

2021

# W.T.B. Financial Corporation Annual Shareholders' Meeting

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Presented by:  
Larry Sorensen  
Chief Financial Officer

# FORWARD LOOKING STATEMENTS

This presentation contains “forward-looking statements” within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward looking statements can be identified by words such as “anticipates,” “intends,” “plans,” “seeks,” “believes,” “estimates,” “expects” and similar references to future periods. Examples of forward-looking statements include, but are not limited to, statements we make regarding our evaluation of macro-environment risks, Federal Reserve rate management, and trends reflecting things such a regulatory capital standards and adequacy. Forward looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our actual results may differ materially from those contemplated by the forward-looking statements. We caution you therefore against relying on any of these forward-looking statements. They are neither statements of historical fact or guarantees or assurances of future performance. Important factors that could cause actual results to differ materially from those in the forward-looking statement include:

- the ability to attract new deposits and loans;
- demand for financial services in our market areas;
- competitive market pricing factors;
- deterioration in economic conditions that could result in increased loan losses;
- actions by competitors and other market participants that could have an adverse impact on our expected performance;
- risks associated with concentrations in real estate related loans;
- market interest rate volatility;
- stability of funding sources and continued availability of borrowings;
- risk associated with potential cyber threats;
- changes in legal or regulatory requirements or the results of regulatory examinations that could restrict growth;
- the ability to recruit and retain key management and staff;
- the ability to raise capital or incur debt on reasonable terms;
- effectiveness of legislation and regulatory efforts to help the U.S. and global financial markets.

There are many factors that could cause actual results to differ materially from those contemplated by forward-looking statements. Any forward-looking statement made by us in this presentation speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publically update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

# W.T.B. Financial Corporation Company Overview

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# MISSION AND GEOGRAPHIC FOOTPRINT

## Our Mission

We will **be the best** at understanding and meeting the **financial needs of our customers**.

We will focus our unique strengths as a community bank on serving those customers who perceive a distinct value **in building long-term relationships** with us.

We will be **empowered to act** on behalf of Washington Trust to meet our customers' needs and will have the competencies to fulfill this mission.

We will conduct ourselves in accordance with our **guiding principles**.

We will organize and manage to best support one another in these efforts and to ensure the **long-term** viability of the Bank.”

## Markets Served



# CORE IDENTITY

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- **Pacific Northwest regional community bank**
  - Over 110 years of heritage
  - 4th generation Chairman and CEO
- **Private ownership and family heritage**
  - Conservative risk profile
  - Balance sheet strength
  - Capital management discipline
  - Risk adjusted performance
  - Long-term franchise and shareholder value
- **Business model: Relationship banking**
  - High value customer relationships
  - Organic customer growth
- **Broad product line and customer base**
  - Commercial banking customer focus
  - Retail and private banking clients
  - Wealth Management/Trust expertise

# FINANCIAL MANAGEMENT PRINCIPLES

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## Balance sheet strength:

- Credit discipline...strong allowance position
- Capital management
- Ample liquidity resources
- Moderate interest rate risk position
- Ensure strength > risk exposures

## Shareholder value / Capital discipline:

- Maintain capital adequacy
- Internal capital generation for growth
- Competitive return on capital
- Minimize dilution
- Ownership, BV/share, and earnings

## Consistent risk adjusted performance:

- Operate within established risk limits
- Recurring earning power (earning assets = 98% of TA)
- Strive for durability across the business cycle

# 2020 BIG WTBFC THEMES AND ISSUES

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## **Pandemic a Major Global Shock:**

- Societal disruption
- Remote work

## **Volatile Economic Landscape:**

- GDP plummets
- Unemployment spikes

## **Unprecedented Financial Markets:**

- Dramatic policy moves by the Fed
- Record low rates
- Massive fiscal stimulus / deficits

## **Company Response:**

- Positioned for the unexpected
  - Balance sheet strength
  - Capacity to withstand risk is not free
- Credit Support to Borrowers
  - PPP\* loans and payment deferrals
  - Credit stress seems to be isolated
- Deposit inflows drove liquidity / asset growth
- Earning power increased
- Provision expense fortified allowance position
- Earnings down, but solid given circumstances

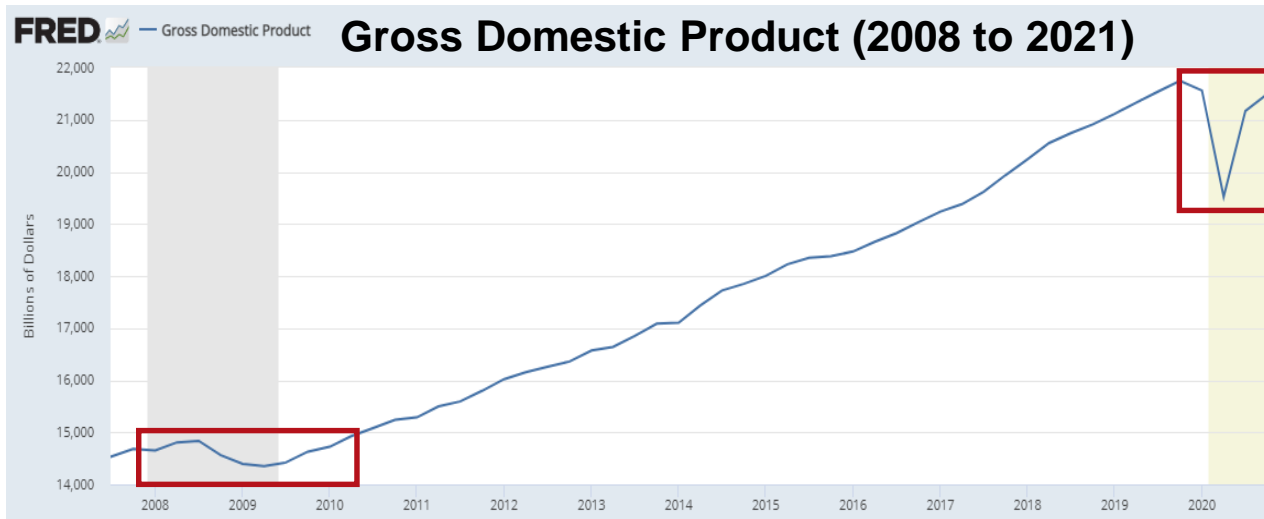
\* The Small Business Administration's Paycheck Protection (loan) Program ("PPP")

# Operating Environment

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# COVID-19 ECONOMIC IMPACT UNPRECEDENTED



## Great Recession

- Unemployment rate spiked from 3.5% to 14.8% in just 2 months
- Then recovered to 6.0% one-year later
- Full recovery in the Great Recession took 8 years

