WASHINGTON TRUST BANCORP INC
Form 10-Q
August 08, 2013

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 JUNE 30, 2013 or
o	Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ______ to ______.

Commission file number: 001-32991

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

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

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

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

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

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

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

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

The number of shares of common stock of the registrant outstanding as of August 2, 2013 was 16,564,491.

FORM 10-Q
WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
For the Quarter Ended June 30, 2013

TABLE OF CONTENTS

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

(Dollars in thousands, except par value)

	June 30, 2013	December 31, 2012
Assets:		
Cash and due from banks	$79,903	$73,474
Short-term investments	3,764	19,176
Mortgage loans held for sale, at fair value; amortized cost $29,163 in 2013 and $48,370 in 2012	28,889	50,056
Securities:		
Available for sale, at fair value; amortized cost $309,421 in 2013 and $363,408 in 2012	316,714	375,498
Held to maturity, at cost; fair value $33,762 in 2013 and $41,420 in 2012	33,803	40,381
Total securities	350,517	415,879
Federal Home Loan Bank stock, at cost	37,730	40,418
Loans:		
Commercial	1,310,114	1,252,419
Residential real estate	748,871	717,681
Consumer	325,995	323,903
Total loans	2,384,980	2,294,003
Less allowance for loan losses	27,884	30,873
Net loans	2,357,096	2,263,130
Premises and equipment, net	26,392	27,232
Investment in bank-owned life insurance	55,750	54,823
Goodwill	58,114	58,114
Identifiable intangible assets, net	5,827	6,173
Other assets	57,325	63,409
Total assets	$3,061,307	$3,071,884
Liabilities:		
Deposits:		
Demand deposits	$358,797	$379,889
NOW accounts	301,096	291,174
Money market accounts	540,012	496,402
Savings accounts	293,405	274,934
Time deposits	811,299	870,232
Total deposits	2,304,609	2,312,631
Federal Home Loan Bank advances	373,341	361,172
Junior subordinated debentures	22,681	32,991
Other borrowings	199	1,212
Other liabilities	57,107	68,226
Total liabilities	2,757,937	2,776,232
Commitments and contingencies		
Shareholders' Equity:		
Common stock of $.0625 par value; authorized 30,000,000 shares; issued and outstanding 16,487,305 shares in 2013 and 16,379,771 shares in 2012	1,030	1,024
Paid-in capital	93,274	91,453
Retained earnings	221,761	213,674
Accumulated other comprehensive loss	(12,695)	(10,499)

Total shareholders' equity	303,370	295,652
Total liabilities and shareholders' equity	$3,061,307	$3,071,884

