WASHINGTON TRUST BANCORP INC
Form 10-Q
November 06, 2014

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, 2014 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<br>(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, 2014 was 16,725,247.

FORM 10-Q
WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
For the Quarter Ended September 30, 2014

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ITEM 1. FINANCIAL STATEMENTS
WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (unaudited)

(Dollars in thousands, except par value)

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Assets: | | |
| Cash and due from banks | $86,132 | $81,939 |
| Short-term investments | 3,869 | 3,378 |
| Mortgage loans held for sale, at fair value | 35,473 | 11,636 |
| Securities: | | |
| Available for sale, at fair value | 376,073 | 392,903 |
| Held to maturity, at amortized cost (fair value $27,074 at September 30, 2014 and $29,865 at December 31, 2013) | 26,480 | 29,905 |
| Total securities | 402,553 | 422,808 |
| Federal Home Loan Bank stock, at cost | 37,730 | 37,730 |
| Loans: | | |
| Commercial | 1,390,373 | 1,363,335 |
| Residential real estate | 945,580 | 772,674 |
| Consumer | 338,094 | 326,875 |
| Total loans | 2,674,047 | 2,462,884 |
| Less allowance for loan losses | 27,768 | 27,886 |
| Net loans | 2,646,279 | 2,434,998 |
| Premises and equipment, net | 26,367 | 25,402 |
| Investment in bank-owned life insurance | 63,026 | 56,673 |
| Goodwill | 58,114 | 58,114 |
| Identifiable intangible assets, net | 5,004 | 5,493 |
| Other assets | 51,335 | 50,696 |
| Total assets | $3,415,882 | $3,188,867 |
| Liabilities: | | |
| Deposits: | | |
| Demand deposits | $476,808 | $440,785 |
| NOW accounts | 313,391 | 309,771 |
| Money market accounts | 833,318 | 666,646 |
| Savings accounts | 290,561 | 297,357 |
| Time deposits | 824,810 | 790,762 |
| Total deposits | 2,738,888 | 2,505,321 |
| Federal Home Loan Bank advances | 261,685 | 288,082 |
| Junior subordinated debentures | 22,681 | 22,681 |
| Other liabilities | 44,066 | 43,137 |
| Total liabilities | 3,067,320 | 2,859,221 |
| Commitments and contingencies | | |
| Shareholders' Equity: | | |
| Common stock of $.0625 par value; authorized 30,000,000 shares; issued and outstanding 16,721,172 shares at September 30, 2014 and 16,613,561 shares at December 31, 2013 | 1,045 | 1,038 |
| Paid-in capital | 100,044 | 97,566 |
| Retained earnings | 247,052 | 232,595 |
| Accumulated other comprehensive income (loss) | 421 | (1,553) |
| Total shareholders' equity | 348,562 | 329,646 |

| | | |
|---|---|---|
| Total liabilities and shareholders’ equity | $3,415,882 | $3,188,867 |

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

WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(Dollars and shares in thousands, except per share amounts)

| | Three months | | Nine months | |
|---|---|---|---|---|
| Periods ended September 30, | 2014 | 2013 | 2014 | 2013 |
| Interest income: | | | | |
| Interest and fees on loans | $27,239 | $26,096 | $78,997 | $76,832 |
| Interest on securities: Taxable | 2,397 | 2,582 | 8,038 | 8,003 |
| Nontaxable | 519 | 629 | 1,658 | 1,935 |
| Dividends on Federal Home Loan Bank stock | 140 | 36 | 420 | 113 |
| Other interest income | 36 | 47 | 99 | 99 |
| Total interest and dividend income | 30,331 | 29,390 | 89,212 | 86,982 |
| Interest expense: | | | | |
| Deposits | 3,317 | 3,064 | 9,406 | 9,354 |
| Federal Home Loan Bank advances | 1,832 | 2,693 | 5,831 | 8,109 |
| Junior subordinated debentures | 241 | 241 | 723 | 1,243 |
| Other interest expense | 3 | 4 | 10 | 12 |
| Total interest expense | 5,393 | 6,002 | 15,970 | 18,718 |
| Net interest income | 24,938 | 23,388 | 73,242 | 68,264 |
| Provision for loan losses | 600 | 700 | 1,350 | 2,000 |
| Net interest income after provision for loan losses | 24,338 | 22,688 | 71,892 | 66,264 |
| Noninterest income: | | | | |
| Wealth management revenues | 8,374 | 7,629 | 24,969 | 23,015 |
| Merchant processing fees | — | 3,359 | 1,291 | 7,949 |
| Net gains on loan sales and commissions on loans originated for others | 1,742 | 3,883 | 4,688 | 11,534 |
| Service charges on deposit accounts | 881 | 855 | 2,459 | 2,436 |
| Card interchange fees | 804 | 731 | 2,264 | 2,013 |
| Income from bank-owned life insurance | 468 | 464 | 1,354 | 1,392 |
| Net gains on interest rate swap contracts | 339 | 54 | 562 | 225 |
| Equity in earnings (losses) of unconsolidated subsidiaries | (63) | (47) | (213) | (65) |
| Net gain on sale of business line | — | — | 6,265 | — |
| Other income | 580 | 472 | 1,670 | 1,233 |
| Noninterest income, excluding other-than-temporary impairment losses | 13,125 | 17,400 | 45,309 | 49,732 |
| Total other-than-temporary impairment losses on securities | — | — | — | (613) |
| Portion of loss recognized in other comprehensive income (before tax) | — | — | — | (2,159) |
| Net impairment losses recognized in earnings | — | — | — | (2,772) |
| Total noninterest income | 13,125 | 17,400 | 45,309 | 46,960 |
| Noninterest expense: | | | | |
| Salaries and employee benefits | 14,516 | 14,640 | 43,845 | 45,624 |
| Net occupancy | 1,557 | 1,404 | 4,672 | 4,282 |
| Equipment | 1,211 | 1,222 | 3,682 | 3,658 |
| Merchant processing costs | — | 2,862 | 1,050 | 6,746 |
| Outsourced services | 1,138 | 878 | 3,197 | 2,590 |
| Legal, audit and professional fees | 494 | 529 | 1,710 | 1,691 |
| FDIC deposit insurance costs | 442 | 448 | 1,295 | 1,330 |
| Advertising and promotion | 368 | 312 | 1,140 | 1,143 |
| Amortization of intangibles | 161 | 170 | 489 | 516 |
| Foreclosed property costs | 27 | 38 | 48 | 222 |
| Debt prepayment penalties | — | 1,125 | 6,294 | 1,125 |
| Other expenses | 2,133 | 1,920 | 6,365 | 5,810 |

