W.T.B. Financial Corp

July 23, 2020

Dear Shareholders:

The second quarter of 2020 was one of the more remarkable times in banking that I have experienced in my long career. We saw record low interest rates and a sharp reversal of otherwise favorable macro-economic trends. The government rolled out quickly a wide variety of federal programs designed to cushion the country from the ravages of the COVID-19 pandemic. In very short order, we shifted nearly our entire labor force here at Washington Trust Bank to remote worker status. Our early participation in the Paycheck Protection Program ("PPP") positioned us to deliver major financial relief to thousands of commercial customers, which in turn positioned them to protect tens of thousands of jobs. We experienced phenomenal loan and deposit growth, and we had the capacity to absorb that growth due to our strategy of maintaining a strong balance sheet, including a significant capital and liquidity position. It was an extraordinary time and I look forward to sharing our results with you.

Let's start with the balance sheet, since that proved to be a very dynamic part of our business this quarter. The biggest story here was our early decision to gear up to participate in the Small Business Administration's ("SBA") Paycheck Protection Program ("PPP"). Our ability to deliver relief to our small business customers in the form of PPP loans was instrumental in protecting businesses and preserving jobs. In a matter of weeks, we originated over 5,000 loans and delivered over $1.2 billion in financial support to our valued commercial customers. Those actions helped drive loans higher by more than $1.1 billion, or 24.3 percent to over $5.7 billion at the end of the quarter. PPP loans are ultimately guaranteed by the SBA and therefore our credit exposure here is minimal. At origination, all PPP loan funds were deposited into our customers' accounts, which helped drive deposits higher by $1.4 billion, or 23.2 percent to $7.5 billion. That deposit growth, in turn, helped assets increase by nearly $1.5 billion, or 20.0 percent to $8.8 billion. In all my years of banking, I've never experienced anything close to that level of organic balance sheet growth in one quarter. It was remarkable and a real testament to our team's dedication to serving our clients in a time of great need.

While we experienced terrific growth in earning assets this past quarter (up more than $1.5 billion, or 20.7 percent), net interest margin took its hits from the low rate environment and the modest yield on all the PPP loans we added to the portfolio. Margin for the quarter declined 43 basis points ("bps") to 3.24 percent. Despite that significant decline in margin, the growth in earning assets helped propel net interest revenue higher by nearly $2.7 million, or 4.2 percent to $66.4 million. The growth in net interest revenue and noninterest revenue exceeded the growth in our operating expenses, which helped us report higher earnings of $19.1 million, up $592,000, or 3.2 percent more than the first quarter of this year. Included in that performance were a robust addition to our allowance for loan losses through $7.5 million of provision expense and the favorable impact of $2.7 million in bond gains. Diluted earnings per share for the quarter came in at $7.54, up $0.26, or 3.6 percent and right in line with quarterly earnings one-year ago.

Through the second quarter, the risk profile of our balance sheet and our capacity to withstand unforeseen external events held up very well. Noncurrent loans increased $1.4 million to what is still a historically low level of $15.5 million, or just 0.18 percent of assets. Borrower payment status is a traditional yardstick for assessing the level of financial pressure our clients are under. However, with the delivery of $1.2 billion of PPP loans and some loan payment accommodations we have made to a number of our borrowers, payment status is likely a less reliable indicator of the actual level of credit stress in our loan portfolio. Recognizing that reality, we, along with much of the industry, have taken steps to bolster our loss absorbing capacity by increasing our allowance for loan losses. In the second quarter, we took additional provision for loan loss expense of $7.5 million bringing our allowance for loan losses to $111.7 million, or 1.95 percent of loans. The significant growth in PPP loans in the second quarter, which are guaranteed by the SBA, eroded that metric by 31 bps from the 2.26 percent level we reported at the end of the first quarter. However, a potentially more balanced perspective might be to remove PPP loans from the denominator of the ratio, which would result in quarter over quarter growth in our allowance to loans of 22 bps to 2.48 percent.