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		Six Months	
Periods ended June 30,		2013	2012	2013	2012
Interest income:					
Interest and fees on loans		$25,513	$25,344	$50,736	$50,707
Interest on securities:	Taxable	2,576	4,069	5,421	8,446
	Nontaxable	647	682	1,306	1,375
Dividends on corporate stock and Federal Home Loan Bank stock		39	78	77	155
Other interest income		24	17	52	37
Total interest income		28,799	30,190	57,592	60,720
Interest expense:					
Deposits		3,096	3,385	6,290	6,819
Federal Home Loan Bank advances		2,679	3,998	5,416	8,083
Junior subordinated debentures		612	391	1,002	783
Other interest expense		3	5	8	239
Total interest expense		6,390	7,779	12,716	15,924
Net interest income		22,409	22,411	44,876	44,796
Provision for loan losses		700	600	1,300	1,500
Net interest income after provision for loan losses		21,709	21,811	43,576	43,296
Noninterest income:					
Wealth management services:					
Trust and investment advisory fees		6,230	5,819	12,296	11,597
Mutual fund fees		1,077	1,002	2,099	2,027
Financial planning, commissions and other service fees		605	652	991	1,034
Wealth management services		7,912	7,473	15,386	14,658
Merchant processing fees		2,613	2,732	4,590	4,720
Net gains on loan sales and commissions on loans originated for others		3,485	3,015	7,651	6,112
Service charges on deposit accounts		790	764	1,581	1,523
Card interchange fees		683	626	1,282	1,169
Income from bank-owned life insurance		461	477	928	963
Net realized gains on securities		—	299	—	299
Net gains (losses) on interest rate swap contracts		152	(4)	171	24
Equity in earnings (losses) of unconsolidated subsidiaries		(57)	124	(18)	87
Other income		355	668	761	1,060
Noninterest income, excluding other-than-temporary impairment losses		16,394	16,174	32,332	30,615
Total other-than-temporary impairment losses on securities		—	—	(613)	(85)
Portion of loss recognized in other comprehensive income (before tax)		—	—	(2,159)	(124)
Net impairment losses recognized in earnings		—	—	(2,772)	(209)
Total noninterest income		16,394	16,174	29,560	30,406
Noninterest expense:					
Salaries and employee benefits		15,542	14,451	30,984	28,911
Net occupancy		1,364	1,527	2,878	3,053
Equipment		1,192	1,143	2,436	2,250
Merchant processing costs		2,211	2,320	3,884	3,983
Outsourced services		871	895	1,712	1,815
Legal, audit and professional fees		554	519	1,162	1,001
FDIC deposit insurance costs		451	426	882	884
Advertising and promotion		476	478	831	850
Amortization of intangibles		173	186	346	373

Foreclosed property costs		137	170	184	468
Debt prepayment penalties		—	961	—	961
Other expenses		2,034	2,152	3,890	4,078
Total noninterest expense		25,005	25,228	49,189	48,627
Income before income taxes		13,098	12,757	23,947	25,075
Income tax expense		4,115	4,044	7,543	7,924
Net income		$8,983	$8,713	$16,404	$17,151
Weighted average common shares outstanding - basic		16,454	16,358	16,428	16,344
Weighted average common shares outstanding - diluted		16,581	16,392	16,558	16,381
Per share information:	Basic earnings per common share	$0.54	$0.53	$0.99	$1.04
	Diluted earnings per common share	$0.54	$0.53	$0.99	$1.04
	Cash dividends declared per share	$0.25	$0.23	$0.50	$0.46

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

4

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

	Three Months		Six Months	
Periods ended June 30,	2013	2012	2013	2012
Net income	$8,983	$8,713	$16,404	$17,151
Other comprehensive income (loss), net of tax:				
Securities available for sale:				
Changes in fair value of securities available for sale	(3,821)	(601)	(4,874)	(458)
Net losses (gains) on securities reclassified into earnings	—	(192)	393	(138)
Net change in fair value of securities available for sale	(3,821)	(793)	(4,481)	(596)
Reclassification adjustment for other-than-temporary impairment losses transferred into earnings	—	—	1,384	80
Cash flow hedges:				
Change in fair value of cash flow hedges	34	(128)	32	(204)
Net cash flow hedge losses reclassified into earnings	118	112	240	223
Net change in fair value of cash flow hedges	152	(16)	272	19
Defined benefit plan obligation adjustment	292	171	629	356
Total other comprehensive loss, net of tax	(3,377)	(638)	(2,196)	(141)
Total comprehensive income	$5,606	$8,075	$14,208	$17,010

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)	Total
Balance at January 1, 2012	16,292	$1,018	$88,030	$194,198	($1,895)	$281,351
Net income				17,151		17,151
Total other comprehensive loss, net of tax					(141)	(141)
Cash dividends declared				(7,623)		(7,623)
Share-based compensation			876			876
Deferred compensation plan	10	1	145			146
Exercise of stock options, issuance of other compensation-related equity instruments and related tax benefit	57	3	971			974
Balance at June 30, 2012	16,359	$1,022	$90,022	$203,726	($2,036)	$292,734

