855,421
Actual return (loss) on Pension Plan assets	18,215,993	(5,177,083)
Employer contributions	-	10,000,000
Benefits paid	(5,587,273)	(7,545,593)
Fair value of Pension Plan assets at end of year	107,761,465	95,132,745
Funded status of projected benefit obligation at end of year	$ 13,502,688	$ 11,838,590
Accumulated other comprehensive loss not yet reflected in net periodic pension cost (pre-tax)	$ (28,321,160)	$ (33,795,989)
Cumulative employer contributions in excess of net periodic pension cost	41,823,848	45,634,579
Amounts recognized in the consolidated statements of financial condition at end of year:		
Other assets	$ 13,502,688	$ 11,838,590

W.T.B. selects various assumptions in measuring the Pension Plan's defined benefit obligation and recording the net periodic benefit cost. W.T.B. selects the discount rate used to measure liabilities at year ends after reviewing both bond indices with similar durations to the Pension Plan as well as a supportable discount rate from an actuary's proprietary yield curve, under which the Pension Plan's projected benefit payments are matched against a series of spot rates derived from high quality fixed income securities.

W.T.B.'s assumption for expected long-term return on Pension Plan assets is based on a periodic review and modeling of the Pension Plan's asset allocation over a long-term horizon. The expected long-term rate of return on assets is selected from within the reasonable range of rates determined by (a) historical real returns for the asset classes covered by the investment policy, and (b) expected economic conditions over the long-term period during which benefits are payable to plan participants.

	2019	2018	2017
Assumptions used in computing the present value of the accumulated benefit obligation and the projected benefit obligation at year-end:			
Discount rate	3.13%	4.08%	3.47%
Rates of increase in compensation	5.00%	5.00%	5.00%
Expected long-term rate of return on assets used in computing the net pension expense determined at beginning of year	4.50%	4.50%	4.50%

Net periodic pension costs for 2019, 2018 and 2017, included the following components:

	2019	2018	2017
Service cost	$ 1,491,013	$ 1,871,238	$ 1,809,633
Interest cost	3,337,008	3,221,713	3,556,181
Expected return on Pension Plan assets	(4,192,063)	(4,444,404)	(4,231,428)
Amortization of net loss	3,174,773	3,295,205	3,159,912
Amortization of prior service cost	-	-	1,771
Net periodic pension cost	$ 3,810,731	$ 3,943,752	$ 4,296,069

Total service costs in the table above are recognized in pension and employee benefits expense on the consolidated statements of income. Non-service cost components of net periodic pension cost are recorded in other expense.

W.T.B.'s Pension Plan asset allocations at December 31, 2019 and 2018, by asset category, were as follows:

	2019	2018
Asset category:		
Equity securities	24%	30%
Fixed income securities	40%	31%
Group annuity contract	35%	38%
Cash equivalents	1%	1%
Total	100%	100%

W.T.B.'s target asset allocation as of December 31, 2019, was 23% growth assets and 77% liability hedging assets, including the group annuity contract.

W.T.B.'s investment policy provides direction regarding the investment philosophy, objectives and guidelines for Pension Plan assets. Pension Plan assets are to be invested in a diversified structure that appropriately balances risk and rewards. Diversification includes asset allocation between equity, fixed income, alternative and cash/cash equivalent securities, foreign and domestic securities, industry sectors and asset management styles. W.T.B. seeks to reduce its net interest rate exposure of Pension Plan assets and liabilities with a target interest rate hedge ratio between 85% and 100%.

W.T.B has elected, as a practical expedient, to measure the fair value of investments that do not have readily determinable fair values on the basis of the net asset value ("NAV") per share of the investment. Investments that are measured on the basis of the NAV per share have not been classified in the fair value hierarchy.

The Pension Plan investment policy is periodically reviewed by W.T.B.'s Retirement Benefits Committee. The investment policy is established and administered in a manner so as to comply at all times with applicable government regulations. The Retirement Benefits Committee sets funding targets to contribute amounts not less than the minimum required to be funded under ERISA.

A summary of estimated future pension benefit payments are as follows:

2020	$ 4,070,930
2021	4,200,120
2022	4,376,575
2023	4,572,205
2024	4,738,227
Five years thereafter	25,844,632

The fair value of W.T.B.'s Pension Plan assets by asset category are as follows:

	Fair Value Measurements at December 31, 2019			
	Total	Level 1	Level 2	Level 3
Group annuity contract	$ 38,009,224	$ -	$ -	$ 38,009,224
Money market fund	479,988	-	479,988	-
Assets at fair value	38,489,212	$ -	$ 479,988	$ 38,009,224
Investments measured at NAV:				
Fixed income funds	43,168,934			
Emerging markets equity funds	3,738,257			
Global equity funds	12,309,032			
U.S. equity funds	7,888,108			
Multi-Asset funds	2,167,922			
	69,272,253			
Total assets reported	$ 107,761,465			

	Fair Value Measurements at December 31, 2018			
	Total	Level 1	Level 2	Level 3
Group annuity contract	$ 36,705,428	$ -	$ -	$ 36,705,428
Money market fund	505,405	-	505,405	-
Assets at fair value	37,210,833	$ -	$ 505,405	$ 36,705,428
Investments measured at NAV:				
Fixed income funds	29,297,544			
Emerging markets equity funds	1,961,627			
Global equity funds	8,211,540			
U.S. equity funds	12,337,811			
Multi-Asset funds	6,113,390			
	57,921,912			
Total assets reported	$ 95,132,745			

Employee Savings Plan

Substantially all of W.T.B.'s employees are eligible to participate in the WTB Defined Contribution Retirement and 401(k) Plan ("WTB 401(k) Plan"), a defined contribution plan sponsored by the Bank. This plan allows qualified employees, at their option, to make contributions of up to certain percentages of pre-tax base salary through salary deductions under Section 401(k) of the Internal Revenue Code. Employer contributions may be made at the discretion of the Board of Directors of the Bank (and electing affiliates of the Bank). The Bank matches a portion of qualified employee contributions. Matching contribution expense for 2019, 2018 and 2017 was $2,361,785, $2,135,564 and $1,944,124, respectively. Employees hired on or after January 1, 2004, are placed in an eligible class for an annual nonelective supplementary contribution equal to at least three percent of eligible compensation after meeting certain requirements. The defined contribution expense for 2019, 2018 and 2017 was $1,707,707, $1,620,640 and $1,386,360, respectively. Contributions are invested at the employees' direction among a variety of investment alternatives.

