

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

October 18, 2019

Dear Shareholders:

The third quarter of 2019 shaped up to be an overall solid performance for the Company, combined with lots of dynamics behind that performance that reflect the interesting environment in which we are operating. Rewind the clock to the end of 2018, and while Federal Reserve Chairman Powell had just announced a “pause” in the FOMC’s succession of rate hikes, there wasn’t much evidence to point to for two rate moves down in 2019, with possibly another one to come. The shift in rates and sentiment we experienced throughout this year have been dramatic. We are also mid-stream on a number of important system and product application conversions, and managing through those transitions is proving to be a very consuming process. We are working hard on executing to a long-term technology strategy that is essential to our business and our customers. The transformations that come with that strategic path will also bring some revenue and expense noise as we let go of one system and connect to another. It brings into clear focus the shift that is taking place in our industry toward technology and the crucial importance of strong relationships with our vendor partners.

Earnings for the quarter came in at \$22.3 million, up \$2.2 million, or 11.1 percent from year ago results. The big driver of third quarter performance was net interest revenue, which increased \$6.3 million, or 10.4 percent over third quarter of 2018 performance. Net interest revenue benefitted from a 30 basis point (“bps”) improvement in margin and strong growth in loans and securities. Margin widening was largely due to higher loan and bond yields, improved earning asset mix and roughly nine bps of one-time benefit related to a loan recovery. Average bond balances grew \$409 million, or 28.1 percent as we pursued a defensive strategy of extending asset duration. That strategy helped stabilize investment returns as short repricing asset yields fell during the year. Average loan growth was also very strong increasing \$364 million, or 9.0 percent year-over-year.

Benefitting from these favorable trends was return on assets, which increased 8 bps to 1.32 percent for the quarter. Despite improved earnings, return on equity was actually down 102 bps year-over-year to a still strong 13.10 percent. Return on equity fell as a result of average equity growing faster (19.8 percent) than earnings (11.1 percent). The

significant growth in shareholders' equity was a result of strong earnings of \$22.3 million plus a \$15.9 million after-tax improvement in available for sale ("AFS") bond valuations, which gets positively reflected in capital. The impact of improved AFS bond valuations from a lower rate environment also shows through in book value per share, which increased \$47.58, or 21.6 percent year-over-year to \$268.25, a new Company record. Earnings per share growth mirrored net income performance by increasing \$0.90 per share, or 11.5 percent to \$8.73.

The turn in the Fed's monetary policy from "normalization" over the past several years to two 25 bps downward rate moves and even greater declines further out on the yield curve in 2019 contributed to several shifts within our balance sheet. As mentioned above, declining rates had a very favorable impact on the valuation of our bond portfolio. After years of strong deposit growth, deposits were largely flat year-over-year, growing just \$46 million, or 0.8 percent to \$5.6 billion. While we expected loan growth to be strong this year, lower rates likely helped our performance with loans growing \$484 million, or 11.9 percent to \$4.5 billion, a new Company record. We also noticed that payoffs and refinance activity in our residential portfolio picked up, a predictable result of declining rates. With deposit growth minimal and strong growth in bonds and loans, we intentionally ran our cash position to more moderate levels as the opportunities to lock in investment yields seemed a prudent alternative to riding short-term rates lower.

Noninterest revenue for the quarter was \$11.2 million, down \$438,000, or 3.8 percent from year ago results. The lower levels of noninterest revenue were primarily the result of lower mortgage banking revenue and lower bank and credit card fees. Lower mortgage banking revenue resulted from a slowdown in loan sales as more mortgages were retained in our portfolio in order to extend asset durations and hopefully contribute to more durable earnings into the future. Lower bank and credit card income resulted from some card program and product conversions that are underway. Noninterest expense increased \$2.3 million, or 5.0 percent over last year to \$48 million. Salaries and benefits were the biggest driver of that increase, with salaries, incentive expense related to growth and rising benefit costs the largest contributors to the increase.

Year-to-date, earnings came in at \$61.8 million, up \$2.8 million, or 4.7 percent over 2018. Given the bond portfolio repositioning we did in the second quarter to extend duration that resulted in a \$1.9 million loss, the significant product conversions that are underway, and the declining rates we have seen this year, that level of performance feels pretty solid. The operating environment does give us some pause however. The long end of the curve has come down more than double what the Fed has done at the short end, and the market's wisdom is that more Fed moves are coming. Of course, rate moves and market sentiment could shift yet again if the trade dispute with China gets resolved. We also appear to be in an extended era of system and product conversions, which will

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continue to keep us focused and potentially result in some revenue and expense disruption, but that is the unavoidable near-term impact of a long-term strategy of transformation and enhancement. Refining our technology, systems and delivery strategy is necessary and appropriate as we evolve with the market and continue to meet our customers' banking needs and expectations.

