



OAKWORTH
CAPITAL INC.

1ST QUARTER 2020
SHAREHOLDER UPDATE



1st Quarter 2020

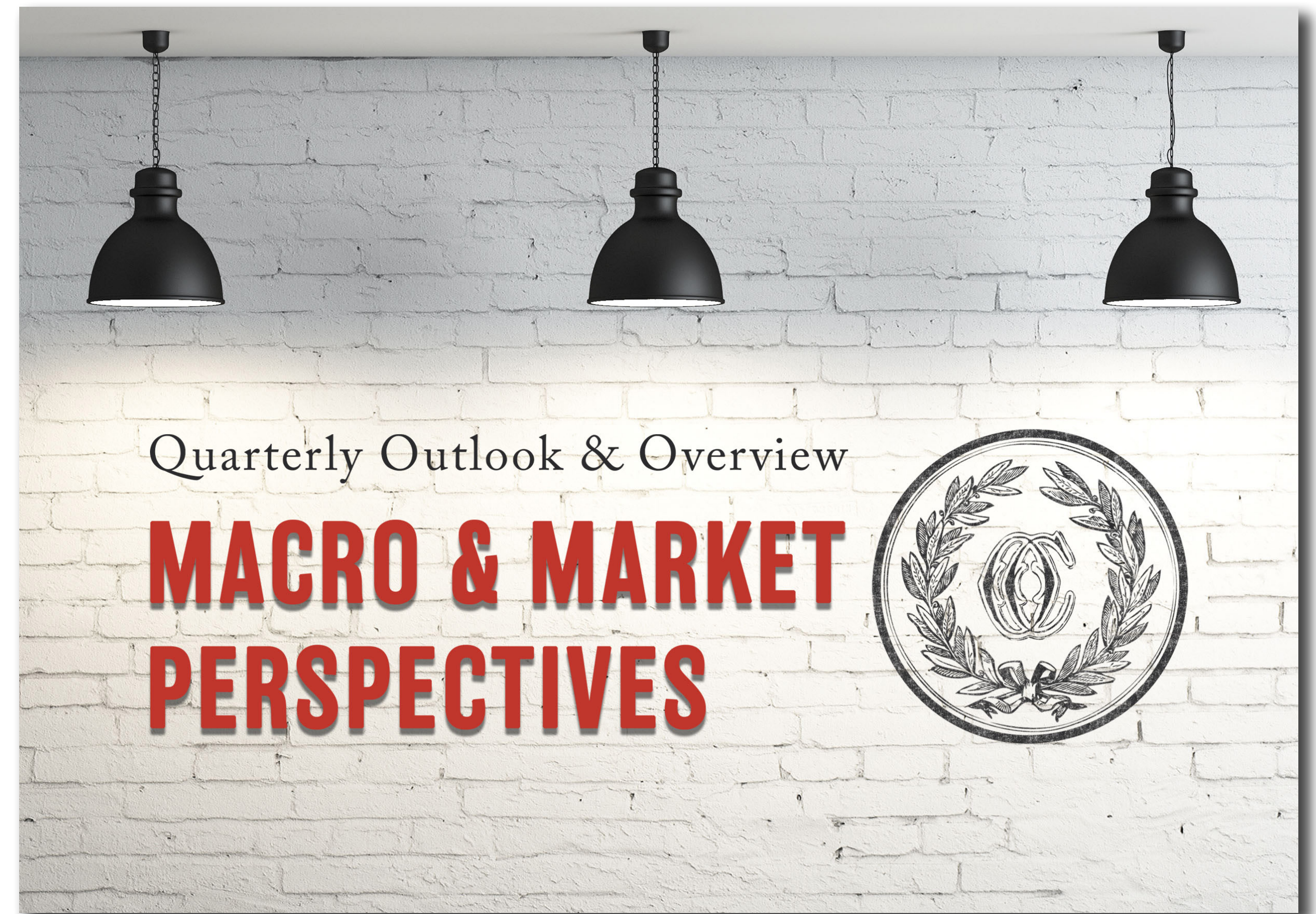
FINANCIAL HIGHLIGHTS

- Strong underlying growth in core business coupled with market revenue pressures, including COVID-19, produce mixed results
- Loans increased 15% to \$558 million compared to \$487 million one year ago
- Deposits increased 22% to \$655 million from \$538 million one year ago with approximately \$60 million of that growth attributable to a higher than normal cash position in wealth assets; residual deposit growth remains strong at 11% over one year ago
- Wealth assets impacted negatively by significant declines in market values to \$1.173 billion compared to \$1.288 billion one year ago
- Tangible book value per share of \$18.02 at March 31, 2020, up 10% from \$16.42 one year ago
- \$0.25 per share dividend paid in January 2020 to shareholders of record as of December 16, 2019, a 25% increase over prior year

A Letter To Our SHAREHOLDERS

Dear Shareholder,