Supplemental Retirement Plans

W.T.B. is obligated under various nonqualified deferred compensation plans to help supplement the retirement income of certain executives, including certain retired executives. These unfunded plans are defined benefit plans, and provide for payments after the executive's retirement. At December 31, 2019 and 2018, liabilities recorded for the various supplemental retirement and salary continuation plan benefits totaled $5,782,142 and $5,372,142, respectively, and were recorded in other liabilities. Changes in the valuation of those liabilities increased benefit expense by $529,187 and $260,089 for the years ended December 31, 2019 and 2018, respectively, and reduced benefit expense by $93,639 for the year ended December 31, 2017.

Self-Insured Medical, Dental and Vision Plans

W.T.B. offers medical, dental and vision plans to its employees and self-insures many of these plans. W.T.B. contracts with third-parties to act as claims administrators. Funding for benefits is derived from employer and employee contributions. W.T.B. limits its potential losses through insurance policies with stop-loss carriers. Medical, dental and vision plan expenses were $5,946,806, $5,364,137 and $5,452,310 for 2019, 2018 and 2017, respectively. Self-insurance reserves were $522,983 and $350,287 for 2019 and 2018, respectively, and were included in other liabilities.

Note 13: Stock-Based Compensation Plans

W.T.B. has a nonqualified deferred compensation "phantom stock" plan for executive officers ("Phantom Stock Plan"). The values of the Phantom Stock Plan awards are indexed to W.T.B.'s book value per share and vest over a five-year period. The stock awards and the change in value of the prior years' stock awards are expensed as compensation over the vesting period. Phantom Stock Plan compensation expense for 2019, 2018 and 2017 was $2,858,550, $2,025,053 and $1,572,066, respectively. Dividend payments on vested and unvested phantom stock are recorded as compensation expense during the period in which they are paid. Phantom Stock Plan dividend payments for 2019, 2018 and 2017 were $334,726, $241,350 and $190,482, respectively.

A summary of changes in the Phantom Stock Plan follows:

	Number of Shares	Total Share Value
Balance, December 31, 2016	50,708	$ 9,820,112
Granted	5,983	1,158,668
Increase in value	-	726,778
Settled	-	-
Balance, December 31, 2017	56,691	11,705,558
Granted	6,378	1,316,930
Increase in value	-	1,289,087
Forfeited	(3,523)	(727,429)
Settled	(13,773)	(2,852,666)
Balance, December 31, 2018	45,773	10,731,480
Granted	5,097	1,194,992
Increase in value	-	1,813,461
Forfeited	(501)	(117,459)
Settled	(5,603)	(1,435,826)
Balance, December 31, 2019	44,766	$ 12,186,648

At December 31, 2019 and 2018, there were 8,670 and 9,795 unvested phantom shares with total share values of $2,360,234 and $2,296,438, and those unvested shares had related liabilities recorded in the amounts of $687,109 and $655,757, respectively. Included in other liabilities are Phantom Stock Plan liabilities in the amounts of $10,513,523 and $9,090,799 at December 31, 2019 and 2018, respectively.

On February 23, 2010, the Board of Directors approved the W.T.B. Financial Corporation 2010 Restricted Stock Incentive Plan (the "Restricted Stock Plan") to enhance the long-term shareholder value of W.T.B. by offering opportunities to select persons to participate in the growth and success of W.T.B., encourage them to remain in service and to acquire stock and maintain ownership of W.T.B. Under the Restricted Stock Plan, W.T.B. is authorized to grant up to 150,000 shares of Class B common stock, of which 79,143 shares have been granted. A total 83,051 shares are available for future grants at December 31, 2019 which included 12,194 reused shares. Any awards that lapse, expire, terminate, forfeit, or are cancelled prior to deliver to a participant are available for reuse. Awards tendered or withheld to satisfy tax withholding are also available for reuse. The vesting period, if any, is determined by the plan administrator on an individual grant basis. For awards granted in 2013 and subsequent years, the vesting is 20% per year over five years. Additionally, 1,320 shares were granted in 2019 and 2,145 in 2018 with no vesting. Recipients do not have the right to receive dividends on unvested restricted shares.

The following is a summary of W.T.B.'s unvested restricted stock activity for the years ended December 31, 2019, 2018 and 2017:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance, December 31, 2016	23,995	$ 166.60
Granted	7,150	232.90
Vested	(8,053)	153.22
Forfeited	-	-
Balance, December 31, 2017	23,092	191.79
Granted	9,295	364.34
Vested	(10,658)	227.54
Forfeited	(8,430)	248.94
Balance, December 31, 2018	13,299	247.52
Granted	5,920	359.92
Vested	(5,822)	254.12
Forfeited	-	-
Balance, December 31, 2019	13,397	294.32

The grant date fair value of the restricted shares are estimated using recent observable sales. Compensation expense related to the Restricted Stock Plan was $1,628.597, $2,110,976 and $1,355,629 for the years ended December 31, 2019, 2018 and 2017, respectively. The total income tax benefit recognized related to this Plan was $456,030, $708,873 and $695,229 for the years ended December 31, 2019, 2018 and 2017, respectively. As of December 31, 2019, there was $3,051,169 of unrecognized compensation cost related to the unvested restricted stock awards under this Plan, which are expected to be recognized over a weighted average period of 3.3 years.

Note 14: Income Taxes

The Tax Cut and Job Act (the "Tax Act") was enacted on December 22, 2017. The law included significant changes to the U.S. corporate tax system, including a federal corporate tax rate reduction from 35% to 21% starting in 2018. As a result of the Tax Act being signed into law in 2017, W.T.B.'s deferred tax assets and liabilities were required to be re-measured using the lower 21% federal rate as of December 31, 2017. This resulted in a one-time unfavorable charge to tax expense of $16,786,807 in 2017 based on certain estimates of the deferred tax balance. The deferred net tax assets were reevaluated in 2018, which resulted in a favorable tax benefit of $1,367,943 in 2018.

