

WASHINGTON TRUST BANCORP INC
Form 10-Q
August 02, 2018
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 JUNE 30, 2018 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 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. ☒ 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, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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) Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 July 31, 2018 was 17,278,116.

FORM 10-Q

WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES

For the Quarter Ended June 30, 2018

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PART I. Financial Information

Item 1. Financial Statements

Consolidated Balance Sheets (unaudited) (Dollars in thousands, except par value)

	June 30, 2018	December 31, 2017
Assets:		
Cash and due from banks	\$132,068	\$79,853
Short-term investments	2,624	3,070
Mortgage loans held for sale, at fair value	35,207	26,943
Securities:		
Available for sale, at fair value	776,693	780,954
Held to maturity, at amortized cost (fair value \$11,364 at June 30, 2018 and \$12,721 at December 31, 2017)	11,412	12,541
Total securities	788,105	793,495
Federal Home Loan Bank stock, at cost	46,281	40,517
Loans:		
Total loans	3,490,230	3,374,071
Less allowance for loan losses	26,174	26,488
Net loans	3,464,056	3,347,583
Premises and equipment, net	28,377	28,333
Investment in bank-owned life insurance	79,319	73,267
Goodwill	63,909	63,909
Identifiable intangible assets, net	8,645	9,140
Other assets	88,651	63,740
Total assets	\$4,737,242	\$4,529,850
Liabilities:		
Deposits:		
Noninterest-bearing deposits	\$577,656	\$578,410
Interest-bearing deposits	2,743,955	2,664,297
Total deposits	3,321,611	3,242,707
Federal Home Loan Bank advances	901,053	791,356
Junior subordinated debentures	22,681	22,681
Other liabilities	70,326	59,822
Total liabilities	4,315,671	4,116,566
Commitments and contingencies (Note 18)		
Shareholders' Equity:		
Common stock of \$.0625 par value; authorized 60,000,000 shares; issued and outstanding 17,278,116 shares at June 30, 2018 and 17,226,508 shares at December 31, 2017	1,080	1,077
Paid-in capital	118,883	117,961
Retained earnings	336,670	317,756
Accumulated other comprehensive loss	(35,062)	(23,510)
Total shareholders' equity	421,571	413,284
Total liabilities and shareholders' equity	\$4,737,242	\$4,529,850

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)

Periods ended June 30,	Three Months		Six Months	
	2018	2017	2018	2017
Interest income:				
Interest and fees on loans	\$37,101	\$31,642	\$71,679	\$61,994
Taxable interest on securities	5,358	4,844	10,476	9,553
Nontaxable interest on securities	20	72	43	184
Dividends on Federal Home Loan Bank stock	550	439	1,066	826
Other interest income	257	156	462	260
Total interest and dividend income	43,286	37,153	83,726	72,817
Interest expense:				
Deposits	5,254	3,591	9,676	7,093
Federal Home Loan Bank advances	4,707	3,509	8,690	6,853
Junior subordinated debentures	214	149	397	287
Other interest expense	—	—	—	1
Total interest expense	10,175	7,249	18,763	14,234
Net interest income	33,111	29,904	64,963	58,583
Provision for loan losses	400	700	400	1,100
Net interest income after provision for loan losses	32,711	29,204	64,563	57,483
Noninterest income:				
Wealth management revenues	9,602	9,942	19,875	19,419
Mortgage banking revenues	2,941	2,919	5,779	5,259
Service charges on deposit accounts	903	901	1,766	1,784
Card interchange fees	961	902	1,808	1,704
Income from bank-owned life insurance	537	542	1,052	1,078
Loan related derivative income	668	1,144	809	1,292
Other income	381	456	647	780
Total noninterest income	15,993	16,806	31,736	31,316
Noninterest expense:				
Salaries and employee benefits	17,304	17,418	35,076	34,335
Outsourced services	2,350	1,710	4,223	3,167
Net occupancy	1,930	1,767	3,932	3,734
Equipment	1,069	1,313	2,249	2,780
Legal, audit and professional fees	555	582	1,281	1,198
FDIC deposit insurance costs	422	469	826	950
Advertising and promotion	329	362	506	599
Amortization of intangibles	247	257	495	534
Change in fair value of contingent consideration	—	—	—	(310)
Other expenses	2,082	2,428	4,830	4,605
Total noninterest expense	26,288	26,306	53,418	51,592
Income before income taxes	22,416	19,704	42,881	37,207
Income tax expense	4,742	6,505	8,996	12,226
Net income	\$17,674	\$13,199	\$33,885	\$24,981
Weighted average common shares outstanding - basic	17,272	17,206	17,253	17,196
Weighted average common shares outstanding - diluted	17,387	17,316	17,384	17,312

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Per share information:	Basic earnings per common share	\$1.02	\$0.77	\$1.96	\$1.45
	Diluted earnings per common share	\$1.01	\$0.76	\$1.94	\$1.44
	Cash dividends declared per share	\$0.43	\$0.38	\$0.86	\$0.76

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)

Periods ended June 30,	Three Months		Six Months	
	2018	2017	2018	2017
Net income	\$17,674	\$13,199	\$33,885	\$24,981
Other comprehensive income (loss), net of tax:				
Net change in fair value of securities available for sale	(3,112)	1,828	(13,526)	2,229
Net change in fair value of cash flow hedges	365	(448)	1,254	(350)
Net change in defined benefit plan obligations	360	(4)	720	209
Total other comprehensive (loss) income, net of tax	(2,387)	1,376	(11,552)	2,088
Total comprehensive income	\$15,287	\$14,575	\$22,333	\$27,069

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

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

	Common Shares Outstanding	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at January 1, 2018	17,227	\$1,077	\$117,961	\$317,756	(\$23,510)	\$413,284
Net income	—	—	—	33,885	—	33,885
Total other comprehensive loss, net of tax	—	—	—	—	(11,552)	(11,552)
Cash dividends declared	—	—	—	(14,971)	—	(14,971)
Share-based compensation	—	—	1,319	—	—	1,319
Exercise of stock options, issuance of other compensation-related equity awards	51	3	(397)	—	—	(394)
Balance at June 30, 2018	17,278	\$1,080	\$118,883	\$336,670	(\$35,062)	\$421,571

	Common Shares Outstanding	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
Balance at January 1, 2017	17,171	\$1,073	\$115,123	\$294,365	(\$19,757)	\$390,804
Net income	—	—	—	24,981	—	24,981
Total other comprehensive income, net of tax	—	—	—	—	2,088	2,088
Cash dividends declared	—	—	—	(13,195)	—	(13,195)
Share-based compensation	—	—	1,198	—	—	1,198
Exercise of stock options, issuance of other compensation-related equity awards	39	3	163	—	—	166
Balance at June 30, 2017	17,210	\$1,076	\$116,484	\$306,151	(\$17,669)	\$406,042

