WASHINGTON TRUST BANCORP INC
Form 10-Q
November 05, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x	Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended SEPTEMBER 30, 2015 or
o	Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ______ to ______.

Commission file number: 001-32991

WASHINGTON TRUST BANCORP, INC.
(Exact name of registrant as specified in its charter)

RHODE ISLAND	05-0404671
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
23 BROAD STREET	
WESTERLY, RHODE ISLAND	02891
(Address of principal executive offices)	(Zip Code)

(401) 348-1200
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Mark one)

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
o Yes x No

The number of shares of common stock of the registrant outstanding as of October 31, 2015 was 17,001,557.

FORM 10-Q
WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
For the Quarter Ended September 30, 2015

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PART I. Financial Information
Item 1. Financial Statements
Consolidated Balance Sheets (unaudited)

(Dollars in thousands, except par value)

	September 30, 2015	December 31, 2014
Assets:		
Cash and due from banks	$106,445	$76,386
Short-term investments	3,629	3,964
Mortgage loans held for sale (including $21,136 at September 30, 2015 and $30,321 at December 31, 2014 measured at fair value)	31,805	45,693
Securities:		
Available for sale, at fair value	323,795	357,662
Held to maturity, at amortized cost (fair value $21,820 at September 30, 2015 and $26,008 at December 31, 2014)	21,140	25,222
Total securities	344,935	382,884
Federal Home Loan Bank stock, at cost	37,730	37,730
Loans:		
Commercial	1,579,854	1,535,488
Residential real estate	1,024,214	985,415
Consumer	345,850	338,373
Total loans	2,949,918	2,859,276
Less allowance for loan losses	27,161	28,023
Net loans	2,922,757	2,831,253
Premises and equipment, net	28,180	27,495
Investment in bank-owned life insurance	65,000	63,519
Goodwill	64,196	58,114
Identifiable intangible assets, net	11,793	4,849
Other assets	58,366	54,987
Total assets	$3,674,836	$3,586,874
Liabilities:		
Deposits:		
Demand deposits	$513,856	$459,852
NOW accounts	358,973	326,375
Money market accounts	855,858	802,764
Savings accounts	305,775	291,725
Time deposits	801,818	874,102
Total deposits	2,836,280	2,754,818
Federal Home Loan Bank advances	381,649	406,297
Junior subordinated debentures	22,681	22,681
Other liabilities	63,699	56,799
Total liabilities	3,304,309	3,240,595
Commitments and contingencies		
Shareholders' Equity:		
Common stock of $.0625 par value; authorized 30,000,000 shares; issued and outstanding 16,984,737 shares at September 30, 2015 and 16,746,363 shares at December 31, 2014	1,062	1,047
Paid-in capital	109,724	101,204
Retained earnings	268,166	252,837
Accumulated other comprehensive loss	(8,425)	(8,809)
Total shareholders' equity	370,527	346,279

Total liabilities and shareholders' equity	$3,674,836	$3,586,874

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Consolidated Statements of Income (unaudited) (Dollars and shares in thousands, except per share amounts)

	Three months		Nine months	
Periods ended September 30,	2015	2014	2015	2014
Interest income:				
Interest and fees on loans	$28,626	$27,239	$85,718	$78,997
Interest on securities: Taxable	2,178	2,397	6,613	8,038
Nontaxable	366	519	1,203	1,658
Dividends on Federal Home Loan Bank stock	309	140	638	420
Other interest income	47	36	101	99
Total interest and dividend income	31,526	30,331	94,273	89,212
Interest expense:				
Deposits	3,308	3,317	10,045	9,406
Federal Home Loan Bank advances	1,987	1,832	5,780	5,831
Junior subordinated debentures	232	241	714	723
Other interest expense	2	3	7	10
Total interest expense	5,529	5,393	16,546	15,970
Net interest income	25,997	24,938	77,727	73,242
Provision for loan losses	200	600	300	1,350
Net interest income after provision for loan losses	25,797	24,338	77,427	71,892
Noninterest income:				
Wealth management revenues	8,902	8,374	26,249	24,969
Merchant processing fees	—	—	—	1,291
Net gains on loan sales and commissions on loans originated for others	1,963	1,742	7,296	4,688
Service charges on deposit accounts	986	881	2,894	2,459
Card interchange fees	849	804	2,389	2,264
Income from bank-owned life insurance	498	468	1,480	1,354
Loan related derivative income	327	339	1,689	562
Equity in earnings (losses) of unconsolidated subsidiaries	(69)	(63)	(224)	(213)
Net gain on sale of business line	—	—	—	6,265
Other income	457	580	1,421	1,670
Total noninterest income	13,913	13,125	43,194	45,309
Noninterest expense:				
Salaries and employee benefits	15,971	14,516	46,971	43,845
Net occupancy	1,721	1,557	5,276	4,672
Equipment	1,424	1,211	4,140	3,682
Merchant processing costs	—	—	—	1,050
Outsourced services	1,250	1,138	3,774	3,197
Legal, audit and professional fees	630	494	1,916	1,710
FDIC deposit insurance costs	467	442	1,376	1,295
Advertising and promotion	356	368	1,201	1,140
Amortization of intangibles	260	161	571	489
Debt prepayment penalties	—	—	—	6,294
Acquisition related expenses	504	—	937	—
Other expenses	1,955	2,160	6,206	6,413
Total noninterest expense	24,538	22,047	72,368	73,787
Income before income taxes	15,172	15,416	48,253	43,414
Income tax expense	4,964	4,878	15,532	13,781

Net income		$10,208	$10,538	$32,721	$29,633
Weighted average common shares outstanding - basic		16,939	16,714	16,837	16,673
Weighted average common shares outstanding - diluted		17,102	16,855	17,027	16,832
Per share information:	Basic earnings per common share	$0.60	$0.63	$1.94	$1.77
	Diluted earnings per common share	$0.60	$0.62	$1.92	$1.75
	Cash dividends declared per share	$0.34	$0.32	$1.02	$0.90

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Consolidated Statements of Comprehensive Income (unaudited) (Dollars in thousands)

	Three Months		Nine Months	
Periods ended September 30,	2015	2014	2015	2014
Net income	$10,208	$10,538	$32,721	$29,633
Other comprehensive income, net of tax:				
Net change in fair value of securities available for sale	344	(953)	(693)	1,476
Cash flow hedges:				
Change in fair value of cash flow hedges	(1)	1	(10)	(29)
Net cash flow hedge losses reclassified into earnings	82	92	265	277
Net change in fair value of cash flow hedges	81	93	255	248
Defined benefit plan obligation adjustment	233	81	822	250
Total other comprehensive income (loss), net of tax	658	(779)	384	1,974
Total comprehensive income	$10,866	$9,759	$33,105	$31,607

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity (unaudited) (Dollars and shares in thousands)

	Common Shares Outstanding	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at January 1, 2015	16,746	$1,047	$101,204	$252,837	($8,809)	$346,279
Net income				32,721		32,721
Total other comprehensive income, net of tax					384	384
Cash dividends declared				(17,392)		(17,392)
Share-based compensation			1,640			1,640
Common stock issued for acquisition	137	8	5,422			5,430
Exercise of stock options, issuance of other compensation-related equity instruments and related tax benefit	102	7	1,458			1,465
Balance at September 30, 2015	16,985	$1,062	$109,724	$268,166	($8,425)	$370,527

	Common Shares Outstanding	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
Balance at January 1, 2014	16,614	$1,038	$97,566	$232,595	($1,553)	$329,646
Net income				29,633		29,633
Total other comprehensive income, net of tax					1,974	1,974
Cash dividends declared				(15,176)		(15,176)
Share-based compensation			1,433			1,433
Exercise of stock options, issuance of other compensation-related equity instruments and related tax benefit	107	7	1,045			1,052
Balance at September 30, 2014	16,721	$1,045	$100,044	$247,052	$421	$348,562

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Consolidated Statement of Cash Flows (unaudited) (Dollars in thousands)