| | | | | | |
|---|---|---|---|---|---|
| Total noninterest expense | | 22,047 | 25,548 | 73,787 | 74,737 |
| Income before income taxes | | 15,416 | 14,540 | 43,414 | 38,487 |
| Income tax expense | | 4,878 | 4,580 | 13,781 | 12,123 |
| Net income | | $10,538 | $9,960 | $29,633 | $26,364 |
| | | | | | |
| Weighted average common shares outstanding - basic | | 16,714 | 16,563 | 16,673 | 16,473 |
| Weighted average common shares outstanding - diluted | | 16,855 | 16,696 | 16,832 | 16,600 |
| Per share information: | Basic earnings per common share | $0.63 | $0.60 | $1.77 | $1.59 |
| | Diluted earnings per common share | $0.62 | $0.59 | $1.75 | $1.58 |
| | Cash dividends declared per share | $0.32 | $0.26 | $0.90 | $0.76 |

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

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WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES (Dollars in thousands)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

| | Three Months | | Nine Months | |
|---|---|---|---|---|
| Periods ended September 30, | 2014 | 2013 | 2014 | 2013 |
| Net income | $10,538 | $9,960 | $29,633 | $26,364 |
| Other comprehensive income, net of tax: | | | | |
| Securities available for sale: | | | | |
| Changes in fair value of securities available for sale | (953) | (129) | 1,476 | (5,003) |
| Net losses on securities reclassified into earnings | — | — | — | 393 |
| Net change in fair value of securities available for sale | (953) | (129) | 1,476 | (4,610) |
| Reclassification adjustment for other-than-temporary impairment losses transferred into earnings | — | — | — | 1,384 |
| Cash flow hedges: | | | | |
| Change in fair value of cash flow hedges | 1 | (47) | (29) | (15) |
| Net cash flow hedge losses reclassified into earnings | 92 | 91 | 277 | 331 |
| Net change in fair value of cash flow hedges | 93 | 44 | 248 | 316 |
| Defined benefit plan obligation adjustment | 81 | 11,440 | 250 | 12,069 |
| Total other comprehensive (loss) income, net of tax | (779) | 11,355 | 1,974 | 9,159 |
| Total comprehensive income | $9,759 | $21,315 | $31,607 | $35,523 |

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

WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES (Dollars and shares in thousands)
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

| | 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 |

| | Common Shares Outstanding | Common Stock | Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Total |
|---|---|---|---|---|---|---|
| Balance at January 1, 2013 | 16,380 | $1,024 | $91,453 | $213,674 | ($10,499) | $295,652 |
| Net income | | | | 26,364 | | 26,364 |
| Total other comprehensive loss, net of tax | | | | | 9,159 | 9,159 |
| Cash dividends declared | | | | (12,686) | | (12,686) |
| Share-based compensation | | | 1,377 | | | 1,377 |
| Deferred compensation plan | 2 | | 30 | | | 30 |
| Exercise of stock options, issuance of other compensation-related equity instruments and related tax benefit | 207 | 13 | 3,676 | | | 3,689 |
| Balance at September 30, 2013 | 16,589 | $1,037 | $96,536 | $227,352 | ($1,340) | $323,585 |

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

WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES (Dollars in thousands)
CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