The current and deferred portions of income taxes for the years ended December 31 were as follows:

	2019	2018	2017
Current expense:			
Federal	$ 23,933,467	$ 21,949,642	$ 28,947,529
State	1,469,085	1,434,664	1,215,826
	25,402,552	23,384,306	30,163,355
Deferred expense (benefit):			
Federal	(1,824,942)	(1,904,243)	16,250,852
State	(122,741)	(100,166)	(137,779)
	(1,947,683)	(2,004,409)	16,113,073
Income taxes	$ 23,454,869	$ 21,379,897	$ 46,276,428

Income taxes on pre-tax income differ from the statutory rate of 21% for the years ended December 31, 2019 and 2018, and 35% for the year ended December 31, 2017 for the following reasons:

	2019		2018		2017	
Federal income taxes at statutory rate	$ 22,415,236	21.00%	$ 21,931,501	21.00%	$ 30,825,907	35.00%
State income taxes, net of federal tax benefit	1,085,167	1.02%	1,044,595	1.00%	700,731	0.80%
Decrease in income taxes due to tax-exempt interest on securities and loans of states and political subdivisions	(385,125)	(0.36%)	(407,607)	(0.39%)	(827,205)	(0.94%)
Nondeductible interest expense from carrying tax-exempt assets	20,839	0.02%	14,690	0.01%	15,186	0.02%
Bank owned life insurance	(48,878)	(0.05%)	(47,525)	(0.05%)	(1,554,125)	(1.77%)
Other nondeductible expenses	497,960	0.47%	478,042	0.21%	336,617	0.38%
Revaluation effect of the Tax Act	-	-	(1,367,943)	(1.31%)	16,786,807	19.06%
Other	(130,330)	(0.13%)	(265,856)	-	(7,490)	(0.01%)
Income taxes	$ 23,454,869	21.97%	$ 21,379,897	20.47%	$ 46,276,428	52.54%

Included in income taxes are tax benefits of $389,137 on net securities losses for the year ended December 31, 2019.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the deferred assets and liabilities at December 31 were as follows:

	2019	2018
Deferred tax assets:		
Allowance for loan losses	$ 21,404,852	$ 20,168,016
Allowance for off-balance sheet credit exposures	222,045	222,286
Unrealized loss on securities available for sale	-	5,358,894
Deferred compensation	6,318,438	5,409,905
Other real estate	39,275	39,318
Interest on nonaccrual loans	298,827	266,546
Commitment fees	89,515	89,878
Other	147,823	324,575
Total deferred tax assets	28,520,775	31,879,418
Deferred tax liabilities:		
Unrealized gains on securities available for sale	2,400,274	-
Pension benefits	3,339,350	3,025,190
Financial-over-tax depreciation	1,727,600	749,734
Deferred loan origination costs	1,778,497	1,633,567
Mortgage servicing	38,473	66,600
Prepaid expenses	173,503	190,815
Discount accretion	372	4,403
State income tax	209,988	183,988
Other	106,460	89,475
Total deferred tax liabilities	9,774,517	5,943,772
Net deferred tax assets	$ 18,746,258	$ 25,935,646

W.T.B. files income tax returns in the U.S. federal jurisdiction and various states. With few exceptions, W.T.B. is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for years before 2016.

W.T.B. determined that it is not required to establish a valuation allowance for deferred tax assets since it is more likely than not that the deferred tax asset will be realized through future reversals of existing taxable temporary differences, and, to a lesser extent, future taxable income.

At December 31, 2019 and 2018, W.T.B. had no unrecognized tax benefits. W.T.B. does not expect the total amount of unrecognized tax benefits to significantly increase within the next twelve months.

W.T.B. had no uncertain tax positions as of December 31, 2019 or 2018; therefore, no liabilities were necessary for unrecognized tax benefits.

Note 15: Financial Instruments with Off-Balance-Sheet Risk

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. The Bank's financial instruments with off-balance-sheet risk include commitments to extend credit, standby letters of credit, and commercial letters of credit.

Such commitments involve, to varying degrees, elements of credit, liquidity and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition. The Bank's exposure to credit losses was represented by the contractual amounts of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as used in the lending process.

Commitments to extend credit are agreements to lend to customers as long as there are no violations of any conditions established in the commitment contracts. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being completely drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates customers' creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the customer.

Collateral varies, but may include accounts receivable; inventory; property, plant and equipment; residential real estate; or income producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of commercial customers to a third party. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers.

Through commercial letters of credit, the Bank guarantees customers' trade transactions to third parties, generally to finance commercial contracts for the shipment of goods. The Bank's credit risk in these transactions is limited, since the contracts are supported by the merchandise being shipped and are generally of short duration.

Following is a summary of the Bank's exposure to off-balance-sheet risk at December 31:

	2019	2018
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 2,328,100,070	$ 2,160,393,725
Standby letters of credit	76,465,298	92,241,300
Commercial letters of credit	-	43,441

A reserve for credit losses on off-balance-sheet credit exposures is maintained at a level management considers adequate. As of December 31, 2019 and 2018, the balance of the allowance was $1,000,000, which was included in other liabilities in the consolidated statements of financial condition.

Note 16: Fair Value Measurements

W.T.B. measures some of its assets on a fair value basis. Fair value is used on a recurring basis for certain assets, such as securities available for sale and interest rate swaps, for which fair value is the primary basis of accounting. Fair value is defined as the price that would be received for the sale of an asset in an orderly transaction between market participants at the measurement date. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair value measurement, among other things, requires W.T.B. to maximize the use of observable inputs and minimize the use of unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect W.T.B.'s market assumptions. Three types of inputs create the following fair value hierarchy:

Level 1 - Quoted prices for identical instruments in active markets that W.T.B. has the ability to access as of the measurement date.

Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable market data.