Nine months ended September 30,		2015	2014
Cash flows from operating activities:			
Net income		$32,721	$29,633
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses		300	1,350
Depreciation of premises and equipment		2,535	2,350
Net amortization of premium and discount		1,149	672
Amortization of intangibles		571	489
Share-based compensation		1,640	1,433
Income from bank-owned life insurance		(1,480)	(1,354)
Net gain on sale of business line		—	(6,265)
Net gains on loan sales and commissions on loans originated for others		(7,296)	(4,688)
Equity in losses of unconsolidated subsidiaries		224	213
Proceeds from sales of loans		365,533	176,389
Loans originated for sale		(345,322)	(196,322)
Decrease (increase) in other assets		2,683	(3,587)
Decrease in other liabilities		(5,059)	(89)
Net cash provided by operating activities		48,199	224
Cash flows from investing activities:			
Purchases of:	Mortgage-backed securities available for sale	(1,525)	(53,051)
	Other investment securities available for sale	(63,229)	(31,009)
Proceeds from sale of:	Other investment securities available for sale	—	547
Maturities and principal payments of:	Mortgage-backed securities available for sale	38,312	63,938
	Other investment securities available for sale	58,583	38,137
	Mortgage-backed securities held to maturity	3,893	3,248
Net proceeds from the sale of business line		—	7,205
Net increase in loans		(88,680)	(205,877)
Proceeds from sale of portfolio loans		—	1,200
Purchases of loans, including purchased interest		(2,877)	(7,065)
Proceeds from the sale of property acquired through foreclosure or repossession		637	1,630
Purchases of premises and equipment		(3,220)	(3,315)
Purchases of bank-owned life insurance		—	(5,000)
Cash used in business combination, net of cash acquired		(1,671)	—
Net cash used in investing activities		(59,777)	(189,412)
Cash flows from financing activities:			
Net increase in deposits		81,462	233,567
Proceeds from Federal Home Loan Bank advances		348,000	259,000
Repayment of Federal Home Loan Bank advances		(372,648)	(285,397)
Proceeds from stock options exercises and issuance of other equity instruments		946	592
Tax benefit from stock option exercises and other equity instruments		518	460
Cash dividends paid		(16,976)	(14,350)
Net cash provided by financing activities		41,302	193,872
Net increase in cash and cash equivalents		29,724	4,684
Cash and cash equivalents at beginning of period		80,350	85,317
Cash and cash equivalents at end of period		$110,074	$90,001

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Consolidated Statement of Cash Flows – continued (unaudited) (Dollars in thousands)

Noncash Investing and Financing Activities:		
Loans charged off	$1,401	$1,638
Loans transferred to property acquired through foreclosure or repossession	491	1,659
In conjunction with the purchase acquisition detailed in Note 3 to the Unaudited Consolidated Financial Statements, assets were acquired and liabilities were assumed as follows:		
Common stock issued for acquisition	5,430	—
Fair value of assets acquired, net of cash acquired	14,315	—
Fair value of liabilities assumed	7,214	—
Supplemental Disclosures:		
Interest payments	$16,690	$15,779
Income tax payments	14,995	12,734

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Condensed Notes to Unaudited Consolidated Financial Statements

(1) General Information

Washington Trust Bancorp, Inc. (the "Bancorp") is a publicly-owned registered bank holding company and financial holding company. The Bancorp owns all of the outstanding common stock of The Washington Trust Company, of Westerly (the "Bank"), a Rhode Island chartered commercial bank founded in 1800. Through its subsidiaries, the Bancorp offers a complete product line of financial services including commercial, residential and consumer lending, retail and commercial deposit products, and wealth management services through its offices in Rhode Island, eastern Massachusetts and Connecticut.

The consolidated financial statements include the accounts of the Bancorp and its subsidiaries (collectively, the "Corporation" or "Washington Trust"). All significant intercompany transactions have been eliminated.

The accounting and reporting policies of the Corporation conform to accounting principles generally accepted in the United States of America ("GAAP") and to general practices of the banking industry. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ from those estimates.

The unaudited consolidated financial statements of the Corporation presented herein have been prepared pursuant to the rules of the Securities and Exchange Commission ("SEC") for quarterly reports on Form 10-Q and do not include all of the information and note disclosures required by GAAP. In the opinion of management, all adjustments (consisting of normal recurring adjustments) and disclosures considered necessary for the fair presentation of the accompanying consolidated financial statements have been included. Interim results are not necessarily reflective of the results of the entire year. The accompanying unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

(2) Recently Issued Accounting Pronouncements

Receivables - Troubled Debt Restructurings by Creditors - Topic 310

Accounting Standards Update No. 2014-04, "Reclassifications of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure" ("ASU 2014-04"), was issued in January 2014 and clarifies when banks and similar institutions (creditors) should reclassify mortgage loans collateralized by residential real estate properties from the loan portfolio to other real estate owned ("OREO"). ASU 2014-04 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The Corporation elected the prospective transition method and the adoption of ASU 2014-04 did not have a material impact on the Corporation's consolidated financial statements. As of September 30, 2015 and December 31, 2014, there were approximately $3.9 million and $1.8 million, respectively, of residential real estate loans in process of foreclosure.

Revenue from Contracts with Customers - Topic 606

Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"), was issued in May 2014 and provides a revenue recognition framework for any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of non-financial assets unless those contracts are within the scope of other accounting standards. ASU 2014-09 is effective for annual periods beginning after December 15, 2016, including interim periods within that reporting period with early adoption not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. In August 2015, Accounting Standards Update No. 2015-14, "Deferral of the Effective Date" ("ASU 2015-14") was issued and delayed the effective date of ASU 2014-09 to annual and interim periods in fiscal years beginning after December 15, 2017. The

Corporation is currently evaluating the impact that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Corporation has not yet selected a transition method nor has it determined the effect of ASU 2014-09 on its ongoing financial reporting.

Business Combinations - Topic 805

Accounting Standards Update No. 2015-16, "Simplifying the Accounting for Measurement-Period Adjustments ("ASU 2015-16"), was issued in September 2015 and eliminates the requirement for an acquirer to retrospectively adjust the financial statements for measurement-period adjustments that occur in periods after a business combination is consummated. ASU 2015-16 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016. The adoption of ASU 2015-16 is not expected to have a material impact on the Corporation's consolidated financial statements.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(3) Acquisition

On August 1, 2015, Washington Trust completed the acquisition of Halsey Associates, Inc. (“Halsey”), a registered investment adviser firm located in New Haven, Connecticut. Halsey specializes in providing investment counseling services to high-net worth families, corporations, foundations and endowment clients. The primary reason for the acquisition was to expand the geographic reach of Washington Trust’s wealth management business.

The cost to acquire Halsey included approximately $1.7 million in cash, $5.4 million in the form of 136,543 shares of Washington Trust Bancorp, Inc. common stock and a $2.9 million contingent consideration liability for the estimated present value of future earn-outs to be paid, based on the future revenue growth of the acquired business during the 5 year period following the acquisition. See Note 13 for additional disclosure on the contingent consideration liability.

The following table presents the estimated fair value of identifiable assets acquired and liabilities assumed as of the date of acquisition, August 1, 2015:

(Dollars in thousands)	Fair Value
Assets:	
Cash	$10
Deferred tax assets	516
Goodwill	6,082
Identifiable intangible assets	7,515
Other assets	202
Total assets acquired	$14,325
Liabilities:	
Contingent consideration liability	$2,904
Deferred tax liabilities	2,803
Other liabilities	1,507
Total liabilities assumed	$7,214
Net assets acquired	$7,111

(4) Cash and Due from Banks

The Bank maintains certain average reserve balances to meet the requirements of the Board of Governors of the Federal Reserve System (“FRB”). Some or all of these reserve requirements may be satisfied with vault cash. Reserve balances amounted to $9.3 million at September 30, 2015 and $8.0 million at December 31, 2014 and were included in cash and due from banks in the Consolidated Balance Sheets.