	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				16,404		16,404
Total other comprehensive loss, net of tax					(2,196)	(2,196)
Cash dividends declared				(8,317)		(8,317)
Share-based compensation			879			879
Deferred compensation plan	2	—	30			30
Exercise of stock options, issuance of other compensation-related equity instruments and related tax benefit	105	6	912			918
Balance at June 30, 2013	16,487	$1,030	$93,274	$221,761	($12,695)	$303,370

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)

Six months ended June 30,		2013	2012
Cash flows from operating activities:			
Net income		$16,404	$17,151
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses		1,300	1,500
Depreciation of premises and equipment		1,677	1,584
Foreclosed and repossessed property valuation adjustments		72	171
Net gain on sale of bank property		—	(348)
Net amortization of premium and discount		887	1,113
Net amortization of intangibles		346	373
Share-based compensation		879	876
Income from bank-owned life insurance		(928)	(963)
Net gains on loan sales and commissions on loans originated for others		(7,651)	(6,112)
Net realized gains on securities		—	(299)
Net impairment losses recognized in earnings		2,772	209
Net gains on interest rate swap contracts		(171)	(24)
Equity in losses (earnings) of unconsolidated subsidiaries		18	(87)
Proceeds from sales of loans		256,362	213,852
Loans originated for sale		(231,167)	(198,824)
Decrease (increase) in other assets		5,242	(3,108)
Decrease in other liabilities		(9,246)	(2,932)
Net cash provided by operating activities		36,796	24,132
Cash flows from investing activities:			
Purchases of:	Mortgage-backed securities available for sale	(1,036)	—
	Other investment securities available for sale	(424)	—
Proceeds from sale of:	Mortgage-backed securities available for sale	—	6,247
	Other investment securities available for sale	2,660	6,338
Maturities and principal payments of:	Mortgage-backed securities available for sale	45,561	57,196
	Other investment securities available for sale	3,890	681
	Mortgage-backed securities held to maturity	6,279	4,842
Remittance of Federal Home Loan Bank stock		2,688	1,590
Net increase in loans		(84,443)	(76,517)
Purchases of loans, including purchased interest		(7,222)	(3,047)
Proceeds from the sale of property acquired through foreclosure or repossession		1,481	1,883
Purchases of premises and equipment		(837)	(3,453)
Net proceeds from the sale of bank property		—	1,571
Net cash used in investing activities		(31,403)	(2,669)
Cash flows from financing activities:			
Net (decrease) increase in deposits		(8,022)	4,138
Net decrease in other borrowings		(1,013)	(19,277)
Proceeds from Federal Home Loan Bank advances		204,000	362,930
Repayment of Federal Home Loan Bank advances		(191,831)	(379,391)
Proceeds from the exercise of stock options and issuance of other compensation-related equity instruments		672	1,007
Tax benefit from stock option exercises and issuance of other compensation-related equity instruments		276	113
Redemption of junior subordinated debentures		(10,310)	—

Cash dividends paid	(8,148)	(7,388)
Net cash used in financing activities	(14,376)	(37,868)
Net decrease in cash and cash equivalents	(8,983)	(16,405)
Cash and cash equivalents at beginning of period	92,650	87,020
Cash and cash equivalents at end of period	$83,667	$70,615
Noncash Investing and Financing Activities:		
Loans charged off	$4,549	$1,377
Loans transferred to property acquired through foreclosure or repossession	1,050	1,810
Securities proceeds due from broker	—	760
Supplemental Disclosures:		
Interest payments	$12,446	$15,602
Income tax payments	7,328	7,744

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

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 and the review of goodwill, other intangible assets and investments for impairment. The current economic environment has increased the degree of uncertainty inherent in such estimates and assumptions.

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, 2012.