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

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

Six months ended June 30,	2018	2017
Cash flows from operating activities:		
Net income	\$33,885	\$24,981
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	400	1,100
Depreciation of premises and equipment	1,630	1,759
Net amortization of premiums and discounts on securities and loans	1,386	1,616
Amortization of intangibles	495	534
Goodwill impairment	—	150
Share-based compensation	1,319	1,198
Tax benefit from stock option exercises and other equity awards	352	350
Income from bank-owned life insurance	(1,052)	(1,078)
Net gains on loan sales and commissions on loans originated for others, including fair value adjustments	(5,465)	(5,052)
Proceeds from sales of loans	182,964	215,239
Loans originated for sale	(188,185)	(213,929)
Change in fair value of contingent consideration liability	—	(310)
Increase in other assets	(16,777)	(6,237)
Increase in other liabilities	11,815	1,110
Net cash provided by operating activities	22,767	21,431
Cash flows from investing activities:		
Purchases of:		
Mortgage-backed securities available for sale	(61,619)	(35,213)
Other investment securities available for sale	(1,064)	(19,963)
Maturities and principal payments of:		
Mortgage-backed securities available for sale	41,270	38,861
Other investment securities available for sale	6,795	8,955
Mortgage-backed securities held to maturity	1,077	1,614
Purchases of Federal Home Loan Bank stock	(5,764)	(1,511)
Net (increase) decrease in loans	(115,986)	33,596
Purchases of loans	(1,676)	—
Proceeds from the sale of property acquired through foreclosure or repossession	—	213
Purchases of premises and equipment	(1,675)	(1,247)
Purchases of bank-owned life insurance	(5,000)	—
Net cash (used in) provided by investing activities	(143,642)	25,305
Cash flows from financing activities:		
Net increase (decrease) in deposits	78,904	(42,563)
Proceeds from Federal Home Loan Bank advances	1,135,000	657,500
Repayment of Federal Home Loan Bank advances	(1,025,303)	(636,697)
Payment of contingent consideration liability	(1,217)	—
Net proceeds from stock option exercises and issuance of other equity awards	(394)	166
Cash dividends paid	(14,346)	(13,007)
Net cash provided by (used in) financing activities	172,644	(34,601)
Net increase in cash and cash equivalents	51,769	12,135
Cash and cash equivalents at beginning of period	82,923	107,797
Cash and cash equivalents at end of period	\$134,692	\$119,932
Noncash Investing and Financing Activities:		
Loans charged off	\$793	\$721

Loans transferred to property acquired through foreclosure or repossession 3,074 576

Supplemental Disclosures:

Interest payments \$17,576 \$14,111

Income tax payments 8,570 11,849

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 that has elected to be a financial holding company. The Bancorp’s subsidiaries include The Washington Trust Company, of Westerly (the “Bank”), a Rhode Island chartered commercial bank founded in 1800, and Weston Securities Corporation (“WSC”). Through its subsidiaries, the Bancorp offers a comprehensive product line of banking and 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; its automated teller machines (“ATMs”); telephone banking; mobile banking and its internet website (www.washtrust.com).

The Unaudited Consolidated Financial Statements include the accounts of the Bancorp and its subsidiaries (collectively the “Corporation” or “Washington Trust”). All intercompany transactions have been eliminated. Certain previously reported amounts have been reclassified to conform to the current year’s presentation.

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

The Unaudited Consolidated Financial Statements of the Corporation presented herein have been prepared pursuant to the rules of the Securities and Exchange Commission (“SEC”) for quarterly reports on Form 10-Q and do not include all of the information and note disclosures required by GAAP. In the opinion of management, all adjustments (consisting of normal recurring adjustments) and disclosures considered necessary for the fair presentation of the accompanying Unaudited 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, 2017.

(2) Recently Issued Accounting Pronouncements

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. As issued, ASU 2014-09 was effective for annual periods beginning after December 15, 2016, including interim periods within that reporting period with early adoption not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. In August 2015, Accounting Standards Update No. 2015-14, “Deferral of the Effective Date” (“ASU 2015-14”) was issued and delayed the effective date of ASU 2014-09 to annual and interim periods in fiscal years beginning after December 15, 2017. In 2016, Accounting Standards Update No. 2016-08, “Principal versus Agent Considerations” (“ASU 2016-08”), Accounting Standards Update No. 2016-10, “Identifying Performance Obligations and Licensing” (“ASU 2016-10”) and Accounting Standards Update No. 2016-12, “Narrow-Scope Improvements and Practical Expedients” (“ASU 2016-12”) were issued. These ASUs did not change the core principle for revenue recognition in Topic 606; instead, the amendments provided more detailed guidance in a few areas and additional implementation guidance and examples to reduce the degree of judgment necessary to comply with Topic 606. The effective date and transition requirements for ASU 2016-08, ASU 2016-10 and ASU 2016-12 were the same as those provided by ASU 2015-14. Management assembled a project team to address the changes pursuant to Topic 606. The project team completed a scope

assessment and contract review for in-scope revenue streams. Washington Trust's largest source of revenue is net interest income on financial assets and liabilities, which was explicitly excluded from the scope of this ASU. Revenue streams that were within the scope of Topic 606 include wealth management revenues, service charges on deposit accounts and card interchange fees. Management adopted the provisions of ASU 2014-09 effective January 1, 2018, using the modified retrospective transition method. The adoption did not have a material impact on the Corporation's consolidated financial statements. See Note 12 for further details.

Financial Instruments - Overall - Topic 825

Accounting Standards Update No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"), was issued in January 2016 and provides revised guidance related to the accounting for and reporting of financial instruments. Some of the main provisions include: requiring most equity securities to be reported at fair value with unrealized gains and losses reported in the income statement; requiring separate presentation of financial assets and liabilities by

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

measurement category and form (i.e. securities or loans); clarifying that entities must assess valuation allowances on a deferred tax asset related to available for sale debt securities in combination with their other deferred tax assets; and eliminating the requirement to disclose the method and significant assumptions used to estimate fair value for financial instruments measured at amortized cost on the balance sheet. ASU 2016-01 was effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Management adopted the provisions of ASU 2016-01 effective January 1, 2018. The adoption did not have a material impact on the Corporation's consolidated financial statements.

Accounting Standards Update No. 2018-03, "Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2018-03"), was issued in February 2018 to clarify certain aspects of the guidance issued in ASU 2016-01. Companies, such as Washington Trust, were not required to adopt the provisions of ASU 2018-03 until the interim period beginning after June 15, 2018. However, early adoption was permitted, as long as ASU 2016-01 provisions were adopted. Management early adopted the provisions of ASU 2018-03 effective January 1, 2018. The adoption did not have an impact on the Corporation's consolidated financial statements.

