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PERSPECTIVES IN CHALLENGING TIMES

Dear Friends:

We have been in this business a long time and we have both witnessed and managed through some remarkably challenging times. The Coronavirus global pandemic will no doubt go down as an astonishing global event, but we've faced and persevered through extraordinary conditions before, and we will do the same again. We like to think that wisdom and strength are consistent themes that have seen this Bank and four generations of family leadership through many extraordinary times.

Unexpected Events are the Norm:

Just think back to the big dislocating events in our professional lives:

- **The Thrift Crisis:** There was the Thrift Crisis back in the late 1980's. For those of you old enough to recall, over 1,100 thrifts failed during that crisis at a cost to taxpayers of \$175 billion, which was serious money back in those days.
- **Black Monday:** And then in October of 1987, on what will forever be known as "Black Monday," the U.S. experienced a stock market crash of over 22% in a single day (equivalent to the DOW declining over 6,000 points from recent highs) sending global capital markets reeling.
- **Long Term Capital Management:** In 1998, there was the spectacular collapse of Long Term Capital Management, which was believed to have nearly taken down the global financial system with it. Seems to have been a bad combination of really smart people, too much complexity and lots of leverage.
- **The Tech Crash:** Speaking of really smart people, there was the Dot-com bubble back in 2000. As markets tend to do, they got way ahead of themselves in an era of revolutionary technology – the internet. Back then, "first-mover" advantage translated into "whomever spends their start-up capital the fastest, wins." That era brought us great Super Bowl ads, but didn't end well as the

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NASDAQ tech stock index fell nearly 80% and vast fortunes were lost.

- **9/11:** Back in 2001, there were the 9/11 terrorist attacks. Remembered as a “Black Swan” event, this low probability, but high impact moment caught us all by surprise and changed the trajectory of our nation in profound ways.
- **The Great Recession:** And finally, there was the Great Recession back in 2008. That may have been our biggest challenge as bankers. A deep and devastating recession that tested our Company, just as it tested our industry and the country as a whole.

Some of these events were years in the making and born of fundamental structural weaknesses built-up in our economy, like the Dot-com bubble and the Great Recession, while others were shocks straight out of the blue, like Black Monday and Long Term Capital Management. Each of these seminal events had their own unique characteristics, causes and after effects. But they all have one crucial element in common; we as a nation came together and persevered through all the difficulties and dislocations, and moved on to prosper once again.

We believe today is no different.

Make no mistake, the Coronavirus pandemic is a terrible event, causing much hardship and great loss across the globe, and the economic ramifications of the virus are already proving to be serious. But if we view today's events through our banker's lens, it strikes us that the pandemic we are now experiencing is more analogous to the shocking failure of Long Term Capital Management, or the stunning terrorist attacks on 9/11, than the deeply rooted, economic weaknesses exposed by the Great Recession, which caused such tremendous economic damage and took years to resolve. Our belief is that this pandemic will be a relatively short-cycle event, even as the economic impact could be quite severe.

Economic Consequences will be Major, but Dramatic Steps are Being Taken:

While the capital market dislocations this event is causing are severe and the economic ramifications will likely be felt for some time, the resources and measures that are being brought to bear on this difficult issue are equally extraordinary. In March, the Federal Reserve has dropped rates twice in 12 days to near zero, and delivered massive and multiple doses of liquidity to the financial system. Truly “shock and awe” moments. And the steps the Fed has taken are being coordinated with central banks around the world. As we write this, the fiscal side is kicking into gear too, with Congress working on a massive stimulus and economic aid package purportedly in the range of \$1 trillion. As a society, most of us are experiencing various degrees of voluntary, or imposed quarantine with canceled schools, closed businesses and social distancing, all designed to combat the spread of the disease. All of these extraordinary steps will no doubt help mitigate the damage from this terrible virus.

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An Intentional Position of Strength:

At Washington Trust Bank, we have spent the last decade transforming and strengthening our balance sheet in preparation for the next shock. We knew the next shock was coming and we've spent years preparing for it. Experience told us it wouldn't be like the last one and we didn't expect to see it coming, or be able to accurately anticipate its causes. We didn't know how right we'd be.

Our intent over the past decade was to build strength into our balance sheet in order to have the capacity to withstand the unexpected and we believe we have accomplished that objective. To be clear, given wild capital market conditions and the expected impact of the virus on our markets, our clients, and the economy as a whole, we fully expect to have our challenges. This will not be easy. But we have made preparations to better position the Company to meet those challenges.