## Pandemic

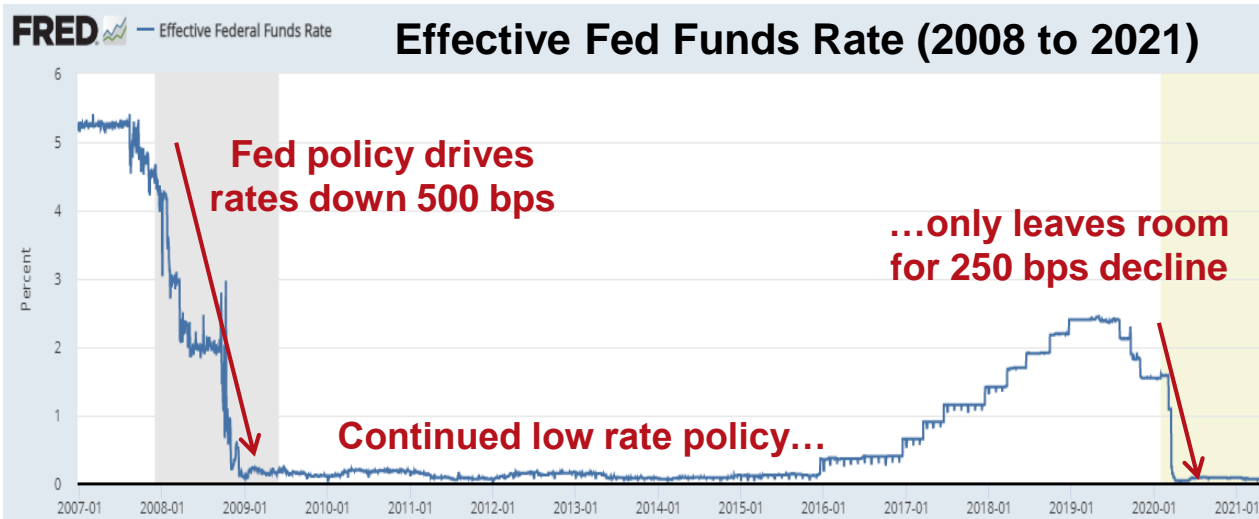
- GDP Plummeted 31.4% in Q2 2020
- Then recovered 33.4% in Q3 2020
- Great recession looks mild by comparison, but recovery much slower



## Great Recession

## Pandemic

# RATES PLUMMET...10-YEAR UST RECORD LOW

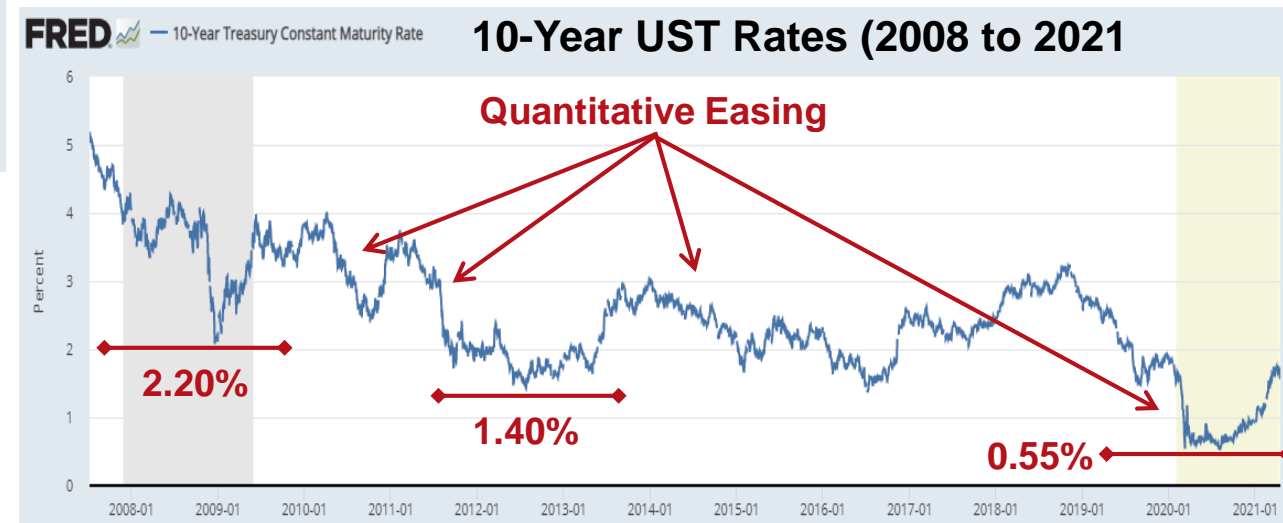


**Great Recession**

**Pandemic**

- 10-year UST yields successively lower as Fed policy tools (Quantitative Easing) focus further out on the curve
- Low rates across the yield curve drive asset yields and margin lower

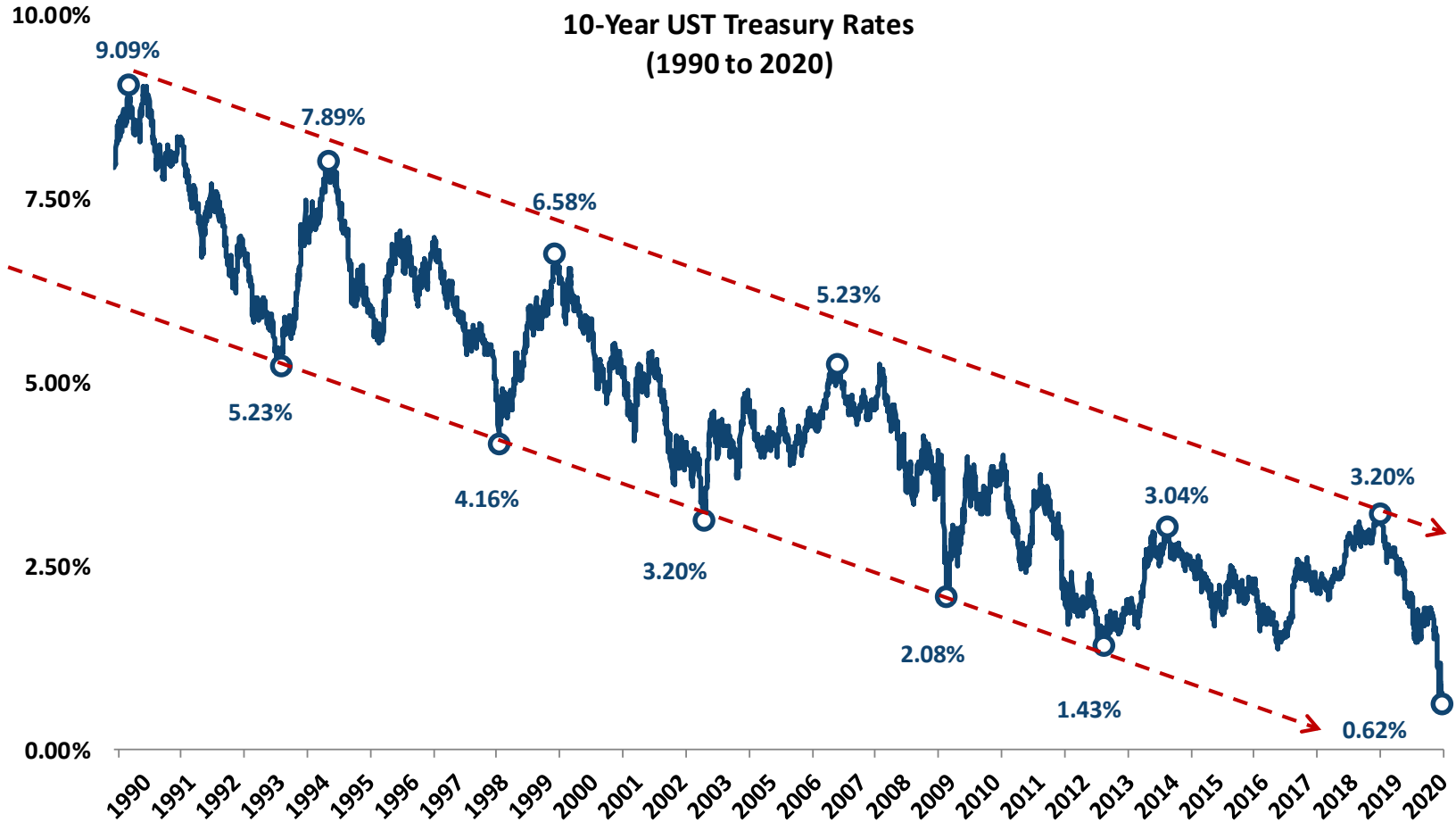
- Fed Policy takes short term rates to zero for second time in 13 years
- Low rate policy meant Fed only had 250 bps of “policy room” to stimulate recovery