| Nine months ended September 30, | | 2014 | 2013 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net income | | $29,633 | $26,364 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Provision for loan losses | | 1,350 | 2,000 |
| Depreciation of premises and equipment | | 2,350 | 2,489 |
| Foreclosed and repossessed property valuation adjustments | | 57 | 79 |
| Net amortization of premium and discount | | 672 | 1,196 |
| Net amortization of intangibles | | 489 | 516 |
| Share-based compensation | | 1,433 | 1,377 |
| Income from bank-owned life insurance | | (1,354) | (1,392) |
| Net gain on sale of business line | | (6,265) | — |
| Net gains on loan sales and commissions on loans originated for others | | (4,688) | (11,534) |
| Net impairment losses recognized in earnings | | — | 2,772 |
| Net gains on interest rate swap contracts | | (562) | (225) |
| Equity in losses of unconsolidated subsidiaries | | 213 | 65 |
| Proceeds from sales of loans | | 176,389 | 356,932 |
| Loans originated for sale | | (196,322) | (313,227) |
| (Increase) decrease in other assets | | (3,082) | 12,388 |
| Decrease in other liabilities | | (56) | (13,769) |
| Net cash provided by operating activities | | 257 | 66,031 |
| Cash flows from investing activities: | | | |
| Purchases of: | Mortgage-backed securities available for sale | (53,051) | (66,569) |
| | Other investment securities available for sale | (31,009) | (25,404) |
| Proceeds from sale of: | Other investment securities available for sale | 547 | — |
| Maturities and principal payments of: | Mortgage-backed securities available for sale | 63,938 | 64,270 |
| | Other investment securities available for sale | 38,137 | 6,550 |
| | Mortgage-backed securities held to maturity | 3,248 | 8,704 |
| Remittance of Federal Home Loan Bank stock | | — | 2,688 |
| Net proceeds from the sale of business line | | 6,305 | — |
| Proceeds received and deferred in connection with sale of business line | | 900 | — |
| Net increase in loans | | (205,877) | (100,655) |
| Proceeds from sale of portfolio loans | | 1,200 | 49,588 |
| Purchases of loans, including purchased interest | | (7,065) | (9,103) |
| Proceeds from the sale of property acquired through foreclosure or repossession | | 1,630 | 2,142 |
| Purchases of premises and equipment | | (3,315) | (1,178) |
| Purchases of bank-owned life insurance | | (5,000) | — |
| Net cash used in investing activities | | (189,412) | (68,967) |
| Cash flows from financing activities: | | | |
| Net increase in deposits | | 233,567 | 142,200 |
| Net decrease in other borrowings | | (33) | (415) |
| Proceeds from Federal Home Loan Bank advances | | 259,000 | 204,000 |
| Repayment of Federal Home Loan Bank advances | | (285,397) | (276,687) |
| | | 592 | 3,287 |

| | | |
|---|---|---|
| Proceeds from the exercise of stock options and issuance of other compensation-related equity instruments | | |
| Tax benefit from stock option exercises and issuance of other compensation-related equity instruments | 460 | 432 |
| Redemption of junior subordinated debentures | — | (10,310 ) |
| Cash dividends paid | (14,350 ) | (12,293 ) |
| Net cash provided by financing activities | 193,839 | 50,214 |
| Net increase in cash and cash equivalents | 4,684 | 47,278 |
| Cash and cash equivalents at beginning of period | 85,317 | 92,650 |
| Cash and cash equivalents at end of period | $90,001 | $139,928 |

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

| WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES<br>CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited) | (Dollars in thousands) | |
|---|---|---|
| Nine months ended September 30, | 2014 | 2013 |
| Noncash Investing and Financing Activities: | | |
| Loans charged off | $1,638 | $5,319 |
| Loans transferred to property acquired through foreclosure or repossession | 1,659 | 1,073 |
| Supplemental Disclosures: | | |
| Interest payments | $15,779 | $18,401 |
| Income tax payments | 12,734 | 11,528 |

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

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WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
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 (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. Material estimates that are particularly susceptible to change are the determination of the allowance for loan losses, the review of goodwill and other intangible assets for impairment and the assessment of investment securities for impairment.

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, 2013.

(2) Recently Issued Accounting Pronouncements
Investments - Equity Method and Joint Ventures - Topic 323
Accounting Standards Update No. 2014-01, “Accounting for Investments in Qualified Affordable Housing Projects” (“ASU 2014-01”), was issued in January 2014 and permits a reporting entity to make an accounting policy election to account for investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. The amendments are expected to enable more entities to record the amortization of the investment in income tax expense together with the tax credits and other tax benefits generated from the partnership. ASU 2014-01 is effective retrospectively for public business entities for annual and interim reporting periods beginning after December 15, 2014. Early adoption is permitted. The adoption of ASU 2014-01 is not expected to have a material impact on the Corporation’s consolidated financial statements.

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. An entity can elect either a modified retrospective or

prospective transition method, and early adoption is permitted. The adoption of ASU 2014-04 is not expected to have a material impact on the Corporation's consolidated financial statements.

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. The Corporation is currently evaluating the impact that ASU 2014-09 will have on the 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.

WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) 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 $8.1 million at September 30, 2014 and $6.7 million at December 31, 2013 and were included in cash and due from banks in the Consolidated Balance Sheets.

As of September 30, 2014 and December 31, 2013, cash and due from banks included interest-bearing deposits in other banks of $50.6 million and $51.8 million, respectively.

(4) 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, 2014 | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Securities Available for Sale: | | | | |
| Obligations of U.S. government-sponsored enterprises | $31,008 | $— | ($89) | $30,919 |
| Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises | 248,369 | 9,012 | (160) | 257,221 |
| Obligations of states and political subdivisions | 52,526 | 1,991 | — | 54,517 |
| Individual name issuer trust preferred debt securities | 30,743 | — | (3,546) | 27,197 |
| Corporate bonds | 6,122 | 104 | (7) | 6,219 |
| Total securities available for sale | $368,768 | $11,107 | ($3,802) | $376,073 |
| Held to Maturity: | | | | |
| Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises | $26,480 | $594 | $— | $27,074 |
| Total securities held to maturity | $26,480 | $594 | $— | $27,074 |
| Total securities | $395,248 | $11,701 | ($3,802) | $403,147 |