The Company's liquidity position remained strong with cash levels at $778 million, investment securities of over $2.1 billion and no outstanding wholesale borrowings. Nearly a third of the Bank's balance sheet is invested in cash or bonds and the Bank's liquidity ratio ended the quarter at 30.3 percent. Capital levels also remained substantial. During the quarter, total shareholders' equity increased $25.0 million, or 3.3 percent to $779.0 million, while year-over-year, total shareholders' equity increased $119.5 million, or 18.1 percent. Our strong growth in capital was the result of retained earnings and improved bond valuations. At the end of the second quarter, unrealized gains on the Company's available for sale securities totaled $85.9 million, pre-tax ($67.8 million, after-tax). While the Company's equity to assets ratio decreased 142 bps during the quarter to 8.83 percent, that deterioration was entirely due to rapid asset growth resulting from over $1.2 billion in newly originated PPP loans. The Bank ended the quarter with regulatory capital above well capitalized minimums by more than $200 million.

Several traditional financial performance measures were impacted by our success in delivering PPP loans to our clients and the balance sheet growth that caused. For example, return on assets declined 13 bps in the second quarter to 0.90 percent, as a result of slightly higher quarter-over-quarter earnings combined with significant asset growth. Return on equity was not directly impacted by PPP loan growth, but it was by the substantial growth in equity that was largely the result of a significant increase in the Bank's investment securities portfolio. As a result, return on equity declined 25 bps to 10.06 percent on slightly higher earnings and significantly higher equity. Book value per share showed good performance increasing $10.16, or 3.4 percent to $305.72 for the quarter and increasing $49.04 per share, or 19.1 percent from year ago levels.

Given the extraordinary circumstances of the past several months, including the challenging rate environment, on balance, we are satisfied with our financial performance. We are very proud of what this organization accomplished in delivering over $1.2 billion in PPP loans to more than 5,000 clients in a few short weeks. It is our feeling that this could be a long and uncertain cycle out of the pandemic and the economic havoc it is causing, so we remain cautious in our outlook. It could very well be that credit problems surface later in the year and we are keeping a close watch on our exposures and our clients that are finding conditions particularly challenging. As a means to help those hardest hit through this environment, we have granted loan payment deferrals to just over 600 customers impacting loans totaling $475.0 million. We believe that supporting what are typically long-time and otherwise strong customers of the Bank during this extraordinary time is the right decision to make, recognizing the likelihood that some of these clients will not be able to meet their obligations. Circumstances such as these are why balance sheet strength is important to us and our clients.

We have committed to keep you posted on our share repurchase program. As you know, on February 25, 2020, the Board of Directors reauthorized a share repurchase plan for up to $12.0 million of Class B common stock, which will be in effect over a twelve month period. Common share repurchases under this plan, if any, may be made from time to time on the open market through broker dealers or in privately negotiated transactions, at the discretion of Company management. The extent to which the Company purchases shares and the timing of any such purchases will depend upon a variety of factors, including market conditions and relevant corporate considerations. The share repurchase program will be conducted in a manner intended to comply with the safe harbor provisions of Rule 10b-18 under the Securities and Exchange Act of 1934. Under this plan, we purchased $754,000 of Company Class "B" common shares during the quarter and would expect that share repurchase activity will be limited for the foreseeable future as we gain more clarity on the direction of the pandemic and the economy.

The level of uncertainty is high all around us, from the pandemic, to the future course of Fed monetary policy, to the economy's ability to rebound from a sharp economic decline, to the social unrest across our country and oh yes, the presidential election set for this fall. We feel good about how we have performed so far for you, our shareholders, and our clients, employees and the communities we serve. We remain focused on executing to our longer range plans to evolve our bank and remain a powerful competitive force here in the Pacific Northwest. We hope you and your families are safe and please let us know if we can help you in anyway. For additional pertinent information, please also visit our Investor Relations webpage at watrust.com/about/investor-relations.