The credit performance of the Bank's loan portfolio continues to be excellent with noncurrent loans totaling \$17 million, or 0.38 percent of total loans. Our low level of problem loans are supported by a strong allowance position at \$97 million, or 2.13 percent of loans. Capital levels remain solidly above regulatory minimums and our liquidity position is significant with cash and bonds equaling roughly one-third of total assets.

Given our operating results and balance sheet position, we were active purchasers of Company Class B common stock. During the third quarter, share repurchases totaled \$3.6 million, while year-to-date, share repurchases totaled \$6.3 million. At the end of the third quarter, there was approximately \$5.1 million remaining of the \$10 million share repurchase authorization made available last April, if we choose to use it in the future. The extent to which the Company purchases shares and the timing of any such purchases will depend upon a variety of factors, including market conditions and relevant corporate considerations. The share repurchase program will be conducted in a manner intended to comply with the safe harbor provisions of Rule 10b-18 under the Securities and Exchange Act of 1934 and may be suspended or terminated at any time by the Company's Board of Directors without prior notice. We will report back to you periodically on our progress under this authorization.

The third quarter continued a solid start to 2019. As always, we are subject to market conditions and the decline in rates will add to our challenges, but we continue to have success growing our customer base and we will remain focused on executing on their behalf. We remain grateful for the hard work and contributions of our employees, the loyalty of our customers and the support of our shareholders. Please let us know if we can help you in any way. For additional pertinent information, please also visit our Investor Relations webpage at watrust.com/about/investor-relations.

Warm Regards,



Pete Stanton
Chairman of the Board and CEO

Enclosure



Summary Financial Statements and Selected Financial Highlights

Q3 2019

(unaudited)

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

	September 30, 2019	June 30, 2019	September 30, 2018
ASSETS			
Cash and due from banks	\$ 151,941,730	\$ 115,834,959	\$ 106,029,130
Fed funds sold and resale agreements	-	100,000	225,000
Interest-bearing deposits with banks	83,278,993	207,117,564	650,873,185
Securities available for sale, at fair value	1,282,311,509	1,211,836,979	1,022,195,424
Securities held to maturity, at amortized cost	663,728,580	540,440,597	518,268,017
Federal Home Loan Bank and Pacific Coast Bankers' Bancshares stock, at cost	12,271,600	7,911,600	7,540,600
Loans receivable	4,539,107,318	4,394,500,010	4,054,934,767
Allowance for loan losses	(96,855,709)	(94,348,856)	(91,026,155)
Loans net of allowance for loan losses	4,442,251,609	4,300,151,154	3,963,908,612
Premises and equipment, net	80,114,117	79,519,299	54,128,425
Accrued interest receivable	21,628,833	23,756,764	20,922,133
Other assets	73,556,558	75,245,498	63,649,906
Total assets	\$ 6,811,083,529	\$ 6,561,914,414	\$ 6,407,740,432
LIABILITIES			
Deposits:			
Noninterest-bearing	\$ 2,489,637,342	\$ 2,348,097,509	\$ 2,375,481,763
Interest-bearing	3,105,692,021	3,172,732,740	3,173,508,190
Total deposits	5,595,329,363	5,520,830,249	5,548,989,953
Securities sold under agreements to repurchase	343,398,816	312,853,976	242,444,729
Other borrowings	109,000,000	-	-
Accrued interest payable	1,009,362	1,928,865	1,468,208
Other liabilities	75,802,551	66,771,056	47,590,617
Total liabilities	6,124,540,092	5,902,384,146	5,840,493,507
SHAREHOLDERS' EQUITY			
Common stock	27,429,552	31,207,193	31,531,734
Surplus	32,665,000	32,665,000	32,665,000
Undivided profits	632,791,104	614,946,149	563,300,471
	692,885,656	678,818,342	627,497,205
Less treasury stock, at cost	-	(604,789)	-
	692,885,656	678,213,553	627,497,205
Accumulated other comprehensive loss	(6,342,219)	(18,683,285)	(60,250,280)
Total shareholders' equity	686,543,437	659,530,268	567,246,925
Total liabilities and shareholders' equity	\$ 6,811,083,529	\$ 6,561,914,414	\$ 6,407,740,432