Level 3 - Valuations for instruments with inputs that are unobservable, are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and are not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such instruments.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table presents information about W.T.B.'s assets and liabilities measured at fair value on a recurring basis and the level within the fair value hierarchy of the fair value measurements for those assets at December 31:

	2019			
	Total	Level 1	Level 2	Level 3
Securities available for sale:				
U.S. Treasury and federal agencies	$ 930,251,777	$ -	$ 930,251,777	$ -
States and political subdivisions	5,342,448	-	5,342,448	-
Mortgage-backed securities	312,022,291	-	312,022,291	-
Equity securities at fair value	12,500	12,500	-	-
Interest rate swap assets	4,216,455	-	4,216,455	-
Total assets	$ 1,251,845,471	$ 12,500	$ 1,251,832,971	$ -
Interest rate swap liabilities	$ 4,234,714		$ 4,234,714	$ -
Total liabilities	$ 4,234,714	$ -	$ 4,234,714	$ -

	2018			
	Total	Level 1	Level 2	Level 3
Securities available for sale:				
U.S. Treasury and federal agencies	$ 688,729,483	$ -	$ 688,729,483	$ -
States and political subdivisions	5,338,900	-	5,338,900	-
Mortgage-backed securities	336,990,379	-	336,990,379	-
Equity securities at fair value	11,100	11,100	-	-
Interest rate swap assets	1,784,292	-	1,784,292	-
Total assets	$ 1,032,854,154	$ 11,100	$ 1,032,843,054	$ -
Interest rate swap liabilities	$ 1,832,914	$ -	$ 1,832,914	$ -
Total liabilities	$ 1,832,914	$ -	$ 1,832,914	$ -

The following methods and assumptions were used by W.T.B. in estimating its fair value of each class of financial instrument that is carried at fair value in the table above.

Securities Available for Sale
W.T.B. estimates fair values using external, independent pricing models that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, live trading levels, trade execution data, market consensus prepayment speeds and credit spreads. Examples of such instruments that would generally be classified within Level 2 of the valuation hierarchy include government-sponsored entity obligations, corporate bonds and other securities. Mortgage-backed securities are included in Level 2 if observable inputs are available. In certain cases, where there is limited activity or less transparency around inputs to the valuation, W.T.B. classifies those securities as Level 3.

Equity Securities at Fair Value
W.T.B. determines the fair value using quoted market prices.

Interest Rate Swaps
The fair value of interest rate swaps is estimated by discounting the estimated expected cash flows of the swap using a discount curve and implied forward rates.

The following table presents the fair value measurement of assets on a nonrecurring basis and the level within the fair value hierarchy for those assets at December 31:

	2019			
	Total	Level 1	Level 2	Level 3
Impaired loans	$ 4,807,783	$ -	$ -	$ 4,807,783
Total	$ 4,807,783	$ -	$ -	$ 4,807,783

	2018			
	Total	Level 1	Level 2	Level 3
Impaired loans	$ 2,736,159	$ -	$ -	$ 2,736,159
Total	$ 2,736,159	$ -	$ -	$ 2,736,159

The following table provides additional quantitative information about the unobservable inputs for W.T.B.'s assets classified as Level 3 and measured at fair value on a nonrecurring basis at December 31:

2019

Financial Instrument	Fair Value	Valuation Technique	Unobservable Input	Weighted Average
Impaired loans	$ 4,807,783	Market approach	Discount to appraised value	45.8%
	$ 4,807,783			

2018

Financial Instrument	Fair Value	Valuation Technique	Unobservable Input	Weighted Average
Impaired loans	$ 2,736,159	Market approach	Selling costs	8.2%
			Discount to appraised value	13.3%
	$ 2,736,159			

Carrying values of certain impaired loans were periodically evaluated to determine if valuation adjustments, or partial write-downs, should be recorded. When a collateral dependent loan is identified as impaired, the impairment is measured using the current fair value of the collateral, less selling costs. Depending on the characteristics of a loan, the fair value of collateral is generally estimated by obtaining external appraisals. Troubled debt restructurings that are not collateral dependent discount expected future cash flows based on the original contractual rate of the loan and are not considered to be at fair value. The significant unobservable inputs used in the fair value measurement of impaired loans may include estimated selling costs, discounts that may be required to dispose of the property, and management assumptions regarding market trends and other relevant factors. If the determined value of the impaired loan is less than the recorded investment in the loan, impairment is recognized by adjusting the carrying value of the loan through a charge-off to the allowance for loan losses. The carrying value of loans fully charged-off is zero.

W.T.B. is required to disclose the estimated fair value of financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate those values. These fair value estimates were made at December 31 based on relevant market information and information about the financial instruments. Fair value estimates are intended to represent the price at which an asset could be sold or the price at which a liability could be settled. The estimated fair value of loans held in portfolio is based on an exit price assumption. Given there is no active market or observable market transactions for many of W.T.B.'s financial instruments, W.T.B.'s estimates of many of these fair values are subjective in nature, involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimated values. Nonfinancial instruments are excluded from disclosure requirements. Specifically, land and buildings are not disclosed at fair value, nor is the value derived from retaining customer deposit relationships, commonly referred to as a customer deposit base intangible. Accordingly, the aggregate fair value amounts presented are not intended to represent the fair value of W.T.B.'s assets and liabilities taken as a whole, nor W.T.B.'s shareholders' equity.

Carrying Amounts and Estimated Fair Values

The carrying amounts and estimated fair values of W.T.B.'s financial instruments at December 31 were as follows:

	2019		
	Level in Fair Value Hierarchy	Carrying Amount	Estimated Fair Value
Financial assets:			
Cash and due from banks and interest-bearing deposits with banks	1	$ 626,556,148	$ 626,556,148
Securities available for sale	2	1,247,616,516	1,247,616,516
Securities held to maturity	2	648,206,906	653,405,284
Federal Home Loan Bank and Pacific Coast Bankers' Bancshares stock	2	7,911,600	7,911,600
Loans held for sale	2	29,266,232	29,266,232
Loans held in portfolio, net	3	4,416,915,899	4,580,990,724
Cash surrender value of life insurance	1	8,503,304	8,503,304
Mortgage servicing rights	3	173,267	455,853
Interest rate swaps	2	4,216,455	4,216,455
Equity securities at fair value	1	12,500	12,500
Financial liabilities:			
Demand and savings deposits	1	5,989,758,632	5,989,758,632
Time deposits	2	237,107,369	237,284,873
Securities sold under agreements to repurchase	1	163,069,316	163,069,316
Interest rate swaps	2	4,234,714	4,234,714