Leases - Topic 842

Accounting Standards Update No. 2016-02, "Leases" ("ASU 2016-02"), was issued in February 2016 and provides revised guidance related to the accounting and reporting of leases. ASU 2016-02 requires lessees to recognize most leases on the balance sheet. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee will depend on its classification as a finance or operating lease. ASU 2016-02 requires a modified retrospective transition, with a number of practical expedients that entities may elect to apply. In January 2018, Accounting Standards Update No. 2018-01, "Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842" ("ASU 2018-01") was issued to address concerns about the costs and complexity of complying with the transition provisions of ASU 2016-02. In July 2018, Accounting Standards Update No. 2018-10, "Codification Improvements to Topic 842, Leases" ("ASU 2018-10") was issued to provide more detailed guidance and additional clarification for implementing ASU 2016-02. Also in July 2018, Accounting Standards Update No. 2018-11, "Targeted Improvements" ("ASU 2018-11") was issued and allows for an optional transition method in which the provisions of Topic 842 would be applied upon the adoption date and would not have to be retroactively applied to the earliest reporting period presented in the consolidated financial statements. The Corporation intends to use this optional transition method for the adoption of Topic 842. These ASUs are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Management has assembled a project team that meets regularly to address the changes pursuant to Topic 842. The Corporation rents premises used in business operations under non-cancelable operating leases, which currently are not reflected in its Consolidated Balance Sheets. As disclosed in Note 18, the Corporation was committed to \$37.3 million of future minimum lease payments under these non-cancelable operating leases. Upon adoption of ASU 2016-02 on January 1, 2019, the Corporation expects to report increased assets and liabilities as a result of recognizing right-of-use assets and lease liabilities in its Consolidated Balance Sheets. The Corporation does not expect a material change to the timing of expense recognition in the Consolidated Statements of Income.

Financial Instruments - Credit Losses - Topic 326

Accounting Standards Update No. 2016-13, "Financial Instruments - Credit Losses" ("ASU 2016-13"), was issued in June 2016. ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit

deterioration. ASU 2016-13 provides for a modified retrospective transition, resulting in a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is effective, except for debt securities for which an other-than-temporary impairment has previously been recognized. For these debt securities, a prospective transition approach will be adopted in order to maintain the same amortized cost prior to and subsequent to the effective date of ASU 2016-13. This ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2019, with early adoption permitted in 2019. Washington Trust is evaluating the effect that this ASU will have on consolidated financial statements and disclosures. Management has assembled a project team that meets regularly to evaluate the provisions of this ASU and to address the additional data requirements necessary and the approach for implementation. The Corporation does not plan to early adopt ASU 2016-13 and it has not yet determined the impact it will have on its consolidated financial statements.

Statement of Cash Flows - Topic 230

Accounting Standards Update No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"), was issued in August 2016. ASU 2016-15 provides classification guidance on certain cash receipts and cash payments, including,

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

but not limited to, debt prepayment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of bank-owned life insurance policies and distributions received from equity method investees. The adoption of ASU 2016-15 requires a retrospective transition method applied to each period presented. This ASU was effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Management adopted the provisions of ASU 2016-15 effective January 1, 2018. The adoption did not have a material impact on the Corporation's consolidated financial statements.

Accounting Standards Update No. 2016-18, "Restricted Cash" ("ASU 2016-18"), was issued in November 2016. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash. Restricted cash should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The adoption of ASU 2016-18 requires a retrospective transition method applied to each period presented. This ASU was effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Management adopted the provisions of ASU 2016-18 effective January 1, 2018. The adoption did not have a material impact on the Corporation's consolidated financial statements.

Compensation - Retirement Benefits - Topic 715

Accounting Standards Update No. 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" ("ASU 2017-07"), was issued in March 2017. ASU 2017-07 requires that employers include the service cost component of net periodic benefit cost in the same line item as other employee compensation costs and all other components of net periodic benefit cost in a separate line item(s) in the statement of income. In addition, the line item in which the components of net periodic benefit cost other than the service cost are included shall be identified as such on the statement of income or in the notes to the financial statements. ASU 2017-07 was effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017 requiring retrospective application for all periods presented. Management adopted the provisions of ASU 2017-07 effective January 1, 2018, utilizing the practical expedient that permitted employers to use the amounts previously disclosed in notes to financial statements as an estimation basis for applying the retrospective application requirements. The adoption of ASU 2017-07 resulted in an increase in salaries and employee benefits, a decrease in other expenses and no change to net income. The adoption did not have a material impact on the Corporation's consolidated financial statements. See Note 13 for further details.

Compensation - Stock Compensation - Topic 718

Accounting Standards Update No. 2017-09, "Scope of Modification Accounting" ("ASU 2017-09"), was issued in May 2017 to provide clarity when applying the guidance in Topic 718 to a change to the terms or conditions of a share-based payment award. ASU 2017-09 was effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017 with provisions applied on a prospective basis. Management adopted the provisions of ASU 2017-09 effective January 1, 2018. The adoption did not have a material impact on the Corporation's consolidated financial statements.

Derivatives and Hedging - Topic 815

Accounting Standards Update No. 2017-12, "Targeted Improvements to Accounting for Hedging Activities" ("ASU 2017-12"), was issued in August 2017 to better align financial reporting for hedging activities with the economic objectives of those activities. ASU 2017-12 is effective for fiscal years beginning after December 15, 2018, with early adoption, including adoption in an interim period, permitted. The provisions of ASU 2017-12 should be applied on a modified retrospective transition method in which the Corporation will recognize the cumulative effect of the change in the opening balance of retained earnings as of the adoption date. The Corporation has not yet determined the impact

ASU 2017-12 will have on its 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 \$13.3 million at June 30, 2018 and \$14.1 million at December 31, 2017 and were included in cash and due from banks in the Unaudited Consolidated Balance Sheets.

As of June 30, 2018 and December 31, 2017, cash and due from banks included interest-bearing deposits in other banks of \$73.3 million and \$31.9 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)

June 30, 2018	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities Available for Sale:				
Obligations of U.S. government-sponsored enterprises	\$171,496	\$—	(\$6,960)	\$164,536
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	604,578	1,646	(20,540)	585,684
Obligations of states and political subdivisions	935	2	—	937
Individual name issuer trust preferred debt securities	13,299	—	(799)	12,500
Corporate bonds	13,913	—	(877)	13,036
Total securities available for sale	\$804,221	\$1,648	(\$29,176)	\$776,693
Held to Maturity:				
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	\$11,412	\$—	(\$48)	\$11,364
Total securities held to maturity	\$11,412	\$—	(\$48)	\$11,364
Total securities	\$815,633	\$1,648	(\$29,224)	\$788,057

(Dollars in thousands)

December 31, 2017	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities Available for Sale:				
Obligations of U.S. government-sponsored enterprises	\$161,479	\$—	(\$3,875)	\$157,604
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	594,944	3,671	(7,733)	590,882
Obligations of states and political subdivisions	2,355	4	—	2,359
Individual name issuer trust preferred debt securities	18,106	—	(1,122)	16,984
Corporate bonds	13,917	13	(805)	13,125
Total securities available for sale	\$790,801	\$3,688	(\$13,535)	\$780,954
Held to Maturity:				
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	\$12,541	\$180	\$—	\$12,721
Total securities held to maturity	\$12,541	\$180	\$—	\$12,721
Total securities	\$803,342	\$3,868	(\$13,535)	\$793,675

As of June 30, 2018 and December 31, 2017, securities with a fair value of \$361.3 million and \$357.8 million, respectively, were pledged as collateral for Federal Home Loan Bank of Boston (“FHLB”) borrowings, potential borrowings with the FRB, certain public deposits and for other purposes. See Note 7 for additional disclosure on FHLB 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.