(2) Recently Issued Accounting Pronouncements

Balance Sheet - Topic 210

Accounting Standards Update No. 2011-11, “Disclosures about Offsetting Assets and Liabilities” (“ASU 2011-11”), was issued in December 2011 and was intended to enhance current disclosure requirements on offsetting financial assets and liabilities. The requirements of ASU 2011-11 enable users to compare balance sheets prepared under U.S. GAAP and International Financial Reporting Standards (“IFRS”), which are subject to different offsetting models. The requirements affect all entities that have financial instruments that are either offset in the balance sheet or subject to an enforceable master netting arrangement or similar agreement. Accounting Standards Update No. 2013-01, “Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities” (“ASU 2013-01”), was issued in January 2013 to address implementation issues about the scope of ASU 2011-11. Both ASU 2011-11 and ASU 2013-01 were effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The required disclosures were effective retrospectively for all comparative periods presented. The adoption of ASU 2011-11 and ASU 2013-01 did not have a material impact on the Corporation’s consolidated financial statements.

Comprehensive Income - Topic 220

Accounting Standards Update No. 2013-02, “Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income” (“ASU 2013-02”) was issued in February 2013 and requires additional disclosure of the effects of reclassifications out of accumulated other comprehensive income (“AOCI”) in a single location, either on the face of the financial statement that reports net income or in the notes to the financial statements. ASU 2013-02 does not change the current requirements and carries forward the existing requirements that reclassifications out of AOCI be separately presented for each component of other comprehensive income. For items reclassified out of AOCI and into net income in their entirety, the effect of the reclassification on each affected net income line must be disclosed. For AOCI reclassification items that are not reclassified in their entirety into net income, a cross reference to other required disclosures is required. The amendments were effective prospectively for reporting periods beginning after December 15, 2012. The adoption of this standard did not have a material impact on the Corporation's consolidated financial statements, see Note 15.

(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

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

$6.7 million at June 30, 2013 and $5.5 million at December 31, 2012 and were included in cash and due from banks in the Consolidated Balance Sheets.

As of June 30, 2013 and December 31, 2012, cash and due from banks included interest-bearing deposits in other banks of $31.1 million and $32.2 million, respectively.

(4) Securities

The following tables present the amortized cost, gross unrealized gains, gross unrealized losses and fair value of securities by major security type and class of security:

(Dollars in thousands)

June 30, 2013	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities Available for Sale:				
Obligations of U.S. government-sponsored enterprises	$29,472	$1,466	$—	$30,938
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	172,014	9,239	(28)	181,225
States and political subdivisions	64,838	2,850	—	67,688
Trust preferred securities:				
Individual name issuers	30,696	—	(5,619)	25,077
Collateralized debt obligations	1,264	—	(867)	397
Corporate bonds	11,137	269	(17)	11,389
Total securities available for sale	$309,421	$13,824	($6,531)	$316,714
Held to Maturity:				
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	$33,803	$—	($41)	$33,762
Total securities held to maturity	$33,803	$—	($41)	$33,762
Total securities	$343,224	$13,824	($6,572)	$350,476

(Dollars in thousands)

December 31, 2012	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities Available for Sale:				
Obligations of U.S. government-sponsored enterprises	$29,458	$2,212	$—	$31,670
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	217,136	14,097	—	231,233
States and political subdivisions	68,196	4,424	—	72,620
Trust preferred securities:				
Individual name issuers	30,677	—	(5,926)	24,751
Collateralized debt obligations	4,036	—	(3,193)	843
Corporate bonds	13,905	476	—	14,381
Total securities available for sale	$363,408	$21,209	($9,119)	$375,498
Held to Maturity:				
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	$40,381	$1,039	$—	$41,420
Total securities held to maturity	$40,381	$1,039	$—	$41,420
Total securities	$403,789	$22,248	($9,119)	$416,918