**Great Recession**

**Pandemic**

# LOWER HIGHS AND LOWER LOWS



## Implications:

- Loan pricing pressure
- Accelerating refinance activity
- Lower reinvestment yields
- Funding costs hit “zero bound”
- Margin compression
- Earnings growth challenges

# Industry Themes

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# 2020 MAJOR INDUSTRY THEMES

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- **Growth records:**
  - Assets increased \$3.2 trillion, or 17%...next highest: 11% in 2004
  - Securities increased \$1.1 trillion, or 28%...next highest: 23% in 2009
  - Cash position increased \$1.5 trillion, or 91%...2<sup>nd</sup> highest in history
  - Deposits increased \$3.3 trillion, or 23%...next highest was 11% in 2004
- **Credit performance:**
  - Noncurrent loans = 1.18% in Q4...peak was 5.46% in 2010
  - Net charge-offs averaged 0.50% of loans...Peak was 3.00% in 2009
  - Provision expense increase 2<sup>nd</sup> highest ever at 140.0% (CECL a big factor)
  - Allowance for loan losses to loans up 100 bps to 2.18%...peak was 3.51% in 2010
- **Financial performance:**
  - Provision expense increased \$77 billion, or 140% to \$132 billion
  - Net interest margin narrowed 54 bps to 2.82%...Largest YoY decline / lowest level on record
  - Earnings declined \$85 billion, or 36.5% to \$148 billion
  - Return on assets declined 57 bps to 0.72%
  - Return on equity declined 450 bps to 6.88%

# EARNINGS COMPARISON...INDUSTRY AND WTBF

Income Statement:	Industry (Millions)				W.T.B. Financial Corporation (000's)			
	Year		Net Change		Year		Net Change	
	2019	2020	\$'s	%	2019	2020	\$'s	%
Net Interest Revenue	\$ 546,669	\$ 526,645	\$ (20,024)	-3.7%	\$ 255,058	\$ 272,257	\$ 17,199	6.7%
Provision Expense	55,101	132,229	\$ 77,127	140.0%	3,200	33,000	29,800	931.3%
Noninterest Revenue	264,374	280,242	\$ 15,868	6.0%	48,297	67,372	19,075	39.5%
Noninterest Expense	466,149	498,154	\$ 32,005	6.9%	193,416	208,740	15,324	7.9%
Net Income before Taxes	289,793	176,505	\$ (113,288)	-39.1%	106,739	97,889	(8,850)	-8.3%
Taxes	60,926	36,443	\$ (24,484)	-40.2%	23,455	21,577	(1,878)	-8.0%
<b>Net Income</b>	<b>\$ 232,772</b>	<b>\$ 147,870</b>	<b>\$ (84,902)</b>	<b>-36.5%</b>	<b>\$ 83,284</b>	<b>\$ 76,312</b>	<b>\$ (6,972)</b>	<b>-8.4%</b>
<b>PPNR *</b>	<b>\$ 348,800</b>	<b>\$ 316,541</b>	<b>(32,258)</b>	<b>-9.2%</b>	<b>\$ 109,939</b>	<b>\$ 130,889</b>	<b>\$ 20,950</b>	<b>19.1%</b>

\* PPNR = Pre-Provision Pre-Tax Net Revenue

- WTBF net interest revenue up YoY
- Elevated provision expense big factor in performance
- WTBF noninterest revenue up significantly on SFR refi boom
- Earnings down for WTBF and the industry, largely due to potential for credit concerns
- WTBF earning power (PPNR) up strong on higher revenues

# FIN TECH SECTOR MAP



The graphic above shows only a sampling of companies in each category. \*Data cumulative through February 2021.

- Innovation and disruption continues
- Increasing vendor dependencies a challenge
- Rationalizing and integrating technology a major priority
- Executing and delivering to and for clients is crucial
- Technology spend will continue to be significant

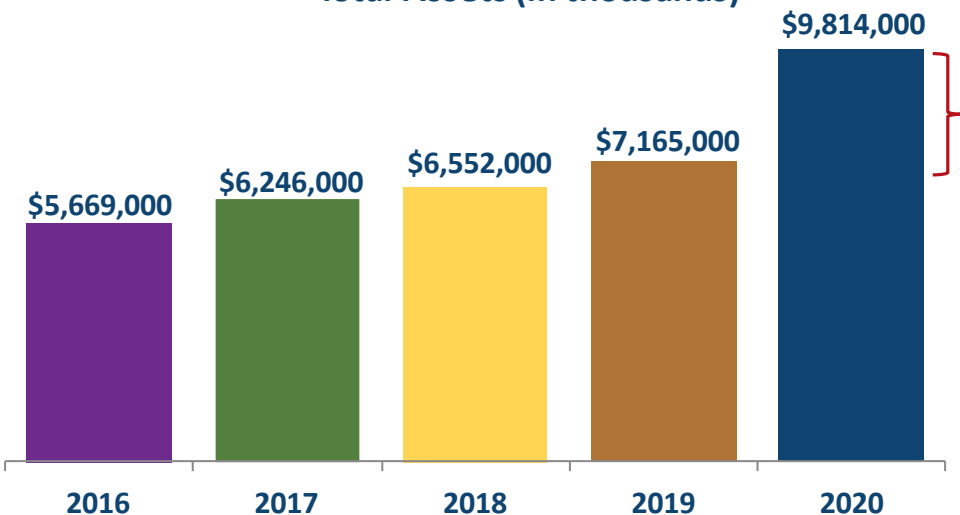
# WTBFC 2020 Performance in Perspective

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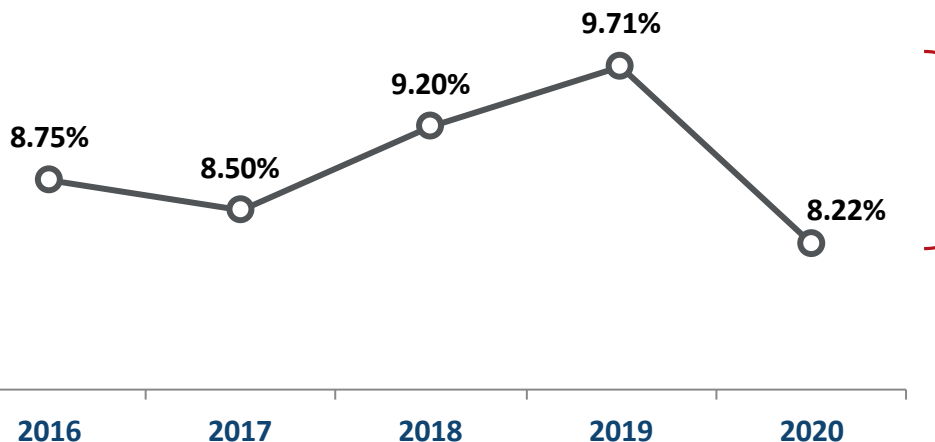
# ASSETS AND SHAREHOLDERS' EQUITY

Total Assets (in thousands)

