W.T.B. Financial Corp

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

July 20, 2023

Dear Shareholders:

With the 525 basis point ("bps") rise in rates over the past 16 months, the Fed's policy moves seem to have had their intended impact on the economic forces driving inflation. While it is still too early to call the inflation fight over, the most recent Consumer Price Index data for June of 2023 came in at 3.0 percent; well below the peak of 9.1 percent one year ago. And while that drop in inflation is encouraging, the latest Personal Consumption Expenditures data remain above the Fed's 2.0 percent target and so more progress still needs to be made. Given current data and trends, we expect additional Fed rate moves to the upside, but are hopeful the rising rate cycle is nearing its end.

The sharp rise in rates we have all experienced changed the risks and rewards in the financial landscape and brought considerable stress to the industry. As rates climbed upwards, some of the significant surge in deposits that came to us in 2020 and 2021 (in large part due to our success in delivering $1.8 billion of PPP loans to our clients during the pandemic), became deposit outflows as clients sought higher capital market yields for some of their funds. Funding those deposit outflows required higher wholesale borrowings, which are a relatively expensive funding source. During this time, we were also adapting our deposit rates to higher levels in order to meet our customers' needs and stabilize our deposit balances. Higher borrowings and deposit rates have put pressure on funding costs and net interest margin. But the impact isn't all on funding. On the other side of the equation, we have adapted our loan pricing to higher interest rate levels and current loan originations are at yields well above the average of our portfolio, which is favorable to net interest margin.

Our clients rely on us to serve their banking and financial needs regardless of external conditions and so our objective is to always be able to navigate through times of great uncertainty. While some players across the financial services industry are retreating in some fashion, we continue to operate as always and be open to serve all our clients' needs. Our deposit rates are up, and our deposit base has stabilized over the past couple of months, and our loan rates are up too, supporting rising revenue. Through this cycle, we were expecting some deposit outflows, but stayed very focused on retaining and growing clients. Retaining and growing clients remains important to growing long-term franchise value.

While the recent rise in rates has posed challenges, current levels are a more comfortable place for a banker to be originating loans than much of the past decade. Variable rate commercial loan yields have risen significantly from levels prevalent several years ago, and we continue to have success growing our portfolio and meeting the borrowing needs of our clients. And while borrowings showed growth during the quarter, as deposits stabilized in May, net borrowings (borrowings minus cash) also leveled out the past two months, which is more evidence of stability on the funding side of our business. The disruption in the industry has also provided some opportunities for us to pick-up some great talent in key markets across our footprint. And despite all the challenges in the operating environment, our clients are adapting to these new conditions and asset quality remains excellent.

The broad themes this past quarter include stabilizing deposits and net borrowings, higher funding costs driving narrower margins and lower earnings, lower expenses, growing loan balances and higher loan origination yields, and continued solid credit performance. For the quarter, earnings totaled $12.8 million, which were down $9.4 million, or 42 percent from first quarter results, while year-to-date net income totaled $35.1 million. Comparisons to 2022 are less relevant since that period included a significant release of loss reserves, which boosted earnings in 2022 by approximately $14 million. The primary driver of lower second quarter earnings was a 62 bps narrowing of net interest margin to 2.67 percent. That narrowing of margin was a result of funding costs rising faster than earning asset yields. In the second quarter, the Company's overall cost of funds increased 74 bps to 1.47 percent, while loan yields increased 12 bps to 5.36 percent. Noninterest revenue totaled $14.1 million, down $931,000, or 6.2 percent quarter-over-quarter, primarily due to lower credit card and debit card revenue. Expenses were down $3.5 million for the quarter as we adapted some of our expense levels to the lower financial performance we are experiencing.

On a per share basis, earnings came in at $5.12, down $3.76, or 42 percent from the prior quarter, while earnings per share year to date totaled $14.01. Return on assets declined to 0.49 percent from 0.87 percent in the prior quarter, while return on equity was 5.84 percent, as compared with 10.49 percent in the first quarter. Book value per share ended the quarter at $347.52, up $1.75 per share.

Total assets ended the quarter at $10.6 billion, up $132 million, or 1.3 percent quarter-over-quarter and roughly flat year-over-year. Beneath that steady total asset picture, there were some important dynamics underway. Deposits were down $446 million, or 5.4 percent for the quarter, although essentially all of that decline occurred in April and since that date, deposits levels have risen somewhat off those lows. To fund those deposit outflows, we relied on borrowings, which increased during the quarter by $481 million to $1.5 billion. Similar to our deposit flows this quarter, our net borrowed position (wholesale borrowings minus on-balance sheet cash) peaked at the end of April and has remained steady ever since. Loans during the quarter increased $187 million, or 3.1 percent to $6.3 billion as we continued to serve the borrowing needs of our clients. Our bond portfolio decreased $61 million to $3.7 billion and that returning cash was used to cover various cash needs of the Company. And finally, capital increased $4.4 million, or 0.5 percent to $876 million at quarter end, which was an increase of $28 million, or 3.3 percent over one year ago.

The Fed has taken strong actions to address inflation and those actions have dramatically shifted the rate environment and also the economic landscape. The Fed has made significant progress on inflation, but their remedy for inflation has some people concerned about it also being a catalyst for a future recession. While we are cognizant of, and have taken steps to prepare for, that possibility, the credit performance of our loan portfolio remains excellent. At the end of the second quarter, noncurrent loans totaled just $5.5 million, or 0.09 percent of total loans, while the Bank's allowance for credit losses remained substantial at $141 million, or 2.24 percent of loans.

With regard to our share repurchase program, 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. No share repurchases have been made to date under that authorization. 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.

The past several quarters have been challenging. Our client base is adapting to the new rate environment on both the deposit and loan side of our business. Deposit rates are up and balances are steady. Loan rates are also up, while demand remains solid and balances are growing. Margin compression was inevitable, but higher loan origination yields should be helpful on that front. Inside the Bank we remain focused on navigating the environment, serving our clients and executing on strategic priorities. The long game remains building out our delivery, striving for scale and efficiency, elevating the client experience, growing our customer book and delivering the best financial performance conditions allow, without reaching beyond our comfort zone.

We remain grateful for your confidence in us. We can point to many positive accomplishments and some emerging favorable trends that reinforce our belief we are doing the right things to address the challenges of the moment. We are always focused both on the needs of the moment, and the long term objective of delivering financial performance and growing franchise value. You can trust that focus will not waiver. We look forward to reporting out to you on our progress next quarter.

For additional pertinent information, please also visit our Investor Relations webpage at watrust.com/about/investor-relations.

Warm Regards,

Peter F. Stanton

Pete Stanton
Chairman of the Board and CEO
Enclosure