Peter F. Stanton
Chairman & President
W.T.B. Financial Corporation

Enclosure

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W.T.B. Financial Corp

Summary Financial Statements and Selected Financial Highlights Q2 2020

(unaudited)

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

	June 30, 2020	March 31, 2020	June 30, 2019
ASSETS			
Cash and due from banks	**$ 111,455,331**	$ 116,756,121	$ 115,834,959
Fed funds sold and resale agreements	**-**	-	100,000
Interest-bearing deposits with banks	**778,374,895**	381,066,931	207,117,564
Securities available for sale, at fair value	**1,524,082,050**	1,543,163,273	1,211,836,979
Securities held to maturity, at amortized cost	**603,767,596**	620,883,435	540,440,597
Federal Home Loan Bank and Pacific Coast Bankers' Bancshares stock, at cost	**8,642,400**	8,642,400	7,911,600
Loans receivable	**5,726,372,330**	4,608,602,493	4,394,500,010
Allowance for loan losses	**(111,715,530)**	(103,945,726)	(94,348,856)
Loans net of allowance for loan losses	**5,614,656,800**	4,504,656,767	4,300,151,154
Premises and equipment, net	**88,951,403**	88,853,670	79,519,299
Accrued interest receivable	**26,495,069**	20,714,213	23,756,764
Other assets	**69,629,129**	68,552,280	75,245,498
Total assets	**$ 8,826,054,673**	$ 7,353,289,090	$ 6,561,914,414
LIABILITIES			
Deposits:			
Noninterest-bearing	**$ 3,535,137,790**	$ 2,695,442,754	$ 2,348,097,509
Interest-bearing	**3,993,988,829**	3,418,250,242	3,172,732,740
Total deposits	**7,529,126,619**	6,113,692,996	5,520,830,249
Securites sold under agreements to repurchase	**430,509,054**	405,941,647	312,853,976
Accrued interest payable	**884,528**	848,067	1,928,865
Other liabilities	**86,542,782**	78,790,757	66,771,056
Total liabilities	**8,047,062,983**	6,599,273,467	5,902,384,146
SHAREHOLDERS' EQUITY			
Common stock	**22,768,942**	23,073,040	31,207,193
Surplus	**32,665,000**	32,665,000	32,665,000
Undivided profits	**678,092,911**	663,666,536	614,946,149
	733,526,853	719,404,576	678,818,342
Less treasury stock, at cost	**-**	-	(604,789)
	733,526,853	719,404,576	678,213,553
Accumulated other comprehensive income (loss)	**45,464,837**	34,611,047	(18,683,285)
Total shareholders' equity	**778,991,690**	754,015,623	659,530,268
Total liabilities and shareholders' equity	**$ 8,826,054,673**	$ 7,353,289,090	$ 6,561,914,414

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

	Three Months Ended		
	June 30, 2020	March 31, 2020	June 30, 2019
INTEREST REVENUE			
Loans, including fees	**$ 58,239,391**	$ 54,875,179	$ 55,667,285
Deposits with banks	**176,161**	1,789,283	1,559,670
Securities	**11,798,667**	11,738,621	9,760,037
Other interest and dividend income	**70,764**	84,444	71,951
Total interest revenue	**70,284,983**	68,487,527	67,058,943
INTEREST EXPENSE			
Deposits	**3,536,154**	4,179,937	4,208,480
Funds purchased and other borrowings	**389,509**	610,831	571,854
Total interest expense	**3,925,663**	4,790,768	4,780,334
Net interest revenue	**66,359,320**	63,696,759	62,278,609
Provision for loan losses	**7,500,000**	7,000,000	400,000
Net interest revenue after provision for loan losses	**58,859,320**	56,696,759	61,878,609
NONINTEREST REVENUE			
Fiduciary income	**4,629,012**	4,689,806	4,562,568
Investment services fees	**688,629**	840,664	856,299
Bank and credit card fees, net	**2,938,719**	2,739,688	2,775,591
Mortgage banking revenue, net	**1,983,653**	1,449,424	890,094
Other fees on loans	**248,085**	246,963	262,658
Service charges on deposits	**1,302,497**	1,708,085	1,672,263
Other income	**4,354,765**	3,799,548	(410,399)
Total noninterest revenue	**16,145,360**	15,474,178	10,609,074
NONINTEREST EXPENSE			
Salaries and benefits	**30,895,900**	31,127,161	29,204,810
Occupancy, furniture and equipment expense	**5,546,067**	5,114,942	4,985,196
Other expense	**14,012,262**	12,219,920	13,548,445
Total noninterest expense	**50,454,229**	48,462,023	47,738,451
Income before provision for income taxes	**24,550,452**	23,708,914	24,749,232
Provision for income taxes	**5,435,245**	5,185,896	5,446,289
NET INCOME	**$ 19,115,207**	$ 18,523,018	$ 19,302,943
PER SHARE DATA			
Weighted average number of common stock shares outstanding			
Basic	**2,534,765**	2,539,620	2,558,064
Diluted	**2,535,529**	2,544,890	2,561,438
Earnings per common share (based on weighted average shares outstanding)			
Basic	**$ 7.54**	$ 7.29	$ 7.55
Diluted	**$ 7.54**	$ 7.28	$ 7.54

