

WASHINGTON TRUST BANCORP INC
Form 10-Q
May 08, 2014

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, 2014 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, 2014 was 16,675,272.

FORM 10-Q
WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
For the Quarter Ended March 31, 2014

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (unaudited)(Dollars in thousands,
except par value)

| | March 31, 2014 | December 31, 2013 |
|---|-------------------|----------------------|
| Assets: | | |
| Cash and due from banks | \$104,738 | \$81,939 |
| Short-term investments | 3,419 | 3,378 |
| Mortgage loans held for sale, at fair value | 10,409 | 11,636 |
| Securities: | | |
| Available for sale, at fair value | 361,000 | 392,903 |
| Held to maturity, at amortized cost (fair value \$29,180 in 2014 and \$29,865 in 2013) | 28,889 | 29,905 |
| Total securities | 389,889 | 422,808 |
| Federal Home Loan Bank stock, at cost | 37,730 | 37,730 |
| Loans: | | |
| Commercial | 1,337,283 | 1,363,335 |
| Residential real estate | 810,393 | 772,674 |
| Consumer | 330,927 | 326,875 |
| Total loans | 2,478,603 | 2,462,884 |
| Less allowance for loan losses | 27,043 | 27,886 |
| Net loans | 2,451,560 | 2,434,998 |
| Premises and equipment, net | 25,909 | 25,402 |
| Investment in bank-owned life insurance | 57,118 | 56,673 |
| Goodwill | 58,114 | 58,114 |
| Identifiable intangible assets, net | 5,329 | 5,493 |
| Other assets | 49,931 | 50,696 |
| Total assets | \$3,194,146 | \$3,188,867 |
| Liabilities: | | |
| Deposits: | | |
| Demand deposits | \$445,570 | \$440,785 |
| NOW accounts | 311,461 | 309,771 |
| Money market accounts | 704,434 | 666,646 |
| Savings accounts | 293,322 | 297,357 |
| Time deposits | 836,867 | 790,762 |
| Total deposits | 2,591,654 | 2,505,321 |
| Federal Home Loan Bank advances | 203,429 | 288,082 |
| Junior subordinated debentures | 22,681 | 22,681 |
| Other liabilities | 40,524 | 43,137 |
| Total liabilities | 2,858,288 | 2,859,221 |
| Commitments and contingencies | | |
| Shareholders' Equity: | | |
| Common stock of \$.0625 par value; authorized 30,000,000 shares; issued and outstanding 16,634,985 shares in 2014 and 16,613,561 shares in 2013 | 1,040 | 1,038 |
| Paid-in capital | 98,596 | 97,566 |
| Retained earnings | 236,999 | 232,595 |
| Accumulated other comprehensive loss | (777 |) (1,553 |
| Total shareholders' equity | 335,858 | 329,646 |
| Total liabilities and shareholders' equity | \$3,194,146 | \$3,188,867 |

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

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WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (unaudited)(Dollars and shares in thousands,
except per share amounts)

| Three months ended March 31, | 2014 | 2013 |
|--|----------|----------|
| Interest income: | | |
| Interest and fees on loans | \$25,589 | \$25,223 |
| Interest on securities: Taxable | 2,942 | 2,845 |
| Nontaxable | 582 | 659 |
| Dividends on Federal Home Loan Bank stock | 142 | 38 |
| Other interest income | 35 | 28 |
| Total interest and dividend income | 29,290 | 28,793 |
| Interest expense: | | |
| Deposits | 2,969 | 3,194 |
| Federal Home Loan Bank advances | 2,241 | 2,737 |
| Junior subordinated debentures | 241 | 390 |
| Other interest expense | 3 | 5 |
| Total interest expense | 5,454 | 6,326 |
| Net interest income | 23,836 | 22,467 |
| Provision for loan losses | 300 | 600 |
| Net interest income after provision for loan losses | 23,536 | 21,867 |
| Noninterest income: | | |
| Wealth management revenues | 8,065 | 7,474 |
| Merchant processing fees | 1,291 | 1,977 |
| Net gains on loan sales and commissions on loans originated for others | 1,239 | 4,166 |
| Service charges on deposit accounts | 754 | 791 |
| Card interchange fees | 681 | 599 |
| Income from bank-owned life insurance | 445 | 467 |
| Net gains on interest rate swap contracts | 260 | 19 |
| Equity in earnings (losses) of unconsolidated subsidiaries | (43 |) 39 |
| Gain on sale of business line | 6,265 | — |
| Other income | 413 | 406 |
| Noninterest income, excluding other-than-temporary impairment losses | 19,370 | 15,938 |
| 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 | 19,370 | 13,166 |
| Noninterest expense: | | |
| Salaries and employee benefits | 14,558 | 15,442 |
| Net occupancy | 1,640 | 1,514 |
| Equipment | 1,236 | 1,244 |
| Merchant processing costs | 1,050 | 1,673 |
| Outsourced services | 1,044 | 841 |
| Legal, audit and professional fees | 618 | 608 |
| FDIC deposit insurance costs | 440 | 431 |
| Advertising and promotion | 232 | 355 |
| Amortization of intangibles | 164 | 173 |
| Foreclosed property costs | (22 |) 47 |
| Debt prepayment penalties | 6,294 | — |
| Other expenses | 2,038 | 1,856 |
| Total noninterest expense | 29,292 | 24,184 |
| Income before income taxes | 13,614 | 10,849 |