(Dollars in thousands)

| December 31, 2013 | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Securities Available for Sale: | | | | |
| Obligations of U.S. government-sponsored enterprises | $54,474 | $720 | ($79) | $55,115 |
| Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises | 230,387 | 8,369 | (401) | 238,355 |
| Obligations of states and political subdivisions | 60,659 | 2,200 | — | 62,859 |
| Trust preferred securities: | | | | |
| Individual name issuers | 30,715 | — | (6,031) | 24,684 |
| Collateralized debt obligations | 547 | — | — | 547 |
| Corporate bonds | 11,128 | 231 | (16) | 11,343 |
| Total securities available for sale | $387,910 | $11,520 | ($6,527) | $392,903 |
| Held to Maturity: | | | | |
| Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises | $29,905 | $14 | ($54) | $29,865 |
| Total securities held to maturity | $29,905 | $14 | ($54) | $29,865 |
| Total securities | $417,815 | $11,534 | ($6,581) | $422,768 |

WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At September 30, 2014 and December 31, 2013, securities available for sale and held to maturity with a fair value of $378.3 million and $397.5 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.

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.

| | September 30, 2014 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| (Dollars in thousands) | 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 | $— | | $31,008 | | $— | | $— | | $31,008 | |
| Weighted average yield | — | % | 1.72 | % | — | % | — | % | 1.72 | % |
| Mortgage-backed securities issued by U.S. government-sponsored enterprises: | | | | | | | | | | |
| Amortized cost | 41,207 | | 111,399 | | 63,797 | | 31,966 | | 248,369 | |
| Weighted average yield | 3.73 | % | 3.38 | % | 2.79 | % | 1.80 | % | 3.08 | % |
| Obligations of state and political subdivisions: | | | | | | | | | | |
| Amortized cost | 2,546 | | 26,690 | | 23,290 | | — | | 52,526 | |
| Weighted average yield | 3.64 | % | 3.92 | % | 3.98 | % | — | % | 3.93 | % |
| Individual name issuer trust preferred debt securities: | | | | | | | | | | |
| Amortized cost | — | | — | | — | | 30,743 | | 30,743 | |
| Weighted average yield | — | % | — | % | — | % | 1.08 | % | 1.08 | % |
| Corporate bonds: | | | | | | | | | | |
| Amortized cost | 5,714 | | 204 | | 204 | | — | | 6,122 | |
| Weighted average yield | 2.81 | % | 1.62 | % | 3.20 | % | — | % | 2.78 | % |
| Total debt securities available for sale: | | | | | | | | | | |
| Amortized cost | $49,467 | | $169,301 | | $87,291 | | $62,709 | | $368,768 | |
| Weighted average yield | 3.62 | % | 3.16 | % | 3.11 | % | 1.45 | % | 2.92 | % |
| Fair value | $51,123 | | $174,197 | | $90,451 | | $60,302 | | $376,073 | |
| Securities Held to Maturity: | | | | | | | | | | |
| Mortgage-backed securities issued by U.S. government-sponsored enterprises: | | | | | | | | | | |
| Amortized cost | $3,261 | | $10,120 | | $8,015 | | $5,084 | | $26,480 | |
| Weighted average yield | 3.10 | % | 3.03 | % | 2.82 | % | 1.02 | % | 2.59 | % |
| Fair value | $3,334 | | $10,347 | | $8,195 | | $5,198 | | $27,074 | |

Included in the above table are debt securities with an amortized cost balance of $106.1 million and a fair value of $104.1 million at September 30, 2014 that are callable at the discretion of the issuers. Final maturities of the callable securities range from twelve months to twenty-two years, with call features ranging from one month to three years.

Other-Than-Temporary Impairment Assessment

The Corporation 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.

WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
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, 2014 | # | Fair Value | Unrealized Losses | # | Fair Value | Unrealized Losses | # | Fair Value | Unrealized Losses |
| Obligations of U.S. government-sponsored enterprises | 4 | $30,919 | ($89) | — | $— | $— | 4 | $30,919 | ($89) |
| Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises | 4 | 42,231 | (147) | 1 | 912 | (13) | 5 | 43,143 | (160) |
| Individual name issuer trust preferred debt securities | — | — | — | 11 | 27,197 | (3,546) | 11 | 27,197 | (3,546) |
| Corporate bonds | 1 | 214 | (3) | 1 | 198 | (4) | 2 | 412 | (7) |
| Total temporarily impaired securities | 9 | $73,364 | ($239) | 13 | $28,307 | ($3,563) | 22 | $101,671 | ($3,802) |

| (Dollars in thousands) | Less than 12 Months | | | 12 Months or Longer | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| December 31, 2013 | # | Fair Value | Unrealized Losses | # | Fair Value | Unrealized Losses | # | Fair Value | Unrealized Losses |
| Obligations of U.S. government-sponsored enterprises | 1 | $9,909 | ($79) | — | $— | $— | 1 | $9,909 | ($79) |
| Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises | 7 | 76,748 | (455) | — | — | — | 7 | 76,748 | (455) |
| Individual name issuer trust preferred debt securities | — | — | — | 11 | 24,684 | (6,031) | 11 | 24,684 | (6,031) |
| Corporate bonds | 2 | 407 | (16) | — | — | — | 2 | 407 | (16) |
| Total temporarily impaired securities | 10 | $87,064 | ($550) | 11 | $24,684 | ($6,031) | 21 | $111,748 | ($6,581) |

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.

Trust Preferred Debt Securities of Individual Name Issuers

Included in debt securities in an unrealized loss position at September 30, 2014 were eleven trust preferred security holdings issued by seven individual companies in the banking sector. Management believes the unrealized loss position in these holdings is 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, 2014, individual name issuer trust preferred debt securities with an amortized cost of $11.9 million and unrealized losses of $1.4 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 the reporting period date 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, 2014.

WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Credit-Related Impairment Losses Recognized on Debt Securities
The following table presents a rollforward of the cumulative credit-related impairment losses on debt securities held by the Corporation:

| (Dollars in thousands) | Three months | | Nine months | |
|---|---|---|---|---|
| Periods ended September 30, | 2014 | 2013 | 2014 | 2013 |
| Balance at beginning of period | $— | $1,229 | $— | $3,325 |
| Credit-related impairment loss on debt securities for which an other-than-temporary impairment was not previously recognized | — | — | — | — |
| Additional increases to the amount of credit-related impairment loss on debt securities for which an other-than-temporary impairment was previously recognized | — | — | — | 2,772 |
| Reductions for securities for which a liquidation notice was received during the period | — | — | — | (4,868 ) |
| Balance at end of period | $— | $1,229 | $— | $1,229 |

The January 1, 2014 beginning balance of the cumulative credit-related impairment losses was corrected from the $6.8 million reported in our Form 10-K for the fiscal year ended December 31, 2013 to reflect the impact of the notice of liquidation of a pooled trust preferred security that occurred during the first quarter of 2013 and management's change in intent to no longer hold its other pooled trust preferred security, which was made in December 2013.

(5) Loans
The following is a summary of loans:

| (Dollars in thousands) | September 30, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| Commercial: | | | | |
| Mortgages (1) | $766,703 | 29 % | $796,249 | 32 % |
| Construction and development (2) | 58,750 | 2 | 36,289 | 1 |
| Other (3) | 564,920 | 21 | 530,797 | 22 |
| Total commercial | 1,390,373 | 52 | 1,363,335 | 55 |
| Residential real estate: | | | | |
| Mortgages | 912,956 | 34 | 749,163 | 30 |
| Homeowner construction | 32,624 | 1 | 23,511 | 1 |
| Total residential real estate | 945,580 | 35 | 772,674 | 31 |
| Consumer: | | | | |
| Home equity lines | 240,567 | 9 | 231,362 | 9 |
| Home equity loans | 46,455 | 2 | 40,212 | 2 |
| Other (4) | 51,072 | 2 | 55,301 | 3 |
| Total consumer | 338,094 | 13 | 326,875 | 14 |
| Total loans (5) | $2,674,047 | 100 % | $2,462,884 | 100 % |

(1) Amortizing mortgages and lines of credit, primarily secured by income producing property.
(2) Loans for construction 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) Fixed-rate consumer installment loans.
(5) Includes net unamortized loan origination costs of $2.1 million and $879 thousand, respectively, and net unamortized premiums on purchased loans of $97 thousand and $99 thousand, respectively, at September 30, 2014

and December 31, 2013.

WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At September 30, 2014 and December 31, 2013, there were $1.18 billion and $1.14 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 8 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 collectability of the loan. Loans are removed from nonaccrual status when they have been current as to principal and interest for a period of time, 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.

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

| (Dollars in thousands) | Sep 30, 2014 | Dec 31, 2013 |
|---|---|---|
| Commercial: | | |
| Mortgages | $6,022 | $7,492 |
| Construction and development | — | — |
| Other | 1,326 | 1,291 |
| Residential real estate: | | |
| Mortgages | 7,890 | 8,315 |
| Homeowner construction | — | — |
| Consumer: | | |
| Home equity lines | 1,426 | 469 |
| Home equity loans | 300 | 687 |
| Other | 1 | 48 |
| Total nonaccrual loans | $16,965 | $18,302 |
| Accruing loans 90 days or more past due | $— | $— |

As of September 30, 2014 and December 31, 2013, nonaccrual loans of $2.6 million and $2.7 million, respectively, were current as to the payment of principal and interest.

At September 30, 2014, there were no significant commitments to lend additional funds to borrowers whose loans were on nonaccrual status.

WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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, 2014 | 30-59 | 60-89 | Over 90 | Total Past Due | Current | Total Loans |
| Commercial: | | | | | | |
| Mortgages | $— | $— | $5,995 | $5,995 | $760,708 | $766,703 |
| Construction and development | — | — | — | — | 58,750 | 58,750 |
| Other | 1,129 | 314 | 970 | 2,413 | 562,507 | 564,920 |
| Residential real estate: | | | | | | |
| Mortgages | 2,582 | 2,001 | 3,922 | 8,505 | 904,451 | 912,956 |
| Homeowner construction | — | — | — | — | 32,624 | 32,624 |
| Consumer: | | | | | | |
| Home equity lines | 1,441 | 346 | 852 | 2,639 | 237,928 | 240,567 |
| Home equity loans | 188 | 8 | 136 | 332 | 46,123 | 46,455 |
| Other | 48 | 2 | 1 | 51 | 51,021 | 51,072 |
| Total loans | $5,388 | $2,671 | $11,876 | $19,935 | $2,654,112 | $2,674,047 |

| (Dollars in thousands) | Days Past Due | | | | | |
|---|---|---|---|---|---|---|
| December 31, 2013 | 30-59 | 60-89 | Over 90 | Total Past Due | Current | Total Loans |
| Commercial: | | | | | | |
| Mortgages | $— | $— | $7,492 | $7,492 | $788,757 | $796,249 |
| Construction and development | — | — | — | — | 36,289 | 36,289 |
| Other | 276 | 302 | 731 | 1,309 | 529,488 | 530,797 |
| Residential real estate: | | | | | | |
| Mortgages | 4,040 | 1,285 | 5,633 | 10,958 | 738,205 | 749,163 |
| Homeowner construction | — | — | — | — | 23,511 | 23,511 |
| Consumer: | | | | | | |
| Home equity lines | 831 | 100 | 269 | 1,200 | 230,162 | 231,362 |
| Home equity loans | 448 | 66 | 348 | 862 | 39,350 | 40,212 |
| Other | 43 | — | 39 | 82 | 55,219 | 55,301 |
| Total loans | $5,638 | $1,753 | $14,512 | $21,903 | $2,440,981 | $2,462,884 |