(Dollars in thousands)	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
June 30, 2018				
Due in one year or less	\$63,389	\$61,419	\$1,419	\$1,413
Due after one year to five years	270,844	261,678	4,694	4,674
Due after five years to ten years	282,932	272,643	3,882	3,866
Due after ten years	187,056	180,953	1,417	1,411
Total securities	\$804,221	\$776,693	\$11,412	\$11,364

Included in the above table are debt securities with an amortized cost balance of \$198.7 million and a fair value of \$190.1 million at June 30, 2018 that are callable at the discretion of the issuers. Final maturities of the callable securities range from 11 months to 19 years, with call features ranging from 1 month to 3 years.

Other-Than-Temporary Impairment Assessment

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

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
June 30, 2018									
Obligations of U.S. government-sponsored enterprises	8	\$68,737	(\$1,759)	9	\$95,799	(\$5,201)	17	\$164,536	(\$6,960)
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	39	279,362	(6,407)	22	255,083	(14,181)	61	534,445	(20,588)
Individual name issuer trust preferred debt securities	—	—	—	5	12,500	(799)	5	12,500	(799)
Corporate bonds	6	2,106	(20)	3	10,930	(857)	9	13,036	(877)
Total temporarily impaired securities	53	\$350,205	(\$8,186)	39	\$374,312	(\$21,038)	92	\$724,517	(\$29,224)

(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, 2017									
Obligations of U.S. government-sponsored enterprises	8	\$69,681	(\$798)	8	\$87,923	(\$3,077)	16	\$157,604	(\$3,875)
	20	128,965	(613)	22	279,693	(7,120)	42	408,658	(7,733)

Mortgage-backed securities issued by U.S.
government agencies and U.S.
government-sponsored enterprises

Individual name issuer trust preferred debt securities	—	—	—	7	16,984	(1,122	)	7	16,984	(1,122)	
Corporate bonds	3	921	(5	)	3	10,980	(800	)	6	11,901	(805)
Total temporarily impaired securities	31	\$199,567	(\$1,416)	40	\$395,580	(\$12,119)	71	\$595,147	(\$13,535)

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Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Further deterioration in credit quality of the underlying issuers of the securities, further deterioration in the condition of the financial services industry, 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 write-downs.

U.S. Government Agency and U.S. Government-Sponsored Enterprise Securities, including Mortgage-Backed Securities

The gross unrealized losses on U.S. government agency and U.S. government-sponsored debt securities, including mortgage-backed securities, were primarily attributable to relative changes in interest rates since the time of purchase. The contractual cash flows for these securities are guaranteed by U.S. government agencies and U.S. government-sponsored enterprises. Based on the assessment of these factors, management believes that the unrealized losses on these debt security holdings are a function of changes in investment spreads and interest rate movements and not changes in credit quality. Management 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 June 30, 2018.

Trust Preferred Debt Securities of Individual Name Issuers

Included in debt securities in an unrealized loss position at June 30, 2018 were five trust preferred security holdings issued by four individual companies in the banking sector. Management believes the unrealized loss position in these holdings was attributable to the general widening of spreads for this category of debt securities issued by financial services companies since the time these securities were purchased. Based on the information available through the filing date of this report, all individual name issuer trust preferred debt securities held in our portfolio continue to accrue interest and make payments as expected with no payment deferrals or defaults on the part of the issuers. As of June 30, 2018, individual name issuer trust preferred debt securities with an amortized cost of \$6.1 million and unrealized losses of \$398 thousand 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 June 30, 2018 and the filing date of this report. Based on this review, 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 June 30, 2018.

Corporate Bonds

At June 30, 2018, Washington Trust had nine corporate bond holdings with unrealized losses totaling \$877 thousand. These investment grade corporate bonds were issued by large corporations. Management believes the unrealized losses on these bonds are a function of the changes in the investment spreads and interest rate movements and not changes in the credit quality of the issuers of the debt securities. Management 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 June 30, 2018.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(5) Loans

The following is a summary of loans:

(Dollars in thousands)	June 30, 2018		December 31, 2017	
	Amount	%	Amount	%
Commercial:				
Commercial real estate (1)	\$1,218,643	35 %	\$1,210,495	36 %
Commercial & industrial (2)	632,029	18	612,334	18
Total commercial	1,850,672	53	1,822,829	54
Residential Real Estate:				
Residential real estate (3)	1,327,418	38	1,227,248	36
Consumer:				
Home equity	283,744	8	292,467	9
Other (4)	28,396	1	31,527	1
Total consumer	312,140	9	323,994	10
Total loans (5)	\$3,490,230	100 %	\$3,374,071	100 %

Commercial real estate loans consist of commercial mortgages primarily secured by income producing property, as (1) well as construction and development loans. Construction and development loans are made to businesses for land development or the on-site construction of industrial, commercial, or residential buildings.

(2) Commercial & industrial consist of loans to businesses and individuals, a substantial portion of which are fully or partially collateralized by real estate.

(3) Residential real estate loans consist of mortgage and homeowner construction loans secured by one- to four- family residential properties.

(4) Other consumer loans consists of loans to individuals secured by general aviation aircraft and other personal installment loans.

Includes net unamortized loan origination costs of \$4.5 million and \$3.8 million, respectively, at June 30, 2018 and (5) December 31, 2017 and net unamortized premiums on purchased loans of \$794 thousand and \$878 thousand, respectively, at June 30, 2018 and December 31, 2017.

As of June 30, 2018 and December 31, 2017, there were \$1.8 billion and \$1.6 billion, respectively, of loans pledged as collateral to the FHLB under a blanket pledge agreement and to the FRB for the discount window. See Note 7 for additional disclosure regarding borrowings.