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| | | |
|--|---------|---------|
| Income tax expense | 4,316 | 3,428 |
| Net income | \$9,298 | \$7,421 |
| Weighted average common shares outstanding - basic | 16,626 | 16,401 |
| Weighted average common shares outstanding - diluted | 16,800 | 16,449 |
| Per share information: Basic earnings per common share | \$0.56 | \$0.45 |
| Diluted earnings per common share | \$0.55 | \$0.45 |
| Cash dividends declared per share | \$0.29 | \$0.25 |

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 ended March 31, | 2014 | 2013 |
|--|----------|----------|
| Net income | \$9,298 | \$7,421 |
| Other comprehensive income, net of tax: | | |
| Securities available for sale: | | |
| Changes in fair value of securities available for sale | 612 | (1,053) |
| Net losses on securities reclassified into earnings | — | 393 |
| Net change in fair value of securities available for sale | 612 | (660) |
| Reclassification adjustment for other-than-temporary impairment losses transferred into earnings | — | 1,384 |
| Cash flow hedges: | | |
| Change in fair value of cash flow hedges | (16) | (2) |
| Net cash flow hedge losses reclassified into earnings | 92 | 122 |
| Net change in fair value of cash flow hedges | 76 | 120 |
| Defined benefit plan obligation adjustment | 88 | 337 |
| Total other comprehensive income, net of tax | 776 | 1,181 |
| Total comprehensive income | \$10,074 | \$8,602 |

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, 2013 | 16,380 | \$1,024 | \$91,453 | \$213,674 | (\$10,499) | \$295,652 |
| Net income | | | | 7,421 | | 7,421 |
| Total other comprehensive income, net of tax | | | | | 1,181 | 1,181 |
| Cash dividends declared | | | | (4,175) | | (4,175) |
| Share-based compensation | | | 581 | | | 581 |
| Deferred compensation plan | 2 | — | 30 | | | 30 |
| Exercise of stock options, issuance of other compensation-related equity instruments and related tax benefit | 43 | 3 | 598 | | | 601 |
| Balance at March 31, 2013 | 16,425 | \$1,027 | \$92,662 | \$216,920 | (\$9,318) | \$301,291 |
| | | | | | | |
| | 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.

| WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited) | (Dollars in thousands) | |
|---|------------------------|-----------|
| Three months ended March 31, | 2014 | 2013 |
| Cash flows from operating activities: | | |
| Net income | \$9,298 | \$7,421 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 300 | 600 |
| Depreciation of premises and equipment | 783 | 847 |
| Foreclosed and repossessed property valuation adjustments | 12 | 20 |
| Net amortization of premium and discount | 219 | 460 |
| Net amortization of intangibles | 164 | 173 |
| Share-based compensation | 491 | 581 |
| Income from bank-owned life insurance | (445) | (467) |
| Net gain on sale of business line | (6,265) | — |
| Net gains on loan sales and commissions on loans originated for others | (1,239) | (4,166) |
| Net impairment losses recognized in earnings | — | 2,772 |
| Net gains on interest rate swap contracts | (260) | (19) |
| Equity in losses (earnings) of unconsolidated subsidiaries | 43 | (39) |
| Proceeds from sales of loans | 48,296 | 138,729 |
| Loans originated for sale | (46,159) | (114,244) |
| (Increase) decrease in other assets | (93) | 2,050 |
| Decrease in other liabilities | (3,723) | (10,945) |
| Net cash provided by operating activities | 1,422 | 23,773 |
| Cash flows from investing activities: | | |
| Purchases of: | | |
| Mortgage-backed securities available for sale | — | (1,036) |
| Other investment securities available for sale | — | (203) |
| Proceeds from sale of: | | |
| Other investment securities available for sale | 547 | — |
| Maturities and principal payments of: | | |
| Mortgage-backed securities available for sale | 11,313 | 23,934 |
| Other investment securities available for sale | 20,844 | 690 |
| Mortgage-backed securities held to maturity | 960 | 3,328 |
| 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 | (13,584) | (26,102) |
| Purchases of loans, including purchased interest | (2,934) | (3,442) |
| Proceeds from the sale of property acquired through foreclosure or repossession | 659 | 460 |
| Purchases of premises and equipment | (1,291) | (427) |
| Net cash provided by (used in) investing activities | 23,719 | (110) |
| Cash flows from financing activities: | | |
| Net increase in deposits | 86,333 | 7,010 |
| Net decrease in other borrowings | (11) | (1,003) |
| Proceeds from Federal Home Loan Bank advances | 54,000 | 100,000 |
| Repayment of Federal Home Loan Bank advances | (138,653) | (119,954) |
| Proceeds from the exercise of stock options and issuance of other compensation-related equity instruments | 496 | 555 |
| | 45 | 76 |

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| | | |
|---|-----------|-----------|
| Tax benefit from stock option exercises and issuance of other compensation-related equity instruments | | |
| Cash dividends paid | (4,511) | (3,963) |
| Net cash used in financing activities | (2,301) | (17,279) |
| Net increase in cash and cash equivalents | 22,840 | 6,384 |
| Cash and cash equivalents at beginning of period | 85,317 | 92,650 |
| Cash and cash equivalents at end of period | \$108,157 | \$99,034 |

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

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| WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited) | (Dollars in thousands) | |
|--|------------------------|---------|
| Three months ended March 31, | 2014 | 2013 |
| Noncash Investing and Financing Activities: | | |
| Loans charged off | \$1,223 | \$374 |
| Loans transferred to property acquired through foreclosure or repossession | 421 | 1,050 |
| Supplemental Disclosures: | | |
| Interest payments | \$5,175 | \$6,260 |
| Income tax payments | 265 | 103 |

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 beginning after December 15, 2014, and interim periods with annual periods beginning after December 15, 2015. 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.

(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 \$6.5 million at March 31, 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 March 31, 2014 and December 31, 2013, cash and due from banks included interest-bearing deposits in other banks of \$61.2 million and \$51.8 million, respectively.

WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
 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, 2014 | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|-------------------|---------------------|----------------------|------------|
| Securities Available for Sale: | | | | |
| Obligations of U.S. government-sponsored enterprises | \$39,487 | \$391 | \$— | \$39,878 |
| Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises | 218,882 | 8,753 | (89) | 227,546 |
| Obligations of states and political subdivisions | 59,826 | 2,110 | — | 61,936 |
| Individual name issuer trust preferred debt securities | 30,724 | — | (5,344) | 25,380 |
| Corporate bonds | 6,124 | 144 | (8) | 6,260 |
| Total securities available for sale | \$355,043 | \$11,398 | (\$5,441) | \$361,000 |
| Held to Maturity: | | | | |
| Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises | \$28,889 | \$291 | \$— | \$29,180 |
| Total securities held to maturity | \$28,889 | \$291 | \$— | \$29,180 |
| Total securities | \$383,932 | \$11,689 | (\$5,441) | \$390,180 |

(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 |

At March 31, 2014 and December 31, 2013, securities available for sale and held to maturity with a fair value of \$375.6 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.

WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
 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, 2014 | | | | | Totals |
|--|------------------|-----------|------------|-------------------|--------|-----------|
| | Within 1 Year | 1-5 Years | 5-10 Years | After 10 Years | | |
| Securities Available for Sale: | | | | | | |
| Obligations of U.S. government-sponsored enterprises: | | | | | | |
| Amortized cost | \$39,487 | \$— | \$— | \$— | \$— | \$39,487 |
| Weighted average yield | 4.79 | % — | % — | % — | % — | % 4.79 |
| Mortgage-backed securities issued by U.S. government-sponsored enterprises: | | | | | | |
| Amortized cost | 39,783 | 102,288 | 52,054 | 24,757 | | 218,882 |
| Weighted average yield | 4.00 | % 3.68 | % 2.90 | % 2.34 | % 3.40 | % 3.40 |
| Obligations of state and political subdivisions: | | | | | | |
| Amortized cost | 20,769 | 39,057 | — | — | | 59,826 |
| Weighted average yield | 3.85 | % 3.93 | % — | % — | % 3.90 | % 3.90 |
| Individual name issuer trust preferred debt securities: | | | | | | |
| Amortized cost | — | — | — | 30,724 | | 30,724 |
| Weighted average yield | — | % — | % — | % 1.04 | % 1.04 | % 1.04 |
| Corporate bonds: | | | | | | |
| Amortized cost | — | 5,715 | 409 | — | | 6,124 |
| Weighted average yield | — | % 2.80 | % 2.41 | % — | % 2.78 | % 2.78 |
| Total debt securities available for sale: | | | | | | |
| Amortized cost | \$100,039 | \$147,060 | \$52,463 | \$55,481 | | \$355,043 |
| Weighted average yield | 4.28 | % 3.71 | % 2.90 | % 1.62 | % 3.42 | % 3.42 |
| Fair value | \$102,737 | \$147,626 | \$54,176 | \$56,461 | | \$361,000 |
| Securities Held to Maturity: | | | | | | |
| Mortgage-backed securities issued by U.S. government-sponsored enterprises: | | | | | | |
| Amortized cost | \$4,226 | \$12,127 | \$8,238 | \$4,298 | | \$28,889 |
| Weighted average yield | 3.00 | % 2.92 | % 2.72 | % 1.11 | % 2.60 | % 2.60 |
| Fair value | \$4,269 | \$12,249 | \$8,321 | \$4,341 | | \$29,180 |

Included in the above table were debt securities with an amortized cost balance of \$88.5 million and a fair value of \$85.1 million at March 31, 2014 that are callable at the discretion of the issuers. Final maturities of the callable securities range from eighteen 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 | | |
|---|---------------------|------------|-------------------|---------------------|------------|-------------------|-------|------------|-------------------|
| | # | Fair Value | Unrealized Losses | # | Fair Value | Unrealized Losses | # | Fair Value | Unrealized Losses |
| March 31, 2014 | | | | | | | | | |
| Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises | 3 | \$19,796 | (\$55) | 1 | \$933 | (\$34) | 4 | \$20,729 | (\$89) |
| Individual name issuer trust preferred debt securities | — | — | — | 11 | 25,380 | (5,344) | 11 | 25,380 | (5,344) |
| Corporate bonds | 2 | 413 | (8) | — | — | — | 2 | 413 | (8) |
| Total temporarily impaired securities | 5 | 20,209 | (\$63) | 12 | \$26,313 | (\$5,378) | 17 | \$46,522 | (\$5,441) |

| (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, 2013 | | | | | | | | | |
| 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 March 31, 2014 were eleven 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 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 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, 2014, individual name issuer trust preferred debt securities with an amortized cost of \$11.9 million and unrealized losses of \$2.1 million were rated below investment grade by Standard & Poors, Inc. (“S&P”). Management reviewed the collectibility of these securities taking into consideration such factors as the financial condition of the issuers, reported regulatory capital ratios of the issuers, credit ratings including ratings in effect as of the reporting period date as well as credit rating changes between the reporting period date and the filing date of this report and other information. We noted no additional downgrades to below investment grade between 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, 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)

| | 2014 | 2013 |
|--|------|----------|
| Three months ended March 31, | | |
| Balance at beginning of period | \$— | \$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 |