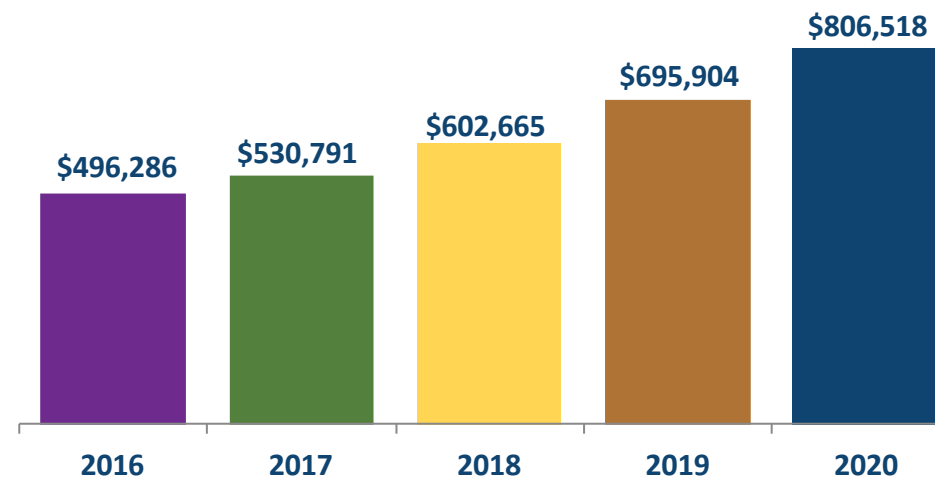


- Assets + \$2.6 billion, or 37% in 2020
  - PPP Loan program and organic deposit growth drove assets higher
- Shareholders' equity + \$111 million, or 16% in 2020
  - Earnings and improved bond valuations drove capital higher
  - Rising rates taking back some unrealized bond gains
- Common equity to assets decreased 149 bps to 8.22% due to record asset growth
- Capital quality is high and asset growth all in cash, bonds and PPP loans

Shareholders' Equity to Assets (%)

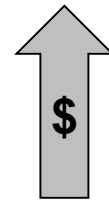
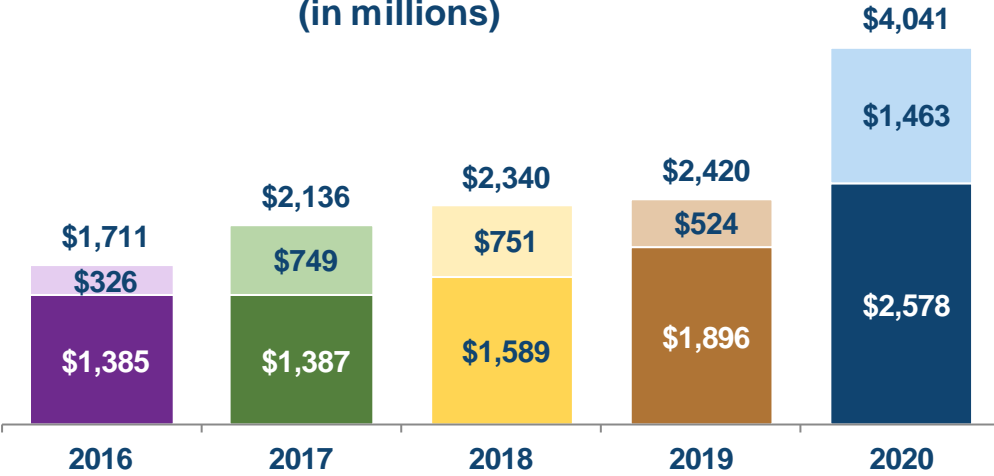


Shareholders' Equity (in thousands)



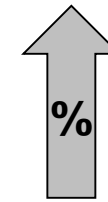
# INVESTIBLE CASH AND SECURITIES TRENDS

Investible Cash (upper) and Securities (lower) (in millions)



**\$1.6 Billion**

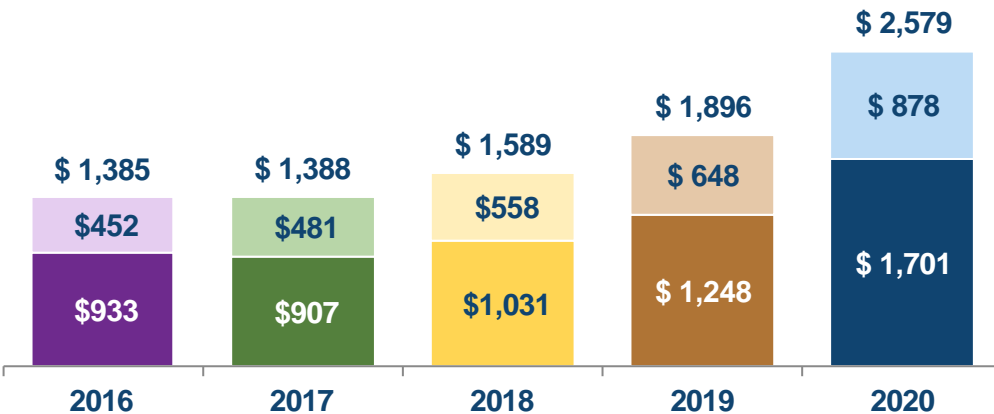
\$ Growth over the Past Year



**67%**

% Growth over the Past Year

Securities HTM (upper) and AFS (lower) (in millions)



- Growth in cash and securities reflects extraordinary deposit growth during the year
  - PPP drove growth in Q2 2020
  - Organic funding drove growth 2H of 2020
- Liquidity position at record levels
- Low rates complicate reinvestment
- Portfolio comprised of all U.S government and government agency issuances

# DEPOSIT PORTFOLIO TRENDS

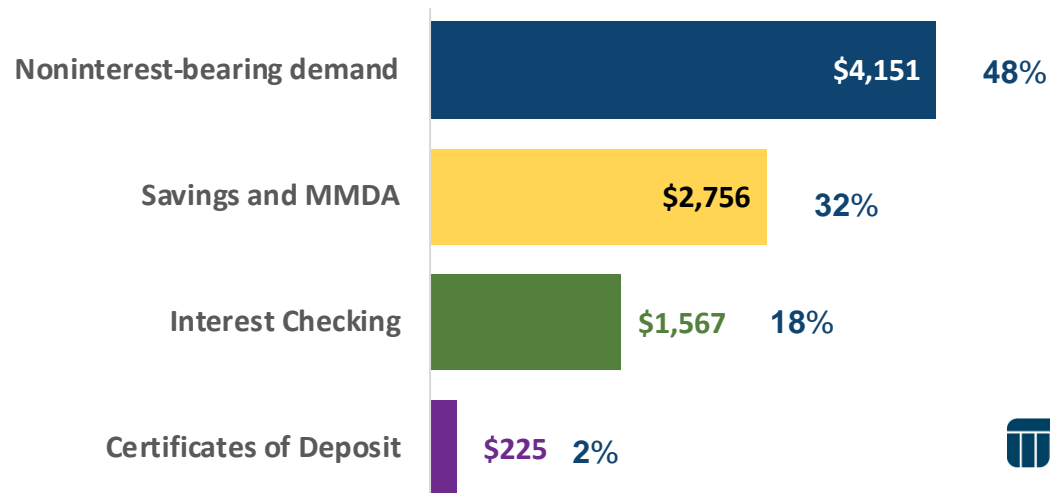
Total Deposits  
(in millions)