Included in past due loans as of September 30, 2014 and December 31, 2013, were nonaccrual loans of $14.4 million and $15.6 million, respectively. All loans 90 days or more past due at September 30, 2014 and December 31, 2013 were classified as nonaccrual.

WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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. Impaired loans do not include large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment, which consist of most residential mortgage loans and consumer loans.

The following is a summary of impaired loans:

| (Dollars in thousands) | Recorded Investment (1) | | Unpaid Principal | | Related Allowance | |
|---|---|---|---|---|---|---|
| | Sep 30, 2014 | Dec 31, 2013 | Sep 30, 2014 | Dec 31, 2013 | Sep 30, 2014 | Dec 31, 2013 |
| No Related Allowance Recorded: | | | | | | |
| Commercial: | | | | | | |
| Mortgages | $1,147 | $998 | $1,176 | $998 | $— | $— |
| Construction and development | — | — | — | — | — | — |
| Other | 1,031 | 1,055 | 1,031 | 1,050 | — | — |
| Residential real estate: | | | | | | |
| Mortgages | 2,302 | 1,167 | 2,659 | 1,259 | — | — |
| Homeowner construction | — | — | — | — | — | — |
| Consumer: | | | | | | |
| Home equity lines | — | — | — | — | — | — |
| Home equity loans | — | — | — | — | — | — |
| Other | 113 | — | 112 | — | — | — |
| Subtotal | $4,593 | $3,220 | $4,978 | $3,307 | $— | $— |
| With Related Allowance Recorded: | | | | | | |
| Commercial: | | | | | | |
| Mortgages | $14,579 | $29,335 | $14,558 | $31,731 | $927 | $552 |
| Construction and development | — | — | — | — | — | — |
| Other | 1,335 | 1,506 | 1,753 | 1,945 | 207 | 463 |
| Residential real estate: | | | | | | |
| Mortgages | 1,734 | 3,122 | 1,790 | 3,507 | 256 | 463 |
| Homeowner construction | — | — | — | — | — | — |
| Consumer: | | | | | | |
| Home equity lines | 82 | 173 | 82 | 174 | 41 | 1 |
| Home equity loans | 73 | 55 | 90 | 54 | 12 | — |
| Other | 3 | 127 | 4 | 130 | 1 | 2 |
| Subtotal | $17,806 | $34,318 | $18,277 | $37,541 | $1,444 | $1,481 |
| Total impaired loans | $22,399 | $37,538 | $23,255 | $40,848 | $1,444 | $1,481 |
| Total: | | | | | | |
| Commercial | $18,092 | $32,894 | $18,518 | $35,724 | $1,134 | $1,015 |
| Residential real estate | 4,036 | 4,289 | 4,449 | 4,766 | 256 | 463 |
| Consumer | 271 | 355 | 288 | 358 | 54 | 3 |
| Total impaired loans | $22,399 | $37,538 | $23,255 | $40,848 | $1,444 | $1,481 |

(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.

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WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents the average recorded investment balance of impaired loans and interest income recognized on impaired loans segregated by loan class, for the periods indicated:

| (Dollars in thousands) | Average Recorded Investment | | Interest Income Recognized | |
|---|---|---|---|---|
| Three months ended September 30, | 2014 | 2013 | 2014 | 2013 |
| Commercial: | | | | |
| Mortgages | $23,435 | $29,430 | $175 | $192 |
| Construction and development | — | — | — | — |
| Other | 2,570 | 3,536 | 25 | 43 |
| Residential real estate: | | | | |
| Mortgages | 4,253 | 3,818 | 31 | 51 |
| Homeowner construction | — | — | — | — |
| Consumer: | | | | |
| Home equity lines | 82 | 173 | — | 2 |
| Home equity loans | 83 | 58 | 1 | 1 |
| Other | 117 | 131 | 2 | 2 |
| Totals | $30,540 | $37,146 | $234 | $291 |

| (Dollars in thousands) | Average Recorded Investment | | Interest Income Recognized | |
|---|---|---|---|---|
| Nine months ended September 30, | 2014 | 2013 | 2014 | 2013 |
| Commercial: | | | | |
| Mortgages | $25,605 | $26,110 | $580 | $444 |
| Construction and development | — | — | — | — |
| Other | 2,477 | 7,159 | 63 | 157 |
| Residential real estate: | | | | |
| Mortgages | 4,151 | 4,104 | 81 | 100 |
| Homeowner construction | — | — | — | — |
| Consumer: | | | | |
| Home equity lines | 92 | 209 | 2 | 6 |
| Home equity loans | 111 | 77 | 4 | 5 |
| Other | 120 | 146 | 6 | 6 |
| Totals | $32,556 | $37,805 | $736 | $718 |

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 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.

WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 $18.4 million at September 30, 2014 and $26.4 million at December 31, 2013. These amounts included accrued interest of $30 thousand and $44 thousand, respectively. The allowance for loan losses included specific reserves for these troubled debt restructurings of $1.2 million and $556 thousand, respectively, at September 30, 2014 and December 31, 2013. As of September 30, 2014, there were no significant commitments to lend additional funds to borrowers whose loans had been restructured.

The following table presents loans modified as a troubled debt restructuring during the periods indicated:

| (Dollars in thousands) | | | Outstanding Recorded Investment (1) | | | |
|---|---|---|---|---|---|---|
| | # of Loans | | Pre-Modifications | | Post-Modifications | |
| Three months ended September 30, | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Commercial: | | | | | | |
| Mortgages | — | 1 | $— | $6,018 | $— | $4,909 |
| Construction and development | — | — | — | — | — | — |
| Other | 1 | 2 | 63 | 30 | 63 | 30 |
| Residential real estate: | | | | | | |
| Mortgages | 1 | — | 264 | — | 264 | — |
| Homeowner construction | — | — | — | — | — | — |
| Consumer: | | | | | | |
| Home equity lines | — | — | — | — | — | — |
| Home equity loans | — | — | — | — | — | — |
| Other | — | — | — | — | — | — |
| Totals | 2 | 3 | $327 | $6,048 | $327 | $4,939 |

| (Dollars in thousands) | | | Outstanding Recorded Investment (1) | | | |
|---|---|---|---|---|---|---|
| | # of Loans | | Pre-Modifications | | Post-Modifications | |
| Nine months ended September 30, | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Commercial: | | | | | | |
| Mortgages | — | 6 | $— | $15,974 | $— | $14,785 |
| Construction and development | — | — | — | — | — | — |
| Other | 10 | 7 | 826 | 1,198 | 826 | 1,198 |
| Residential real estate: | | | | | | |
| Mortgages | 3 | — | 743 | — | 743 | — |
| Homeowner construction | — | — | — | — | — | — |
| Consumer: | | | | | | |
| Home equity lines | — | 1 | — | 92 | — | 92 |
| Home equity loans | — | — | — | — | — | — |
| Other | — | — | — | — | — | — |
| Totals | 13 | 14 | $1,569 | $17,264 | $1,569 | $16,075 |

(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.

WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table provides information on how loans were modified as a troubled debt restructuring during the periods indicated.
(Dollars in thousands)

| | Three months | | Nine months | |
|---|---|---|---|---|
| Periods ended September 30, | 2014 | 2013 | 2014 | 2013 |
| Below-market interest rate concession | $— | $6,018 | $77 | $15,836 |
| Payment deferral | 63 | — | 542 | — |
| Maturity / amortization concession | — | 21 | 599 | 21 |
| Interest only payments | — | 9 | — | 424 |
| Combination (1) | 264 | — | 351 | 983 |
| Total | $327 | $6,048 | $1,569 | $17,264 |

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

The following table presents loans modified in a troubled debt restructuring within the previous twelve months for which there was a payment default during the periods indicated:

| (Dollars in thousands) | # of Loans | | Recorded Investment (1) | |
|---|---|---|---|---|
| Three months ended September 30, | 2014 | 2013 | 2014 | 2013 |
| Commercial: | | | | |
| Mortgages | — | 1 | $— | $482 |
| Construction and development | — | — | — | — |
| Other | 3 | — | 426 | — |
| Residential real estate: | | | | |
| Mortgages | — | — | — | — |
| Homeowner construction | — | — | — | — |
| Consumer: | | | | |
| Home equity lines | — | — | — | — |
| Home equity loans | — | — | — | — |
| Other | — | — | — | — |
| Totals | 3 | 1 | $426 | $482 |

WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

| (Dollars in thousands) | # of Loans | | Recorded Investment (1) | |
|---|---|---|---|---|
| Nine months ended September 30, | 2014 | 2013 | 2014 | 2013 |
| Commercial: | | | | |
| Mortgages | — | 1 | $— | $482 |
| Construction and development | — | — | — | — |
| Other | 5 | — | 666 | — |
| Residential real estate: | | | | |
| Mortgages | — | — | — | — |
| Homeowner construction | — | — | — | — |
| Consumer: | | | | |
| Home equity lines | — | — | — | — |
| Home equity loans | — | — | — | — |
| Other | — | — | — | — |
| Totals | 5 | 1 | $666 | $482 |

(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. For accruing troubled debt restructured loans, the recorded investment also includes accrued interest.

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, and the adequacy of collateral. As of September 30, 2014 and December 31, 2013, the weighted average risk rating of the Corporation’s commercial loan portfolio was 4.63 and 4.64, respectively. For non-impaired loans, the Corporation assigns a loss allocation factor to each loan, based on its risk rating for purposes of establishing an appropriate allowance for loan losses. See Note 6 for additional information.

Descriptions 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, 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.