As of September 30, 2015 and December 31, 2014, cash and due from banks included interest-bearing deposits in other banks of $69.3 million and $42.7 million, respectively.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(5) Securities
The following tables present the amortized cost, gross unrealized holding gains, gross unrealized holding losses and fair value of securities by major security type and class of security:
(Dollars in thousands)

September 30, 2015	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities Available for Sale:				
Obligations of U.S. government-sponsored enterprises	$52,430	$220	($7)	$52,643
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	197,790	8,498	—	206,288
Obligations of states and political subdivisions	36,775	982	—	37,757
Individual name issuer trust preferred debt securities	29,806	—	(4,123)	25,683
Corporate bonds	1,418	8	(2)	1,424
Total securities available for sale	$318,219	$9,708	($4,132)	$323,795
Held to Maturity:				
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	$21,140	$680	$—	$21,820
Total securities held to maturity	$21,140	$680	$—	$21,820
Total securities	$339,359	$10,388	($4,132)	$345,615

(Dollars in thousands)

December 31, 2014	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities Available for Sale:				
Obligations of U.S. government-sponsored enterprises	$31,205	$21	($54)	$31,172
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	235,343	10,023	—	245,366
Obligations of states and political subdivisions	47,647	1,529	—	49,176
Individual name issuer trust preferred debt securities	30,753	—	(4,979)	25,774
Corporate bonds	6,120	57	(3)	6,174
Total securities available for sale	$351,068	$11,630	($5,036)	$357,662
Held to Maturity:				
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	$25,222	$786	$—	$26,008
Total securities held to maturity	$25,222	$786	$—	$26,008
Total securities	$376,290	$12,416	($5,036)	$383,670

At September 30, 2015 and December 31, 2014, securities available for sale and held to maturity with a fair value of $326.2 million and $350.5 million, respectively, were pledged as collateral for Federal Home Loan Bank of Boston ("FHLBB") borrowings and letters of credit, potential borrowings with the FRB, certain public deposits and for other purposes. See Note 10 for additional disclosure on FHLBB borrowings.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

The schedule of maturities of debt securities available for sale and held to maturity is presented below. Mortgage-backed securities are included based on weighted average maturities, adjusted for anticipated prepayments. All other debt securities are included based on contractual maturities. Actual maturities may differ from amounts presented because certain issuers have the right to call or prepay obligations with or without call or prepayment penalties. Yields on tax exempt obligations are not computed on a tax equivalent basis.
(Dollars in thousands)

September 30, 2015	Within 1 Year		1-5 Years		5-10 Years		After 10 Years		Totals	
Securities Available for Sale:										
Obligations of U.S. government-sponsored enterprises:										
Amortized cost	$—		$15,100		$37,330		$—		$52,430	
Weighted average yield	—	%	1.42	%	2.40	%	—	%	2.12	%
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises:										
Amortized cost	34,731		90,071		51,254		21,734		197,790	
Weighted average yield	3.70		3.25		2.77		1.66		3.03	
Obligations of state and political subdivisions:										
Amortized cost	4,606		21,546		10,623		—		36,775	
Weighted average yield	3.83		3.96		4.01		—		3.96	
Individual name issuer trust preferred debt securities:										
Amortized cost	—		—		—		29,806		29,806	
Weighted average yield	—		—		—		1.17		1.17	
Corporate bonds:										
Amortized cost	—		709		709		—		1,418	
Weighted average yield	—		2.03		2.95		—		2.63	
Total debt securities available for sale:										
Amortized cost	$39,337		$127,426		$99,916		$51,540		$318,219	
Weighted average yield	3.72	%	3.15	%	2.76	%	1.37	%	2.81	%
Fair value	$40,952		$131,936		$102,557		$48,350		$323,795	
Securities Held to Maturity:										
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises:										
Amortized cost	$2,690		$8,332		$6,562		$3,556		$21,140	
Weighted average yield	3.11	%	3.03	%	2.71	%	0.78	%	2.56	%
Fair value	$2,777		$8,600		$6,773		$3,670		$21,820	

Included in the above table are debt securities with an amortized cost balance of $114.2 million and a fair value of $111.1 million at September 30, 2015 that are callable at the discretion of the issuers. Final maturities of the callable securities range from 5 months to 21 years, with call features ranging from 1 month to 6 years.

Other-Than-Temporary Impairment Assessment

Washington Trust assesses whether the decline in fair value of investment securities is other-than-temporary on a regular basis. Unrealized losses on debt securities may occur from current market conditions, increases in interest rates since the time of purchase, a structural change in an investment, volatility of earnings of a specific issuer, or deterioration in credit quality of the issuer. Management evaluates impairments in value both qualitatively and quantitatively to assess whether they are other than temporary.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

The following tables summarize temporarily impaired securities, segregated by length of time the securities have been in a continuous unrealized loss position:

(Dollars in thousands)	Less than 12 Months			12 Months or Longer			Total		
September 30, 2015	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
Obligations of U.S. government-sponsored enterprises	2	$10,148	($7)	—	$—	$—	2	$10,148	($7)
Individual name issuer trust preferred debt securities	—	—	—	10	25,683	(4,123)	10	25,683	(4,123)
Corporate bonds	1	200	(2)	—	—	—	1	200	(2)
Total temporarily impaired securities	3	$10,348	($9)	10	$25,683	($4,123)	13	$36,031	($4,132)

(Dollars in thousands)	Less than 12 Months			12 Months or Longer			Total		
December 31, 2014	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
Obligations of U.S. government-sponsored enterprises	3	$20,952	($54)	—	$—	$—	3	$20,952	($54)
Individual name issuer trust preferred debt securities	—	—	—	11	25,774	(4,979)	11	25,774	(4,979)
Corporate bonds	—	—	—	1	199	(3)	1	199	(3)
Total temporarily impaired securities	3	$20,952	($54)	12	$25,973	($4,982)	15	$46,925	($5,036)

Further deterioration in credit quality of the underlying issuers of the securities, further deterioration in the condition of the financial services industry, a continuation or worsening of the current economic environment, or additional declines in real estate values, among other things, may further affect the fair value of these securities and increase the potential that certain unrealized losses be designated as other-than-temporary in future periods, and the Corporation may incur additional write-downs.

Unrealized losses on temporarily impaired securities as of September 30, 2015 and December 31, 2014 were concentrated in variable rate trust preferred debt securities.

Trust Preferred Debt Securities of Individual Name Issuers

Included in debt securities in an unrealized loss position at September 30, 2015 were 10 trust preferred security holdings issued by 7 individual companies in the banking sector. Management believes the unrealized loss position in these holdings was attributable to the general widening of spreads for this category of debt securities issued by financial services companies since the time these securities were purchased. Based on the information available through the filing date of this report, all individual name issuer trust preferred debt securities held in our portfolio continue to accrue and make payments as expected with no payment deferrals or defaults on the part of the issuers. As of September 30, 2015, individual name issuer trust preferred debt securities with an amortized cost of $10.9 million and unrealized losses of $1.1 million were rated below investment grade by Standard & Poors, Inc. ("S&P"). Management reviewed the collectibility of these securities taking into consideration such factors as the financial condition of the issuers, reported regulatory capital ratios of the issuers, credit ratings, including ratings in effect as of the reporting period date as well as credit rating changes between the reporting period date and the filing date of this report, and other information. We noted no additional downgrades to below investment grade between

December 31, 2014 and the filing date of this report. Based on these analyses, management concluded that it expects to recover the entire amortized cost basis of these securities. Furthermore, Washington Trust does not intend to sell these securities and it is not more likely than not that Washington Trust will be required to sell these securities before recovery of their cost basis, which may be maturity. Therefore, management does not consider these investments to be other-than-temporarily impaired at September 30, 2015.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(6) Loans

The following is a summary of loans:

(Dollars in thousands)	September 30, 2015			December 31, 2014		
	Amount	%		Amount	%	
Commercial:						
Mortgages (1)	$873,767	30	%	$843,978	30	%
Construction & development (2)	121,857	4		79,592	3	
Commercial & industrial (3)	584,230	20		611,918	21	
Total commercial	1,579,854	54		1,535,488	54	
Residential real estate:						
Mortgages	994,808	34		948,731	33	
Homeowner construction	29,406	1		36,684	1	
Total residential real estate	1,024,214	35		985,415	34	
Consumer:						
Home equity lines	252,862	9		242,480	8	
Home equity loans	47,610	2		46,967	2	
Other (4)	45,378	—		48,926	2	
Total consumer	345,850	11		338,373	12	
Total loans (5)	$2,949,918	100	%	$2,859,276	100	%

(1) Loans primarily secured by income producing property.