↑  
\$ \$2.5 Billion  
\$ Growth over the Past Year

↑  
% 39.7%  
% Growth over the Past Year

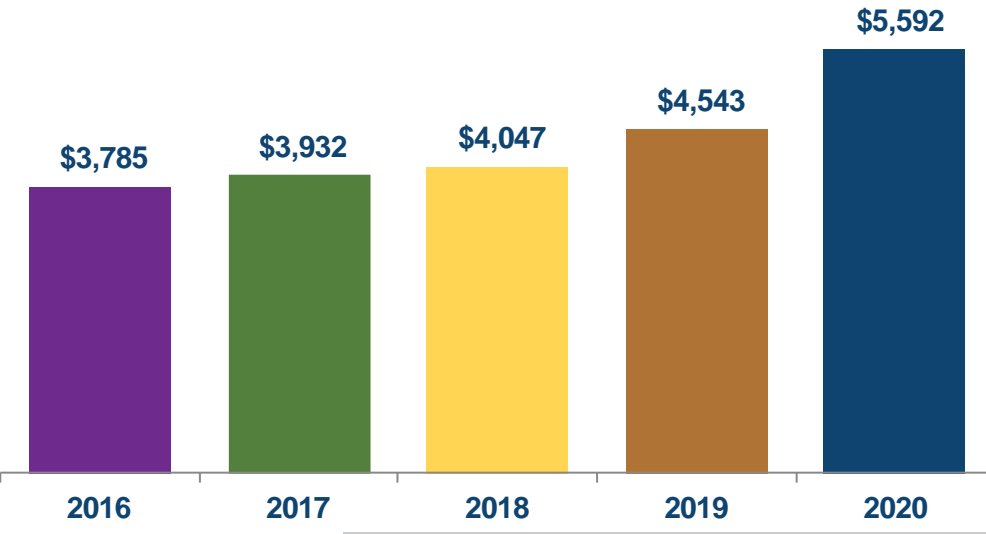
Deposit Mix (in millions)

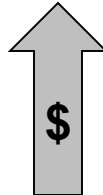


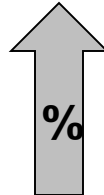
- Deposit growth extraordinary throughout 2020
  - 1<sup>st</sup> half up \$1.3 billion...mostly due to PPP loans
  - 2<sup>nd</sup> half up \$1.2 billion...all relationship growth
- Vast majority of deposits are relationship based
- Noninterest demand deposits = 48% of total deposits
- Low rate environment:
  - Favors noninterest bearing demand
  - Discourages CD balances
- Funding costs at historic low (0.13% in Q4)

# LOAN PORTFOLIO TRENDS

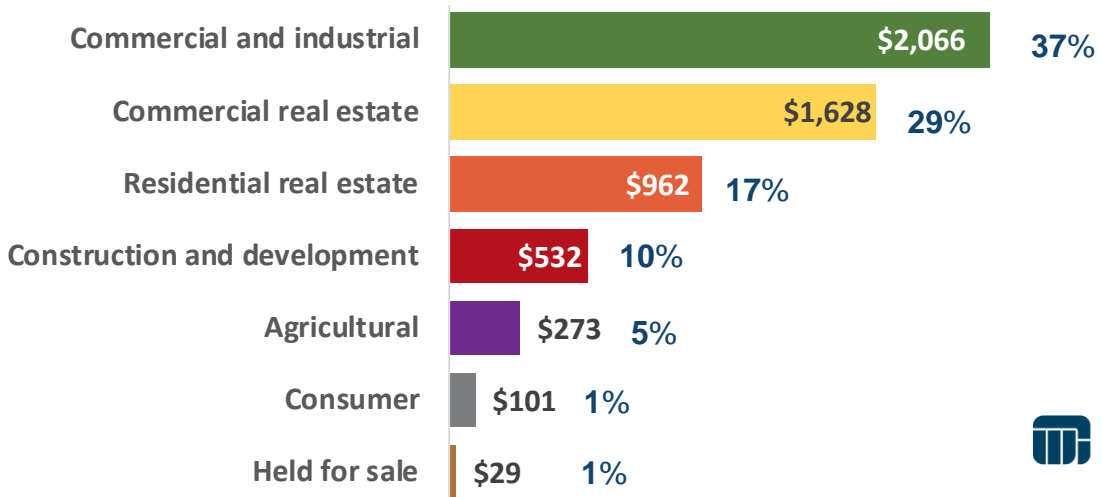
Total Loans (in millions)




**\$1.0 Billion**  
 \$ Growth over the Past Year


**23.1%**  
 % Growth over the Past Year

Portfolio Loan Mix (in millions)



- Loan growth was largely due to the PPP loan program
- C&I loans now the largest loan category
  - Largely due to PPP loan program
  - Likely temporary in nature, until SBA forgiveness
- Vast majority of loans are relationship based
- Low rate environment:
  - Pressured yields (down 54 bps to 4.42% in Q4)
  - Drove high level of refinance activity

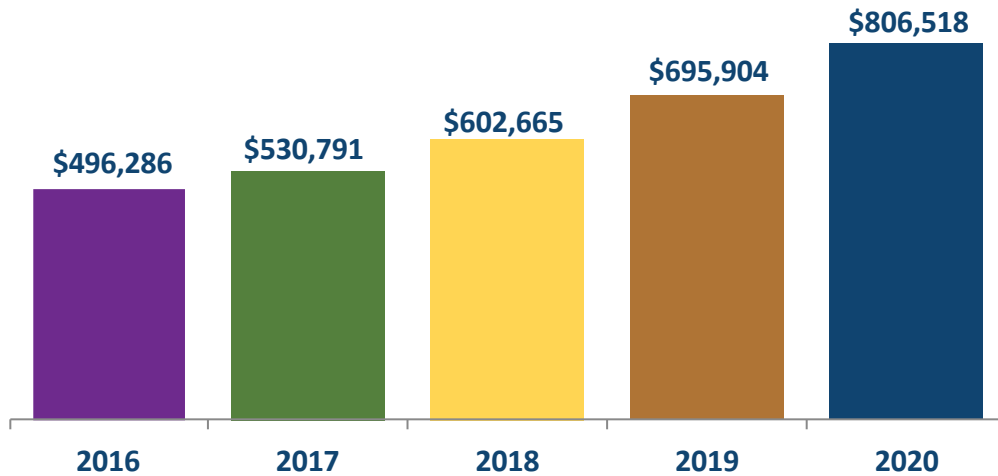
# CAPITAL PERSPECTIVE AND FRAMEWORK

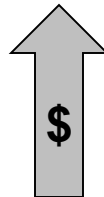
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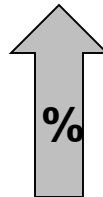
- **Capital levels and ratios are strong**
  - Equity equals \$807 million, or 8.22% of assets (down 149 bps YoY due to asset growth)
  - Regulatory capital well above regulatory minimums
    - Unallocated capital = \$202 million and 306 bps
- **Capital quality is high**
  - No intangible assets
- **Strong allowance position supports capital strength**
  - \$133 million, or 2.38% of loans (2.88% excluding SBA guaranteed PPP loans)
  - \$139 million, or 2.39% of loans at end of Q1 2021 (2.98% excluding PPP loans)
- **Retained earnings growth funded by:**
  - Earnings (\$76 million in 2020 and \$20.7 million in Q1 2021)
  - Bond valuations (unrealized gains increased \$54.6 million after-tax in 2020)
    - As rates rise, we will give some of these gains back
- **Balance sheet growth in 2020 (\$2.6 billion) comprised of cash, bonds and PPP loans**

# FOCUS ON CAPITAL

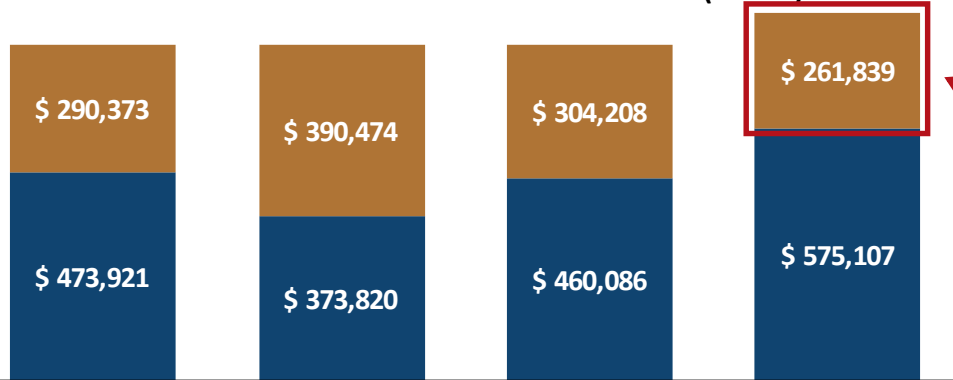
Shareholders' Equity (in thousands)