This year has begun in an unprecedented way. It's difficult to review the first quarter of 2020 without focusing on the introduction of COVID-19 into our vocabularies and lives. In mid-January, our Board of Directors approved the final budget. At that time, there was a low probability of a change in the Federal Reserve overnight target lending rate through the first quarter of the year. Further, there was debate about whether that target rate would increase or decrease in the latter part of the year. The economy was strong by all measures and the equity market indices were setting records. By March 3, the Federal Reserve had cut that target 50 basis points "off cycle" and, in an unprecedented Sunday surprise, on March 15, the Federal Reserve cut the overnight lending target another 100 basis points to a range of 0-0.25%. (For a full review of the volatility that ensued in all aspects of the financial markets in the quarter, our wealth group's Quarterly Outlook & Overview provides a comprehensive summary.) This sudden drop in rates has challenged the entire banking industry with compressed net interest margins.



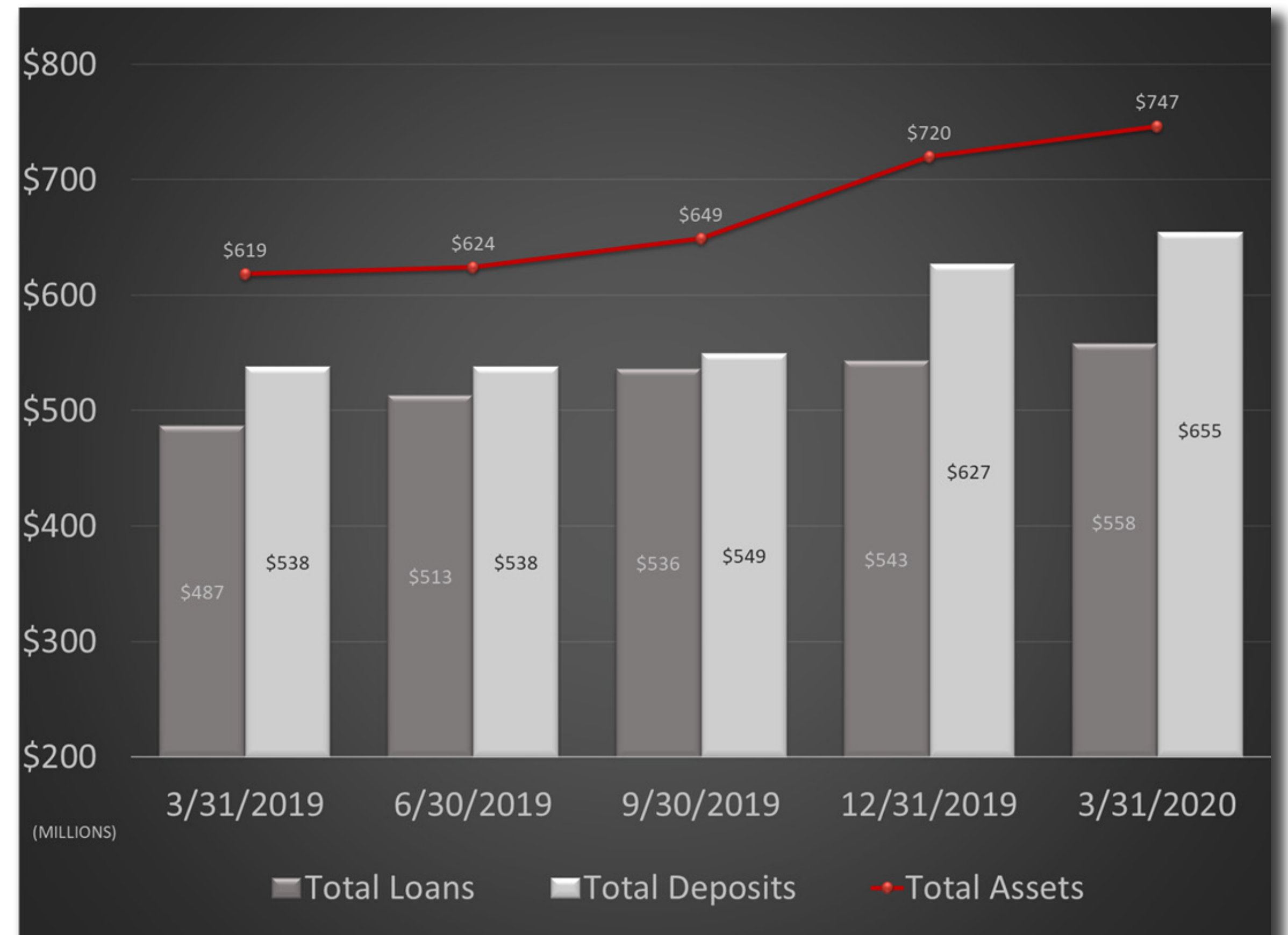
[Click here to view full 2nd Quarter Outlook & Overview](#)