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)

| | March 31, 2014 | | December 31, 2013 | |
|----------------------------------|----------------|-------|-------------------|-------|
| | Amount | % | Amount | % |
| Commercial: | | | | |
| Mortgages (1) | \$788,836 | 32 % | \$796,249 | 32 % |
| Construction and development (2) | 24,696 | 1 | 36,289 | 1 |
| Other (3) | 523,751 | 21 | 530,797 | 22 |
| Total commercial | 1,337,283 | 54 | 1,363,335 | 55 |
| Residential real estate: | | | | |
| Mortgages (4) | 784,623 | 32 | 749,163 | 30 |
| Homeowner construction | 25,770 | 1 | 23,511 | 1 |
| Total residential real estate | 810,393 | 33 | 772,674 | 31 |
| Consumer: | | | | |
| Home equity lines | 233,728 | 9 | 231,362 | 9 |
| Home equity loans | 41,991 | 2 | 40,212 | 2 |
| Other (4) | 55,208 | 2 | 55,301 | 3 |
| Total consumer | 330,927 | 13 | 326,875 | 14 |
| Total loans (5) | \$2,478,603 | 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.

Includes net unamortized loan origination costs of \$1.1 million and \$879 thousand, respectively, and net (5) unamortized premiums on purchased loans of \$102 thousand and \$99 thousand, respectively, at March 31, 2014 and December 31, 2013.

At March 31, 2014 and December 31, 2013, there were \$1.16 billion and \$1.14 billion, respectively, of loans pledged as collateral for FHLBB borrowings, line of credit and letters of credit and were collateralized for the discount window at the FRB.

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:

| (Dollars in thousands) | Mar 31, 2014 | Dec 31, 2013 |
|---|-----------------|-----------------|
| Commercial: | | |
| Mortgages | \$2,293 | \$7,492 |
| Construction and development | — | — |
| Other | 1,198 | 1,291 |
| Residential real estate: | | |
| Mortgages | 8,975 | 8,315 |
| Homeowner construction | — | — |
| Consumer: | | |
| Home equity lines | 568 | 469 |
| Home equity loans | 474 | 687 |
| Other | 66 | 48 |
| Total nonaccrual loans | \$13,574 | \$18,302 |
| Accruing loans 90 days or more past due | \$— | \$— |

As of March 31, 2014 and December 31, 2013, nonaccrual loans of \$2.1 million and \$2.7 million, respectively, were current as to the payment of principal and interest.

At March 31, 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 | | | Total Past Due | Current | Total Loans |
|------------------------------|---------------|---------|---------|----------------|-------------|-------------|
| | 30-59 | 60-89 | Over 90 | | | |
| March 31, 2014 | | | | | | |
| Commercial: | | | | | | |
| Mortgages | \$— | \$15 | \$2,238 | \$2,253 | \$786,583 | \$788,836 |
| Construction and development | — | — | — | — | 24,696 | 24,696 |
| Other | 3,351 | 127 | 428 | 3,906 | 519,845 | 523,751 |
| Residential real estate: | | | | | | |
| Mortgages | 2,232 | 1,265 | 5,634 | 9,131 | 775,492 | 784,623 |
| Homeowner construction | — | — | — | — | 25,770 | 25,770 |
| Consumer: | | | | | | |
| Home equity lines | 1,004 | 492 | 269 | 1,765 | 231,963 | 233,728 |
| Home equity loans | 351 | 116 | 366 | 833 | 41,158 | 41,991 |
| Other | 10 | 50 | 66 | 126 | 55,082 | 55,208 |
| Total loans | \$6,948 | \$2,065 | \$9,001 | \$18,014 | \$2,460,589 | \$2,478,603 |

