

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

July 20, 2017

Dear Shareholders:

While key measures of economic health for our country have been somewhat of a mixed bag, local market conditions continue to be favorable across our footprint leading to good loan growth opportunities, excellent credit performance and some widening of net interest margin. When credit performance is solid and margins are widening, favorable financial results typically follow, as they have for the Company this past quarter.

The Federal Reserve has taken steps to raise short term rates four times since the end of 2015 and seems to be signaling that more increases are on the horizon. While short term rates are up, longer term rates have not responded and so we are getting some flattening of the yield curve. A flattening yield curve has historically signaled the potential for a recession, but Fed policy has played such an influential role in the capital markets, I suspect traditional market signals may not be reliable in the current environment. Closer to home, the markets we serve here in the Pacific Northwest are showing continued strength and that is benefiting our ability to help our customers grow their businesses and take care of their family's financial needs.

During the second quarter, loans grew \$195 million, or 5.2 percent, to just under \$4.0 billion. Year-over-year, loans were up \$273 million, or 7.4 percent. After a very strong deposit growth finish to 2016, deposit growth moderated somewhat in the second quarter, up \$41 million, or 0.8 percent to more than \$4.8 billion. Year-over-year, strong deposit growth helped drive assets up almost \$469 million, or 9.1 percent to \$5.6 billion. While modest deposit growth in the first half of the year is seasonally normal, increases in short term rates have begun to awaken competitive deposit pricing too, after many years at extraordinarily low levels. We are likely entering a period where a stable, relationship based deposit portfolio will show its value, but will also require our close attention while

the industry adapts to higher rates. Those higher rates are already leading to a more competitive pricing and funding environment.

Quarter-over-quarter, earnings increased \$1.7 million, or 13.2 percent to \$14.7 million, while year to date, earnings were up \$1.8 million, or 7.1 percent to \$27.7 million. Strong growth in net interest revenue and lower provision expense were the two biggest drivers of the Company's improved performance. Net interest revenue for the quarter grew nearly \$5.4 million, or 12.0 percent over one year ago, helped by both growing levels of earning assets and widening margin. Net interest margin increased 5 basis points to 3.72 percent for the quarter, as compared with one year ago.

The Company's strong performance was also reflected in key shareholder metrics. Return on average assets came in solid at 1.06 percent, while return on equity was also very favorable at 11.35 percent. Fully diluted earnings per share totaled \$5.77 for the quarter, up \$0.67, or 13.1 percent. Year-to-date, performance was also very good, with earnings increasing \$0.81 per share, or 8.1 percent to \$10.87 per share. And lastly, book value per share year-over-year improved \$12.60, or 6.6 percent to \$204.67 at the end of the second quarter.

Along with our strong performance, we have continued to maintain balance sheet strength. The Bank's allowance for loan loss position is substantial at nearly \$88 million, or 2.22 percent of loans. Noncurrent loans and repossessed real estate totaled just \$11 million, or 0.20 percent of assets. That level of problem assets is very low by historical standards and reflects a disciplined loan strategy complimented by favorable economic conditions across most markets. Liquidity is elevated with investable cash and bonds totaling over \$1.5 billion, or 27 percent of assets. The Company's capital position remains steady, with an equity to assets ratio of 9.32 percent and total shareholders' equity up \$31 million year-over-year. Since we announced a \$2 million share repurchase program last April, we have not repurchased any shares, but we will continue to monitor market activity and assess opportunities for purchases against corporate objectives over time.

We are highly focused on executing to our plan and our performance across virtually all financial metrics is quite good. I wouldn't go so far as to characterize the economy as a strong tail-wind, but economic activity in the Pacific Northwest is very good, especially in the Puget Sound area, and we have benefited from that strength. We are also very attentive to the evolving nature of our business and the extent to which technology is transforming how we interact with our customers and serve their financial needs. We devote substantial resources to improving our delivery of electronic banking services and making that experience as helpful, efficient and convenient for our customers, as

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possible. Strategic alliances with key technology partners seems to be more and more crucial to our ability to execute and that brings with it both opportunities and challenges, but I expect that will be the nature of banking for the foreseeable future.

Our success remains the byproduct of many factors, including the dedicated people at the Bank, our customers who have chosen us as their financial partner and our valued shareholders who have entrusted us with their capital. Our business model continues to prove competitive in the marketplace and the geographies we serve are showing strength, even in the face of uneven economic data, political uncertainty and a Fed that is trying to unwind some of its policy positions.