9

At June 30, 2013 and December 31, 2012, securities available for sale and held to maturity with a fair value of $333.2 million and $386.5 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 as of June 30, 2013 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)	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	$29,472	$—	$—	$—	$29,472
Weighted average yield	5.40 %	— %	— %	— %	5.40 %
Mortgage-backed securities issued by U.S. government-sponsored enterprises:					
Amortized cost	59,240	87,622	19,253	5,899	172,014
Weighted average yield	4.44 %	3.98 %	2.63 %	2.51 %	3.94 %
State and political subdivisions:					
Amortized cost	10,666	54,172	—	—	64,838
Weighted average yield	3.93 %	3.90 %	— %	— %	3.91 %
Trust preferred securities:					
Amortized cost	—	—	—	31,960	31,960
Weighted average yield	— %	— %	— %	1.31 %	1.31 %
Corporate bonds:					
Amortized cost	5,031	5,704	402	—	11,137
Weighted average yield	6.63 %	2.84 %	2.44 %	— %	4.54 %
Total debt securities available for sale:					
Amortized cost	$104,409	$147,498	$19,655	$37,859	$309,421
Weighted average yield	4.76 %	3.91 %	2.63 %	1.50 %	3.82 %
Fair value	$106,699	$151,379	$20,461	$38,175	$316,714
Securities Held to Maturity:					
Mortgage-backed securities issued by U.S. government-sponsored enterprises:					
Amortized cost	$8,993	$17,810	$5,840	$1,160	$33,803
Weighted average yield	2.40 %	2.27 %	2.11 %	0.80 %	2.23 %
Fair value	$8,982	$17,788	$5,833	$1,159	$33,762

Included in the securities were debt securities with an amortized cost balance of $86.4 million and a fair value of $82.1 million that are callable at the discretion of the issuers. Final maturities of the callable securities range from two to twenty-four years, with call features ranging from one month to four 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		
June 30, 2013	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	4	$34,756	($69)	—	$—	$—	4	$34,756	($69)
Trust preferred securities:									
Individual name issuers	—	—	—	11	25,077	(5,619)	11	25,077	(5,619)
Collateralized debt obligations	—	—	—	1	397	(867)	1	397	(867)
Corporate bonds	2	406	(17)	—	—	—	2	406	(17)
Total temporarily impaired securities	6	$35,162	($86)	12	$25,474	($6,486)	18	$60,636	($6,572)

(Dollars in thousands)	Less than 12 Months			12 Months or Longer			Total		
December 31, 2012	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
Trust preferred securities:									
Individual name issuers	—	$—	$—	11	$24,751	($5,926)	11	$24,751	($5,926)
Collateralized debt obligations	—	—	—	2	843	(3,193)	2	843	(3,193)
Total temporarily impaired securities	—	$—	$—	13	$25,594	($9,119)	13	$25,594	($9,119)

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 downturn, 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 June 30, 2013 and December 31, 2012 were 11 trust preferred security holdings issued by seven individual companies in the financial services industry, specifically, the banking sector. Management believes the decline in fair value of these trust preferred securities primarily reflects investor concerns about global economic growth and how it will affect the recent and potential future losses in the financial services industry. These concerns resulted in increased risk premiums for securities in this sector. Based on the information available through the filing date of this report, all individual name 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 June 30, 2013, trust preferred debt securities with an amortized cost of $11.9 million and unrealized losses of $2.2 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 its 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 at maturity. Therefore, management does not consider these investments to be other-than-temporarily impaired at June 30, 2013.

Trust Preferred Debt Securities in the Form of Collateralized Debt Obligations ("CDO")
Washington Trust has pooled trust preferred holdings in the form of collateralized debt obligations. The pooled trust preferred holdings consist of trust preferred obligations of banking industry companies and, to a lesser extent, insurance industry companies.

Valuations of pooled trust preferred holdings is dependent in part on cash flows from underlying issuers. Unexpected cash flow disruptions could have an adverse impact on the fair value and performance of pooled trust preferred securities. Management believes the unrealized losses primarily reflect investor concerns about global economic growth and how it will affect the recent and potential future losses in the financial services industry and the possibility of further incremental deferrals of or defaults on interest payments on trust preferred debentures by financial institutions participating in these pools. These concerns have resulted in a substantial decrease in market liquidity and increased risk premiums for securities in this sector. Credit spreads for issuers in this sector have remained wide during recent months, causing prices to remain at low levels.