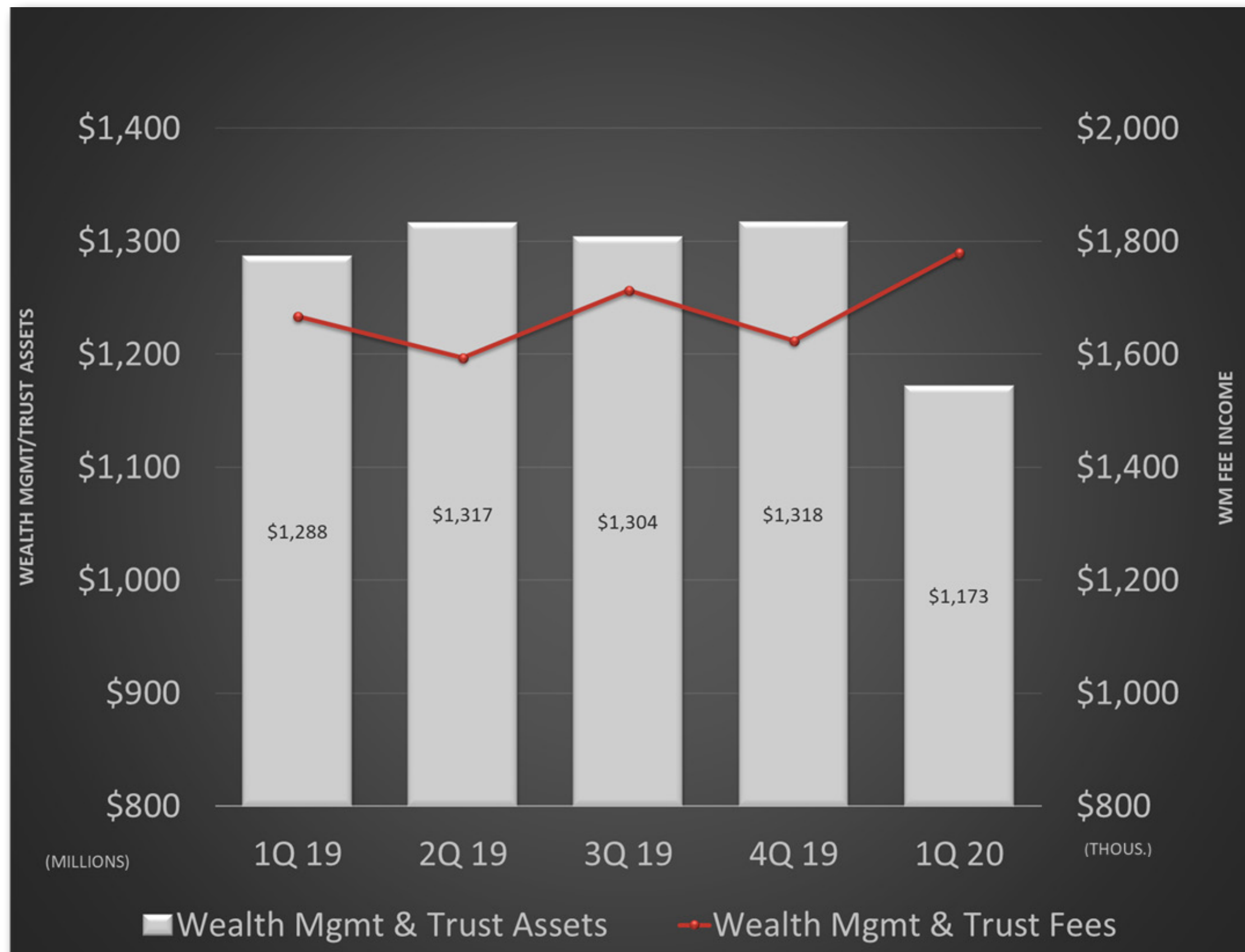
The economic uncertainty brought on by the COVID-19 pandemic has challenged our industry. Let me assure you that Oakworth is positioned very well to weather this storm. Our regulatory capital levels are well in excess of “well-capitalized” standards, our loan loss reserve is strong at 1.3% of loans and we carried no non-performing assets on our books at March 31. From a wealth management perspective, our investment committee acted early to raise a significant amount of cash by strategically realizing gains in client portfolios and are positioned to re-enter the market as volatility begins to subside. We have communicated early and often with our clients, providing assurance in the face of unprecedented market movements. We look forward to being in a position to support our clients by lending and providing a safe haven for their liquidity through this economic downturn and helping them grow their businesses and assets as the economy emerges.

