

WASHINGTON TRUST BANCORP INC  
Form 10-Q  
May 08, 2015  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

- Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended MARCH 31, 2015 or  
 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 (I.R.S. Employer Identification No.)  
organization)  
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.  Yes  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).  Yes  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  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

The number of shares of common stock of the registrant outstanding as of April 30, 2015 was 16,811,770.



FORM 10-Q  
WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES  
For the Quarter Ended March 31, 2015

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## PART I. Financial Information

## Item 1. Financial Statements

## Consolidated Balance Sheets (unaudited)

(Dollars in thousands, except par value)

	March 31, 2015	December 31, 2014
Assets:		
Cash and due from banks	\$84,842	\$76,386
Short-term investments	4,191	3,964
Mortgage loans held for sale (including \$36,672 at March 31, 2015 and \$30,321 at December 31, 2014 measured at fair value)	47,117	45,693
Securities:		
Available for sale, at fair value	340,942	357,662
Held to maturity, at amortized cost (fair value \$24,834 at March 31, 2015 and \$26,008 at December 31, 2014)	24,025	25,222
Total securities	364,967	382,884
Federal Home Loan Bank stock, at cost	37,730	37,730
Loans:		
Commercial	1,559,523	1,535,488
Residential real estate	987,564	985,415
Consumer	333,505	338,373
Total loans	2,880,592	2,859,276
Less allowance for loan losses	27,810	28,023
Net loans	2,852,782	2,831,253
Premises and equipment, net	27,839	27,495
Investment in bank-owned life insurance	64,009	63,519
Goodwill	58,114	58,114
Identifiable intangible assets, net	4,694	4,849
Other assets	56,229	54,987
Total assets	\$3,602,514	\$3,586,874
Liabilities:		
Deposits:		
Demand deposits	\$477,046	\$459,852
NOW accounts	333,321	326,375
Money market accounts	821,353	802,764
Savings accounts	298,802	291,725
Time deposits	852,621	874,102
Total deposits	2,783,143	2,754,818
Federal Home Loan Bank advances	385,992	406,297
Junior subordinated debentures	22,681	22,681
Other liabilities	56,819	56,799
Total liabilities	3,248,635	3,240,595
Commitments and contingencies		
Shareholders' Equity:		
Common stock of \$.0625 par value; authorized 30,000,000 shares; issued and outstanding 16,772,956 shares at March 31, 2015 and 16,746,363 shares at December 31, 2014	1,048	1,047
Paid-in capital	102,587	101,204
Retained earnings	258,069	252,837
Accumulated other comprehensive loss	(7,825)	(8,809)
Total shareholders' equity	353,879	346,279

Total liabilities and shareholders' equity	\$3,602,514	\$3,586,874
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The accompanying notes are an integral part of these unaudited consolidated financial statements.

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Consolidated Statements of Income (unaudited)

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

Three months ended March 31,	2015	2014
Interest income:		
Interest and fees on loans	\$28,353	\$25,589
Interest on securities: Taxable	2,259	2,942
Nontaxable	435	582
Dividends on Federal Home Loan Bank stock	165	142
Other interest income	25	35
Total interest and dividend income	31,237	29,290
Interest expense:		
Deposits	3,389	2,969
Federal Home Loan Bank advances	1,902	2,241
Junior subordinated debentures	241	241
Other interest expense	3	3
Total interest expense	5,535	5,454
Net interest income	25,702	23,836
Provision for loan losses	—	300
Net interest income after provision for loan losses	25,702	23,536
Noninterest income:		
Wealth management revenues	8,435	8,065
Merchant processing fees	—	1,291
Net gains on loan sales and commissions on loans originated for others	2,585	1,239
Service charges on deposit accounts	935	754
Card interchange fees	714	681
Income from bank-owned life insurance	490	445
Net gains on interest rate swap contracts	645	260
Equity in earnings (losses) of unconsolidated subsidiaries	(86	) (43
Net gain on sale of business line	—	6,265
Other income	302	413
Total noninterest income	14,020	19,370
Noninterest expense:		
Salaries and employee benefits	15,494	14,558
Net occupancy	1,886	1,640
Equipment	1,340	1,236
Merchant processing costs	—	1,050
Outsourced services	1,247	1,044
Legal, audit and professional fees	676	618
FDIC deposit insurance costs	473	440
Advertising and promotion	267	232
Amortization of intangibles	155	164
Debt prepayment penalties	—	6,294
Other expenses	1,993	2,016
Total noninterest expense	23,531	29,292
Income before income taxes	16,191	13,614
Income tax expense	5,181	4,316
Net income	\$11,010	\$9,298