The following table summarizes Washington Trust's pooled trust preferred holdings:

(Dollars in thousands)	June 30, 2013			December 31, 2012		
Deal Name	Amortized Cost (1)	Fair Value	Unrealized Losses	Amortized Cost (1)	Fair Value	Unrealized Losses
Tropic CDO 1, tranche A4L	$—	$—	$—	$2,772	$613	($2,159)
Preferred Term Securities [PreTSL] XXV, tranche C1	1,264	397	(867)	1,264	230	(1,034)
Totals	$1,264	$397	($867)	$4,036	$843	($3,193)

(1) Net of other-than-temporary impairment losses recognized in earnings.

The carrying value of Washington Trust's investment in the Tropic CDO 1, tranche A4L ("Tropic") was zero at June 30, 2013, compared to $2.8 million at December 31, 2012. This investment security had been classified in nonaccruing status with no interest recognition since 2009. In the first quarter of 2013, Washington Trust recognized an other-than-temporary impairment charge of $2.8 million on the Tropic security due to an announcement of liquidation by the trustee. On March 22, 2013, the trustee for the Tropic security issued a notice that a liquidation of the CDO entity, Tropic CDO I, Ltd., would take place at the direction of holders of the CDO tranches that are senior to certain subordinate tranches, of which Washington Trust is a note holder. The estimated proceeds from the liquidation event are expected to be insufficient to satisfy the amount owed to the note holders of the CDO's subordinate tranches. The Corporation had recognized other-than-temporary losses amounting to $2.1 million on this security in years prior to 2013; however, prior to the March 2013 announcement of the liquidation event, the expected future cash flows through the maturity of the CDO in the year 2033 were considered to be sufficient to recover the Corporation's remaining $2.8 million amortized cost.

Washington Trust's investment in the PreTSL XXV, tranche C1 ("PreTSL") is subordinate to two senior tranche levels. This investment security has been on nonaccrual status and has been deferring interest payments since December 2008. The June 30, 2013 amortized cost was net of $1.2 million of credit-related impairment losses previously recognized in earnings reflective of payment deferrals and credit deterioration of the underlying collateral. As of June 30, 2013, this security had unrealized losses of $867 thousand and a below investment grade rating of "C" by Moody's. Through the filing date of this report, there have been no additional rating changes on this security. This credit rating status has been considered by management in its assessment of the impairment status of this security. Based on information available through the filing date of this report, there have been no additional adverse changes in deferral or default status of the underlying issuer institutions. Based on cash flow forecasts for this security, management expects to recover the remaining amortized cost of this security. Furthermore, Washington Trust does not intend to sell this security and its is not more likely than not that Washington Trust will be required to sell this security before recovery of its cost basis, which may be at maturity. Therefore, management does not consider the unrealized losses on this security to be other-than-temporary at June 30, 2013.

Credit-Related Impairment Losses Recognized on Debt Securities

The following table presents a roll forward of the balance of cumulative credit-related impairment losses recognized on debt securities for the periods indicated:

(Dollars in thousands)	Three months		Six months	
Periods ended June 30,	2013	2012	2013	2012
Balance at beginning of period	$6,097	$3,313	$3,325	$3,104

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	209
Balance at end of period	$6,097	$3,313	$6,097	$3,313

12

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

The anticipated cash flows expected to be collected from pooled trust preferred debt securities were discounted at the rate equal to the yield used to accrete the current and prospective beneficial interest for each security. Significant inputs included estimated cash flows and prospective defaults and recoveries. Estimated cash flows were generated based on the underlying seniority status and subordination structure of the pooled trust preferred debt tranche at the time of measurement. Prospective default and recovery estimates affecting projected cash flows were based on analysis of the underlying financial condition of individual issuers, and took into account capital adequacy, credit quality, lending concentrations, and other factors.