Our efforts have been rewarded with strong and steady performance, though we don't take that performance for granted. It is difficult to know what the future holds and we try to be very deliberate about positioning the Bank for a variety of possible operating environments. As we go about our business, 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.

Warm Regards,



Pete Stanton
Chairman of the Board and CEO

Enclosure

Second Quarter : 2017

Summary Financial Statements and Selected Financial Highlights

(unaudited)

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

	<u>June 30,</u> <u>2017</u>	<u>March 31,</u> <u>2017</u>	<u>June 30,</u> <u>2016</u>
ASSETS			
Cash and due from banks	\$ 95,787,195	\$ 82,576,770	\$ 81,339,858
Interest-bearing deposits with banks	139,316,506	290,649,435	95,452,863
Securities available for sale, at fair value	951,561,150	962,562,779	783,457,685
Securities held to maturity, at amortized cost	431,605,392	438,957,403	456,419,074
Federal Home Loan Bank and Pacific Coast Bankers' Bancshares stock, at cost	6,857,600	6,857,600	6,421,500
Loans receivable	3,960,566,836	3,765,055,613	3,687,400,513
Allowance for loan losses	(87,980,922)	(87,551,815)	(85,377,830)
Loans net of allowance for loan losses	<u>3,872,585,914</u>	<u>3,677,503,798</u>	<u>3,602,022,683</u>
Premises and equipment, net	44,291,169	43,238,635	45,044,135
Other real estate	338,400	310,500	310,500
Accrued interest receivable	16,607,661	14,527,649	14,693,332
Other assets	82,314,199	84,428,471	87,182,208
Total assets	<u>\$ 5,641,265,186</u>	<u>\$ 5,601,613,040</u>	<u>\$ 5,172,343,837</u>
LIABILITIES			
Deposits:			
Noninterest-bearing	\$ 1,944,330,014	\$ 1,931,087,141	\$ 1,829,135,907
Interest-bearing	2,916,431,388	2,889,164,195	2,662,096,776
Total deposits	<u>4,860,761,402</u>	<u>4,820,251,336</u>	<u>4,491,232,683</u>
Securities sold under agreements to repurchase	219,196,695	232,787,077	150,978,726
Accrued interest payable	453,178	418,479	512,124
Other liabilities	34,888,466	39,221,952	34,784,550
Total liabilities	<u>5,115,299,741</u>	<u>5,092,678,844</u>	<u>4,677,508,083</u>
SHAREHOLDERS' EQUITY			
Common stock	29,208,742	28,863,663	30,592,793
Surplus	32,665,000	32,665,000	32,665,000
Undivided profits	495,340,312	482,754,301	449,858,718
	<u>557,214,054</u>	<u>544,282,964</u>	<u>513,116,511</u>
Accumulated other comprehensive loss	(31,248,609)	(35,348,768)	(18,280,757)
Total shareholders' equity	<u>525,965,445</u>	<u>508,934,196</u>	<u>494,835,754</u>
Total liabilities and shareholders' equity	<u>\$ 5,641,265,186</u>	<u>\$ 5,601,613,040</u>	<u>\$ 5,172,343,837</u>

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

	Three Months Ended		
	June 30,	March 31,	June 30,
	2017	2017	2016
INTEREST REVENUE			
Loans, including fees	\$ 44,270,681	\$ 42,244,364	\$ 39,864,480
Deposits with banks	451,416	567,178	111,473
Securities	6,518,317	6,676,810	5,865,724
Other interest and dividend income	23,071	21,140	14,462
Total interest revenue	<u>51,263,485</u>	<u>49,509,492</u>	<u>45,856,139</u>
INTEREST EXPENSE			
Deposits	948,217	954,243	914,571
Funds purchased and other borrowings	45,922	42,967	49,686
Total interest expense	<u>994,139</u>	<u>997,210</u>	<u>964,257</u>
Net interest revenue	<u>50,269,346</u>	48,512,282	44,891,882
Provision for loan losses	-	400,000	500,000
Net interest revenue after provision for loan losses	<u>50,269,346</u>	<u>48,112,282</u>	<u>44,391,882</u>
NONINTEREST REVENUE			
Fiduciary income	3,508,464	3,451,519	3,436,604
Mortgage banking revenue, net	1,612,871	1,730,892	1,795,154
Other fees on loans	284,091	205,570	226,001
Service charges, commissions and fees	5,812,519	5,815,380	5,704,397
Securities gains, net	-	-	344,461
Net gains (losses) on other real estate	-	(10,390)	-
Other income	333,122	224,597	214,014
Total noninterest revenue	<u>11,551,067</u>	<u>11,417,568</u>	<u>11,720,631</u>
NONINTEREST EXPENSE			
Salaries and benefits	24,477,633	25,260,695	21,293,876
Occupancy, furniture and equipment expense	3,141,368	4,635,567	3,439,913
Other expense	11,503,369	10,009,581	10,320,751
Total noninterest expense	<u>39,122,370</u>	<u>39,905,843</u>	<u>35,054,540</u>
Income before income taxes	<u>22,698,043</u>	19,624,007	21,057,973
Income taxes	7,972,823	6,615,629	7,354,349
NET INCOME	<u>\$ 14,725,220</u>	<u>\$ 13,008,378</u>	<u>\$ 13,703,624</u>
PER SHARE DATA			
Weighted average number of common stock shares outstanding			
Basic	2,546,676	2,541,397	2,552,273
Diluted	2,552,489	2,548,798	2,576,268
Earnings per common share (based on weighted average shares outstanding)			
Basic	\$ 5.78	\$ 5.12	\$ 5.37
Diluted	\$ 5.77	\$ 5.10	\$ 5.32