BALANCE SHEET GROWTH

As optimistic as we are, we are not naïve. Our net interest margin (and, therefore, net interest income) has been negatively impacted by the flat yield curve that we are currently experiencing. The net interest margin has contracted by approximately 40 basis points year-over-year resulting in a slight decline in net interest income in spite of strong balance sheet growth. We expect this to continue into the first part of the second quarter. As higher cost deposits (namely certificates of deposit) mature and reprice to market levels, this will help our margins settle to a more normal level.



WEALTH MANAGEMENT & TRUST



The second largest part of our revenue stream is wealth fees which are directly related to the value of the underlying assets. That value contracted 9% in the past year even though we have had strong growth in underlying wealth assets (i.e., acquisition of new clients and wealth assets). Finally, while our credit statistics are pristine today, we know we are not immune to the stresses that exist in the economy. As a result, we built our loan loss reserve by approximately \$1 million in the quarter. We will monitor our credit portfolio and continue to make adjustments to the loan loss reserve should it be necessary.

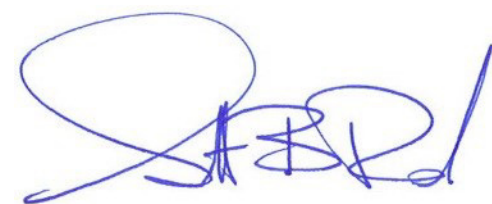


In spite of the overlay of COVID-19, we remain focused on our underlying growth strategy and are moving forward appropriately. In fact, we believe Oakworth will ultimately have strategic opportunities because of our very strong financial position. We have initiatives focused on our digital presence, use of data to serve our clients and grow our business, strategic expansion of existing business and potential new lines, and ensuring we maintain our high levels of associate engagement. These initiatives are driving our business forward and are already providing challenges and opportunities for our extremely capable and bright associates. There is much more to come on these areas.