All cash flow estimates were based on the underlying security's tranche structure and contractual rate and maturity terms. The present value of the expected cash flows was compared to the current outstanding balance of the tranche to determine the ratio of the estimated present value of expected cash flows to the total current balance for the tranche. This ratio was then multiplied by the principal balance of Washington Trust's holding to determine the credit-related impairment loss. The estimates used in the determination of the present value of the expected cash flows are susceptible to changes in future periods, which could result in additional credit-related impairment losses.

(5) Loans

The following is a summary of loans:

(Dollars in thousands)	June 30, 2013			December 31, 2012		
	Amount	%		Amount	%	
Commercial:						
Mortgages (1)	$758,437	32	%	$710,813	31	%
Construction and development (2)	39,449	2		27,842	1	
Other (3)	512,228	21		513,764	23	
Total commercial	1,310,114	55		1,252,419	55	
Residential real estate:						
Mortgages (4)	728,158	30		692,798	30	
Homeowner construction	20,713	1		24,883	1	
Total residential real estate	748,871	31		717,681	31	
Consumer:						
Home equity lines (5)	228,367	10		226,861	10	
Home equity loans (5)	41,312	2		39,329	2	
Other (6)	56,316	2		57,713	2	
Total consumer	325,995	14		323,903	14	
Total loans (7)	$2,384,980	100	%	$2,294,003	100	%

(1) Amortizing mortgages and lines of credit, primarily secured by income producing property. As of June 30, 2013 and December 31, 2012, $213.9 million and $238.6 million, respectively, were pledged as collateral for FHLBB borrowings and letters of credit.

(2) Loans for construction of residential and commercial properties and for land development.

(3) Loans to businesses and individuals, a substantial portion of which are fully or partially collateralized by real estate. As of June 30, 2013, $48.1 million and $24.9 million, respectively, were pledged as collateral for FHLBB borrowings and letters of credit and were collateralized for the discount window at the Federal Reserve Bank. Comparable amounts for December 31, 2012 were $51.8 million and $29.5 million, respectively.

(4) As of June 30, 2013 and December 31, 2012, $658.6 million and $627.4 million, respectively, were pledged as collateral for FHLBB borrowings and letters of credit.

(5) As of June 30, 2013 and December 31, 2012, $190.8 million and $189.4 million, respectively, were pledged as collateral for FHLBB borrowings and letters of credit.

(6) Fixed-rate consumer installment loans.

(7)

Includes net unamortized loan origination costs of $439 thousand and $39 thousand, respectively, and net unamortized premiums on purchased loans of $97 thousand and $83 thousand, respectively, at June 30, 2013 and December 31, 2012.

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

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, as of the dates indicated:

(Dollars in thousands)	Jun 30, 2013	Dec 31, 2012
Commercial:		
Mortgages	$9,976	$10,681
Construction and development	—	—
Other	1,400	4,412
Residential real estate:		
Mortgages	7,526	6,158
Homeowner construction	—	—
Consumer:		
Home equity lines	325	840
Home equity loans	775	371
Other	24	81
Total nonaccrual loans	$20,026	$22,543
Accruing loans 90 days or more past due	$2,431	$—

As of June 30, 2013 and December 31, 2012, nonaccrual loans of $2.8 million and $1.6 million, respectively, were current as to the payment of principal and interest.

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, as of the dates indicated:

(Dollars in thousands)	Days Past Due					
June 30, 2013	30-59	60-89	Over 90	Total Past Due	Current	Total Loans
Commercial:						
Mortgages	$—	$536	$8,895	$9,431	$749,006	$758,437
Construction and development	—	—	—	—	39,449	39,449
Other	505	34	3,428	3,967	508,261	512,228
Residential real estate:						
Mortgages	4,051	1,697	4,266	10,014	718,144	728,158
Homeowner construction	—	—	—	—	20,713	20,713
Consumer:						
Home equity lines	1,155	205	27	1,387	226,980	228,367
Home equity loans	402	451	375	1,228	40,084	41,312
Other	31	33	13	77	56,239	56,316
Total loans	$6,144	$2,956	$17,004	$26,104	$2,358,876	$2,384,980