(2) Loans for construction of commercial properties, loans to developers for construction of residential properties and loans for land development.

(3) Loans to businesses and individuals, a substantial portion of which are fully or partially collateralized by real estate.

(4) Consumer installment loans and loans secured by general aviation aircraft and automobiles.

(5) Includes net unamortized loan origination costs of $2.7 million and $2.1 million, respectively, and net unamortized premiums on purchased loans of $87 thousand and $94 thousand, respectively, at September 30, 2015 and December 31, 2014.

At September 30, 2015 and December 31, 2014, there were $1.27 billion and $1.21 billion, respectively, of loans pledged as collateral to the FHLBB under a blanket pledge agreement and to the FRB for the discount window. See Note 10 for additional disclosure regarding borrowings.

Nonaccrual Loans

Loans, with the exception of certain well-secured loans that are in the process of collection, are placed on nonaccrual status and interest recognition is suspended when such loans are 90 days or more overdue with respect to principal and/or interest, or sooner if considered appropriate by management. Well-secured loans are permitted to remain on accrual status provided that full collection of principal and interest is assured and the loan is in the process of collection. Loans are also placed on nonaccrual status when, in the opinion of management, full collection of principal and interest is doubtful. Interest previously accrued but not collected on such loans is reversed against current period income. Subsequent interest payments received on nonaccrual loans are applied to the outstanding principal balance of the loan or recognized as interest income depending on management’s assessment of the ultimate collectibility of the loan. Loans are removed from nonaccrual status when they have been current as to principal and interest for approximately six months, the borrower has demonstrated an ability to comply with repayment terms, and when, in management’s opinion, the loans are considered to be fully collectible.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

The following is a summary of nonaccrual loans, segregated by class of loans:

(Dollars in thousands)	Sep 30, 2015	Dec 31, 2014
Commercial:		
Mortgages	$4,915	$5,315
Construction & development	—	—
Commercial & industrial	1,137	1,969
Residential real estate:		
Mortgages	9,472	7,124
Homeowner construction	—	—
Consumer:		
Home equity lines	197	1,217
Home equity loans	1,120	317
Other	3	3
Total nonaccrual loans	$16,844	$15,945
Accruing loans 90 days or more past due	$—	$—

As of September 30, 2015 and December 31, 2014, nonaccrual loans of $2.9 million and $3.2 million, respectively, were current as to the payment of principal and interest.

At September 30, 2015, there were no significant commitments to lend additional funds to borrowers whose loans were on nonaccrual status.

Past Due Loans

Past due status is based on the contractual payment terms of the loan. The following tables present an age analysis of past due loans, segregated by class of loans:

(Dollars in thousands)	Days Past Due					
September 30, 2015	30-59	60-89	Over 90	Total Past Due	Current	Total Loans
Commercial:						
Mortgages	$147	$—	$4,915	$5,062	$868,705	$873,767
Construction & development	—	—	—	—	121,857	121,857
Commercial & industrial	162	3,455	720	4,337	579,893	584,230
Residential real estate:						
Mortgages	3,610	2,458	4,499	10,567	984,241	994,808
Homeowner construction	—	—	—	—	29,406	29,406
Consumer:						
Home equity lines	688	201	40	929	251,933	252,862
Home equity loans	196	135	567	898	46,712	47,610
Other	15	2	1	18	45,360	45,378
Total loans	$4,818	$6,251	$10,742	$21,811	$2,928,107	$2,949,918

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(Dollars in thousands)	Days Past Due					
December 31, 2014	30-59	60-89	Over 90	Total Past Due	Current	Total Loans
Commercial:						
Mortgages	$—	$—	$5,315	$5,315	$838,663	$843,978
Construction & development	—	—	—	—	79,592	79,592
Commercial & industrial	2,136	1,202	181	3,519	608,399	611,918
Residential real estate:						
Mortgages	2,943	821	3,284	7,048	941,683	948,731
Homeowner construction	—	—	—	—	36,684	36,684
Consumer:						
Home equity lines	570	100	841	1,511	240,969	242,480
Home equity loans	349	240	56	645	46,322	46,967
Other	35	5	—	40	48,886	48,926
Total loans	$6,033	$2,368	$9,677	$18,078	$2,841,198	$2,859,276

Included in past due loans as of September 30, 2015 and December 31, 2014, were nonaccrual loans of $14.0 million and $12.7 million, respectively. All loans 90 days or more past due at September 30, 2015 and December 31, 2014 were classified as nonaccrual.

Impaired Loans

Impaired loans are loans for which it is probable that the Corporation will not be able to collect all amounts due according to the contractual terms of the loan agreements and loans restructured in a troubled debt restructuring. Prior to September 30, 2015, the Corporation defined impaired loans to include nonaccrual commercial loans, troubled debt restructured loans and certain other loans that were individually evaluated for impairment. As of September 30, 2015, the Corporation redefined impaired loans to include nonaccrual loans and troubled debt restructured loans. The redefinition of impaired loans resulted in $7.8 million of nonaccrual residential real estate mortgage loans and consumer loans being classified as impaired loans as of September 30, 2015. The redefinition of impaired loans in the third quarter of 2015 did not result in significant changes to the allowance for loan losses or to the allocation of loss exposure within the allowance for loans losses.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

The following is a summary of impaired loans:

(Dollars in thousands)	Recorded Investment (1)		Unpaid Principal		Related Allowance	
	Sep 30, 2015	Dec 31, 2014	Sep 30, 2015	Dec 31, 2014	Sep 30, 2015	Dec 31, 2014
No Related Allowance Recorded:						
Commercial:						
Mortgages	$205	$432	$205	$432	$—	$—
Construction & development	—	—	—	—	—	—
Commercial & industrial	1,153	1,047	1,172	1,076	—	—
Residential real estate:						
Mortgages	5,754	1,477	6,037	1,768	—	—
Homeowner construction	—	—	—	—	—	—
Consumer:						
Home equity lines	147	—	147	—	—	—
Home equity loans	149	—	149	—	—	—
Other	—	—	—	—	—	—
Subtotal	7,408	2,956	7,710	3,276	—	—
With Related Allowance Recorded:						
Commercial:						
Mortgages	$15,373	$14,585	$15,753	$14,564	$1,256	$927
Construction & development	—	—	—	—	—	—
Commercial & industrial	2,075	1,878	2,614	2,437	186	177
Residential real estate:						
Mortgages	4,395	2,226	4,474	2,338	312	326
Homeowner construction	—	—	—	—	—	—
Consumer:						
Home equity lines	131	250	223	250	5	141
Home equity loans	1,099	45	1,249	62	57	12
Other	150	112	149	114	1	—
Subtotal	23,223	19,096	24,462	19,765	1,817	1,583
Total impaired loans	$30,631	$22,052	$32,172	$23,041	$1,817	$1,583
Total:						
Commercial	$18,806	$17,942	$19,744	$18,509	$1,442	$1,104
Residential real estate	10,149	3,703	10,511	4,106	312	326
Consumer	1,676	407	1,917	426	63	153
Total impaired loans	$30,631	$22,052	$32,172	$23,041	$1,817	$1,583

(1) The recorded investment in impaired loans consists of unpaid principal balance net of charge-offs, interest payments received applied to principal and unamortized deferred loan origination fees and costs. For impaired accruing loans (troubled debt restructurings for which management has concluded that the collectibility of the loan is not in doubt), the recorded investment also includes accrued interest.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

The following tables present the average recorded investment balance of impaired loans and interest income recognized on impaired loans segregated by loan class:

(Dollars in thousands)	Average Recorded Investment		Interest Income Recognized	
Three months ended September 30,	2015	2014	2015	2014
Commercial:				
Mortgages	$14,583	$23,435	$82	$175
Construction & development	—	—	—	—
Commercial & industrial	3,376	2,570	29	25
Residential real estate:				
Mortgages	4,484	4,253	27	31
Homeowner construction	—	—	—	—
Consumer:				
Home equity lines	157	82	1	—
Home equity loans	515	83	3	1
Other	354	117	2	2
Totals	$23,469	$30,540	$144	$234

(Dollars in thousands)	Average Recorded Investment		Interest Income Recognized	
Nine months ended September 30,	2015	2014	2015	2014
Commercial:				
Mortgages	$14,692	$25,605	$237	$580
Construction & development	—	—	—	—
Commercial & industrial	3,164	2,477	89	63
Residential real estate:				
Mortgages	3,735	4,151	67	81
Homeowner construction	—	—	—	—
Consumer:				
Home equity lines	227	92	1	2
Home equity loans	224	111	4	4
Other	231	120	7	6
Totals	$22,273	$32,556	$405	$736

Troubled Debt Restructurings

Loans are considered restructured in a troubled debt restructuring when the Corporation has granted concessions to a borrower due to the borrower’s financial condition that it otherwise would not have considered. These concessions may include modifications of the terms of the debt such as deferral of payments, extension of maturity, reduction of principal balance, reduction of the stated interest rate other than normal market rate adjustments, or a combination of these concessions. Debt may be bifurcated with separate terms for each tranche of the restructured debt. Restructuring a loan in lieu of aggressively enforcing the collection of the loan may benefit the Corporation by increasing the ultimate probability of collection.