	2018		
	Level in Fair Value Hierarchy	Carrying Amount	Estimated Fair Value
Financial assets:			
Cash and due from banks and interest-bearing deposits with banks	1	$ 857,735,394	$ 857,735,394
Securities available for sale	2	1,031,058,762	1,031,058,762
Securities held to maturity	2	558,191,770	549,602,861
Federal Home Loan Bank and Pacific Coast Bankers' Bancshares stock	2	7,540,600	7,540,600
Loans held for sale	2	4,125,682	4,125,682
Loans held in portfolio, net	3	3,952,524,144	3,958,432,862
Cash surrender value of life insurance	1	8,173,904	8,173,904
Mortgage servicing rights	3	299,613	986,689
Interest rate swaps	2	1,784,292	1,784,292
Equity securities at fair value	1	11,100	11,100
Financial liabilities:			
Demand and savings deposits	1	5,283,567,989	5,283,567,989
Time deposits	2	355,354,878	354,598,962
Securities sold under agreements to repurchase	1	259,857,022	259,857,022
Interest rate swaps	2	1,832,914	1,832,914

Note 17: Interest Rate Swaps

W.T.B. utilizes interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and other terms of the individual interest rate swap agreements.

Fair Value Hedges

Interest rate swaps with notional amounts totaling $775,286 and $1,842,239 as of December 31, 2019 and 2018, were designated as fair value hedges of certain loans. The hedges were determined to be effective during all periods presented. W.T.B. expects the hedges to remain effective during the remaining terms of the swaps.

Derivatives Not Designated As Hedges

W.T.B. also enters into interest rates swaps with its loan customers. The notional amounts of interest rate swaps with loan customers as of December 31, 2019 and 2018 were $46,734,456 and $46,842,448. W.T.B. enters into corresponding offsetting derivatives with third parties. While these derivatives represent economic hedges, they do not qualify as hedges for accounting purposes.

The following table presents the amounts recorded on the consolidated statements of financial condition related to cumulative basis adjustments for fair value hedges as of December 31:

Line Item in Which the Hedged Item is Included	Carrying Amount of the Hedged Assets		Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets	
	2019	2018	2019	2018
Loans receivable	$ 775,286	$ 1,842,239	$ 12,805	$ 44,570

W.T.B. presents its derivative position gross on the consolidated statements of financial condition. The following table reflects the derivatives recorded on the balance sheet as of December 31:

	2019		2018	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in other assets:				
Derivatives not designated as hedging instruments:				
Interest rates swaps	$ 46,734,456	$ 4,216,455	$ 46,842,448	$ 1,784,292
Total included in other assets		$ 4,216,455		$ 1,784,292
Included in other liabilities:				
Derivatives designated as hedges:				
Interest rate swaps related to loans receivable	$ 775,286	$ 14,893	$ 1,842,239	$ 48,622
Derivatives not designated as hedging instruments:				
Interest rates swaps	46,927,637	4,219,821	46,842,448	1,784,292
Total included in other liabilities		$ 4,234,714		$ 1,832,914

Net payments on interest rate swaps designated as hedging instruments reduced interest revenue on loans by the following amounts for the years ended December 31:

	2019	2018	2017
Loss on fair value hedging relationships:			
Interest rate contracts designated as hedging instruments	$ 36,552	$ 67,278	$ 118,719

Note 18: Leases

Lessor Arrangements

W.T.B. has various operating lease arrangements covering the use of certain premises. Payment terms are generally fixed; however, in some agreements, lease payments may be indexed to a rate or index, such as the Consumer Price Index. Leases are typically payable in monthly installments with terms ranging from one to nine years and may contain renewal options. Total operating lease income was $3,898,914, $1,638,536 and $1,650,502 for the years ended December 31, 2019, 2018 and 2017, respectively.

The remaining maturities of lease receivables as of December 31, 2019 are as follows:

2020	$ 4,768,511
2021	3,566,014
2022	2,211,702
2023	1,914,285
2024	1,940,494
2025 and thereafter	5,531,692
Total lease receivables	$ 19,932,698

Lessee Arrangements

W.T.B. enters into operating leases covering the use of certain premises. These leases have remaining terms ranging from 1 to 14 years, some of which include renewal or termination options to extend the lease for up to 5 years and some of which include options to terminate the lease within 1 year.

W.T.B. includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain W.T.B will exercise the option. W.T.B. did not elect to account for any non-lease components in its real estate leases as part of the associated lease component. W.T.B. elected not to recognize leases with original lease terms of 12 months or less (short-term leases) on the balance sheet.

Leases are classified as operating leases at the lease commencement date. Lease expense for operating leases and short-term leases are recognized on a straight-line basis over the lease term. Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

W.T.B. uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known. W.T.B.'s incremental borrowing rate is based on the FHLB amortizing advance rate, adjusted for the lease term and other factors.

Right-of-use assets and lease liabilities by lease type, and the associated balance sheet classifications as of December 31, 2019 are as follows:

	2019
Right-of-use assets:	
Operating leases	$ 18,907,385
Total right-of-use assets	$ 18,907,385
Lease liabilities:	
Operating leases	$ 19,981,257
Total lease liabilities	$ 19,981,257

Lease Expense

The components of total lease cost were as follows for the period ending December 31, 2019:

	2019
Operating lease cost	$ 3,864,490
Short-term lease cost	23,896
Variable lease cost	24,528
Total lease cost, net	$ 3,912,914

Lease Obligations

Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2019 are as follows:

2020	$ 3,964,874
2021	3,638,727
2022	3,347,382
2023	2,793,982
2024	2,424,128
2025 and thereafter	5,828,362
Total future minimum lease payments	$ 21,997,455

Supplemental Lease Information

Weighted Average Lease Term - Operating Leases	6.84 yrs
Weighted Average Discount Rate - Operating Leases	2.67%

Note 19: Commitments and Contingencies

Concentrations of Credit Risk

The Bank grants commercial and agricultural, real estate and consumer loans to customers, mainly in Washington, Idaho and Oregon, secured by business, real and personal property. The loans are expected to be repaid from cash flow or proceeds from the sale of selected assets of the borrowers. Although the loan portfolio is diversified, a substantial portion of the borrower's ability to honor their agreements is dependent upon economic conditions in Washington, Idaho and Oregon. The Bank has no significant exposure to foreign credits in its loan portfolio.

