

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

April 20, 2023

Dear Shareholders:

Central bank policies have been a dominant force shaping the interest rate and financial system landscape for more than a decade, and those forces intensified over the past several years. Sustained, ultra-low interest rates beginning way back in 2008, combined with a series of four quantitative easing policy actions by the Fed, drove liquidity into the financial system and significant industry deposit growth. Then last spring, persistent inflation prompted the Fed to raise rates faster and higher than even they were projecting. Whenever market conditions shift, all market participants adapt to the new landscape, and this past year was no exception. With rates up significantly, yields rose, margin widened, and performance remained strong over the past year. Higher rates also intensified the competitive landscape for funding as some of those deposits accumulated over the years finally had some compelling yield levels to consider. With this new environment, banks are raising rates to more competitive levels in order to meet client needs and retain customer funds. With that background information, let's move to our quarterly performance.

Earnings for the first quarter totaled \$22.3 million, up \$1.5 million from the first quarter of last year, but down \$3.7 million from the previous quarter's results. For the quarter, diluted earnings per share totaled \$8.88, which was up \$0.66 per share from one-year ago, but down \$1.47 from last quarter. Return on assets was 0.87 percent for the quarter, up 10 bps from last year, while return on equity was 10.49 percent, up 38 bps from last year.

A big driver of the Company's better year-over-year performance was interest revenue, which grew by \$26.8 million to \$98.6 million, whereas interest expense, which tends to respond more slowly to rising rates, only increased \$14.9 million to \$16.8 million. With earning asset yields increasing faster than funding costs, net interest revenue increased \$11.9 million, or 17 percent to \$81.8 million year-over-year. In the most recent linked quarter view, that dynamic reversed as funding costs rose faster than interest revenue. For the March of 2023 versus December of 2022 quarters, interest revenue increased \$1.2 million, while funding costs grew \$9.7 million, resulting in net interest revenue decreasing \$8.5 million to \$81.8 million. Net interest margin year-over-year grew 63

basis points to 3.29 percent, while quarter-over-quarter, we gave some of that improvement back as margin declined 18 bps to 3.29 percent. Overall, for the quarter, the Bank's cost of interest bearing deposits was 0.93 percent, up 80 basis points ("bps") from one-year ago, while the cost of overall funding, which includes both borrowings and noninterest bearing demand deposits, came in at 0.73 percent, up 65 bps over one-year ago. We do expect continued funding cost and margin pressure in the future as I don't think we are through adapting our deposit pricing to current market conditions.

Higher rate levels over the past 12 months have had an impact on the balance sheet, and the funding side of the business was where most of the dynamic was, but let's start with assets. Total assets were up \$92 million, or 0.9 percent over the previous quarter to \$10.5 billion at the end of March, but down \$569 million, or 5.1 percent year-over-year. The Bank's cash position declined from abnormally high levels one year ago of \$1.6 billion to a still considerable position of \$341 million at the end of the first quarter. Loan growth over the past year was strong at \$648 million, or 11.9 percent, which helped deploy some of our cash. The sharp rise in market interest rates could well be finally having a dampening effect, as loan growth slowed in the first quarter to \$57 million, leaving total loans at \$6.1 billion at the end of March. Asset quality remained excellent as noncurrent loans totaled just \$4.1 million, or 0.07 percent of total loans, while our allowance for credit losses position was substantial at \$139 million, or 2.28 percent of loans, which remained well above industry averages (1.60 percent at the end of 2022).

The real dynamic in the balance sheet has been on deposits, with some sizeable funding outflows as our clients sought higher yields for their excess funds that had built up on our balance sheet over the past several years. Since the Fed started raising rates in March of last year through yearend 2022, deposit outflows totaled \$687 million, which were largely attributable to excess deposits finally having the opportunity for more historically customary market returns. Two-thirds of those outflows were early in the year (during the second quarter of 2022), when the disparity between our deposit pricing and money market mutual fund yields, for example, was still rather small. And then later in the year, as that yield disparity grew, deposit outflows slowed. This likely reflects some seasonality influence as deposit growth early in the year is always difficult as clients make tax payments and sectors such as agriculture and construction firms fund business needs.

In the first quarter of this year, as elevated capital market yields and deposit seasonality factors came into play, we saw outflows accelerate to \$889 million. While a sizeable number, the vast majority of those outflows (80 percent) occurred prior to the string of bank failures, which dominated the news cycle in the middle of March. Additionally, we have had considerable success in helping clients attain the yields they were seeking through our Wealth Management and Investment Services units, which were the recipients of \$660 million of depositors' funds during the past 15 months.