**\$110.6 million**  
 \$ Growth over the Past Year

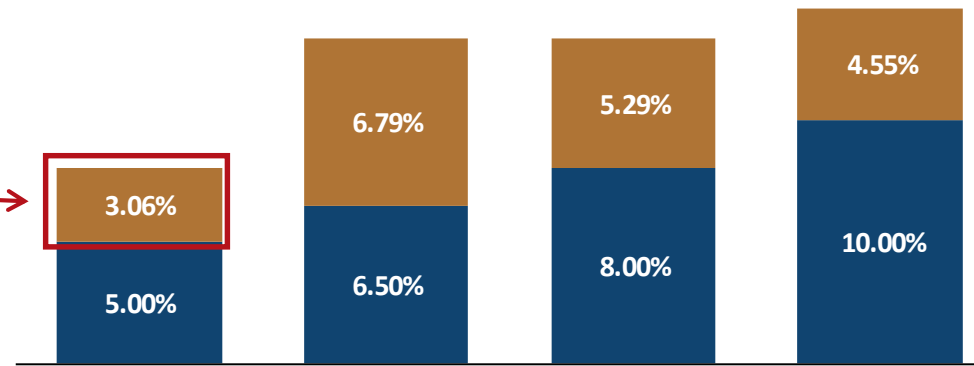

**15.9%**  
 % Growth over the Past Year

WTBFC REGULATORY CAPITAL POSITION (000'S)



**"Tightest" unallocated capital**  
**\$262 million,**  
**or 306 bps**  
**above regulatory minimums**

WTBFC REGULATORY CAPITAL RATIOS



# CREDIT PERFORMANCE

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- **Credit performance has been strong**
  - Noncurrent loans remain at low levels (< 0.25% of assets)
  - Charge-offs less than recoveries over past four years
  - Non-pandemic impacted borrowers generally in strong and liquid financial condition
- **Internal risk ratings show isolated rise in difficulties**
  - Pandemic impacted clients prominent
  - PPP loans / payment deferrals helping minimize loan payment challenges
- **Allowance position strengthened**
  - Provision expense and recoveries boost ALLL \$36 million, or nearly 38%
  - ALLL totals \$133 million, or 2.38% of loans
    - 2.88% excluding SBA guaranteed PPP loans
- **PPP lending a major boost to clients and credit performance**
  - Over \$560 million in 1<sup>st</sup> round of PPP loans have been forgiven
  - 2<sup>nd</sup> Round of PPP lending added over \$400 million of relief to clients

# CREDIT RELIEF DURING PANDEMIC

PPP Loans:								
Originations		Outstanding Principal Amount						
		Q1 2020		Q4 2020		Q1 2021		
Count	Balance	Count	Balance	Count	Balance	Count	Balance	
Round 1	5,512	\$ 1,310,108,000	-	\$ -	4,529	\$ 983,107,000	2,314	\$ 748,138,000
Round 2	2,489	\$ 413,071,000	-	\$ -	-		2,475	\$ 411,684,000
<b>Totals</b>	<b>8,001</b>	<b>\$ 1,723,179,000</b>	<b>-</b>	<b>\$ -</b>	<b>4,529</b>	<b>\$ 983,107,000</b>	<b>4,789</b>	<b>\$ 1,159,822,000</b>

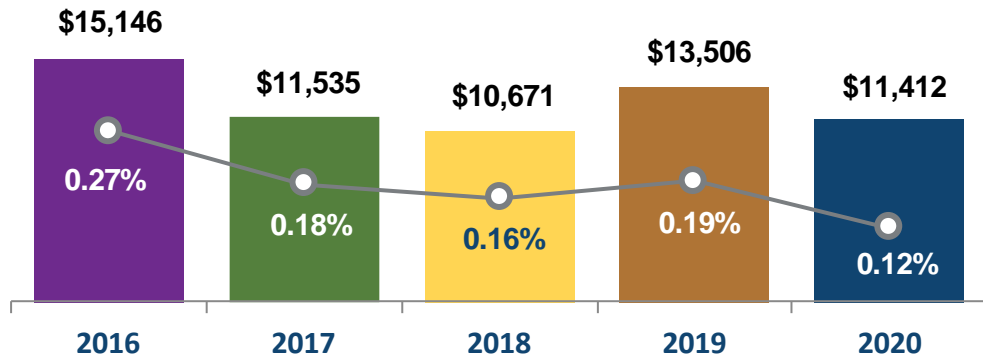
Payment Deferrals								
Loans Impacted		Outstandings						
		Q1 2020		Q4 2020		Q1 2021		
Count	Balance	Count	Balance	Count	Balance	Count	Balance	
Accommodations	682	\$ 538,198,000	143	\$ 99,198,000	18	\$ 30,124,000	18	\$ 14,729,000

- Credit relief was made available to nearly 9,000 clients
  - SBA guaranteed PPP loans
    - Participants totaled over 8,000 and \$1.7 billion...and counting
    - PPP loans are SBA guaranteed and forgivable for the client
    - Over \$500 million has been forgiven to date
  - Loan payment deferrals
    - Nearly 700 customers benefitted covering more than \$500 million in debt
    - Less than 20 customers with payment accommodations remain