Restructured loans are classified as accruing or non-accruing based on management’s assessment of the collectibility of the loan. Loans which are already on nonaccrual status at the time of the restructuring generally remain on nonaccrual status for approximately six months before management considers such loans for return to accruing status. Accruing restructured loans

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

are placed into nonaccrual status if and when the borrower fails to comply with the restructured terms and management deems it unlikely that the borrower will return to a status of compliance in the near term.

Troubled debt restructurings are reported as such for at least one year from the date of the restructuring. In years after the restructuring, troubled debt restructured loans are removed from this classification if the restructuring did not involve a below-market rate concession and the loan is not deemed to be impaired based on the terms specified in the restructuring agreement.

Troubled debt restructurings are classified as impaired loans. The Corporation identifies loss allocations for impaired loans on an individual loan basis. The recorded investment in troubled debt restructurings was $19.1 million and $18.4 million, respectively, at September 30, 2015 and December 31, 2014. These amounts included insignificant balances of accrued interest. The allowance for loan losses included specific reserves for these troubled debt restructurings of $1.4 million and $1.2 million, respectively, at September 30, 2015 and December 31, 2014.

As of September 30, 2015, there were no significant commitments to lend additional funds to borrowers whose loans had been restructured.

The following tables present loans modified as a troubled debt restructuring:

(Dollars in thousands)			Outstanding Recorded Investment (1)			
	# of Loans		Pre-Modifications		Post-Modifications	
Three months ended September 30,	2015	2014	2015	2014	2015	2014
Commercial:						
Mortgages	1	—	$1,190	$—	$1,190	$—
Construction & development	—	—	—	—	—	—
Commercial & industrial	—	1	—	63	—	63
Residential real estate:						
Mortgages	2	1	526	264	526	264
Homeowner construction	—	—	—	—	—	—
Totals	3	2	$1,716	$327	$1,716	$327

(1) The recorded investment in troubled debt restructurings consists of unpaid principal balance, net of charge-offs and unamortized deferred loan origination fees and costs, at the time of the restructuring. For accruing troubled debt restructured loans, the recorded investment also includes accrued interest.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(Dollars in thousands)			Outstanding Recorded Investment (1)			
	# of Loans		Pre-Modifications		Post-Modifications	
Nine months ended September 30,	2015	2014	2015	2014	2015	2014
Commercial:						
Mortgages	1	—	$1,190	$—	$1,190	$—
Construction & development	—	—	—	—	—	—
Commercial & industrial	3	10	584	826	584	826
Residential real estate:						
Mortgages	3	3	619	743	619	743
Homeowner construction	—	—	—	—	—	—
Consumer:						
Home equity lines	—	—	—	—	—	—
Home equity loans	1	—	70	—	70	—
Other	1	—	35	—	35	—
Totals	9	13	$2,498	$1,569	$2,498	$1,569

(1) The recorded investment in troubled debt restructurings consists of unpaid principal balance, net of charge-offs and unamortized deferred loan origination fees and costs, at the time of the restructuring. For accruing troubled debt restructured loans, the recorded investment also includes accrued interest.

The following table presents information on how loans were modified as a troubled debt restructuring:

(Dollars in thousands)				
	Three months		Nine months	
Periods ended September 30,	2015	2014	2015	2014
Below-market interest rate concession	$—	$—	$—	$77
Payment deferral	526	63	1,145	542
Maturity / amortization concession	—	—	163	599
Interest only payments	—	—	—	—
Combination (1)	1,190	264	1,190	351
Total	$1,716	$327	$2,498	$1,569

(1) Loans included in this classification were modified with a combination of any two of the concessions listed in this table.

In the three and nine months ended September 30, 2015, payment defaults on troubled debt restructured loans modified within the previous 12 months occurred on 3 loans totaling $454 thousand and 5 loans totaling $545 thousand, respectively. Comparative amounts for the same periods in 2014 were 3 loans totaling $426 thousand and 5 loans totaling $666 thousand, respectively.

Credit Quality Indicators

Commercial

The Corporation utilizes an internal rating system to assign a risk to each of its commercial loans. Loans are rated on a scale of 1 to 10. This scale can be assigned to three broad categories including “pass” for ratings 1 through 6, “special mention” for 7-rated loans, and “classified” for loans rated 8, 9 or 10. The loan rating system takes into consideration parameters including the borrower’s financial condition, the borrower’s performance with respect to loan terms, the adequacy of collateral, the adequacy of guarantees and other credit quality characteristics. As of September 30, 2015 and December 31, 2014, the weighted average risk rating of the Corporation’s commercial loan portfolio was 4.66 and

4.67, respectively. For non-impaired loans, the Corporation takes the risk rating into consideration along with other credit attributes in the establishment of an appropriate allowance for loan losses. See Note 7 for additional information.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

A description of the commercial loan categories are as follows:

Pass - Loans with acceptable credit quality, defined as ranging from superior or very strong to a status of lesser stature. Superior or very strong credit quality is characterized by a high degree of cash collateralization or strong balance sheet liquidity. Lesser stature loans have an acceptable level of credit quality but exhibit some weakness in various credit metrics such as collateral adequacy, cash flow, secondary sources of repayment, or performance inconsistency or may be in an industry or of a loan type known to have a higher degree of risk.

Special Mention - Loans with potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Bank's position as creditor at some future date. Special Mention assets are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification. Examples of these conditions include but are not limited to outdated or poor quality financial data, strains on liquidity and leverage, losses or negative trends in operating results, marginal cash flow, weaknesses in occupancy rates or trends in the case of commercial real estate and frequent delinquencies.

Classified - Loans identified as "substandard", "doubtful" or "loss" based on criteria consistent with guidelines provided by banking regulators. A "substandard" loan has defined weaknesses which make payment default or principal exposure likely, but not yet certain. Such loans are apt to be dependent upon collateral liquidation, a secondary source of repayment or an event outside of the normal course of business. The loans are closely watched and are either already on nonaccrual status or may be placed on nonaccrual status when management determines there is uncertainty of collectibility. A "doubtful" loan is placed on non-accrual status and has a high probability of loss, but the extent of the loss is difficult to quantify due to dependency upon collateral having a value that is difficult to determine or upon some near-term event which lacks certainty. A loan in the "loss" category is considered generally uncollectible or the timing or amount of payments cannot be determined. "Loss" is not intended to imply that the loan has no recovery value but rather it is not practical or desirable to continue to carry the asset.

The Corporation's procedures call for loan ratings and classifications to be revised whenever information becomes available that indicates a change is warranted. The criticized loan portfolio, which consists of commercial loans that are risk rated special mention or worse, are reviewed by management on a quarterly basis, focusing on the current status and strategies to improve the credit. An annual loan review program is conducted by a third party to provide an independent evaluation of the creditworthiness of the commercial loan portfolio, the quality of the underwriting and credit risk management practices and the appropriateness of the risk rating classifications. This review is supplemented with selected targeted internal reviews of the commercial loan portfolio.