- **Capital is Substantial:** Our capital position is strong with over \$695 million of shareholders' equity representing 9.71 percent of assets. We have no good will, or other intangible assets that can undermine capital strength. The Company's capital levels at their tightest are \$233 million, or 428 basis points ("bps") above federal regulatory minimums.
- **Significant Loss Absorbing Capacity:** Supporting the Company's capital position are sizeable loan loss reserves of \$96 million, equal to 2.12 percent of loans. At 2.12 percent, the Bank's allowance for loan loss levels are nearly double the industry levels of 1.18 percent reported at the end of 2019.
- **Carrying Strength in the Bond Portfolio:** Fully 99 percent of the Company's bond portfolio is comprised of high quality, U.S. government and government agency securities. We have spent the past several years extending the average maturity of our bonds and with the dramatic decline in rates, the yield on, and value of, our portfolio is now benefitting from that strategy. We knew when trouble came that the Fed could be relied upon to move rates lower to help the economy, and that's just what they've done recently in a very big way.
- **Liquidity Resources are Substantial:** Our liquid resources continue at elevated levels with our liquidity ratio at nearly 33 percent, meaning that roughly one-third of our liabilities are supported by cash and readily marketable securities. We have no outstanding brokered CD's or wholesale borrowings, yet maintain significant borrowing lines with the Federal Home Loan Bank of Des Moines and the Federal Reserve.
- **We are not Immune to the Decline in Rates:** While we can point to significant areas of strength in our balance sheet, we are not immune to the rapid decline in rates. While we model a wide range of rate scenarios to assess our interest rate risk positioning, we admit that we didn't really figure an immediate rate shock of 150 bps was very likely. So that kind of collapse in rates will impact performance as our rate sensitive assets (mostly cash and variable rate loans) adjust downward. And while other parts of our balance sheet are built to do well in a declining rate environment, like our bonds and our fixed rate loans, our variable rate loans will lead to some margin compression and reduced earnings from expected levels.

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Our Partnership with our Clients Remains Paramount:

It is our role in the economy and our job as bankers to support the personal and business banking needs of our clients. We play a crucial role in the vitality of the markets we serve. Our relationship banking business model means that we are key financial partners with our clients, and that is true across the business cycle...in good times and bad. We pride ourselves on supporting our customers as they prosper, and standing by them through difficult times.

Here are some details on how we are responding and what you can expect from us:

- **People:** Given that a contagious virus is at the center of this crisis, the personal safety of all of us is our biggest concern, and that includes our employees, our customers, our families and the communities in which we all live and work. Social distancing is the societal theme that is most crucial in stopping the spread of the virus and so we are adopting that practice, while also making sure we are positioned to serve our customers and transact the important business of the Bank.
- **Branches:** We are curtailing walk-in service at many of our branches, especially those that have drive-thru capabilities. Please check our website for the operating status of all our branches (<https://www.watrust.com/covid19/>), or call our Priority Service staff at 800.788.4578.
- **Electronic Banking:** With current technology, you can accomplish most of your banking needs with our on-line and mobile banking access to your accounts, or through your credit and debit cards.
- **Loans:** Many of the dislocations that we are already reading about in the newspaper and hearing about first hand from many of you, make it clear that this virus and the nation's response to it is putting financial pressure on lots of people. If you find yourself or your business in a tough position as a result of this crisis, let us know. It is deeply ingrained in the heritage of this organization to be most helpful when the needs are greatest. Allow us to help find a workable solution customized to your particular needs. We are here to help.
- **Deposits:** We have intentionally built strength into our balance sheet for times just like these. When concerns run high, your bank is the safest place for your cash. We understand the anxiety of the moment, but don't let these times expose you to the risk of carrying around too much cash; it is safest here. Our electronic bill payment capabilities, and your debit and credit cards are the best and safest mechanisms for all your payment needs.
- **Wealth Management:** While price moves in equities, bonds, commodities and currencies have been breathtaking, our wealth management strategy has always been designed to hold up well in difficult conditions. When fear grips the market, our experience tells us that a calm, wise and disciplined approach is the right perspective.

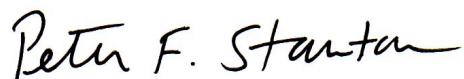
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As we enter the months ahead, we will be in close contact with our customers and leaders in the communities we serve. As bankers, we recognize our critical responsibility to safeguard our clients' funds and to keep the lifeblood of credit availability flowing to our customers. Like a pilot who makes a safe landing in inclement weather, we know that now is the time we really demonstrate the value of our relationship with our customers. Each of us at Washington Trust Bank are here to help in any way we can.

Our best regards to you and your family,



Pete Stanton

Chairman of the Board and Chief Executive Officer



Jack Heath

President and Chief Operating Officer

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