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Weighted average common shares outstanding - basic	16,759	16,626
Weighted average common shares outstanding - diluted	16,939	16,800
Per share information: Basic earnings per common share	\$0.65	\$0.56
Diluted earnings per common share	\$0.65	\$0.55
Cash dividends declared per share	\$0.34	\$0.29

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

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Consolidated Statements of Comprehensive Income (unaudited)

(Dollars in thousands)

Three months ended March 31,	2015	2014
Net income	\$11,010	\$9,298
Other comprehensive income, net of tax:		
Net change in fair value of securities available for sale	664	612
Cash flow hedges:		
Change in fair value of cash flow hedges	(8	) (16
Net cash flow hedge losses reclassified into earnings	93	92
Net change in fair value of cash flow hedges	85	76
Defined benefit plan obligation adjustment	235	88
Total other comprehensive income, net of tax	984	776
Total comprehensive income	\$11,994	\$10,074

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

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## 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				11,010		11,010
Total other comprehensive income, net of tax					984	984
Cash dividends declared				(5,778 )		(5,778 )
Share-based compensation			580			580
Exercise of stock options, issuance of other compensation-related equity instruments and related tax benefit	27	1	803			804
Balance at March 31, 2015	16,773	\$1,048	\$102,587	\$258,069	(\$7,825 )	\$353,879
	Common Shares Outstanding	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at January 1, 2014	16,614	\$1,038	\$97,566	\$232,595	(\$1,553 )	\$329,646
Net income				9,298		9,298
Total other comprehensive income, net of tax					776	776
Cash dividends declared				(4,894 )		(4,894 )
Share-based compensation			491			491
Exercise of stock options, issuance of other compensation-related equity instruments and related tax benefit	21	2	539			541
Balance at March 31, 2014	16,635	\$1,040	\$98,596	\$236,999	(\$777 )	\$335,858

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

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Consolidated Statement of Cash Flows (unaudited)

(Dollars in thousands)

Three months ended March 31,	2015	2014
Cash flows from operating activities:		
Net income	\$11,010	\$9,298
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	—	300
Depreciation of premises and equipment	882	783
Net amortization of premium and discount	358	219
Amortization of intangibles	155	164
Share-based compensation	580	491
Income from bank-owned life insurance	(490)	(445)
Net gain on sale of business line	—	(6,265)
Net gains on loan sales and commissions on loans originated for others	(2,585)	(1,239)
Net gains on interest rate swap contracts	(645)	(260)
Equity in losses of unconsolidated subsidiaries	86	43
Proceeds from sales of loans	117,571	48,296
Loans originated for sale	(116,502)	(46,159)
Decrease (increase) in other assets	814	(81)
Decrease in other liabilities	(1,936)	(3,723)
Net cash provided by operating activities	9,298	1,422
Cash flows from investing activities:		
Proceeds from sale of:		
Other investment securities available for sale	—	547
Maturities and principal payments of:		
Mortgage-backed securities available for sale	12,533	11,313
Other investment securities available for sale	4,986	20,844
Mortgage-backed securities held to maturity	1,137	960
Net proceeds from the sale of business line	—	7,205
Net increase in loans	(20,620)	(13,584)
Purchases of loans, including purchased interest	(856)	(2,934)
Proceeds from the sale of property acquired through foreclosure or repossession	—	659
Purchases of premises and equipment	(1,226)	(1,291)
Net cash (used in) provided by investing activities	(4,046)	23,719
Cash flows from financing activities:		
Net increase in deposits	28,325	86,333
Net decrease in other borrowings	(12)	(11)
Proceeds from Federal Home Loan Bank advances	120,000	54,000
Repayment of Federal Home Loan Bank advances	(140,305)	(138,653)
Proceeds from stock options exercises and issuance of other equity instruments	698	496
Tax benefit from stock option exercises and other equity instruments	106	45
Cash dividends paid	(5,381)	(4,511)
Net cash provided by (used in) financing activities	3,431	(2,301)
Net increase in cash and cash equivalents	8,683	22,840
Cash and cash equivalents at beginning of period	80,350	85,317
Cash and cash equivalents at end of period	\$89,033	\$108,157
Noncash Investing and Financing Activities:		
Loans charged off	\$321	\$1,223
Loans transferred to property acquired through foreclosure or repossession	230	421
Supplemental Disclosures:		

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Interest payments	\$5,459	\$5,175
Income tax payments	310	265

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

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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. Material estimates that are particularly susceptible to change are the determination of the allowance for loan losses, the review of goodwill 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, 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.