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

	Three Months Ended		
	September 30, 2019	June 30, 2019	September 30, 2018
INTEREST REVENUE			
Loans, including fees	\$ 59,519,861	\$ 55,667,285	\$ 52,053,221
Deposits with banks	1,129,365	1,559,670	4,168,027
Securities	11,429,978	9,760,037	7,524,273
Other interest and dividend income	75,111	71,951	68,329
Total interest revenue	<u>72,154,315</u>	<u>67,058,943</u>	<u>63,813,850</u>
INTEREST EXPENSE			
Deposits	4,481,459	4,208,480	3,361,961
Funds purchased and other borrowings	1,103,517	571,854	143,980
Total interest expense	<u>5,584,976</u>	<u>4,780,334</u>	<u>3,505,941</u>
Net interest revenue	<u>66,569,339</u>	<u>62,278,609</u>	<u>60,307,909</u>
Provision for loan losses	800,000	400,000	600,000
Net interest revenue after provision for loan losses	<u>65,769,339</u>	<u>61,878,609</u>	<u>59,707,909</u>
NONINTEREST REVENUE			
Fiduciary income	4,360,646	4,562,568	4,178,519
Investment services fees	754,396	856,299	759,983
Bank and credit card fees, net	2,315,218	2,775,591	3,177,814
Mortgage banking revenue, net	908,063	890,094	1,733,028
Other fees on loans	245,733	262,658	270,789
Service charges on deposits	1,704,818	1,672,263	1,717,849
Other income (loss)	886,082	(1,562,803)	(225,350)
Total noninterest revenue	<u>11,174,956</u>	<u>9,456,670</u>	<u>11,612,632</u>
NONINTEREST EXPENSE			
Salaries and benefits	29,204,096	29,204,810	26,401,832
Occupancy, furniture and equipment expense	4,276,317	3,832,792	4,719,128
Other expense	14,851,753	13,548,445	14,917,972
Total noninterest expense	<u>48,332,166</u>	<u>46,586,047</u>	<u>46,038,932</u>
Income before provision for income taxes	<u>28,612,129</u>	<u>24,749,232</u>	<u>25,281,609</u>
Provision for income taxes	6,309,766	5,446,289	5,213,663
NET INCOME	<u>\$ 22,302,363</u>	<u>\$ 19,302,943</u>	<u>\$ 20,067,946</u>
PER SHARE DATA			
Weighted average number of common stock shares outstanding			
Basic	2,551,053	2,558,064	2,555,016
Diluted	2,555,543	2,561,438	2,563,132
Earnings per common share (based on weighted average shares outstanding)			
Basic	\$ 8.74	\$ 7.55	\$ 7.85
Diluted	\$ 8.73	\$ 7.54	\$ 7.83

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

	Nine Months Ended	
	September 30, 2019	September 30, 2018
INTEREST REVENUE		
Loans, including fees	\$ 168,001,381	\$ 148,622,878
Deposits with banks	6,668,436	10,456,911
Securities	30,115,373	21,395,418
Other interest and dividend income	226,703	258,322
Total interest revenue	205,011,893	180,733,529
INTEREST EXPENSE		
Deposits	12,792,405	7,347,189
Funds purchased and other borrowings	1,945,960	232,036
Total interest expense	14,738,365	7,579,225
Net interest revenue	190,273,528	173,154,304
Provision for loan losses	2,000,000	2,300,000
Net interest revenue after provision for loan losses	188,273,528	170,854,304
NONINTEREST REVENUE		
Fiduciary income	13,128,768	12,437,641
Investment services fees	2,359,739	2,624,794
Bank and credit card fees	7,865,152	9,154,339
Mortgage banking revenue, net	2,558,626	4,879,278
Other fees on loans	794,240	728,001
Service charges on deposits	5,163,717	5,214,234
Other income (loss)	(433,245)	2,005,849
Total noninterest revenue	31,436,997	37,044,136
NONINTEREST EXPENSE		
Salaries and benefits	86,632,553	79,770,025
Occupancy, furniture and equipment expense	12,433,536	13,593,180
Other expense	41,460,403	39,052,082
Total noninterest expense	140,526,492	132,415,287
Income before provision for income taxes	79,184,033	75,483,153
Provision for income taxes	17,407,394	16,499,437
NET INCOME	\$ 61,776,639	\$ 58,983,716

PER SHARE DATA

Weighted average number of common stock shares outstanding

Basic	2,555,901	2,553,396
Diluted	2,560,425	2,561,996
Earnings per common share (based on weighted average shares outstanding)		
Basic	\$ 24.17	\$ 23.10
Diluted	\$ 24.13	\$ 23.02

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

(dollars in thousands)