Legal Proceedings

During the normal course of business, W.T.B. and the Bank are involved as defendants in various legal matters. In the opinion of W.T.B.'s management, the potential liability, if any, upon resolution of all litigation currently pending would not have a material adverse effect on W.T.B.'s financial position or results of operations.

Note 20: Parent Company Statements

W.T.B.'s parent company statements are presented using the equity method of accounting; therefore, accounts of its subsidiary have not been included. Intercompany transactions and balances have not been eliminated. The condensed parent company statements follow:

Statements of Financial Condition	Years Ended December 31,	
	2019	2018
Assets		
Cash	$ 7,731,448	$ 8,204,624
U.S. Treasury securities available for sale, carried at fair value	1,018,086	999,141
Equity in underlying net book value of bank subsidiary	674,952,971	584,474,784
Premises and equipment, net	10,427,489	7,639,506
Other assets	1,876,745	1,405,236
Total assets	$ 696,006,739	$ 602,723,291
Liabilities		
Other liabilities	$ 102,691	$ 58,645
Shareholders' equity	695,904,048	602,664,646
Total liabilities and shareholders' equity	$ 696,006,739	$ 602,723,291

Statements of Income	Years Ended December 31, 2019	2018	2017
Revenue			
Dividends from banking subsidiary	$ 27,501,000	$ 13,915,000	$ 11,158,000
Other	1,405,617	2,952,255	1,219,677
Total revenue	28,906,617	16,867,255	12,377,677
Expense			
Salaries and employee benefits	803,481	704,869	512,945
Other	2,132,277	2,085,114	1,634,150
Total expense	2,935,758	2,789,983	2,147,095
Income before income tax benefit and equity in undistributed net income of subsidiary	25,970,859	14,077,272	10,230,582
Income tax expense (benefit)	(335,643)	35,528	(1,409,975)
Income before equity in undistributed net income of subsidiary	26,306,502	14,041,744	11,640,557
Equity in undistributed net income of banking subsidiary	56,977,848	69,014,072	30,157,034
Net income	$ 83,284,350	$ 83,055,816	$ 41,797,591

Statements of Cash Flows	Years Ended December 31, 2019	2018	2017
Cash flows from operating activities:			
Net income	$ 83,284,350	$ 83,055,816	$ 41,797,591
Adjustments to reconcile net income to cash provided by operating activities:			
Undistributed net income of subsidiary	(56,977,848)	(69,014,072)	(30,157,034)
Depreciation	431,545	433,633	57,607
Deferred income taxes (benefit)	641,254	(68,725)	1,670,801
Gains on sales of premises and equipment	(47,376)	(700,000)	-
Gains on sales of investments	(730)	-	-
Stock-based compensation	2,289,267	2,605,872	1,355,629
Stock-based directors' fees	541,320	539,950	270,721
Other, net	(1,037,312)	773,664	(2,009,786)
Net cash provided by operating activities	29,124,470	17,626,138	12,985,529
Cash flows from investing activities:			
Purchase of securities available for sale	(1,001,641)	-	-
Proceeds from maturities of securities available for sale	1,000,000	-	-
Purchases of premises and equipment	(3,219,528)	-	(6,974,080)
Proceeds from sales of premises and equipment	47,376	700,000	-
Purchase of other assets and investments	(90,000)	(89,000)	(110,000)
Proceeds from investments	56,047	980,255	35,484
Net cash provided (used) by investing activities	(3,207,746)	1,591,255	(7,048,596)
Cash flows from financing activities:			
Common share repurchase and retirement	(8,517,846)	(890,447)	-
Common stock dividends paid	(17,872,054)	(11,753,902)	(8,556,831)
Net cash used in financing activities	(26,389,900)	(12,644,349)	(8,556,831)
Increase (decrease) in cash	(473,176)	6,573,044	(2,619,898)
Cash at beginning of year	8,204,624	1,631,580	4,251,478
Cash at end of year	$ 7,731,448	$ 8,204,624	$ 1,631,580

Note 21: Related Parties

In the ordinary course of business, W.T.B. and the Bank make loans and enter into other transactions with certain related parties, its directors and entities having a specified relationship with W.T.B.'s and the Bank's directors. Such transactions are made on substantially the same terms and conditions as transactions with other customers. Total deposits from these related parties were $15,716,391, $25,778,718 and $44,994,771 at December 31, 2019, 2018 and 2017, respectively. Related party loan amounts for the years ended December 31, 2019, 2018 and 2017, are summarized in the table below. The reclassifications represent loans that were not related party that subsequently became related party, or loans that were once considered related party but are no longer considered related party.

	2019	2018	2017
Balance at beginning of year	$ 11,877,162	$ 23,511,572	$ 36,239,620
New loans and advances	6,651,691	8,602,882	7,129,144
Repayments	(5,411,396)	(17,635,292)	(19,857,192)
Other and reclassifications	1,868,671	(2,602,000)	-
Balance at end of year	$ 14,986,128	$ 11,877,162	$ 23,511,572

Under current federal regulations, W.T.B. is limited in the amount that may be borrowed from the Bank. At December 31, 2019, 2018 and 2017, a maximum of $4,319,875 could be loaned to W.T.B. No such loans have been made.

Note 22: Earnings per Share

The numerators and denominators used in computing basic and diluted earnings per common share for the years ended December 31, 2019, 2018 and 2017, can be reconciled as follows:

	2019	2018	2017
Numerator:			
Net income	$ 83,284,350	$ 83,055,816	$ 41,797,591
Denominator:			
Weighted-average number of common shares outstanding - basic	2,553,001	2,553,971	2,545,414
Effect of potentially dilutive common shares	4,838	8,228	9,423
Weighted-average number of common shares - diluted	2,557,839	2,562,199	2,554,837
Earnings per common share:			
Basic	$ 32.62	$ 32.52	$ 16.42
Diluted	$ 32.56	$ 32.42	$ 16.36

There were no shares that would have been antidilutive, thus excluded from the diluted earnings per share calculation, for the years ended December 31, 2019, 2018 and 2017.