A strong liquidity position and significant liquidity resources are a fundamental building block of bank management and were essential to cover loan growth and the deposit

outflows we experienced. Cash was the first liquidity resource we relied on and then borrowings helped cover the balance. Wholesale borrowings totaled \$1.1 billion at the end of the quarter, with \$850 million of that borrowed from the Federal Reserve under its Bank Term Funding Program (“BTFP”). The Bank’s BTFP borrowings have a one-year term, can be repaid at any time without penalty and carry the favorable borrowing rate of 4.38 percent. Additionally, given our high quality loan and bond collateral, we have \$4.9 billion of secured, on-demand borrowing capacity available from the FHLB and the Federal Reserve, which provides significant capacity to cover any foreseeable funding need.

The Company’s capital position remained strong over the past year growing \$43.8 million, or 5.3 percent to \$872 million. The Company’s equity to asset ratio improved by 82 bps since March of 2022 to 8.29 percent in the current quarter. On January 1, 2023, the Bank adopted the Current Expected Credit Loss (“CECL”) accounting standard, which essentially requires an allowance position that reflects expected credit losses over the remaining life of portfolio loans. The adoption of this new accounting standard added \$21 million to the Bank’s loan and unfunded commitment allowance position. The accounting standard allows the “Day 1” incremental change of \$21 million to be recorded directly against capital (a \$17 million after-tax reduction to equity). And finally, book value per share improved \$20.01, or 6.1 percent over the past year to \$345.77, while the quarterly improvement of \$1.18 per share was reduced by the impact of adopting the CECL accounting standard.

As you know, on March 3, 2023, the Board of Directors reauthorized a share repurchase plan for up to \$15.0 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 the current authorization, we have not purchased any shares thus far and any purchases later in the year will be dependent upon market conditions and the external environment in which we operate. Under the preceding share repurchase authorization of \$10 million, the Company repurchased 28,728 shares in total for \$10.0 million, and 1,138 of those shares were repurchased in the first quarter of 2023.

While these times are posing some challenges, we remain focused on serving our customers, growing our business and managing our financial performance across the cycle. From a client perspective, our posture really hasn’t changed. We typically have long-standing, close relationships with our customers and as important financial partners, we are actively helping them adapt their financial needs to the moment. It means a lot when you have known these people personally for years, and they rely on



you for solutions that fit their needs. Doing what's best for the customer has always been a key business principle for Washington Trust Bank.

And we so appreciate your trust in us as shareholders as we navigate the evolving banking landscape, and we look forward to seeing many of you at our upcoming annual shareholders' meeting on April 24th at 1:30 p.m. at our headquarters building at 717 West Sprague Avenue, Spokane, Washington. For additional pertinent information, please also visit our Investor Relations webpage at watrust.com/about/investor-relations.

Warm Regards,

A handwritten signature in blue ink that reads "Peter F. Stanton".

Pete Stanton
Chairman of the Board and CEO
Enclosure



**Summary Financial Statements and
Selected Financial Highlights
Q1 2023**
(unaudited)



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

	March 31, 2023	December 31, 2022	March 31, 2022
ASSETS			
Cash and due from banks	\$ 135,344,562	\$ 119,932,630	\$ 109,115,109
Interest-bearing deposits with banks	341,116,215	273,938,004	1,632,922,295
Securities available for sale, at fair value	532,966,873	537,169,969	594,095,225
Securities held to maturity, at amortized cost	3,197,382,433	3,221,994,093	3,121,276,543
Federal Home Loan Bank and Pacific Coast Bankers' Bancshares stock, at cost	18,780,000	10,060,000	10,060,000
Loans receivable	6,099,478,730	6,042,262,030	5,451,587,886
Allowance for credit losses on loans	(138,976,018)	(120,838,526)	(140,903,957)
Loans, net of allowance for credit losses on loans	5,960,502,712	5,921,423,504	5,310,683,929
Premises and equipment, net	86,811,932	87,432,873	88,293,788
Accrued interest receivable	30,176,665	32,246,663	24,397,597
Other assets	212,268,656	218,891,833	193,365,671
Total assets	<u>\$ 10,515,350,048</u>	<u>\$ 10,423,089,569</u>	<u>\$ 11,084,210,157</u>
LIABILITIES			
Deposits:			
Noninterest-bearing	\$ 3,907,575,581	\$ 4,245,614,949	\$ 4,604,567,856
Interest-bearing	4,420,554,317	4,971,470,925	5,299,960,728
Total deposits	8,328,129,898	9,217,085,874	9,904,528,584
Securities sold under agreements to repurchase	129,519,341	209,031,623	235,649,386
Other borrowings	1,068,000,000	-	20,063,287
Accrued interest payable	2,412,427	370,567	806,798
Other liabilities	115,301,187	129,472,253	94,982,263
Total liabilities	9,643,362,853	9,555,960,317	10,256,030,318
SHAREHOLDERS' EQUITY			
Common stock	11,143,217	11,101,840	18,649,519
Surplus	32,665,000	32,665,000	32,665,000
Undivided profits	872,207,430	871,561,981	799,737,498
	916,015,647	915,328,821	851,052,017
Accumulated other comprehensive loss, net of tax	(44,028,452)	(48,199,569)	(22,872,178)
Total shareholders' equity	871,987,195	867,129,252	828,179,839
Total liabilities and shareholders' equity	<u>\$ 10,515,350,048</u>	<u>\$ 10,423,089,569</u>	<u>\$ 11,084,210,157</u>