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.

(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 \$10.1 million at March 31, 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 March 31, 2015 and December 31, 2014, cash and due from banks included interest-bearing deposits in other banks of \$47.0 million and \$42.7 million, respectively.

## Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

## (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)

March 31, 2015	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>Securities Available for Sale:</b>				
Obligations of U.S. government-sponsored enterprises	\$31,203	\$98	\$—	\$31,301
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	222,547	10,498	—	233,045
Obligations of states and political subdivisions	42,664	1,515	—	44,179
Individual name issuer trust preferred debt securities	30,762	—	(4,475 )	26,287
Corporate bonds	6,119	36	(25 )	6,130
Total securities available for sale	\$333,295	\$12,147	(\$4,500 )	\$340,942
<b>Held to Maturity:</b>				
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	\$24,025	\$809	\$—	\$24,834
Total securities held to maturity	\$24,025	\$809	\$—	\$24,834
Total securities	\$357,320	\$12,956	(\$4,500 )	\$365,776

(Dollars in thousands)

December 31, 2014	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>Securities Available for Sale:</b>				
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
<b>Held to Maturity:</b>				
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 March 31, 2015 and December 31, 2014, securities available for sale and held to maturity with a fair value of \$347.6 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 8 for additional discussion of 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)

March 31, 2015	Within 1 Year	1-5 Years	5-10 Years	After 10 Years	Totals
<b>Securities Available for Sale:</b>					
<b>Obligations of U.S. government-sponsored enterprises:</b>					
Amortized cost	\$—	\$31,003	\$200	\$—	\$31,203
Weighted average yield	—	% 1.72	% 2.32	% —	% 1.73
<b>Mortgage-backed securities issued by U.S. government-sponsored enterprises:</b>					
Amortized cost	37,723	100,409	57,461	26,954	222,547
Weighted average yield	3.71	3.30	2.81	1.76	3.06
<b>Obligations of state and political subdivisions:</b>					
Amortized cost	3,601	24,267	14,796	—	42,664
Weighted average yield	3.78	3.94	3.99	—	3.95
<b>Individual name issuer trust preferred debt securities:</b>					
Amortized cost	—	—	—	30,762	30,762
Weighted average yield	—	—	—	1.11	1.11
<b>Corporate bonds:</b>					
Amortized cost	5,713	203	203	—	6,119
Weighted average yield	2.84	1.62	3.21	—	2.81
<b>Total debt securities available for sale:</b>					
Amortized cost	\$47,037	\$155,882	\$72,660	\$57,716	\$333,295
Weighted average yield	3.61	% 3.09	% 3.05	% 1.42	% 2.86
Fair value	\$48,955	\$161,578	\$75,897	\$54,512	\$340,942
<b>Securities Held to Maturity:</b>					
<b>Mortgage-backed securities issued by U.S. government-sponsored enterprises:</b>					
Amortized cost	\$3,007	\$9,323	\$7,364	\$4,331	\$24,025
Weighted average yield	3.11	% 3.03	% 2.78	% 0.89	% 2.58
Fair value	\$3,108	\$9,637	\$7,612	\$4,477	\$24,834

Included in the above table are debt securities with an amortized cost balance of \$98.1 million and a fair value of \$95.0 million at March 31, 2015 that are callable at the discretion of the issuers. Final maturities of the callable securities range from 6 months to 22 years, with call features ranging from 1 month to 2 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.





## 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		
	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
March 31, 2015									
Individual name issuer trust preferred debt securities	—	\$—	\$—	11	\$26,287	(\$4,475 )	11	\$26,287	(\$4,475 )
Corporate bonds	1	1,975	(25 )	—	—	—	1	1,975	(25 )
Total temporarily impaired securities	1	\$1,975	(\$25 )	11	\$26,287	(\$4,475 )	12	\$28,262	(\$4,500 )

(Dollars in thousands)	Less than 12 Months			12 Months or Longer			Total		
	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
December 31, 2014									
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.