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

	Six Months Ended	
	June 30, 2020	June 30, 2019
INTEREST REVENUE		
Loans, including fees	**$ 113,114,570**	$ 108,481,520
Deposits with banks	**1,965,444**	5,539,071
Securities	**23,537,288**	18,685,395
Other interest and dividend income	**155,208**	151,592
Total interest revenue	**138,772,510**	132,857,578
INTEREST EXPENSE		
Deposits	**7,716,090**	8,310,946
Funds purchased and other borrowings	**1,000,341**	842,443
Total interest expense	**8,716,431**	9,153,389
Net interest revenue	**130,056,079**	123,704,189
Provision for loan losses	**14,500,000**	1,200,000
Net interest revenue after provision for loan losses	**115,556,079**	122,504,189
NONINTEREST REVENUE		
Fiduciary income	**9,318,818**	8,768,122
Investment services fees	**1,529,293**	1,605,344
Bank and credit card fees	**5,678,407**	5,549,933
Mortgage banking revenue, net	**3,433,077**	1,650,563
Other fees on loans	**495,048**	548,507
Service charges on deposits	**3,010,581**	3,458,899
Other income	**8,154,314**	333,701
Total noninterest revenue	**31,619,538**	21,915,069
NONINTEREST EXPENSE		
Salaries and benefits	**62,023,061**	57,428,457
Occupancy, furniture and equipment expense	**10,661,009**	9,810,247
Other expense	**26,232,181**	26,608,650
Total noninterest expense	**98,916,251**	93,847,354
Income before provision for income taxes	**48,259,366**	50,571,904
Provision for income taxes	**10,621,141**	11,097,628
NET INCOME	**$ 37,638,225**	$ 39,474,276
PER SHARE DATA		
Weighted average number of common stock shares outstanding		
Basic	**2,534,765**	2,558,064
Diluted	**2,535,529**	2,561,438
Earnings per common share (based on weighted average shares outstanding)		
Basic	**$ 14.85**	$ 15.43
Diluted	**$ 14.84**	$ 15.41

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

(dollars in thousands)

	Quarters Ended				
	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019
SELECTED DATA					
Interest-bearing deposits with banks	$ 778,375	$ 381,067	$ 523,953	$ 83,279	$ 207,118
Securities	2,127,850	2,164,047	1,895,823	1,946,040	1,752,278
Total loans	5,726,372	4,608,602	4,542,597	4,539,107	4,394,500
Allowance for loan losses	111,716	103,946	96,415	96,856	94,349
Earning assets [1]	8,555,368	7,090,226	6,958,855	6,554,930	6,351,760
Total assets	8,826,055	7,353,289	7,164,664	6,811,084	6,561,914
Deposits	7,529,127	6,113,693	6,226,866	5,595,329	5,520,830
Interest-bearing liabilities	4,424,498	3,824,192	3,572,797	3,558,091	3,485,587
Total shareholders' equity	778,992	754,016	695,904	686,543	659,530
Total equity to total assets	8.83%	10.25%	9.71%	10.08%	10.05%
Full-time equivalent employees	1,048	1,023	1,017	1,013	1,004
ASSET QUALITY RATIOS					
Allowance for loan losses to total loans	1.95%	2.26%	2.12%	2.13%	2.15%
Allowance for loan losses to noncurrent loans	720%	737%	671%	918%	502%
Net charge-offs (recoveries) to total average loans	0.00%	-0.01%	0.04%	-0.04%	-0.02%
Noncurrent loans and ORE to assets	0.18%	0.19%	0.20%	0.15%	0.29%
Noncurrent loans, ORE and TDRs to assets	0.19%	0.21%	0.22%	0.17%	0.30%

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

(dollars in thousands, except per share data)