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

	Three Months Ended		
	March 31, 2023	December 31, 2022	March 31, 2022
INTEREST REVENUE			
Loans, including fees	\$ 78,262,913	\$ 75,217,255	\$ 56,339,968
Deposits with banks	2,421,992	5,308,393	830,782
Securities	17,847,132	16,809,071	14,531,324
Other interest and dividend income	80,653	75,642	77,169
Total interest revenue	<u>98,612,690</u>	<u>97,410,361</u>	<u>71,779,243</u>
INTEREST EXPENSE			
Deposits	10,650,635	6,966,783	1,625,436
Funds purchased and other borrowings	6,162,564	110,206	250,794
Total interest expense	<u>16,813,199</u>	<u>7,076,989</u>	<u>1,876,230</u>
Net interest revenue	<u>81,799,491</u>	<u>90,333,372</u>	<u>69,903,013</u>
Provision for credit losses	2,400,000	2,500,000	-
Net interest revenue after provision for credit losses	<u>79,399,491</u>	<u>87,833,372</u>	<u>69,903,013</u>
NONINTEREST REVENUE			
Fiduciary income	5,721,962	5,300,071	5,436,861
Investment services fees	1,025,658	975,854	1,052,740
Bank and credit card fees, net	4,093,504	851,241	4,970,592
Mortgage banking revenue, net	241,535	369,798	521,889
Other fees on loans	240,870	269,788	237,795
Service charges on deposits	1,453,239	1,588,120	1,755,739
Other income	2,230,196	1,572,128	2,314,682
Total noninterest revenue	<u>15,006,964</u>	<u>10,927,000</u>	<u>16,290,298</u>
NONINTEREST EXPENSE			
Salaries and benefits	41,136,420	39,710,680	38,073,725
Occupancy, furniture and equipment expense	6,833,174	6,262,261	6,211,609
Other expense	18,012,250	19,617,169	15,411,518
Total noninterest expense	<u>65,981,844</u>	<u>65,590,110</u>	<u>59,696,852</u>
Income before provision for income taxes	<u>28,424,611</u>	<u>33,170,262</u>	<u>26,496,459</u>
Provision for income taxes	6,172,116	7,223,744	5,701,024
NET INCOME	<u>\$ 22,252,495</u>	<u>\$ 25,946,518</u>	<u>\$ 20,795,435</u>
PER SHARE DATA			
Weighted average number of common stock shares outstanding			
Basic	2,502,465	2,504,228	2,524,702
Diluted	2,505,194	2,506,905	2,528,713
Earnings per common share (based on weighted average shares outstanding)			
Basic	\$ 8.89	\$ 10.36	\$ 8.24
Diluted	\$ 8.88	\$ 10.35	\$ 8.22

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

(dollars in thousands)