Note 23: Regulatory Matters

W.T.B. (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can result in certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material adverse effect on W.T.B.'s and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, W.T.B. and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. W.T.B.'s and the Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors.

The Bank was capitalized under the regulatory framework for prompt corrective action as of December 31, 2019. W.T.B. is not subject to the regulatory framework for prompt corrective action. To be categorized as well capitalized, a bank must maintain minimum capital ratios as set forth in the table below.

The capital amounts and ratios, as calculated under regulatory guidelines at December 31, 2019 and 2018, were as follows (dollars in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2019						
Tier 1 capital to average assets:						
W.T.B. Financial Corporation	$ 709,248	10.34%	$ 274,349	4.00%	N/A	N/A
Washington Trust Bank	688,310	10.05%	273,977	4.00%	342,472	5.00%
Common equity tier 1 capital to risk-weighted assets:						
W.T.B. Financial Corporation	709,248	13.02%	245,133	4.50%	N/A	N/A
Washington Trust Bank	688,310	12.66%	244,599	4.50%	353,310	6.50%
Tier 1 risk-based capital to risk-weighted assets:						
W.T.B. Financial Corporation	709,248	13.02%	326,844	6.00%	N/A	N/A
Washington Trust Bank	688,310	12.66%	326,132	6.00%	434,843	8.00%
Total risk-based capital to risk-weighted assets:						
W.T.B. Financial Corporation	777,703	14.28%	435,792	8.00%	N/A	N/A
Washington Trust Bank	756,619	13.92%	434,843	8.00%	543,554	10.00%

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2018						
Tier 1 capital to average assets:						
W.T.B. Financial Corporation	$ 649,523	9.81%	$ 264,915	4.00%	N/A	N/A
Washington Trust Bank	631,333	9.55%	264,522	4.00%	330,652	5.00%
Common equity tier 1 capital to risk-weighted assets:						
W.T.B. Financial Corporation	649,523	13.36%	218,781	4.50%	N/A	N/A
Washington Trust Bank	631,333	13.01%	218,397	4.50%	315,462	6.50%
Tier 1 risk-based capital to risk-weighted assets:						
W.T.B. Financial Corporation	649,523	13.36%	291,708	6.00%	N/A	N/A
Washington Trust Bank	631,333	13.01%	291,196	6.00%	388,261	8.00%
Total risk-based capital to risk-weighted assets:						
W.T.B. Financial Corporation	710,678	14.62%	388,944	8.00%	N/A	N/A
Washington Trust Bank	692,382	14.27%	388,261	8.00%	485,327	10.00%

The payment of cash dividends by W.T.B. to its shareholders is subject to federal regulatory requirements for capital levels and other restrictions. In addition, the cash dividends paid by the Bank to W.T.B. are subject to both federal and state regulatory requirements.

The Federal Reserve and the Federal Deposit Insurance Corporation approved new regulations (the "Basel III Capital Regulation") that became effective on January 1, 2015. The Basel III Capital Regulation included a capital conservation buffer that equaled 2.5% of risk-weighted assets fully phased in on January 1, 2019, that was in addition to adequately capitalized regulatory minimums across all three risk-based capital ratios. The capital conservation buffer began being phased in beginning on January 1, 2016 with full implementation by January 1, 2019. An institution that does not maintain risk-based capital ratio levels above the sum of adequately capitalized levels plus the phased in portion of the conservation buffer, will be subject to restrictions on certain activities including payment of dividends, stock repurchases and discretionary bonuses to executive officers. As part of the implementation of the Basel III Capital Regulation, W.T.B. and the Bank made a one-time election to exclude accumulated other comprehensive income or loss from regulatory capital calculations. Management believes as of December 31, 2019, W.T.B. and the Bank meet all capital adequacy requirements to which it was subject.

Note 24: Revenue from Contracts with Customers

All of W.T.B.'s revenue from contracts with customers in the scope of ASC 606 was recognized within noninterest revenue. The following table presents W.T.B.'s noninterest revenue by revenue stream for the years ended December 31, 2019 and 2018. Items outside the scope of ASC 606 are noted as such.

	2019	2018
Noninterest revenue:		
Fiduciary income	$ 17,667,082	$ 18,137,249
Investment services fees	3,091,788	3,528,012
Bank card and credit card fees, net:		
Interchange income, net	9,552,488	10,393,840
Merchant services income, net	707,395	1,117,994
ATM surcharge fees	530,923	501,938
All other fees (a)	331,953	359,879
Total bank card and credit card fees, net	11,122,759	12,373,651
Mortgage banking revenue, net (a)	4,015,838	5,820,035
Other fees on loans (a)	1,210,720	1,005,992
Service charges on deposits	6,819,967	6,890,245
Other service charges, commissions and fees (a)	927,340	856,015
Net losses on other real estate	-	(92,638)
Net losses on sales of securities (a)	(1,853,033)	-
Other income (a)	5,294,786	4,407,582
Total noninterest revenue	$ 48,297,247	$ 52,926,143

(a) Not within scope of ASC 606

Fiduciary Income

The Bank earns fiduciary income from its contracts with trust customers to manage assets for investment and/or to transact on their accounts. These fees are primarily earned over time as the Bank provides the contracted services and are generally assessed based on a tiered scale of the market value of assets under management. Fees that are transaction based, including trade execution services, are recognized at the point in time that the transaction is executed. Other related services that are based on a fixed fee schedule, are recognized when the services are rendered.

Investment Services Fees

The Bank earns fees from investment brokerage services provided to its customers by a third-party service provider. The Bank receives commissions from the third-party service provider on a monthly basis based upon customer activity for the month. The fees are recognized monthly and a receivable is recorded until commissions are paid the following month. Because the Bank acts as an agent in arranging the relationship between the customer and the third party service provider and does not control the services rendered to the customer, investment services fees are presented net of costs.

Bank Card and Credit Card Fees

The Bank earns fees when a debit card or credit card issued by the Bank is used. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized when the cost of the transaction is charged to the cardholder's bank card or credit card. Certain expenses directly associated with the credit and debit card are recorded on a net basis with the interchange income. The Bank also earns income for card payment services provided to its merchant customers. The Bank outsources these services to a third party to provide card payment services to these merchants. The third party provider passes the payments made by the merchants to the Bank, and they are recorded as income. The Bank also has to pay interchange expense for debit card or credit card transactions processed by these merchants. These payments are recorded as a net reduction against fee income when they are made to the payment network.