In closing, we'd like to offer our thanks to our associates who have worked tirelessly to serve and communicate with our clients over the past month. We have received volumes of client feedback reinforcing that our associates truly are the best in the business. We'd also like to remind you that our annual stockholders' meeting is May 20. As with so many other parts of our lives right now, this meeting will look different than it has in the past. Please be on the lookout for your proxy package which will include details on our Zoom-enabled remote access meeting. It is our sincere hope that you, your families and your businesses are well. We look forward to meeting with you face-to-face in our lobbies, at your places of business and homes and in our communities in the near future.

Sincerely,



Scott B. Reed
Chief Executive Officer

Sincerely,



Samuel E. Upchurch, Jr.
Chairman of the Board



FINANCIAL HIGHLIGHTS

(Unaudited)

WEALTH & TRUST



<i>(in millions)</i>	MARCH 31,		
	2020	2019	CHANGE
Wealth assets (non-balance sheet)	\$ 1,173	\$ 1,288	(9%)

CONSOLIDATED CONDENSED STATEMENTS OF CONDITION

<i>(in thousands)</i>	MARCH 31,		
	2020	2019	CHANGE
ASSETS			
Cash and due from banks	\$ 7,396	\$ 14,718	(50%)
Federal funds sold	96,974	48,846	99%
Securities available for sale	65,375	52,882	24%
Loans, net of unearned income	558,030	487,164	15%
Allowance for loan losses	(7,102)	(5,358)	33%
Loans, net	550,928	481,806	14%
Fixed assets	3,462	3,339	4%
Interest receivable	1,828	2,009	(9%)
Other assets	20,619	14,929	38%
TOTAL ASSETS	\$ 746,582	\$ 618,529	21%
LIABILITIES & STOCKHOLDERS' EQUITY			
Liabilities:			
Deposits:			
Non-interest bearing deposits	\$ 130,696	\$ 129,292	1%
Interest-bearing deposits	523,859	408,572	28%
Total deposits	654,555	537,864	22%
Accrued interest payable	982	1,047	(6%)
Other liabilities	5,368	1,800	198%
Total liabilities	660,905	540,711	22%
Total stockholders' equity	85,677	77,818	10%
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$ 746,582	\$ 618,529	21%