| (Dollars in thousands) | Days Past Due | | | Total Past Due | Current | Total Loans |
|------------------------------|---------------|---------|----------|----------------|-------------|-------------|
| | 30-59 | 60-89 | Over 90 | | | |
| December 31, 2013 | | | | | | |
| 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 | 349 | 863 | 39,349 | 40,212 |
| Other | 43 | — | 38 | 81 | 55,220 | 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 March 31, 2014 and December 31, 2013, were nonaccrual loans of \$11.5 million and \$15.6 million, respectively. All loans 90 days or more past due at March 31, 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 | |
|----------------------------------|-------------------------|--------------|------------------|--------------|-------------------|--------------|
| | Mar 31, 2014 | Dec 31, 2013 | Mar 31, 2014 | Dec 31, 2013 | Mar 31, 2014 | Dec 31, 2013 |
| No Related Allowance Recorded: | | | | | | |
| Commercial: | | | | | | |
| Mortgages | \$9,084 | \$998 | \$9,077 | \$998 | \$— | \$— |
| Construction and development | — | — | — | — | — | — |
| Other | 1,052 | 1,055 | 1,045 | 1,050 | — | — |
| Residential real estate: | | | | | | |
| Mortgages | 789 | 1,167 | 872 | 1,259 | — | — |
| Homeowner construction | — | — | — | — | — | — |
| Consumer: | | | | | | |
| Home equity lines | — | — | — | — | — | — |
| Home equity loans | — | — | — | — | — | — |
| Other | — | — | — | — | — | — |
| Subtotal | \$10,925 | \$3,220 | \$10,994 | \$3,307 | \$— | \$— |
| With Related Allowance Recorded: | | | | | | |
| Commercial: | | | | | | |
| Mortgages | \$16,045 | \$29,335 | \$18,610 | \$31,731 | \$292 | \$552 |
| Construction and development | — | — | — | — | — | — |
| Other | 1,142 | 1,506 | 1,457 | 1,945 | 297 | 463 |
| Residential real estate: | | | | | | |
| Mortgages | 2,735 | 3,122 | 3,037 | 3,507 | 436 | 463 |
| Homeowner construction | — | — | — | — | — | — |
| Consumer: | | | | | | |
| Home equity lines | 93 | 173 | 91 | 174 | 1 | 1 |
| Home equity loans | 135 | 55 | 135 | 54 | 1 | — |
| Other | 117 | 127 | 118 | 130 | — | 2 |
| Subtotal | \$20,267 | \$34,318 | \$23,448 | \$37,541 | \$1,027 | \$1,481 |
| Total impaired loans | \$31,192 | \$37,538 | \$34,442 | \$40,848 | \$1,027 | \$1,481 |
| Total: | | | | | | |
| Commercial | \$27,323 | \$32,894 | \$30,189 | \$35,724 | \$589 | \$1,015 |
| Residential real estate | 3,524 | 4,289 | 3,909 | 4,766 | 436 | 463 |
| Consumer | 345 | 355 | 344 | 358 | 2 | 3 |
| Total impaired loans | \$31,192 | \$37,538 | \$34,442 | \$40,848 | \$1,027 | \$1,481 |

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 (1) 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 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 | |
|------------------------------|-----------------------------|----------|----------------------------|-------|
| | 2014 | 2013 | 2014 | 2013 |
| Three months ended March 31, | | | | |
| Commercial: | | | | |
| Mortgages | \$28,340 | \$20,903 | \$165 | \$100 |
| Construction and development | — | — | — | — |
| Other | 2,366 | 10,635 | 23 | 64 |
| Residential real estate: | | | | |
| Mortgages | 3,744 | 4,000 | 14 | 22 |
| Homeowner construction | — | — | — | — |
| Consumer: | | | | |
| Home equity lines | 134 | 263 | 1 | 3 |
| Home equity loans | 95 | 105 | 1 | 3 |
| Other | 125 | 163 | 2 | 2 |
| Totals | \$34,804 | \$36,069 | \$206 | \$194 |

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.

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 \$26.4 million at both March 31, 2014 and December 31, 2013. These amounts included accrued interest of \$50 thousand and \$44 thousand, respectively. The allowance for loan losses included specific reserves for these troubled debt restructurings of \$347 thousand and \$556 thousand, respectively, at March 31, 2014 and December 31, 2013.

As of March 31, 2014, there were no significant commitments to lend additional funds to borrowers whose loans had been restructured.

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

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

| (Dollars in thousands) | # of Loans | | Outstanding Recorded Investment (1) | | | |
|------------------------------|------------|------|-------------------------------------|-------|--------------------|-------|
| | 2014 | 2013 | Pre-Modifications | | Post-Modifications | |
| Three months ended March 31, | | | 2014 | 2013 | 2014 | 2013 |
| Commercial: | | | | | | |
| Mortgages | — | 2 | \$— | \$452 | \$— | \$372 |
| Construction and development | — | — | — | — | — | — |
| Other | — | — | — | — | — | — |