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			
June 30, 2018						
Commercial:						
Commercial real estate	\$—	\$—	\$—	\$—	\$1,218,643	\$1,218,643
Commercial & industrial	2,454	—	397	2,851	629,178	632,029
Total commercial	2,454	—	397	2,851	1,847,821	1,850,672
Residential Real Estate:						
Residential real estate	6,540	1,150	3,553	11,243	1,316,175	1,327,418
Consumer:						

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Home equity	1,713	385	487	2,585	281,159	283,744
Other	15	1	—	16	28,380	28,396
Total consumer	1,728	386	487	2,601	309,539	312,140
Total loans	\$10,722	\$1,536	\$4,437	\$16,695	\$3,473,535	\$3,490,230

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Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(Dollars in thousands) Days Past Due

December 31, 2017	30-59	60-89	Over 90	Total Past Due	Current	Total Loans
Commercial:						
Commercial real estate	\$6	\$—	\$4,954	\$4,960	\$1,205,535	\$1,210,495
Commercial & industrial	3,793	2	281	4,076	608,258	612,334
Total commercial	3,799	2	5,235	9,036	1,813,793	1,822,829
Residential Real Estate:						
Residential real estate	1,678	2,274	3,903	7,855	1,219,393	1,227,248
Consumer:						
Home equity	2,798	75	268	3,141	289,326	292,467
Other	29	—	14	43	31,484	31,527
Total consumer	2,827	75	282	3,184	320,810	323,994
Total loans	\$8,304	\$2,351	\$9,420	\$20,075	\$3,353,996	\$3,374,071

Included in past due loans as of June 30, 2018 and December 31, 2017, were nonaccrual loans of \$8.6 million and \$11.8 million, respectively.

All loans 90 days or more past due at June 30, 2018 and December 31, 2017 were classified as nonaccrual.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Impaired Loans

Impaired loans are nonaccrual loans, which 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, as well as loans restructured in a troubled debt restructuring. The Corporation identifies loss allocations for impaired loans on an individual loan basis.

The following is a summary of impaired loans:

(Dollars in thousands)	Recorded Investment (1)		Unpaid Principal		Related Allowance	
	Jun 30, 2018	Dec 31, 2017	Jun 30, 2018	Dec 31, 2017	Jun 30, 2018	Dec 31, 2017
No Related Allowance Recorded						
Commercial:						
Commercial real estate	\$—	\$—	\$—	\$—	\$—	\$—
Commercial & industrial	5,426	4,986	5,477	5,081	—	—
Total commercial	5,426	4,986	5,477	5,081	—	—
Residential Real Estate:						
Residential real estate	9,078	9,069	9,245	9,256	—	—
Consumer:						
Home equity	1,124	557	1,124	557	—	—
Other	—	14	—	14	—	—
Total consumer	1,124	571	1,124	571	—	—
Subtotal	15,628	14,626	15,846	14,908	—	—
With Related Allowance Recorded						
Commercial:						
Commercial real estate	\$—	\$4,954	\$—	\$9,910	\$—	\$1,018
Commercial & industrial	337	191	389	212	18	1
Total commercial	337	5,145	389	10,122	18	1,019
Residential Real Estate:						
Residential real estate	1,495	715	1,546	741	168	104
Consumer:						
Home equity	19	—	19	—	8	—
Other	34	133	34	132	4	6
Total consumer	53	133	53	132	12	6
Subtotal	1,885	5,993	1,988	10,995	198	1,129
Total impaired loans	\$17,513	\$20,619	\$17,834	\$25,903	\$198	\$1,129
Total:						
Commercial	\$5,763	\$10,131	\$5,866	\$15,203	\$18	\$1,019
Residential real estate	10,573	9,784	10,791	9,997	168	104
Consumer	1,177	704	1,177	703	12	6
Total impaired loans	\$17,513	\$20,619	\$17,834	\$25,903	\$198	\$1,129

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 accruing impaired loans (troubled debt restructurings for which management has concluded that the collectibility of the loan is not in doubt), the recorded investment also includes accrued interest.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

(Dollars in thousands)	Average Recorded Investment		Interest Income Recognized	
Three months ended June 30,	2018	2017	2018	2017
Commercial:				
Commercial real estate	\$—	\$9,549	\$—	\$26
Commercial & industrial	5,983	6,864	73	76
Total commercial	5,983	16,413	73	102
Residential Real Estate:				
Residential real estate	10,017	15,915	85	150
Consumer:				
Home equity	1,036	697	10	10
Other	88	140	2	2
Total consumer	1,124	837	12	12
Totals	\$17,124	\$33,165	\$170	\$264

(Dollars in thousands)	Average Recorded Investment		Interest Income Recognized	
Six months ended June 30,	2018	2017	2018	2017
Commercial:				
Commercial real estate	\$2,039	\$9,664	\$—	\$52
Commercial & industrial	5,738	6,914	139	152
Total commercial	7,777	16,578	139	204
Residential Real Estate:				
Residential real estate	9,934	16,076	197	272
Consumer:				
Home equity	853	832	19	20
Other	116	142	5	6
Total consumer	969	974	24	26
Totals	\$18,680	\$33,628	\$360	\$502

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. When loans are placed on nonaccrual status, 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 generally for a period of six months, the borrower has demonstrated an ability to comply with repayment terms, and when, in management's opinion, the loans are considered to be fully collectible.

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Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

(Dollars in thousands)	Jun 30, 2018	Dec 31, 2017
Commercial:		
Commercial real estate	\$—	\$4,954
Commercial & industrial	397	283
Total commercial	397	5,237
Residential Real Estate:		
Residential real estate	10,206	9,414
Consumer:		
Home equity	1,133	544
Other	9	16
Total consumer	1,142	560
Total nonaccrual loans	\$11,745	\$15,211
Accruing loans 90 days or more past due	\$—	\$—

As of June 30, 2018 and December 31, 2017, loans secured by one- to four-family residential property amounting to \$2.2 million and \$4.4 million, respectively, were in process of foreclosure.

Nonaccrual loans of \$3.2 million and \$3.4 million, respectively, were current as to the payment of principal and interest at June 30, 2018 and December 31, 2017.

There were no significant commitments to lend additional funds to borrowers whose loans were on nonaccrual status at June 30, 2018.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Troubled Debt Restructurings

Loans are considered restructured in a troubled debt restructuring when the Corporation has granted concessions, that it otherwise would not have considered, to a borrower experiencing financial difficulties. 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 that are already on nonaccrual status at the time of the restructuring generally remain on nonaccrual status for approximately 6 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 recorded investment in troubled debt restructurings consists of unpaid principal balance, net of charge-offs and unamortized deferred loan origination fees and costs, at the time of the restructuring. For accruing troubled debt restructured loans, the recorded investment also includes accrued interest. The recorded investment in troubled debt restructurings was \$6.6 million and \$11.2 million, respectively, at June 30, 2018 and December 31, 2017. These amounts included insignificant balances of accrued interest. The allowance for loan losses included specific reserves for these troubled debt restructurings of \$123 thousand and \$1.1 million, respectively, at June 30, 2018 and December 31, 2017.

As of June 30, 2018, there were no significant commitments to lend additional funds to borrowers whose loans had been restructured.

For the three months ended June 30, 2018, there were no loans modified as a troubled debt restructuring. For the six months ended June 30, 2018, there was one loan modified as a troubled debt restructuring with a pre-modification and post-modification recorded investment of \$608 thousand. This troubled debt restructuring included a combination of concessions pertaining to maturity and interest only payment terms. There were no loans modified as a troubled debt restructuring for the three and six months ended June 30, 2017.