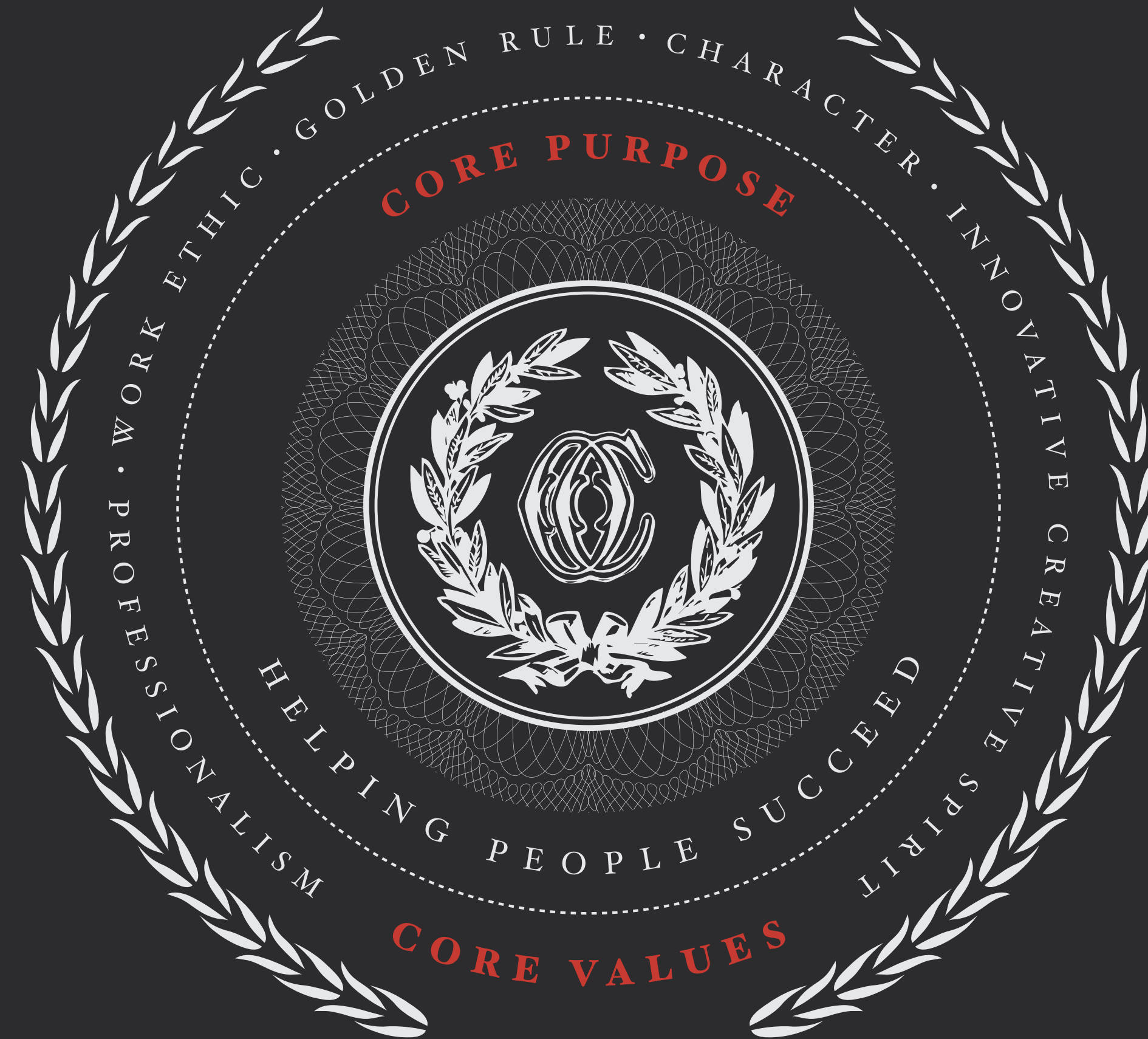
FINANCIAL HIGHLIGHTS

(Unaudited)



CONSOLIDATED CONDENSED STATEMENTS OF INCOME

<i>(in thousands)</i>	QUARTER - TO - DATE		
	2020	MARCH 31, 2019	CHANGE
INTEREST INCOME:			
Loans, including fees	\$ 6,359	\$ 6,310	1%
Securities available for sale	445	390	14%
Short term investments	174	390	(55%)
Total interest income	6,978	7,090	(2%)
INTEREST EXPENSE:			
Deposits	1,551	1,650	(6%)
Borrowings	17	-	100%
Total interest expense	1,568	1,650	(5%)
Net interest income	5,410	5,440	(1%)
Provision for loan losses	79	45	76%
Net interest income after provision for loan losses	5,331	5,395	(1%)
Non-interest income	2,184	1,945	12%
Non-interest expense	5,505	4,972	11%
Income before income taxes	2,010	2,368	(15%)
Provision for income taxes	452	581	(22%)
Net Income	\$ 1,558	\$ 1,787	(13%)
Earnings per share - basic	\$ 0.33	\$ 0.38	(13%)
Earnings per share - diluted	\$ 0.32	\$ 0.36	(12%)



VISION

Redefining Financial Services

CLIENT FIRST • DEEPER UNDERSTANDING
CUSTOMIZED SOLUTIONS • PERSONALIZED SERVICE

ALWAYS

COMMERCIAL BANKING | WEALTH MANAGEMENT | PRIVATE BANKING

[OAKWORTHCAPITAL.COM](https://oakworthcapital.com)