The following table presents the commercial loan portfolio, segregated by category of credit quality indicator:

(Dollars in thousands)	Pass		Special Mention		Classified	
	Sep 30, 2015	Dec 31, 2014	Sep 30, 2015	Dec 31, 2014	Sep 30, 2015	Dec 31, 2014
Mortgages	$856,114	$819,857	$12,542	$18,372	$5,111	$5,749
Construction & development	121,857	79,592	—	—	—	—
Commercial & industrial	563,933	592,206	15,474	16,311	4,823	3,401
Total commercial loans	$1,541,904	$1,491,655	$28,016	$34,683	$9,934	$9,150

Residential and Consumer

The residential and consumer portfolios are monitored on an ongoing basis by the Corporation using delinquency information and loan type as credit quality indicators. These credit quality indicators are assessed on an aggregate basis in these relatively homogeneous portfolios. For non-impaired loans, the Corporation assigns loss allocation factors to each respective loan type. See Note 7 for additional information.

Various other techniques are utilized to monitor indicators of credit deterioration in the portfolios of residential real estate mortgages and home equity lines and loans. Among these techniques is the periodic tracking of loans with an updated FICO score and an estimated loan to value ("LTV") ratio. LTV ratio is determined via statistical modeling analyses. The indicated LTV levels are estimated based on such factors as the location, the original LTV ratio, and the date of origination of the loan and do not reflect actual appraisal amounts. The results of these analyses and other loan review procedures are taken into

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

consideration in the determination of loss allocation factors for residential mortgage and home equity consumer credits. See Note 7 for additional information.

The following table presents the residential and consumer loan portfolios, segregated by category of credit quality indicator:

(Dollars in thousands)	Current and Under 90 Days Past Due		Over 90 Days Past Due	
	Sep 30, 2015	Dec 31, 2014	Sep 30, 2015	Dec 31, 2014
Residential real estate:				
Accruing mortgages	$985,336	$941,607	$—	$—
Nonaccrual mortgages	4,973	3,840	4,499	3,284
Homeowner construction	29,406	36,684	—	—
Total residential loans	$1,019,715	$982,131	$4,499	$3,284
Consumer:				
Home equity lines	$252,822	$241,639	$40	$841
Home equity loans	47,043	46,911	567	56
Other	45,377	48,926	1	—
Total consumer loans	$345,242	$337,476	$608	$897

(7) Allowance for Loan Losses

The allowance for loan losses is management’s best estimate of the inherent risk of loss in the loan portfolio as of the balance sheet date. The allowance is increased by provisions charged to earnings and by recoveries of amounts previously charged off, and is reduced by charge-offs on loans. The Corporation uses a methodology to systematically measure the amount of estimated loan loss exposure inherent in the loan portfolio for purposes of establishing a sufficient allowance for loan losses. The methodology includes three elements: (1) identification of loss allocations for individual loans deemed to be impaired, (2) application of loss allocation factors for non-impaired loans based on historical loss experience and estimated loss emergence period, with adjustments for various exposures that management believes are not adequately represented by historical loss experience, and (3) an unallocated allowance maintained for measurement imprecision associated with nonaccrual loans.

Prior to December 31, 2014, the unallocated allowance included amounts for management’s qualitative and quantitative assessment of certain other loan portfolio risks not captured in other components of the allowance. The 2014 presentation of the allowance for loan losses by portfolio segment, set forth below, has been revised to conform to the December 31, 2014 presentation format. The reclassification resulted in a reduction of $4.2 million in the unallocated allowance previously reported as of September 30, 2014, with a corresponding increase to the allowance by portfolio segment. The reclassification resulted in no change in the total allowance.

Loss allocations for loans deemed to be impaired are measured on a discounted cash flow method based upon the loan’s contractual effective interest rate, or at the loan’s observable market price, or, if the loan is collateral dependent, at the fair value of the collateral. For collateral dependent loans for which repayment is dependent on the sale of the collateral, management adjusts the fair value for estimated costs to sell. For collateral dependent loans for which repayment is dependent on the operation of the collateral, such as accruing troubled debt restructured loans, estimated costs to sell are not incorporated into the measurement. Management may also adjust appraised values to reflect estimated market value declines or apply other discounts to appraised values for unobservable factors resulting from its knowledge of circumstances associated with the property.

For loans that are collectively evaluated, we analyze historical loss experience by loan segment over periods deemed to be relevant to the inherent risk of loss in the portfolios. These losses are adjusted to reflect the loss emergence period (the period from the event that triggers the eventual default until the actual loss is recognized with a charge-off.) These amounts are supplemented by certain qualitative risk factors reflecting management’s view of how losses may vary from those represented by historical loss rates. These qualitative risk factors include: 1) changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses; 2) changes in international, national, regional, and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments; 3) changes in the nature and volume of the

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

portfolio and in the terms of loans; 4) changes in the experience, ability, and depth of lending management and other relevant staff; 5) changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified or rated loans; 6) changes in the quality of the institution's loan review system; 7) changes in the value of underlying collateral for collateral dependent loans; 8) the existence and effect of any concentrations of credit, and changes in the level of such concentrations; and 9) the effect of other external factors such as legal and regulatory requirements on the level of estimated credit losses in the institution's existing portfolio.

Because the methodology is based upon historical experience and trends, current economic data as well as management's judgment, factors may arise that result in different estimations. Adversely different conditions or assumptions could lead to increases in the allowance. In addition, various regulatory agencies periodically review the allowance for loan losses. Such agencies may require additions to the allowance based on their judgments about information available to them at the time of their examination.

The following table presents the activity in the allowance for loan losses for three months ended September 30, 2015:

(Dollars in thousands)	Commercial							
	Mortgages	Construction	C&I (1)	Total Commercial	Residential	Consumer	Un-allocated	Total
Beginning Balance	$8,529	$1,684	$7,010	$17,223	$5,405	$2,683	$2,276	$27,587
Charge-offs	—	—	(378)	(378)	(34)	(313)	—	(725)
Recoveries	4	—	30	34	22	43	—	99
Provision	(38)	5	691	658	150	(164)	(444)	200
Ending Balance	$8,495	$1,689	$7,353	$17,537	$5,543	$2,249	$1,832	$27,161

(1) Commercial & industrial loans.

The following table presents the activity in the allowance for loan losses for three months ended September 30, 2014:

(Dollars in thousands)	Commercial							
	Mortgages	Construction	C&I (1)	Total Commercial	Residential	Consumer	Un-allocated	Total
Beginning Balance	$8,192	$494	$7,888	$16,574	$6,191	$2,577	$1,927	$27,269
Charge-offs	—	—	(92)	(92)	—	(56)	—	(148)
Recoveries	7	—	29	36	1	10	—	47
Provision	57	206	(611)	(348)	111	221	616	600
Ending Balance	$8,256	$700	$7,214	$16,170	$6,303	$2,752	$2,543	$27,768

(1) Commercial & industrial loans.

The following table presents the activity in the allowance for loan losses for nine months ended September 30, 2015:

(Dollars in thousands)	Commercial							
	Mortgages	Construction	C&I (1)	Total Commercial	Residential	Consumer	Un-allocated	Total
	$8,202	$1,300	$7,987	$17,489	$5,430	$2,713	$2,391	$28,023

Beginning Balance								
Charge-offs	(400)	—	(429)	(829)	(88)	(484)	—	(1,401)
Recoveries	88	—	62	150	26	63	—	239
Provision	605	389	(267)	727	175	(43)	(559)	300
Ending Balance	$8,495	$1,689	$7,353	$17,537	$5,543	$2,249	$1,832	$27,161

(1) Commercial & industrial loans.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

The following table presents the activity in the allowance for loan losses for nine months ended September 30, 2014:

(Dollars in thousands)	Commercial							
	Mortgages	Construction	C&I (1)	Total Commercial	Residential	Consumer	Un-allocated	Total
Beginning Balance	$8,022	$383	$7,835	$16,240	$6,450	$2,511	$2,685	$27,886
Charge-offs	(977)	—	(403)	(1,380)	(72)	(186)	—	(1,638)
Recoveries	19	—	75	94	36	40	—	170
Provision	1,192	317	(293)	1,216	(111)	387	(142)	1,350
Ending Balance	$8,256	$700	$7,214	$16,170	$6,303	$2,752	$2,543	$27,768

(1) Commercial & industrial loans.