## Trust Preferred Debt Securities of Individual Name Issuers

Included in debt securities in an unrealized loss position at March 31, 2015 were 11 trust preferred security holdings issued by 7 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 March 31, 2015, individual name issuer trust preferred debt securities with an amortized cost of \$11.9 million and unrealized losses of \$2.0 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 March 31, 2015.



## Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

## (5) Loans

The following is a summary of loans:

(Dollars in thousands)

	March 31, 2015		December 31, 2014	
	Amount	%	Amount	%
Commercial:				
Mortgages (1)	\$865,042	30	\$843,978	30
Construction & development (2)	89,851	3	79,592	3
Commercial & industrial (3)	604,630	21	611,918	21
Total commercial	1,559,523	54	1,535,488	54
Residential real estate:				
Mortgages	954,905	33	948,731	33
Homeowner construction	32,659	1	36,684	1
Total residential real estate	987,564	34	985,415	34
Consumer:				
Home equity lines	239,537	8	242,480	8
Home equity loans	46,727	2	46,967	2
Other (4)	47,241	2	48,926	2
Total consumer	333,505	12	338,373	12
Total loans (5)	\$2,880,592	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.

Includes net unamortized loan origination costs of \$2.2 million and \$2.1 million, respectively, and net unamortized (5) premiums on purchased loans of \$92 thousand and \$94 thousand, respectively, at March 31, 2015 and December 31, 2014.

At March 31, 2015 and December 31, 2014, there were \$1.24 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 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 collectibility 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.



## Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

(Dollars in thousands)	Mar 31, 2015	Dec 31, 2014
Commercial:		
Mortgages	\$5,115	\$5,315
Construction & development	—	—
Commercial & industrial	2,193	1,969
Residential real estate:		
Mortgages	6,956	7,124
Homeowner construction	—	—
Consumer:		
Home equity lines	1,051	1,217
Home equity loans	511	317
Other	39	3
Total nonaccrual loans	\$15,865	\$15,945
Accruing loans 90 days or more past due	\$—	\$—

As of March 31, 2015 and December 31, 2014, nonaccrual loans of \$3.6 million and \$3.2 million, respectively, were current as to the payment of principal and interest.

At March 31, 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			Total Past Due	Current	Total Loans
March 31, 2015	30-59	60-89	Over 90			
Commercial:						
Mortgages	\$497	\$61	\$5,115	\$5,673	\$859,369	\$865,042
Construction & development	—	—	—	—	89,851	89,851
Commercial & industrial	229	229	721	1,179	603,451	604,630
Residential real estate:						
Mortgages	4,470	1,352	3,607	9,429	945,476	954,905
Homeowner construction	—	—	—	—	32,659	32,659
Consumer:						
Home equity lines	1,244	429	463	2,136	237,401	239,537
Home equity loans	213	111	255	579	46,148	46,727
Other	55	25	5	85	47,156	47,241
Total loans	\$6,708	\$2,207	\$10,166	\$19,081	\$2,861,511	\$2,880,592

## Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(Dollars in thousands)	Days Past Due			Total Past Due	Current	Total Loans
	30-59	60-89	Over 90			
December 31, 2014						
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 March 31, 2015 and December 31, 2014, were nonaccrual loans of \$12.3 million and \$12.7 million, respectively. All loans 90 days or more past due at March 31, 2015 and December 31, 2014 were classified as nonaccrual.

## Impaired Loans

Impaired loans consist of nonaccrual commercial loans, troubled debt restructured loans and other loans classified as impaired that are individually evaluated for impairment. 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.

## 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	
	Mar 31, 2015	Dec 31, 2014	Mar 31, 2015	Dec 31, 2014	Mar 31, 2015	Dec 31, 2014
No Related Allowance Recorded:						
Commercial:						
Mortgages	\$205	\$432	\$205	\$432	\$—	\$—
Construction & development	—	—	—	—	—	—
Commercial & industrial	1,322	1,047	1,323	1,076	—	—
Residential real estate:						
Mortgages	1,618	1,477	1,912			