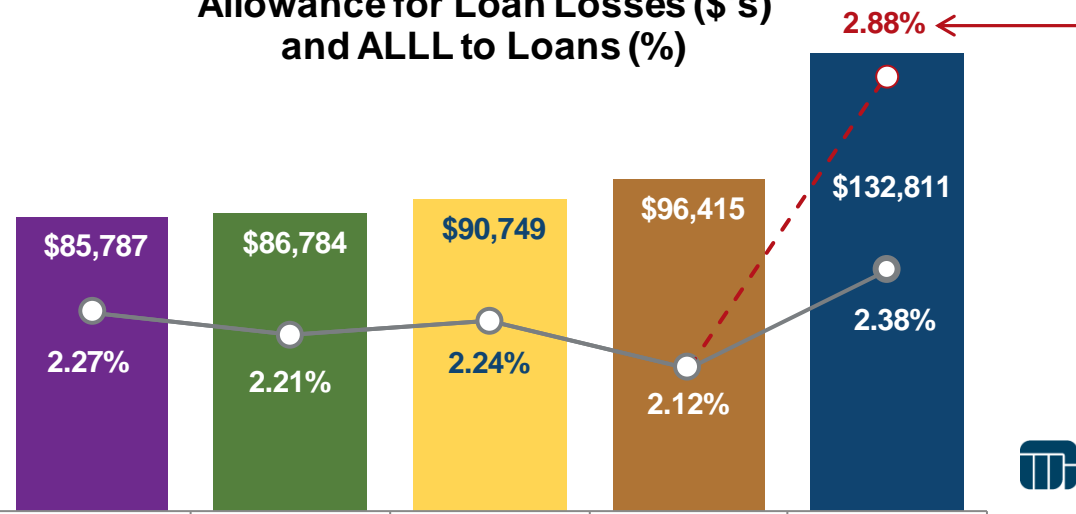
# CREDIT PERFORMANCE METRICS

**Nonaccrual Loans and ORE and % of Assets**



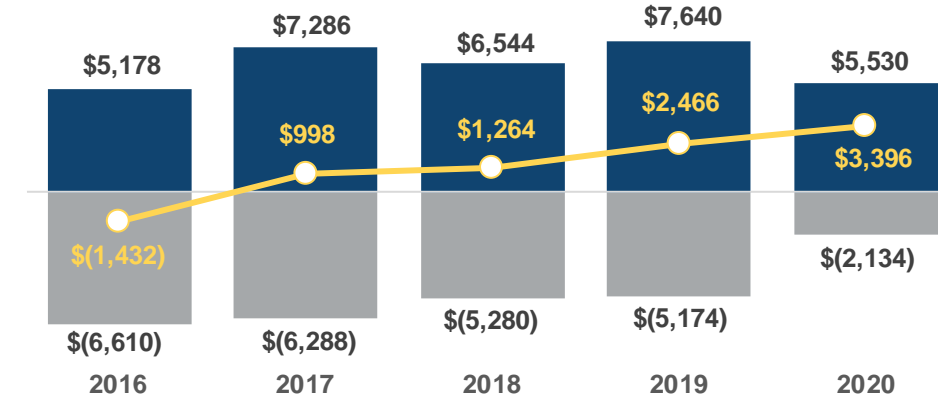
- Nonaccrual loans remain low by historical standards
- Nonaccrual loans < 0.25% of assets
- PPP loans and authorized payment deferrals provided relief to borrowers
- Allowance for loan losses increased significantly in 2020 due to elevated uncertainty
- Charge-offs remain at low levels
- Net recoveries for past 4 years

**Allowance for Loan Losses (\$'s) and ALLL to Loans (%)**



**Excluding SBA guaranteed PPP loans boosts ALLL to loans to a strong 2.88%**

**Loan (Charge-Offs), Recoveries and Net**



# WEALTH MANAGEMENT AND TRUST DIVISION

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## Key business line...compliments banking client book

- Competitive advantage for high value and affluent customers
- Long-term, relationship based business line

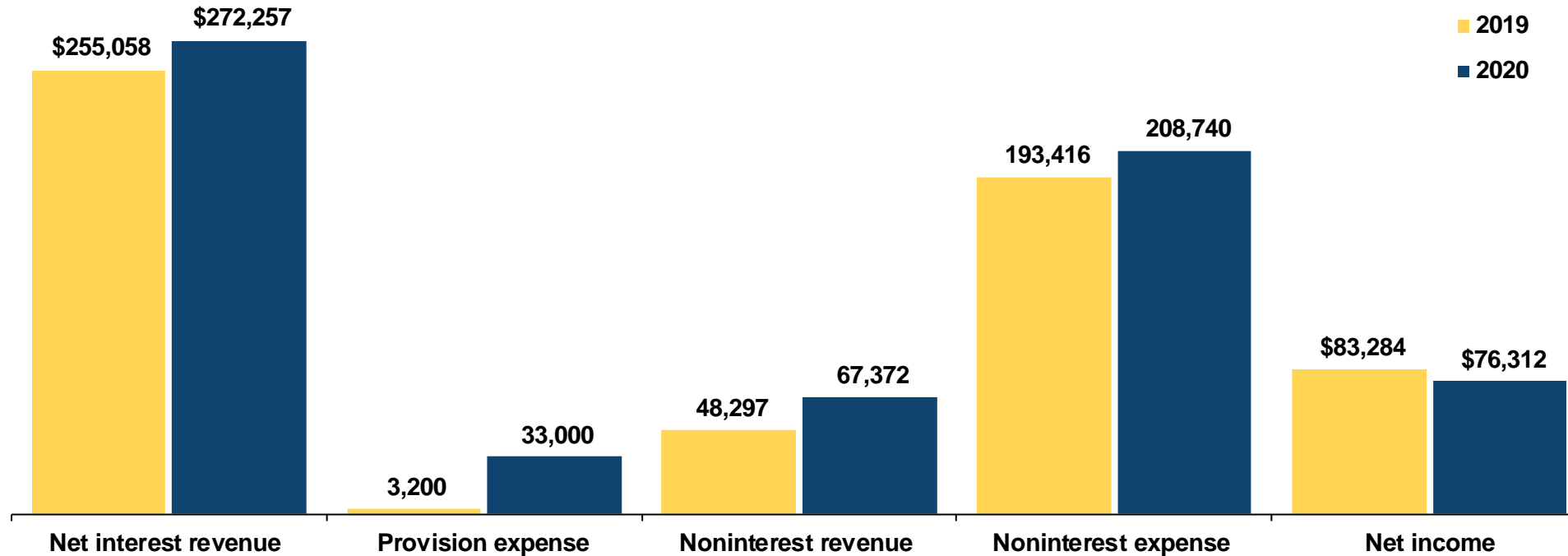
## Attractive financial dynamics

- Stable, fee income based business
  - Recurring revenue stream
  - Diversifies revenue base
- Off-balance sheet business line
- Capital neutral/Capital efficient
- Profitability enhances ROA and ROE

## Financial Performance:

- Nearly \$7.5 billion portfolio of assets
  - 11.9% compound annual growth rate in assets past 5 years
  - 6.5% compound annual growth rate in revenues past 5 years

# INCOME STATEMENT OVERVIEW



- Total revenues grow \$36 million, or 12%
- Credit uncertainty drove provision expense higher by \$30 million
- Net income declined \$7.0 million, or 8.4% YoY
- Provision expense drove earnings lower, yet sits in ALLL protecting against potential future losses

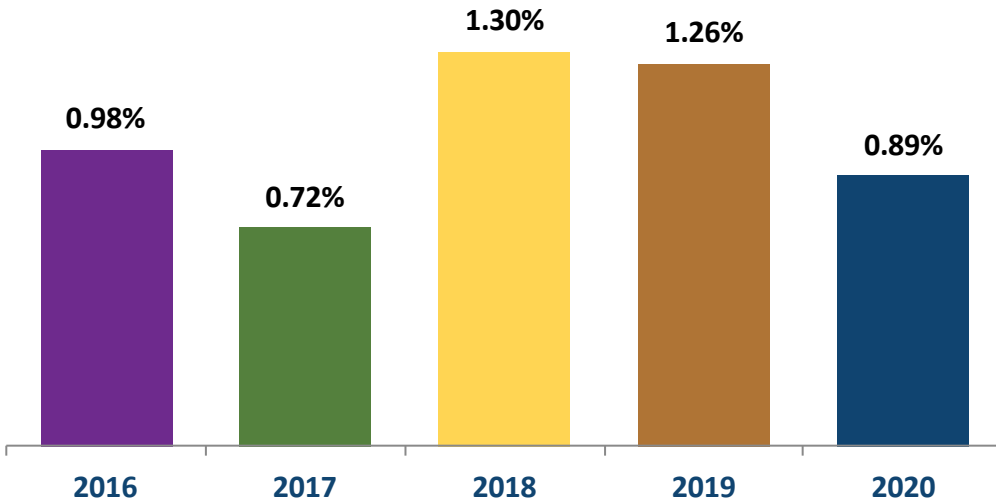
Income Statement (000's)	Years Ended December 31,		\$ Difference	% Change
	2019	2020		
Net interest revenue	\$ 255,058	\$ 272,257	\$ 17,200	6.7%
Provision for loan losses	3,200	33,000	29,800	931.3%
Noninterest revenue	48,297	67,372	19,075	39.5%
Noninterest expense	193,416	208,740	15,324	7.9%
Pre-tax income	106,739	97,889	(8,850)	-8.3%
Net income	\$ 83,284	\$ 76,312	\$ (6,973)	-8.4%