For the three and six months ended June 30, 2018, there were no payment defaults on troubled debt restructured loans modified within the previous 12 months. For the three and six months ended June 30, 2017, payment defaults on troubled debt restructured loans modified within the previous 12 months occurred on three loans totaling \$1.1 million and four loans totaling \$1.9 million, respectively.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Credit Quality Indicators

Commercial

The Corporation utilizes an internal rating system to assign a risk to each of its commercial loans. Loans are rated on a scale of 1 to 10. This scale can be assigned to three broad categories including “pass” for ratings 1 through 6, “special mention” for 7-rated loans, and “classified” for loans rated 8, 9 or 10. The loan rating system takes into consideration parameters including the borrower’s financial condition, the borrower’s performance with respect to loan terms, the adequacy of collateral, the adequacy of guarantees and other credit quality characteristics. The weighted average risk rating of the Corporation’s commercial loan portfolio was 4.73 at June 30, 2018 and 4.70 at December 31, 2017. For non-impaired loans, the Corporation takes the risk rating into consideration along with other credit attributes in the establishment of an appropriate allowance for loan losses. See Note 6 for additional information.

A description of the commercial loan categories is as follows:

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

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

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

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

(Dollars in thousands)	Pass		Special Mention		Classified	
	Jun 30, 2018	Dec 31, 2017	Jun 30, 2018	Dec 31, 2017	Jun 30, 2018	Dec 31, 2017
Commercial:						
Mortgages	\$1,041,127	\$1,067,373	\$1,831	\$—	\$—	\$5,114
Construction & development	175,685	138,008	—	—	—	—
Commercial real estate	1,216,812	1,205,381	1,831	—	—	5,114
Commercial & industrial	586,941	592,749	35,612	9,804	9,476	9,781
Total commercial	\$1,803,753	\$1,798,130	\$37,443	\$9,804	\$9,476	\$14,895

Residential and Consumer

The residential and consumer portfolios are monitored on an ongoing basis by the Corporation using delinquency information and loan type as credit quality indicators. These credit quality indicators are assessed on an aggregate basis in these relatively homogeneous portfolios. For non-impaired loans, the Corporation assigns loss allocation factors to each respective loan type. See Note 6 for additional information.

Various other techniques are utilized to monitor indicators of credit deterioration in the portfolios of residential real estate loans and consumer loans. Among these techniques is the periodic tracking of loans with an updated FICO score and an estimated loan to value (“LTV”) ratio. LTV ratio is determined via statistical modeling analyses. The indicated LTV levels are estimated based on such factors as the location, the original LTV ratio, and the date of origination of the loan and do not reflect actual appraisal amounts. The results of these analyses and other loan review procedures are taken into consideration in the determination of loss allocation factors for residential mortgage and home equity consumer credits. See Note 6 for additional information.

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

(Dollars in thousands)	Current		Past Due	
	Jun 30, 2018	Dec 31, 2017	Jun 30, 2018	Dec 31, 2017
Residential Real Estate:				
Self-originated mortgages	\$1,194,914	\$1,091,291	\$10,012	\$6,413
Purchased mortgages	121,261	128,102	1,231	1,442
Total residential real estate	\$1,316,175	\$1,219,393	\$11,243	\$7,855
Consumer:				
Home equity	\$281,159	\$289,326	\$2,585	\$3,141
Other	28,380	31,484	16	43
Total consumer	\$309,539	\$320,810	\$2,601	\$3,184

(6) Allowance for Loan Losses

The allowance for loan losses is management’s best estimate of incurred losses inherent in the loan portfolio as of the balance sheet date. The Corporation uses a methodology to systematically measure the amount of estimated loan loss exposure inherent in the loan portfolio for purposes of establishing a sufficient allowance for loan losses. The methodology includes: (1) the identification of loss allocations for individual loans deemed to be impaired and (2) the application of loss allocation factors for non-impaired loans based on historical loss experience and estimated loss emergence period, with adjustments for various exposures that management believes are not adequately represented by historical loss experience.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

The following table presents the activity in the allowance for loan losses for the three months ended June 30, 2018:
(Dollars in thousands)

	Commercial			Consumer				
	CRE (1)	C&I (2)	Total Commercial	Residential Real Estate	Home Equity	Other	Total Consumer	Total
Beginning Balance	\$11,819	\$5,871	\$17,690	\$5,494	\$2,192	\$488	\$2,680	\$25,864
Charge-offs	—	(1)	(1)	(5)	(76)	(21)	(97)	(103)
Recoveries	—	4	4	—	3	6	9	13
Provision	624	768	1,392	(175)	(744)	(73)	(817)	400
Ending Balance	\$12,443	\$6,642	\$19,085	\$5,314	\$1,375	\$400	\$1,775	\$26,174

(1) Commercial real estate loans.

(2) Commercial & industrial loans.

The following table presents the activity in the allowance for loan losses for the six months ended June 30, 2018:

	Commercial			Consumer				
	CRE (1)	C&I (2)	Total Commercial	Residential Real Estate	Home Equity	Other	Total Consumer	Total
Beginning Balance	\$12,729	\$5,580	\$18,309	\$5,427	\$2,412	\$340	\$2,752	\$26,488
Charge-offs	(627)	(7)	(634)	(5)	(111)	(43)	(154)	(793)
Recoveries	25	33	58	—	10	11	21	79
Provision	316	1,036	1,352	(108)	(936)	92	(844)	400
Ending Balance	\$12,443	\$6,642	\$19,085	\$5,314	\$1,375	\$400	\$1,775	\$26,174

(1) Commercial real estate loans.

(2) Commercial & industrial loans.

The following table presents the activity in the allowance for loan losses for the three months ended June 30, 2017:
(Dollars in thousands)

	Commercial			Consumer				
	CRE (1)	C&I (2)	Total Commercial	Residential Real Estate	Home Equity	Other	Total Consumer	Total
Beginning Balance	\$12,366	\$6,297	\$18,663	\$5,359	\$1,740	\$684	\$2,424	\$26,446
Charge-offs	(400)	(162)	(562)	(32)	(16)	(32)	(48)	(642)
Recoveries	82	47	129	24	4	1	5	158
Provision	(113)	885	772	18	199	(289)	(90)	700
Ending Balance	\$11,935	\$7,067	\$19,002	\$5,369	\$1,927	\$364	\$2,291	\$26,662

(1) Commercial real estate loans.

(2) Commercial & industrial loans.

The following table presents the activity in the allowance for loan losses for the six months ended June 30, 2017:

	Commercial			Consumer				
	CRE (1)	C&I (2)	Total Commercial	Residential Real Estate	Home Equity	Other	Total Consumer	Total
Beginning Balance	\$11,166	\$6,992	\$18,158	\$5,252	\$1,889	\$705	\$2,594	\$26,004

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Charge-offs	(400)(164)(564)(32)(61)(64)(125)(721)
Recoveries	82	154	236	28	6	9	15	279	
Provision	1,087	85	1,172	121	93	(286)(193)	1,100
Ending Balance	\$11,935	\$7,067	\$19,002	\$5,369	\$1,927	\$364	\$2,291		\$26,662

(1) Commercial real estate loans.