	Quarters Ended				
	March 31, 2023	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022
SELECTED DATA					
Interest-bearing deposits with banks	\$ 341,116	\$ 273,938	\$ 643,622	\$ 869,483	\$ 1,632,922
Securities	3,730,349	3,759,164	3,687,733	3,739,692	3,715,372
Total loans	6,099,479	6,042,262	5,903,011	5,685,124	5,451,588
Allowance for credit losses (ACL) on loans	138,976	120,839	118,231	117,253	140,904
Earning assets ¹	10,231,511	10,133,251	10,293,630	10,336,044	10,830,404
Total assets	10,515,350	10,423,090	10,559,417	10,624,427	11,084,210
Deposits	8,328,130	9,217,086	9,374,985	9,441,660	9,904,529
Interest-bearing liabilities	5,618,074	5,180,503	5,283,297	5,322,593	5,555,673
Total shareholders' equity	871,987	867,129	855,259	848,684	828,180
Total equity to total assets	8.29%	8.32%	8.10%	7.99%	7.47%
Full-time equivalent employees	1,166	1,146	1,134	1,116	1,104
ASSET QUALITY RATIOS					
ACL on loans to total loans	2.28%	2.00%	2.00%	2.06%	2.58%
ACL on loans to noncurrent loans	3417%	3743%	3842%	3249%	283%
Net charge-offs (recoveries) to total average loans	0.01%	0.00%	0.00%	-0.01%	-0.01%
Noncurrent loans and ORE to assets	0.04%	0.03%	0.03%	0.03%	0.45%

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

(dollars in thousands, except per share data)

	Quarters Ended			% Change	
	March 31, 2023	December 31, 2022	March 31, 2022	Sequential Quarter	Year over Year
PERFORMANCE					
Net interest revenue, fully tax-equivalent	\$ 81,867	\$ 90,384	\$ 69,949	-9.4%	17.0%
Fully tax-equivalent adjustment	68	51	46	33.3%	47.8%
Net interest revenue	81,799	90,333	69,903	-9.4%	17.0%
Provision for credit losses	2,400	2,500	-	-4.0%	NM
Net interest revenue after provision for credit losses	79,399	87,833	69,903	-9.6%	13.6%
Noninterest revenue	15,007	10,927	16,290	37.3%	-7.9%
Noninterest expense	65,981	65,590	59,697	0.6%	10.5%
Income before provision for income taxes	28,425	33,170	26,496	-14.3%	7.3%
Provision for income taxes	6,173	7,223	5,701	-14.5%	8.3%
Net income	\$ 22,252	\$ 25,947	\$ 20,795	-14.2%	7.0%
PER COMMON SHARE					
Earnings per common share - basic	\$ 8.89	\$ 10.36	\$ 8.24	-14.2%	7.9%
Earnings per common share - diluted	8.88	10.35	8.22	-14.2%	8.0%
Common cash dividends	1.85	4.85	1.85	-61.9%	0.0%
Common shareholders' equity	345.77	344.59	325.76	0.3%	6.1%

	Quarters Ended			% Change	
	March 31, 2023	December 31, 2022	March 31, 2022	Sequential Quarter	Year over Year
PERFORMANCE RATIOS					
Return on average assets	0.87%	0.97%	0.77%	-0.10%	0.10%
Return on average shareholders' equity	10.49%	11.90%	10.11%	-1.41%	0.38%
Margin on average earning assets ²	3.29%	3.47%	2.66%	-0.18%	0.63%
Noninterest expense to average assets	2.59%	2.46%	2.21%	0.13%	0.38%
Noninterest revenue to average assets	0.59%	0.41%	0.60%	0.18%	-0.01%
Efficiency ratio	68.1%	64.7%	69.2%	3.4%	-1.1%
Common cash dividends to net income	20.83%	46.72%	22.48%	-25.89%	24.24%

(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 Credit Performance Highlights
(unaudited) (dollars in thousands)

	Quarters Ended		
	March 31, 2023	December 31, 2022	March 31, 2022
Loans by Credit Risk Rating:			
Pass	\$ 5,887,608	\$ 5,837,975	\$ 5,192,625
Special Mention	123,042	117,568	139,492
Substandard	88,801	86,711	119,467
Doubtful	28	8	4
Total	<u>\$ 6,099,479</u>	<u>\$ 6,042,262</u>	<u>\$ 5,451,588</u>

	Quarters Ended		
	March 31, 2023	December 31, 2022	March 31, 2022
Loans by Payment Status:			
Current Loans	\$ 6,088,000	\$ 6,033,423	\$ 5,389,174
Loans Past Due 30-89 Days, Still Accruing	7,412	5,610	12,696
Noncurrent Loans	4,067	3,229	49,718
Total	<u>\$ 6,099,479</u>	<u>\$ 6,042,262</u>	<u>\$ 5,451,588</u>

	Quarters Ended		
	March 31, 2023	December 31, 2022	March 31, 2022
Allowance for Credit Losses on Loans Position:			
Allowance for Credit Losses on Loans	\$ 138,976	\$ 120,839	\$ 140,904
Allowance to Total Loans	2.28%	2.00%	2.58%