Service Charges on Deposits

The Bank earns fees from its deposit customers for transaction-based, account maintenance and overdraft services. Services charges on deposits are withdrawn directly from the customer's account balance. Transaction-based fees are charges for specific services, such as ATM use charges, stop payment charges, and wire fees, and are recognized at the time the transaction is executed, which is the point in time the Bank fulfills the customer's request. Account maintenance fees consist primarily of base service charge fees and analyzed account fees. The performance obligation is satisfied and the fees are recognized primarily on a monthly basis as the service period is completed. Overdraft fees are recognized at the point in time that the overdraft occurs.

Net Gains (Losses) on Other Real Estate

W.T.B. records a gain or loss from the sale of ORE when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When W.T.B. finances the sale of ORE to the buyer, W.T.B. assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the ORE asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, W.T.B. adjusts the transaction price and related gain (loss) on sale if a significant financing component is present.

W.T.B. FINANCIAL CORPORATION AND SUBSIDIARY
Report of Independent Auditors

To the Board of Directors
W.T.B. Financial Corporation and Subsidiary (Washington Trust Bank)

Report on Financial Statements
We have audited the accompanying consolidated financial statements of W.T.B. Financial Corporation and Subsidiary (Company), which comprise the consolidated statements of financial condition as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of W.T.B. Financial Corporation and Subsidiary as of December 31, 2019 and 2018, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2019, in accordance with accounting principles generally accepted in the United States of America.

Report on Internal Control Over Financial Reporting
We also have audited, in accordance with auditing standards generally accepted in the United States of America, Washington Trust Bank's internal control over financial reporting as of December 31, 2019, based on criteria established in the Internal Control—Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) relevant to internal reporting objectives for the express purpose of meeting the regulatory requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA) and our report dated March 23, 2020, expressed an unmodified opinion.

Other Matter
Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The Consolidated Financial Highlights on page 1 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we express no opinion on it.

Moss Adams LLP

Spokane, Washington
March 23, 2020

W.T.B. FINANCIAL CORPORATION AND SUBSIDIARY
Directors and Officers

(As of January 31, 2020)

W.T.B. Financial Corporation

BOARD OF DIRECTORS
- Peter F. Stanton
  - Chairman of the Board, President and Chief Executive Officer
- John E. (Jack) Heath, III
  - Vice-Chairman of the Board, Executive Vice President and Chief Operating Officer
- Christopher Ackerley
  - Managing Partner, Ackerley Partners, LLC
- Steven M. Helmbrecht
  - Venture Investor
- John J. Luger
  - President, JDL Enterprises, LLC

ADMINISTRATION
- Peter F. Stanton
  - Chairman of the Board, President and Chief Executive Officer
- John E. (Jack) Heath, III
  - Vice-Chairman of the Board, Executive Vice President and Chief Operating Officer
- Larry V. Sorensen
  - Senior Vice President and Chief Financial Officer
- Burke D. Jackowich
  - Senior Vice President and General Counsel
- Johanne Lapointe
  - Senior Vice President and Director of Internal Audit

Washington Trust Bank

BOARD OF DIRECTORS
- Peter F. Stanton
  - Chairman of the Board and Chief Executive Officer
- John E. (Jack) Heath, III
  - President and Chief Operating Officer
- Christopher H. Ackerley
  - Managing Partner, Ackerley Partners, LLC
- Steven M. Helmbrecht
  - Venture Investor
- Molly J. Scammell Hurley
  - Retired Officer, Washington Trust Bank
- Michael J. Lee
  - President, Lakeside Industries, Inc.
- John J. Luger
  - President, JDL Enterprises, LLC
- Dennis P. Murphy
  - Chief Executive Officer, Hayden Homes, LLC
- Nancy Sue Wallace
  - Community Volunteer
- Jeffrey J. Wright
  - Chairman, Space Needle Corporation
- Peter D. Nickerson
  - Director and Co-founder, Chinus Asset Management

ADMINISTRATION
- Peter F. Stanton
  - Chairman of the Board and Chief Executive Officer
- John E. (Jack) Heath, III
  - President and Chief Operating Officer

COMMERCIAL BANKING
- Andy G. Beitia
  - Regional President, Southern Idaho Region
- Kevin L. Blair
  - Regional President, Western Washington/Oregon Group Manager
- Steve K. Roberts
  - Senior Vice President, Regional Manager/Credit Approval Officer, Central Washington Region
- Steve L. Utt
  - Senior Vice President, Inland Northwest Commercial Group Manager
- Linda A. Williams
  - Regional President, Oregon Region

CREDIT ADMINISTRATION
- Peter G. Bentley
  - Senior Vice President and Chief Credit Officer

FINANCE
- Larry V. Sorensen
  - Senior Vice President and Chief Financial Officer
- Laura M. Gingrich
  - Senior Vice President and Chief Accounting Officer

HUMAN RESOURCES
- Katy J. Bruya
  - Senior Vice President, Human Resources Director

RETAIL BANKING, INFORMATION TECHNOLOGY, OPERATIONS, CLIENT EXPERIENCE, AND STRATEGIC SERVICES
- Jim D. Branson
  - Senior Vice President and Chief Banking Officer; Director of Technology, Operations, and Consumer Banking
- Sharry J. Ditzler
  - Senior Vice President and Chief Information Officer
- Tami T. Ferguson
  - Senior Vice President, Client Experience Director
- Shane S. Patnoi
  - Vice President, Director of Mortgage and Consumer Lending
- F. Mack Wood
  - Senior Vice President and Strategic Services Director

INTERNAL AUDIT
- Johanne Lapointe
  - Senior Vice President and Director of Internal Audit

LEGAL
- Burke D. Jackowich
  - Senior Vice President and General Counsel

WEALTH MANAGEMENT AND ADVISORY SERVICES
- Robert A. Blume
  - Senior Vice President, Managing Director of WMAS

Additional information or copies of this report may be obtained by referencing the Investor Relations webpage at watrust.com/about/investor-relations, or by writing to:

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