	Quarters Ended				
	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018
SELECTED DATA					
Interest-bearing deposits with banks	\$ 83,279	\$ 207,118	\$ 467,226	\$ 751,180	\$ 650,873
Securities	1,946,040	1,752,278	1,666,895	1,589,251	1,540,463
Total loans	4,539,107	4,394,500	4,100,672	4,047,398	4,054,935
Allowance for loan losses	96,856	94,349	92,975	90,749	91,026
Earning assets ¹	6,554,930	6,351,760	6,255,713	6,420,888	6,293,542
Total assets	6,811,084	6,561,914	6,393,519	6,552,350	6,407,740
Deposits	5,595,329	5,520,830	5,452,823	5,638,923	5,548,990
Interest-bearing liabilities	3,558,091	3,485,587	3,387,980	3,485,267	3,415,953
Total shareholders' equity	686,543	659,530	627,245	602,665	567,247
Total equity to total assets	10.08%	10.05%	9.81%	9.20%	8.85%
Full-time equivalent employees	1,013	1,004	994	994	992
ASSET QUALITY RATIOS					
Allowance for loan losses to total loans	2.13%	2.15%	2.27%	2.24%	2.24%
Allowance for loan losses to noncurrent loans	918%	502%	721%	755%	962%
Net charge-offs (recoveries) to total average loans	-0.04%	-0.02%	-0.04%	0.02%	-0.03%
Noncurrent loans and ORE to assets	0.15%	0.29%	0.20%	0.18%	0.15%
Noncurrent loans, ORE and TDRs to assets	0.17%	0.30%	0.21%	0.20%	0.16%

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

(dollars in thousands, except per share data)

	Quarters Ended			% Change	
	September 30, 2019	June 30, 2019	September 30, 2018	Sequential Quarter	Year over Year
PERFORMANCE					
Net interest revenue, fully tax-equivalent	\$ 66,679	\$ 62,397	\$ 60,432	6.9%	10.3%
Fully tax-equivalent adjustment	110	118	124	-6.8%	-11.3%
Net interest revenue	66,569	62,279	60,308	6.9%	10.4%
Provision for loan losses	800	400	600	100.0%	33.3%
Net interest revenue after provision for loan losses	65,769	61,879	59,708	6.3%	10.2%
Noninterest revenue	11,175	9,457	11,613	18.2%	-3.8%
Noninterest expense	48,332	46,587	46,039	3.7%	5.0%
Income before provision for income taxes	28,612	24,749	25,282	15.6%	13.2%
Provision for income taxes	6,310	5,446	5,214	15.9%	21.0%
Net income	\$ 22,302	\$ 19,303	\$ 20,068	15.5%	11.1%
PER COMMON SHARE					
Earnings per common share - basic	\$ 8.74	\$ 7.55	\$ 7.85	15.8%	11.3%
Earnings per common share - diluted	8.73	7.54	7.83	15.8%	11.5%
Common cash dividends	1.75	1.75	1.15	0.0%	52.2%
Common shareholders' equity	268.25	256.68	220.67	4.5%	21.6%

	Quarters Ended			% Change	
	September 30, 2019	June 30, 2019	September 30, 2018	Sequential Quarter	Year over Year
PERFORMANCE RATIOS					
Return on average assets	1.32%	1.22%	1.24%	0.10%	0.08%
Return on average shareholders' equity	13.10%	12.11%	14.12%	0.99%	-1.02%
Margin on average earning assets ¹	4.07%	4.03%	3.77%	0.04%	0.30%
Noninterest expense to average assets	2.87%	2.94%	2.83%	-0.07%	0.04%
Noninterest revenue to average assets	0.66%	0.60%	0.71%	0.06%	-0.05%
Efficiency ratio	62.1%	64.8%	63.9%	-2.7%	-1.8%
Common cash dividends to net income	19.98%	23.19%	14.64%	-3.21%	8.55%

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

NM = not meaningful

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

(dollars in thousands, except per share data)

	Nine Months Ended		% Change
	September 30, 2019	September 30, 2018	Year over Year
PERFORMANCE			
Net interest revenue, fully tax-equivalent	\$ 190,626	\$ 173,519	9.9%
Fully tax-equivalent adjustment	352	365	-3.6%
Net interest revenue	190,274	173,154	9.9%
Provision for loan losses	2,000	2,300	-13.0%
Net interest revenue after provision for loan losses	188,274	170,854	10.2%
Noninterest revenue	31,437	37,044	-15.1%
Noninterest expense	140,527	132,415	6.1%
Income before provision for income taxes	79,184	75,483	4.9%
Provision for income taxes	17,407	16,499	5.5%
Net income	\$ 61,777	\$ 58,984	4.7%
PER COMMON SHARE			
Earnings per common share - basic	\$ 24.17	\$ 23.10	4.6%
Earnings per common share - diluted	24.13	23.02	4.8%
Common cash dividends	5.25	3.45	52.2%
Common shareholders' equity	268.25	220.67	21.6%
PERFORMANCE RATIOS			
Return on average assets	1.27%	1.25%	0.02%
Return on average shareholders' equity	12.85%	14.39%	-1.54%
Margin on average earning assets ¹	4.01%	3.73%	0.28%
Noninterest expense to average assets	2.89%	2.81%	0.08%
Noninterest revenue to average assets	0.65%	0.79%	-0.14%
Efficiency ratio	63.3%	62.9%	0.4%
Common cash dividends to net income	21.72%	14.94%	6.78%

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