(Dollars in thousands)	Days Past Due					
December 31, 2012	30-59	60-89	Over 90	Total Past Due	Current	Total Loans
Commercial:						
Mortgages	$373	$408	$10,300	$11,081	$699,732	$710,813
Construction and development	—	—	—	—	27,842	27,842
Other	260	296	3,647	4,203	509,561	513,764
Residential real estate:						
Mortgages	4,840	1,951	3,658	10,449	682,349	692,798
Homeowner construction	—	—	—	—	24,883	24,883
Consumer:						
Home equity lines	753	207	528	1,488	225,373	226,861
Home equity loans	252	114	250	616	38,713	39,329
Other	129	64	66	259	57,454	57,713
Total loans	$6,607	$3,040	$18,449	$28,096	$2,265,907	$2,294,003

Included in past due loans as of June 30, 2013 and December 31, 2012, were nonaccrual loans of $17.2 million and $21.0 million, respectively. Accruing loans 90 days or more past due amounted to 2.4 million at June 30, 2013, consisting of one well-secured commercial and industrial loan. This loan was current with respect to interest payments; however, it was past maturity. This loan was renewed in July of 2013 and is no longer past due. All loans 90 days or more past due at December 31, 2012 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, as of the dates indicated:

(Dollars in thousands)	Recorded Investment (1)		Unpaid Principal		Related Allowance	
	Jun 30, 2013	Dec 31, 2012	Jun 30, 2013	Dec 31, 2012	Jun 30, 2013	Dec 31, 2012
No Related Allowance Recorded:						
Commercial:						
Mortgages	$3,399	$2,357	$7,421	$2,360	$—	$—
Construction and development	—	—	—	—	—	—
Other	2,621	1,058	2,620	1,057	—	—
Residential real estate:						
Mortgages	329	1,294	345	1,315	—	—
Homeowner construction	—	—	—	—	—	—
Consumer:						
Home equity lines	—	—	—	—	—	—
Home equity loans	—	—	—	—	—	—
Other	—	—	—	—	—	—
Subtotal	$6,349	$4,709	$10,386	$4,732	$—	$—
With Related Allowance Recorded:						
Commercial:						
Mortgages	$25,647	$17,897	$26,716	$19,738	$1,121	$1,720
Construction and development	—	—	—	—	—	—
Other	1,385	9,939	1,749	10,690	349	694
Residential real estate:						
Mortgages	3,533	2,576	3,909	2,947	638	463
Homeowner construction	—	—	—	—	—	—
Consumer:						
Home equity lines	173	187	174	255	1	1
Home equity loans	60	117	59	160	16	—
Other	131	137	133	136	1	2
Subtotal	$30,929	$30,853	$32,740	$33,926	$2,126	$2,880
Total impaired loans	$37,278	$35,562	$43,126	$38,658	$2,126	$2,880
Total:						
Commercial	$33,052	$31,251	$38,506	$33,845	$1,470	$2,414
Residential real estate	3,862	3,870	4,254	4,262	638	463
Consumer	364	441	366	551	18	3
Total impaired loans	$37,278	$35,562	$43,126	$38,658	$2,126	$2,880

(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.

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

The following table presents the average recorded investment 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 June 30,	2013	2012	2013	2012
Commercial:				
Mortgages	$27,904	$5,773	$152	$35
Construction and development	—	—	—	—
Other	7,385	11,257	50	84
Residential real estate:				
Mortgages	4,496	4,743	27	18
Homeowner construction	—	—	—	—
Consumer:				
Home equity lines	191	138	1	—
Home equity loans	69	125	1	3
Other	144	143	2	3
Totals	$40,189	$22,179	$233	$143

(Dollars in thousands)	Average Recorded Investment		Interest Income Recognized	
Six months ended June 30,	2013	2012	2013	2012
Commercial:				