(2) Commercial & industrial loans.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

The following table presents the Corporation's loan portfolio and associated allowance for loan loss by portfolio segment and by impairment methodology:

(Dollars in thousands)	June 30, 2018		December 31, 2017	
	Loans	Related Allowance	Loans	Related Allowance
Loans Individually Evaluated for Impairment				
Commercial:				
Commercial real estate	\$—	\$—	\$4,954	\$1,018
Commercial & industrial	5,742	18	5,157	1
Total commercial	5,742	18	10,111	1,019
Residential Real Estate:				
Residential real estate	10,572	168	9,783	104
Consumer:				
Home equity	1,144	8	557	—
Other	33	4	147	6
Total consumer	1,177	12	704	6
Subtotal	17,491	198	20,598	1,129
Loans Collectively Evaluated for Impairment				
Commercial:				
Commercial real estate	1,218,643	12,443	1,205,541	11,711
Commercial & industrial	626,287	6,624	607,177	5,579
Total commercial	1,844,930	19,067	1,812,718	17,290
Residential Real Estate:				
Residential real estate	1,316,846	5,146	1,217,465	5,323
Consumer:				
Home equity	282,600	1,367	291,910	2,412
Other	28,363	396	31,380	334
Total consumer	310,963	1,763	323,290	2,746
Subtotal	3,472,739	25,976	3,353,473	25,359
Total	\$3,490,230	\$26,174	\$3,374,071	\$26,488

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(7) Borrowings

Federal Home Loan Bank Advances

Advances payable to the FHLB amounted to \$901.1 million and \$791.4 million, respectively, at June 30, 2018 and December 31, 2017.

The following table presents maturities and weighted average interest rates on FHLB advances outstanding as of June 30, 2018:

(Dollars in thousands)	Total Outstanding	Weighted Average Rate
July 1, 2018 to December 31, 2018	\$580,331	2.16 %
2019	137,258	1.62
2020	67,033	1.95
2021	46,222	2.57
2022	55,447	3.59
2023 and thereafter	14,762	2.29
Balance at June 30, 2018	\$901,053	2.17 %

As of June 30, 2018 and December 31, 2017, the Bank had access to a \$40.0 million unused line of credit with the FHLB and also had remaining available borrowing capacity of \$511.2 million and \$449.9 million, respectively. The Bank pledges certain qualified investment securities and loans as collateral to the FHLB.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(8) Shareholders' Equity

Regulatory Capital Requirements

At both June 30, 2018 and December 31, 2017, the Corporation and the Bank were considered “well capitalized.”

The following table presents the Corporation's and the Bank's actual capital amounts and ratios, as well as the corresponding minimum and well capitalized regulatory amounts and ratios that were in effect during the respective periods:

(Dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be “Well Capitalized” Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
June 30, 2018						
Total Capital (to Risk-Weighted Assets):						
Corporation	\$434,571	12.61 %	\$275,759	8.00 %	N/A	N/A
Bank	431,320	12.51	275,738	8.00	\$344,673	10.00 %
Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	408,108	11.84	206,819	6.00	N/A	N/A
Bank	404,857	11.75	206,804	6.00	275,738	8.00
Common Equity Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	386,110	11.20	155,115	4.50	N/A	N/A
Bank	404,857	11.75	155,103	4.50	224,037	6.50
Tier 1 Capital (to Average Assets): (1)						
Corporation	408,108	8.87	183,980	4.00	N/A	N/A
Bank	404,857	8.80	183,940	4.00	229,925	5.00
December 31, 2017						
Total Capital (to Risk-Weighted Assets):						
Corporation	416,038	12.45	267,365	8.00	N/A	N/A
Bank	413,593	12.38	267,338	8.00	334,172	10.00
Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	389,289	11.65	200,524	6.00	N/A	N/A
Bank	386,844	11.58	200,503	6.00	267,338	8.00
Common Equity Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	367,291	10.99	150,383	4.50	N/A	N/A
Bank	386,844	11.58	150,378	4.50	217,212	6.50
Tier 1 Capital (to Average Assets): (1)						
Corporation	389,289	8.79	177,089	4.00	N/A	N/A
Bank	386,844	8.74	177,048	4.00	221,310	5.00

(1) Leverage ratio.

In addition to the minimum regulatory capital required for capital adequacy purposes included in the table above, the Corporation is required to maintain a minimum capital conservation buffer, in the form of common equity, in order to avoid restrictions on capital distributions and discretionary bonuses. The required amount of the capital conservation buffer was 1.25% on January 1, 2017 and 1.875% on January 1, 2018. The capital conservation buffer will increase another 0.625% on January 1, 2019 to reach the full 2.50%.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(9) Derivative Financial Instruments

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

Interest Rate Risk Management Agreements

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

Cash Flow Hedging Instruments

As of June 30, 2018 and December 31, 2017, the Bancorp had two interest rate caps with a total notional amount of \$22.7 million that were designated as cash flow hedges to hedge the interest rate risk associated with our variable rate junior subordinated debentures. For both interest rate caps, the Bancorp obtained the right to receive the difference between 3-month LIBOR and a 4.5% strike. The caps mature in 2020.

As of June 30, 2018 and December 31, 2017, the Bank had two interest rate swap contracts with a total notional amount of \$60.0 million that were designated as cash flow hedges to hedge the interest rate risk associated with short-term variable rate FHLB advances. The interest rate swaps mature in 2021 and 2023.

As of June 30, 2018 and December 31, 2017, the Bank had three interest rate floor contracts with a total notional amount of \$300.0 million that were designated as cash flow hedges to hedge the interest rate risk associated with a pool of variable rate commercial loans. The Bank obtained the right to receive the difference between 1-month LIBOR and a 1.0% strike for each of the interest rate floors. The floors mature in 2020.

The effective portion of the changes in fair value of derivatives designated as cash flow hedges is recorded in other comprehensive income and subsequently reclassified to earnings when gains or losses are realized. The ineffective portion of changes in fair value of the derivatives is recognized directly in earnings. For the three and six months ended June 30, 2018 and 2017, there was no ineffectiveness recorded in earnings.

Loan Related Derivative Contracts

Interest Rate Swap Contracts with Customers

The Corporation has entered into interest rate swap contracts to help commercial loan borrowers manage their interest rate risk. The interest rate swap contracts with commercial loan borrowers allow them to convert variable-rate loan payments to fixed-rate loan payments. When we enter into an interest rate swap contract with a commercial loan borrower, we simultaneously enter into a "mirror" swap contract with a third party. The third party exchanges the client's fixed-rate loan payments for variable-rate loan payments. We retain the risk that is associated with the potential failure of counterparties and the risk inherent in originating loans. As of June 30, 2018 and December 31, 2017, Washington Trust had interest rate swap contracts with commercial loan borrowers with notional amounts of

\$567.0 million and \$545.0 million, respectively, and equal amounts of “mirror” swap contracts with third-party financial institutions. These derivatives are not designated as hedges and therefore, changes in fair value are recognized in earnings.