The following table presents the Corporation's loan portfolio and associated allowance for loan loss by portfolio segment and by impairment methodology. See Note 6 for disclosure on the redefining of impaired loans as of September 30, 2015.

(Dollars in thousands)	September 30, 2015		December 31, 2014	
	Loans	Related Allowance	Loans	Related Allowance
Loans Individually Evaluated for Impairment:				
Commercial:				
Mortgages	$15,552	$1,256	$14,991	$927
Construction & development	—	—	—	—
Commercial & industrial	3,218	186	2,921	177
Residential real estate	10,146	312	3,698	326
Consumer	1,674	63	409	153
Subtotal	$30,590	$1,817	$22,019	$1,583
Loans Collectively Evaluated for Impairment:				
Commercial:				
Mortgages	$858,215	$7,239	$828,987	$7,275
Construction & development	121,857	1,689	79,592	1,300
Commercial & industrial	581,012	7,167	608,997	7,810
Residential real estate	1,014,068	5,231	981,717	5,104
Consumer	344,176	2,186	337,964	2,560
Subtotal	$2,919,328	$23,512	$2,837,257	$24,049
Unallocated	—	1,832	—	2,391
Total	$2,949,918	$27,161	$2,859,276	$28,023

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(8) Goodwill and Other Intangibles

The following table presents the carrying value of goodwill at the reporting unit (or business segment) level:

(Dollars in thousands)	September 30, 2015	December 31, 2014
Commercial Banking Segment	$22,591	$22,591
Wealth Management Services Segment	41,605	35,523
Total	$64,196	$58,114

The balance of goodwill in the Wealth Management Services segment at September 30, 2015 includes the addition of $6.1 million resulting from the August 1, 2015 Halsey acquisition.

Intangible assets consist of wealth management advisory contracts and non-compete agreements. The following table presents the components of intangible assets:

(Dollars in thousands)	September 30, 2015		December 31, 2014	
	Advisory Contracts	Non-compete Agreements	Advisory Contracts	Non-compete Agreements
Gross carrying amount	$20,803	$369	$13,657	$—
Accumulated amortization	9,338	41	8,808	—
Net amount	$11,465	$328	$4,849	$—

The balance of intangible assets at September 30, 2015 includes the addition of wealth management advisory contracts and non compete agreements with gross carrying amounts of $7.1 million and $369 thousand, respectively, resulting from the Halsey acquisition. The wealth management advisory contracts and non-compete agreements resulting from the Halsey acquisition are being amortized on a straight-line basis over a 15 year and 18 month life, respectively.

Amortization expense for the three and nine months ended September 30, 2015 amounted to $260 thousand and $571 thousand, respectively, compared to $161 thousand and $489 thousand, respectively, for the same periods in 2014.

The following table presents estimated remaining amortization expense for intangible assets at September 30, 2015:

(Dollars in thousands)	Advisory Contracts	Non-compete Agreements	Total
October 1, 2015 to December 31, 2015	$272	$62	$334
2016	1,038	246	1,284
2017	1,014	20	1,034
2018	978	—	978
2019	943	—	943
2020 and thereafter	7,220	—	7,220

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(9) Time Certificates of Deposit

The following table presents scheduled maturities of time certificates of deposit:

(Dollars in thousands)	Scheduled Maturity	Weighted Average Rate	
October 1, 2015 to December 31, 2015	$143,204	0.99	%
2016	226,096	0.92	
2017	173,879	0.93	
2018	81,213	1.22	
2019	121,508	1.81	
2020 and thereafter	55,918	0.45	
Balance at September 30, 2015	$801,818	1.07	%

(10) Borrowings

Federal Home Loan Bank Advances

Advances payable to the FHLBB amounted to $381.6 million and $406.3 million, respectively, at September 30, 2015 and December 31, 2014.

The following table presents maturities and weighted average interest rates on FHLBB advances outstanding as of September 30, 2015:

(Dollars in thousands)	Total Outstanding	Weighted Average Rate	
October 1, 2015 to December 31, 2015	$110,176	0.40	%
2016	48,792	0.91	%
2017	37,575	2.52	%
2018	78,134	2.31	%
2019	42,661	3.79	%
2020 and thereafter	64,311	3.76	%
Balance at September 30, 2015	$381,649	2.01	%

As of September 30, 2015 and December 31, 2014, the Bank also has access to an unused line of credit with the FHLBB amounting to $40.0 million. In addition, the FHLBB may issue standby letters of credit to depositor customers of the Bank to collateralize public deposits. The Bank's FHLBB borrowings, line of credit and these letters of credit are collateralized by a blanket pledge agreement on the Bank's FHLBB stock, certain qualified investment securities and loans, as well as amounts maintained on deposit at the FHLBB. The Bank's unused remaining available borrowing capacity at the FHLBB was approximately $610.7 million and $569.4 million, respectively, at September 30, 2015 and December 31, 2014.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(11) Shareholders' Equity

Regulatory Capital Requirements

The following table presents the Corporation's and the Bank's actual capital amounts and ratios, as well as the corresponding minimum required capital ratios and minimum capital ratios required for the Bank to be "well capitalized" for purposes of the Federal Deposit Insurance Corporation's ("FDIC") prompt corrective action provisions:

(Dollars in thousands)	Actual			For Capital Adequacy Purposes			To Be "Well Capitalized" Under Prompt Corrective Action Provisions	
	Amount	Ratio		Amount	Ratio		Amount	Ratio
September 30, 2015								
Total Capital (to Risk-Weighted Assets):								
Corporation	$361,149	12.81	%	$225,614	8.00	%	N/A	N/A
Bank	360,083	12.77		225,567	8.00		281,959	10.00
Tier 1 Capital (to Risk-Weighted Assets):								
Corporation	333,760	11.83		169,210	6.00		N/A	N/A
Bank	332,694	11.80		169,175	6.00		225,567	8.00
Common Equity Tier 1 Capital (to Risk-Weighted Assets): (1)								
Corporation	311,761	11.05		126,908	4.50		N/A	N/A
Bank	332,694	11.80		126,882	4.50		183,273	6.50
Tier 1 Capital (to Average Assets): (2)								
Corporation	333,760	9.26		144,236	4.00		N/A	N/A
Bank	332,694	9.23		144,125	4.00		180,156	5.00
December 31, 2014								
Total Capital (to Risk-Weighted Assets):								
Corporation	343,934	12.56		219,149	8.00		N/A	N/A
Bank	339,268	12.39		219,075	8.00		273,844	10.00
Tier 1 Capital (to Risk-Weighted Assets):								
Corporation	315,575	11.52		109,574	4.00		N/A	N/A
Bank	310,909	11.35		109,537	4.00		164,306	6.00
Tier 1 Capital (to Average Assets): (2)								
Corporation	315,575	9.14		138,090	4.00		N/A	N/A
Bank	310,909	9.01		137,964	4.00		172,454	5.00

(1) New capital ratio effective January 1, 2015 under the Basel III capital requirements. See additional discussion of Basel III and the new regulatory capital requirements in the "Supervision and Regulation" section in the Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

(2) Leverage ratio.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(12) Derivative Financial Instruments

The Corporation's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Corporation's known or expected cash receipts and its known or expected cash payments principally to manage the Corporation's interest rate risk. Additionally, the Corporation enters into interest rate derivatives to accommodate the business requirements of its customers. All derivatives are recognized as either assets or liabilities on the balance sheet and are measured at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and resulting designation.

Interest Rate Risk Management Agreements

Interest rate swaps are used from time to time as part of the Corporation's interest rate risk management strategy. Swaps are agreements in which the Corporation and another party agree to exchange interest payments (e.g., fixed-rate for variable-rate payments) computed on a notional principal amount. The credit risk associated with swap transactions is the risk of default by the counterparty. To minimize this risk, the Corporation enters into interest rate agreements only with highly rated counterparties that management believes to be creditworthy. The notional amounts of these agreements do not represent amounts exchanged by the parties and, thus, are not a measure of the potential loss exposure.