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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 real estate and other commerical 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, 2014 | Dec 31, 2013 | Sep 30, 2014 | Dec 31, 2013 | Sep 30, 2014 | Dec 31, 2013 |
| Mortgages | $736,646 | $756,838 | $23,305 | $23,185 | $6,752 | $16,226 |
| Construction and development | 58,750 | 36,289 | — | — | — | — |
| Other | 546,663 | 507,962 | 14,317 | 19,887 | 3,940 | 2,948 |
| Total commercial loans | $1,342,059 | $1,301,089 | $37,622 | $43,072 | $10,692 | $19,174 |

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 and delinquency status. See Note 6 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 is determined via statistical modeling analyses. The indicated LTV levels are estimated based on such factors as the location, the original LTV, and the date of origination of the loan and do not reflect actual appraisal amounts. The results of these analyses are taken into consideration in the determination of loss allocation factors for residential mortgage and home equity consumer credits. See Note 6 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, 2014 | Dec 31, 2013 | Sep 30, 2014 | Dec 31, 2013 |
| Residential real estate: | | | | |
| Accruing mortgages | $905,066 | $740,848 | $— | $— |
| Nonaccrual mortgages | 3,968 | 2,682 | 3,922 | 5,633 |
| Homeowner construction | 32,624 | 23,511 | — | — |
| Total residential real estate loans | $941,658 | $767,041 | $3,922 | $5,633 |
| Consumer: | | | | |
| Home equity lines | $239,715 | $231,093 | $852 | $269 |
| Home equity loans | 46,319 | 39,864 | 136 | 348 |
| Other | 51,071 | 55,262 | 1 | 39 |

| | | | | |
|---|---|---|---|---|
| Total consumer loans | $337,105 | $326,219 | $989 | $656 |

(6) 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) loss allocation factors for non-impaired loans based on credit grade, historical loss experience, delinquency factors and other similar credit quality indicators, and (3) an unallocated allowance maintained for measurement imprecision and to reflect management's consideration of other environmental factors.

Periodic assessments and revisions to the loss allocation factors used in the assignment of loss exposure are made to appropriately reflect the analysis of migrational loss experience. The Corporation analyzes historical loss experience in the various portfolios over periods deemed to be relevant to the inherent risk of loss in the respective portfolios as of the balance sheet date. The Corporation adjusts the loss allocations for various factors it believes are not adequately presented in historical loss experience, including trends in real estate values, trends in rental rates on commercial real estate, trends in unemployment rates in primary markets, consideration of general economic conditions, and our assessments of credit risk associated with certain industries and an ongoing trend toward larger credit relationships. These factors are also evaluated taking into account the geographic location of the underlying loans. Revisions to loss allocation factors are not retroactively applied.

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.

Loss allocation factors are used for non-impaired loans based on credit grade, historical loss experience, delinquency factors and other similar credit quality indicators. Individual commercial loans not deemed to be impaired are evaluated using the internal rating system described in Note 5 under the caption "Credit Quality Indicators" and the application of loss factors. The loan rating system and the related loss allocation factors take into consideration parameters including the borrower's financial condition, the borrower's performance with respect to loan terms, and the adequacy of collateral. Portfolios of more homogeneous populations of loans, including the various categories of residential mortgages and consumer loans, are analyzed as groups, taking into account delinquency status and historical loss experience and other qualitative environmental factors for each type of credit product.

An unallocated allowance is maintained to allow for measurement imprecision attributable to uncertainty in the economic environment and ever changing conditions and to reflect management's consideration of qualitative and quantitative assessments of other environmental factors, including, but not limited to, conditions that may affect the collateral position such as environmental matters, regulatory changes affecting the foreclosure process, as well as conditions that may affect the ability of borrowers to meet debt service requirements.

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. Significant factors that could give rise to changes in these estimates may include, but are not limited to, changes in economic conditions in our market area, concentration of risk and declines in local property values. 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.

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

| (Dollars in thousands) | Commercial | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Mortgages | Construction | Other | Total Commercial | Residential | Consumer | Un-allocated | Total |
| Beginning Balance | $6,973 | $494 | $5,454 | $12,921 | $4,840 | $2,569 | $6,939 | $27,269 |
| Charge-offs | — | — | (92) | (92) | — | (56) | — | (148) |
| Recoveries | 7 | — | 29 | 36 | 1 | 10 | — | 47 |
| Provision | 133 | 206 | 162 | 501 | 94 | 227 | (222) | 600 |
| Ending Balance | $7,113 | $700 | $5,553 | $13,366 | $4,935 | $2,750 | $6,717 | $27,768 |

The following table presents the activity in the allowance for loan losses for the three months ended September 30, 2013:

| (Dollars in thousands) | Commercial | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Mortgages | Construction | Other | Total Commercial | Residential | Consumer | Un-allocated | Total |
| Beginning Balance | $6,748 | $277 | $5,442 | $12,467 | $4,691 | $2,455 | $8,271 | $27,884 |
| Charge-offs | (640) | — | (81) | (721) | — | (49) | — | (770) |
| Recoveries | 38 | — | 83 | 121 | — | 73 | — | 194 |
| Provision | 493 | 164 | 126 | 783 | (11) | 16 | (88) | 700 |
| Ending Balance | $6,639 | $441 | $5,570 | $12,650 | $4,680 | $2,495 | $8,183 | $28,008 |

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

| (Dollars in thousands) | Commercial | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Mortgages | Construction | Other | Total Commercial | Residential | Consumer | Un-allocated | Total |
| Beginning Balance | $6,969 | $362 | $5,433 | $12,764 | $4,700 | $2,511 | $7,911 | $27,886 |
| Charge-offs | (977) | — | (403) | (1,380) | (72) | (186) | — | (1,638) |
| Recoveries | 19 | — | 75 | 94 | 36 | 40 | — | 170 |
| Provision | 1,102 | 338 | 448 | 1,888 | 271 | 385 | (1,194) | 1,350 |
| Ending Balance | $7,113 | $700 | $5,553 | $13,366 | $4,935 | $2,750 | $6,717 | |