# WTBFC FINANCIAL PERFORMANCE METRICS

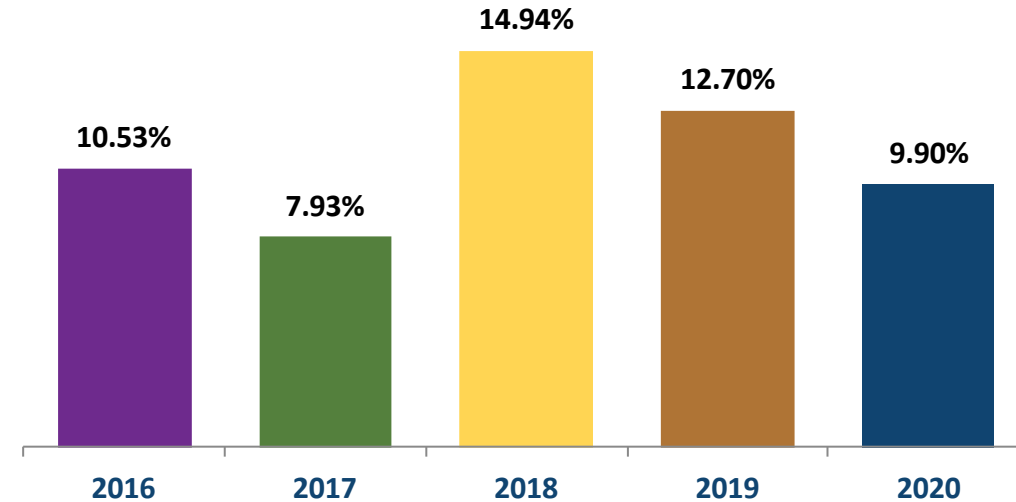
Performance Metric	For the Year		Difference
	2019	2020	
Return on average assets	1.26%	0.89%	-0.37%
Return on shareholders' equity	12.70%	9.90%	-2.80%
Margin on average earning assets	3.97%	3.28%	-0.69%
Noninterest expense to average assets	2.93%	2.43%	-0.50%
Efficiency ratio	63.7%	61.4%	-2.30%

- Growth in assets, equity and earning assets drove much of the decline in performance metrics
- Earning asset mix along with lower rates drove decline in margin

Return on Assets



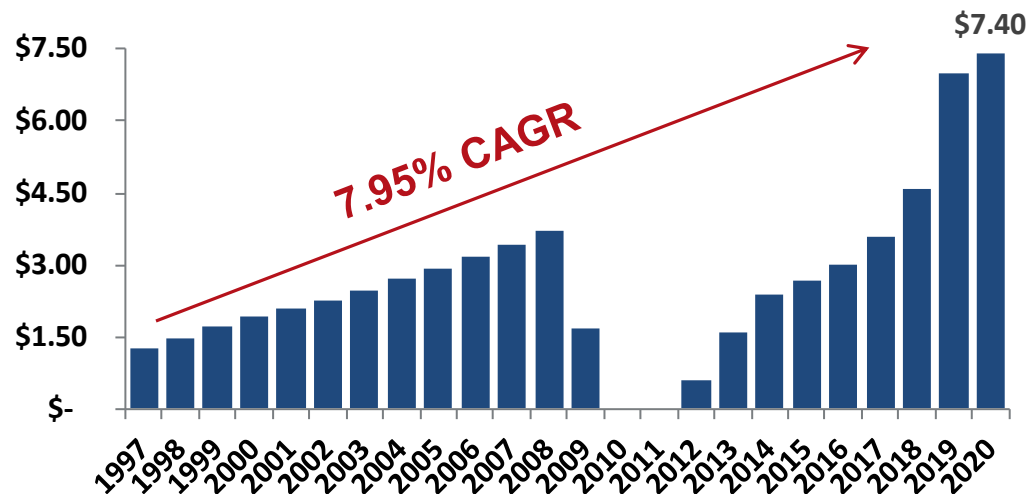
Return on Average Total Equity



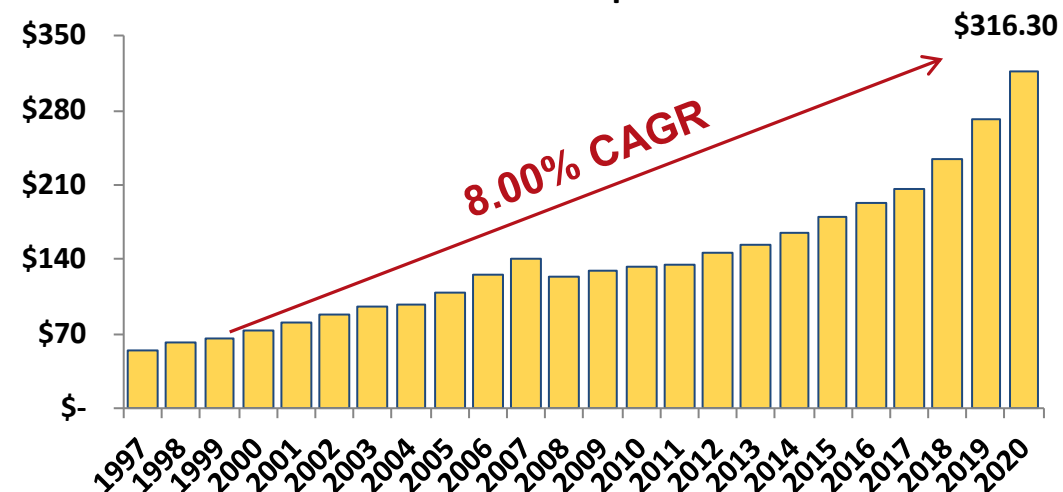
# WTBFC SHAREHOLDER VALUE METRICS

Income (000's) and Per Share Data	Years Ended December 31,		\$ Difference	% Change
	2019	2020		
Net Income	\$ 83,284	\$ 76,312	\$ (6,972)	-8.4%
Diluted Earnings per Common Share	\$ 32.56	\$ 30.06	\$ (2.50)	-7.7%
Dividends per Common Share	\$ 7.00	\$ 7.40	\$ 0.40	5.7%
Book Value per Common Share	\$ 272.23	\$ 316.30	\$ 44.07	16.2%

WTBFC Regularly Common Dividends per Share



WTBFC Book Value per Share



# WTBFC Q1 2021 HIGHLIGHTS

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- Assets up \$294 million, or 3.0% QoQ to \$10.1 billion
  - 2<sup>nd</sup> round of PPP loans drove growth in loans (\$241 million) and deposits (\$305 million)
- Shareholders' equity declined \$30 million, or 3.7% to \$777 million
  - Book value per share down \$12.46, or 3.9 percent to \$303.84 on lower bond valuations
  - Available for sale bond valuations decline on rising rates adversely impacting bond valuations
- Q1 2021 earnings \$20.7 million, up 10.0%, or \$1.9 million QoQ
  - Provision expense of \$6.0 million drove ALLL to \$139 million, or 2.39% of loans
    - Noncurrent loans up \$22.9 million to \$34.3 million on one large credit
    - ALLL to loans totaled 2.98% if SBA guaranteed PPP loans are excluded

# CLOSING THOUGHTS

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- 2020 was a remarkably strong year given highly dynamic external environment
  - Q1 was a strong start to 2021
- Lots of issues to navigate:
  - Complete participation in 2<sup>nd</sup> round of PPP loans on clients' behalf
  - Heavily manipulated and dynamic rate environment
  - Maintain earning power with rate pressures and PPP loan forgiveness
  - Crossing over \$10 billion in assets
  - Return to office...maybe end of summer/fall?
- We continue to like our positioning
  - Strength, execution on PPP and strong customer base
  - Having competitive success in the marketplace
  - We expect 2021 and beyond to be challenging

**Thank you  
for your support!**