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

	Six Months Ended	
	June 30,	June 30,
	2017	2016
INTEREST REVENUE		
Loans, including fees	\$ 86,515,045	\$ 78,551,466
Deposits with banks	1,018,594	585,926
Securities	13,195,127	11,036,056
Other interest and dividend income	44,211	97,959
Total interest revenue	<u>100,772,977</u>	<u>90,271,407</u>
INTEREST EXPENSE		
Deposits	1,902,460	1,840,425
Funds purchased and other borrowings	88,889	111,952
Total interest expense	<u>1,991,349</u>	<u>1,952,377</u>
Net interest revenue	98,781,628	88,319,030
Provision for loan losses	400,000	1,000,000
Net interest revenue after provision for loan losses	<u>98,381,628</u>	<u>87,319,030</u>
NONINTEREST REVENUE		
Fiduciary income	6,959,983	6,763,511
Mortgage banking revenue, net	3,343,763	3,308,688
Other fees on loans	489,661	435,942
Service charges, commissions and fees	11,627,899	11,350,949
Securities gains, net	-	966,536
Net gains (losses) on other real estate	(10,390)	51,452
Other income	557,719	555,335
Total noninterest revenue	<u>22,968,635</u>	<u>23,432,413</u>
NONINTEREST EXPENSE		
Salaries and benefits	49,738,328	43,547,107
Occupancy, furniture and equipment expense	7,776,935	6,867,297
Other expense	21,512,950	20,682,321
Total noninterest expense	<u>79,028,213</u>	<u>71,096,725</u>
Income before income taxes	42,322,050	39,654,718
Income taxes	14,588,452	13,760,381
NET INCOME	<u>\$ 27,733,598</u>	<u>\$ 25,894,337</u>

PER SHARE DATA

Weighted average number of common stock shares outstanding

Basic	2,544,051	2,549,550
Diluted	2,550,654	2,573,808
Earnings per common share (based on weighted average shares outstanding)		
Basic	\$ 10.90	\$ 10.16
Diluted	\$ 10.87	\$ 10.06

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

(dollars in thousands)

	Quarters Ended				
	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016
SELECTED DATA					
Interest-bearing deposits with banks	\$ 139,317	\$ 290,649	\$ 326,002	\$ 299,272	\$ 95,453
Securities	1,383,167	1,401,520	1,384,817	1,195,090	1,239,877
Total loans	3,960,567	3,765,056	3,785,076	3,738,649	3,687,401
Allowance for loan losses	87,981	87,552	85,787	86,403	85,378
Earning assets ¹	5,501,453	5,481,936	5,522,413	5,232,755	5,019,834
Total assets	5,641,265	5,601,613	5,668,953	5,373,076	5,172,344
Deposits	4,860,761	4,820,251	4,923,690	4,640,169	4,491,233
Interest-bearing liabilities	3,135,628	3,121,951	3,106,707	2,958,911	2,813,076
Total shareholders' equity	525,965	508,934	496,286	502,111	494,836
Total equity to total assets	9.32%	9.09%	8.75%	9.34%	9.57%
Full-time equivalent employees	950	930	926	932	901
ASSET QUALITY RATIOS					
Allowance for loan losses to total loans	2.22%	2.33%	2.27%	2.31%	2.32%
Allowance for loan losses to noncurrent loans	796%	677%	598%	562%	507%
Net charge-offs (recoveries) to total average loans	-0.01%	-0.04%	0.03%	-0.01%	-0.01%
Noncurrent loans and ORE to assets	0.20%	0.24%	0.27%	0.31%	0.33%
Noncurrent loans, ORE and TDRs to assets	0.26%	0.29%	0.33%	0.37%	0.40%