	Quarters Ended			% Change	
	June 30, 2020	March 31, 2020	June 30, 2019	Sequential Quarter	Year over Year
PERFORMANCE [1]					
Net interest revenue, fully tax-equivalent	$ 66,434	$ 63,799	$ 62,397	4.1%	6.5%
Fully tax-equivalent adjustment	75	102	118	-26.5%	-36.4%
Net interest revenue	66,359	63,697	62,279	4.2%	6.6%
Provision for loan losses	7,500	7,000	400	7.1%	1775.0%
Net interest revenue after provision for loan losses	58,859	56,697	61,879	3.8%	-4.9%
Noninterest revenue	16,145	15,474	10,609	4.3%	52.2%
Noninterest expense	50,454	48,462	47,739	4.1%	5.7%
Income before provision for income taxes	24,550	23,709	24,749	3.5%	-0.8%
Provision for income taxes	5,435	5,186	5,446	4.8%	-0.2%
Net income	$ 19,115	$ 18,523	$ 19,303	3.2%	-1.0%
PER COMMON SHARE					
Earnings per common share - basic	$ 7.54	$ 7.29	$ 7.55	3.4%	-0.1%
Earnings per common share - diluted	7.54	7.28	7.54	3.6%	0.0%
Common cash dividends	1.85	1.85	1.75	0.0%	5.7%
Common shareholders' equity	305.72	295.56	256.68	3.4%	19.1%

	Quarters Ended			% Change	
	June 30, 2020	March 31, 2020	June 30, 2019	Sequential Quarter	Year over Year
PERFORMANCE RATIOS [1]					
Return on average assets	0.90%	1.03%	1.22%	-0.13%	-0.32%
Return on average shareholders' equity	10.06%	10.31%	12.11%	-0.25%	-2.05%
Margin on average earning assets [2]	3.24%	3.67%	4.03%	-0.43%	-0.79%
Noninterest expense to average assets	2.38%	2.71%	3.01%	-0.33%	-0.63%
Noninterest revenue to average assets	0.76%	0.86%	0.67%	-0.10%	0.09%
Efficiency ratio	61.1%	61.1%	65.4%	0.0%	-4.3%
Common cash dividends to net income	24.53%	25.38%	23.19%	-0.85%	2.19%

(1) Prior period amounts have been reclassified to conform with the current period presentation of rental income.
(2) Tax exempt interest has been adjusted to a taxable equivalent basis using a tax rate of 21%.
NM = not meaningful

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

	(dollars in thousands, except per share data)		
	Six Months Ended		**% Change**
	June 30, 2020	June 30, 2019	Year over Year
PERFORMANCE [1]			
Net interest revenue, fully tax-equivalent	$ 130,233	$ 123,946	5.1%
Fully tax-equivalent adjustment	177	242	-26.9%
Net interest revenue	130,056	123,704	5.1%
Provision for loan losses	14,500	1,200	1108.3%
Net interest revenue after provision for loan losses	115,556	122,504	-5.7%
Noninterest revenue	31,619	21,915	44.3%
Noninterest expense	98,916	93,847	5.4%
Income before provision for income taxes	48,259	50,572	-4.6%
Provision for income taxes	10,621	11,098	-4.3%
Net income	$ 37,638	$ 39,474	-4.7%
PER COMMON SHARE			
Earnings per common share - basic	$ 14.83	$ 15.43	-3.9%
Earnings per common share - diluted	14.82	15.40	-3.8%
Common cash dividends	3.70	3.50	5.7%
Common shareholders' equity	305.72	256.68	19.1%
PERFORMANCE RATIOS [1]			
Return on average assets	0.96%	1.24%	-0.28%
Return on average shareholders' equity	10.18%	12.71%	-2.53%
Margin on average earning assets [2]	3.44%	3.98%	-0.54%
Noninterest expense to average assets	2.53%	2.95%	-0.42%
Noninterest revenue to average assets	0.81%	0.69%	0.12%
Efficiency ratio	61.1%	64.3%	-3.2%
Common cash dividends to net income	24.95%	22.70%	2.25%

(1) Prior period amounts have been reclassified to conform with the current period presentation of rental income.
(2) Tax exempt interest has been adjusted to a taxable equivalent basis using a tax rate of 21%.