Cash Flow Hedging Instruments

As of December 31, 2014, the Bancorp had two interest rate swap contracts designated as cash flow hedges to hedge the interest rate associated with $22.7 million of variable rate junior subordinated debentures. During the third quarter of 2015, one of the interest rate swap contracts matured. As a result, as of September 30, 2015, the Bancorp had one interest rate swap contract designated as a cash flow hedge to hedge the interest rate associated with $14.4 million of variable rate junior subordinated debentures. The effective portion of the changes in fair value of derivatives designated as cash flow hedges is recorded in other comprehensive income and subsequently reclassified to earnings when gains or losses are realized. The ineffective portion of changes in fair value of the derivatives is recognized directly in earnings as interest expense. As of September 30, 2015 and December 31, 2014, the Bancorp has pledged collateral to derivative counterparties in the form of cash totaling $550 thousand and $939 thousand, respectively. The Bancorp may need to post additional collateral in the future in proportion to potential increases in unrealized loss positions.

Customer Related Derivative Contracts

The Corporation has entered into interest rate swap contracts to help commercial loan borrowers manage their interest rate risk. The interest rate swap contracts with commercial loan borrowers allow them to convert floating-rate loan payments to fixed-rate loan payments. When we enter into an interest rate swap contract with a commercial loan borrower, we simultaneously enter into a "mirror" swap contract with a third party. The third party exchanges the client's fixed rate loan payments for floating-rate loan payments. We retain the risk that is associated with the potential failure of counterparties and the risk inherent in originating loans. As of September 30, 2015 and December 31, 2014, Washington Trust had interest rate swap contracts with commercial loan borrowers with notional amounts of $272.6 million and $165.8 million, respectively, and equal amounts of "mirror" swap contracts with third-party financial institutions. These derivatives are not designated as hedges and therefore, changes in fair value are recognized in earnings.

Risk Participation Agreements

During 2015, the Corporation entered into risk participation agreements ("RPAs") with other banks participating in commercial loan arrangements. Participating banks guarantee the performance on borrower-related interest rate swap contracts. RPAs are derivative financial instruments and are recorded at fair value. Changes in the fair value of the derivative assets and liabilities are recognized in earnings in the period of change.

Under a risk participation-out agreement, a derivative asset, the Corporation participates out a portion of the credit risk associated with the interest rate swap position executed with the commercial borrower, for a fee paid to the participating bank. Under a risk participation-in agreement, a derivative liability, the Corporation assumes, or participates in, a portion of the credit risk associated with the interest rate swap position with the commercial borrower, for a fee received from the other bank.

As of September 30, 2015, the notional amounts of the risk participation-out agreements and risk participation-in agreements were $25.3 million and $8.0 million, respectively.

Loan Commitments
Interest rate lock commitments are extended to borrowers and relate to the origination of residential real estate mortgage loans held for sale. To mitigate the interest rate risk inherent in these rate locks, as well as closed residential real estate mortgage

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

loans held for sale, forward commitments are established to sell individual residential real estate mortgage loans. Both interest rate lock commitments and commitments to sell residential real estate mortgage loans are derivative financial instruments, but do not meet criteria for hedge accounting and, as such are treated as derivatives not designated as hedging instruments. These derivative financial instruments are recorded at fair value and changes in fair value of these commitments are reflected in earnings in the period of change. The Corporation has elected to carry certain closed residential real estate mortgage loans held for sale at fair value, as changes in fair value in these loans held for sale generally offset changes in interest rate lock and forward sale commitments.

The following table presents the fair values of derivative instruments in the Corporation's Consolidated Balance Sheets:

(Dollars in thousands)	Asset Derivatives			Liability Derivatives		
		Fair Value			Fair Value	
	Balance Sheet Location	Sep 30, 2015	Dec 31, 2014	Balance Sheet Location	Sep 30, 2015	Dec 31, 2014
Derivatives Designated as Cash Flow Hedging Instruments:						
Interest rate risk management contracts:						
Interest rate swap contracts	Other assets	$—	$—	Other liabilities	$88	$497
Derivatives not Designated as Hedging Instruments:						
Forward loan commitments:						
Interest rate lock commitments	Other assets	2,194	1,212	Other liabilities	—	20
Commitments to sell mortgage loans	Other assets	—	13	Other liabilities	3,014	2,028
Customer related derivative contracts:						
Interest rate swaps with customers	Other assets	10,436	4,554	Other liabilities	—	23
Mirror swaps with counterparties	Other assets	—	28	Other liabilities	10,742	4,748
Risk participation agreements	Other assets	79	—	Other liabilities	32	—
Total		$12,709	$5,807		$13,876	$7,316

The following tables present the effect of derivative instruments in the Corporation's Consolidated Statements of Income and Changes in Shareholders' Equity:

(Dollars in thousands)	Gain (Loss) Recognized in Other Comprehensive Income (Effective Portion)				Location of Gain (Loss) Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Recognized in Income (Ineffective Portion)			
	Three months		Nine months			Three months		Nine months	
Periods ended September 30,	2015	2014	2015	2014		2015	2014	2015	2014

Derivatives Designated as Cash Flow Hedging Instruments:									
Interest rate risk management contracts:									
Interest rate swap contracts	$81	$93	$255	$248	Interest Expense	$—	$—	$—	$—
Total	$81	$93	$255	$248		$—	$—	$—	$—

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(Dollars in thousands)		Amount of Gain (Loss) Recognized in Income on Derivative		Amount of Gain (Loss) Recognized in Income on Derivative	
		Three months		Nine months	
Periods ended September 30,	Statement of Income Location	2015	2014	2015	2014
Derivatives not Designated as Hedging Instruments:					
Forward loan commitments:					
Interest rate lock commitments	Net gains on loan sales & commissions on loans originated for others	$864	$498	$1,002	$1,101
Commitments to sell mortgage loans	Net gains on loan sales & commissions on loans originated for others	(1,470)	(672)	(999)	(1,737)
Customer related derivative contracts:					
Interest rate swaps with customers	Loan related derivative income	6,448	317	8,717	2,467
Mirror swaps with counterparties	Loan related derivative income	(6,081)	22	(6,799)	(1,905)
Risk participation agreements	Loan related derivative income	(40)	—	(229)	—
Total		($279)	$165	$1,692	($74)

(13) Fair Value Measurements

The Corporation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. As of September 30, 2015 and December 31, 2014, securities available for sale, certain residential real estate mortgage loans held for sale, derivatives and the contingent consideration liability are recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record at fair value other assets on a nonrecurring basis, such as collateral dependent impaired loans, property acquired through foreclosure or repossession, certain residential real estate mortgage loans held for sale and mortgage servicing rights. These nonrecurring fair value adjustments typically involve the application of lower of cost or market accounting or write-downs of individual assets.

Fair value is a market-based measurement, not an entity-specific measurement. Fair value measurements are determined based on the assumptions the market participants would use in pricing the asset or liability. In addition, GAAP specifies a hierarchy of valuation techniques based on whether the types of valuation information ("inputs") are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Corporation's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices for identical assets or liabilities in active markets.
- Level 2 – Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable in the markets and which reflect the Corporation's market assumptions.

Fair Value Option Election

GAAP allows for the irrevocable option to elect fair value accounting for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. The Corporation elected the fair value option for certain residential real estate mortgage loans held for sale to better match changes in fair value of the loans with changes in the fair value of the derivative loan sale contracts used to economically hedge them.

The aggregate principal amount of the residential real estate mortgage loans held for sale recorded at fair value was $20.4 million and $29.5 million, respectively, at September 30, 2015 and December 31, 2014. The aggregate fair value of these loans as of the same dates was $21.1 million and $30.3 million, respectively. As of September 30, 2015 and December 31, 2014, the aggregate fair value of residential real estate mortgage loans held for sale exceeded the aggregate principal amount by $700 thousand and $779 thousand, respectively.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

There were no residential real estate mortgage loans held for sale 90 days or more past due as of September 30, 2015 and December 31, 2014.

The following table presents the changes in fair value related to mortgage loans held for sale, interest rate lock commitments and commitments to sell residential real estate mortgage loans, for which the fair value option was elected. Changes in fair values are reported as a component of net gains on loan sales and commissions on loans originated for others in the Consolidated Statements of Income.

(Dollars in thousands)

	Three months		Nine months	
Periods ended September 30,	2015	2014	2015	2014
Mortgage loans held for sale	$490	$172		