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

(dollars in thousands, except per share data)

	Quarters Ended			% Change	
	June 30, 2017	March 31, 2017	June 30, 2016	Sequential Quarter	Year over Year
PERFORMANCE					
Net interest revenue, fully tax-equivalent	\$ 50,585	\$ 48,821	\$ 45,256	3.6%	11.8%
Fully tax-equivalent adjustment	315	309	364	1.9%	-13.5%
Net interest revenue	50,270	48,512	44,892	3.6%	12.0%
Provision for loan losses	-	400	500	-100.0%	-100.0%
Net interest revenue after provision for loan losses	50,270	48,112	44,392	4.5%	13.2%
Noninterest revenue	11,551	11,418	11,721	1.2%	-1.5%
Noninterest expense	39,123	39,906	35,055	-2.0%	11.6%
Income before income taxes	22,698	19,624	21,058	15.7%	7.8%
Income taxes	7,972	6,616	7,354	20.5%	8.4%
Net income	\$ 14,726	\$ 13,008	\$ 13,704	13.2%	7.5%
PER COMMON SHARE					
Net income available to common shareholders (basic)	\$ 5.78	\$ 5.12	\$ 5.37	12.9%	7.6%
Net income available to common shareholders (diluted)	5.77	5.10	5.32	13.1%	8.5%
Common cash dividends	0.84	0.84	0.75	0.0%	12.0%
Common shareholders' equity	204.67	198.05	192.07	3.3%	6.6%

NM = not meaningful

	Quarters Ended			% Change	
	June 30, 2017	March 31, 2017	June 30, 2016	Sequential Quarter	Year over Year
PERFORMANCE RATIOS					
Return on average assets	1.06%	0.94%	1.08%	0.12%	-0.02%
Return on average shareholders' equity	11.35%	10.45%	11.33%	0.90%	0.02%
Margin on average earning assets ¹	3.72%	3.61%	3.67%	0.11%	0.05%
Noninterest expense to average assets	2.81%	2.89%	2.77%	-0.08%	0.04%
Noninterest revenue to average assets	0.83%	0.83%	0.93%	0.00%	-0.10%
Efficiency ratio	63.0%	66.2%	61.5%	-3.2%	1.5%
Common cash dividends to net income	14.53%	16.44%	13.97%	-1.91%	0.56%

(1) Tax exempt interest has been adjusted to a taxable equivalent basis using a 35% tax rate.

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

(dollars in thousands, except per share data)

	Six Months Ended		% Change
	June 30, 2017	June 30, 2016	Year over Year
PERFORMANCE			
Net interest revenue, fully tax-equivalent	\$ 99,406	\$ 89,056	11.6%
Fully tax-equivalent adjustment	624	737	-15.3%
Net interest revenue	98,782	88,319	11.8%
Provision for loan losses	400	1,000	-60.0%
Net interest revenue after provision for loan losses	98,382	87,319	12.7%
Noninterest revenue	22,969	23,433	-2.0%
Noninterest expense	79,029	71,097	11.2%
Income before income taxes	42,322	39,655	6.7%
Income taxes	14,588	13,761	6.0%
Net income	\$ 27,734	\$ 25,894	7.1%
PER COMMON SHARE			
Net income available to common shareholders (basic)	\$ 10.90	\$ 10.16	7.3%
Net income available to common shareholders (diluted)	10.87	10.06	8.1%
Common cash dividends	1.68	1.50	12.0%
Common shareholders' equity	204.67	192.07	6.6%
PERFORMANCE RATIOS			
Return on average assets	1.00%	1.01%	-0.01%
Return on average shareholders' equity	10.91%	10.83%	0.08%
Margin on average earning assets ¹	3.67%	3.58%	0.09%
Noninterest expense to average assets	2.85%	2.79%	0.06%
Noninterest revenue to average assets	0.83%	0.92%	-0.09%
Efficiency ratio	64.6%	63.2%	1.4%
Common cash dividends to net income	15.43%	14.78%	0.65%

(1) Tax exempt interest has been adjusted to a taxable equivalent basis using a 35% tax rate.