Risk Participation Agreements

The Corporation has entered into risk participation agreements with other banks in commercial loan arrangements. Participating banks guarantee the performance on borrower-related interest rate swap contracts. These derivatives are not designated as hedges and therefore, changes in fair value are recognized in earnings.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

As of June 30, 2018, the notional amounts of risk participation-out agreements and risk participation-in agreements were \$51.8 million and \$34.0 million, respectively, compared to \$52.4 million and \$34.1 million, respectively, as of December 31, 2017.

Foreign Exchange Contracts

Foreign exchange contracts represent a contractual commitment to buy or sell a foreign currency on a future date at a specified price. The Corporation uses these foreign exchange contracts on a limited basis to reduce its exposure to fluctuations in currency exchange rates associated with a commercial loan that is denominated in a foreign currency. These derivatives are not designated as hedges and therefore changes in fair value are recognized in earnings. The changes in fair value on the foreign exchange contracts substantially offset the foreign currency translation gains and losses on the related commercial loan.

As of June 30, 2018 and December 31, 2017, the notional amount of foreign exchange contracts was \$2.9 million and \$3.0 million, respectively.

Loan Commitments

Interest rate lock commitments are extended to borrowers and relate to the origination of residential real estate mortgage loans held for sale. To mitigate the interest rate risk and pricing risk associated with rate locks and residential real estate mortgage loans held for sale, the Corporation enters into forward sale commitments. Forward sale commitments are contracts for delayed delivery or net settlement of the underlying instrument, such as a residential real estate mortgage loan, where the seller agrees to deliver on a specified future date, either a specified instrument at a specified price or yield or the net cash equivalent of an underlying instrument. Both interest rate lock commitments and forward sale commitments are derivative financial instruments, but do not meet criteria for hedge accounting and, as such the changes in fair value of these commitments are reflected in earnings.

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

(Dollars in thousands)	Asset Derivatives		Liability Derivatives			
	Balance Sheet Location	Fair Value		Balance Sheet Location	Fair Value	
		Jun 30, 2018	Dec 31, 2017		Jun 30, 2018	Dec 31, 2017
Derivatives Designated as Cash Flow Hedging Instruments:						
Interest rate risk management contracts:						
Interest rate caps	Other assets	\$71	\$25	Other liabilities	\$—	\$—
Interest rate swaps	Other assets	1,699	213	Other liabilities	—	14
Interest rate floors	Other assets	125	110	Other liabilities	—	—
Derivatives not Designated as Hedging Instruments:						
Loan related derivative contracts:						
Interest rate swaps with customers	Other assets	60	268	Other liabilities	14,229	1,295

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Mirror swaps with counterparties	Other assets	14,037	1,152	Other liabilities	60	268
Risk participation agreements	Other assets	—	—	Other liabilities	—	—
Foreign exchange contracts	Other assets	—	—	Other liabilities	21	26
Forward loan commitments:						
Interest rate lock commitments	Other assets	1,130	965	Other liabilities	9	20
Forward sale commitments	Other assets	14	26	Other liabilities	614	1,424
Total		\$17,136	\$2,759		\$14,933	\$3,047

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Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

(Dollars in thousands)	Gain (Loss) Recognized in Other Comprehensive Income, Net of Tax (Effective Portion)			
	Three Months		Six Months	
	2018	2017	2018	2017
Periods ended June 30,				
Derivatives Designated as Cash Flow Hedging Instruments:				
Interest rate risk management contracts:				
Interest rate caps	\$11	(\$22)	\$49	(\$56)
Interest rate swaps	294	(232)	1,133	(100)
Interest rate floors	60	(194)	72	(194)
Total	\$365	(\$448)	\$1,254	(\$350)

(Dollars in thousands)	Statement of Income Location	Amount of Gain (Loss) Recognized in Income on Derivatives			
		Three Months		Six Months	
		2018	2017	2018	2017
Periods ended June 30,					
Derivatives not Designated as Hedging Instruments:					
Loan related derivative contracts:					
Interest rate swaps with customers	Loan related derivative income	(\$3,001)	\$3,921	(12,196)	3,666
Mirror swaps with counterparties	Loan related derivative income	3,645	(2,551)	12,969	(2,073)
Risk participation agreements	Loan related derivative income	—	(226)	—	(301)
Foreign exchange contracts	Loan related derivative income	24	—	36	—
Forward loan commitments:					
Interest rate lock commitments	Mortgage banking revenues	191	(11)	\$177	\$607
Forward sale commitments	Mortgage banking revenues	(82)	(350)	1,236	(1,380)
Total		\$777	\$783	\$2,222	\$519

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(10) Balance Sheet Offsetting

For interest rate risk management contracts and loan-related derivative contracts, the Corporation records derivative assets and derivative liabilities on a net basis. The interest rate risk management contracts and loan related derivative contracts with counterparties are subject to master netting agreements. The following tables present the Corporation's derivative asset and derivative liability positions and the effect of netting arrangements on the Unaudited Consolidated Balance Sheets:

(Dollars in thousands)

June 30, 2018	Gross Derivative Positions	Offsetting Derivative Positions	Net Amounts Presented in Balance Sheet	Cash Collateral Pledged	Net Amount
Derivative Assets:					
Interest rate risk management contracts:					
Interest rate caps	\$71	\$—	\$71	\$—	\$71
Interest rate swaps	1,699	—	1,699	—	1,699
Interest rate floors	125	—	125	—	125
Loan-related derivative contracts:					
Interest rate swaps with customers	109	49	60	—	60
Mirror swaps with counterparties	14,770	733	14,037	—	14,037
Total	\$16,774	\$782	\$15,992	\$—	\$15,992
Derivative Liabilities:					
Loan-related derivative contracts:					
Interest rate swaps with customers	\$14,962	\$733	\$14,229	\$—	\$14,229
Mirror swaps with counterparties	109	49	60	—	60
Foreign exchange contracts	21	—	21	—	21
Total	\$15,092	\$782	\$14,310	\$—	\$14,310

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(Dollars in thousands)

	Gross Derivative Positions	Offsetting Derivative Positions	Net Amounts Presented in Balance Sheet	Cash Collateral Pledged	Net Amount
December 31, 2017					
Derivative Assets:					
Interest rate risk management contracts:					
Interest rate caps	\$25	\$—	\$25	\$—	\$25
Interest rate swaps	213	—	213	—	213
Interest rate floors	110	—	110	—	110
Loan-related derivative contracts:					
Interest rate swaps with customers	2,857	2,589	268	—	268
Mirror swaps with counterparties	3,801	2,649	1,152	—	1,152
Total	\$7,006	\$5,238	\$1,768	\$—	\$1,768
Derivative Liabilities:					
Interest rate risk management contracts:					
Interest rate swaps	\$14	\$—	\$14	\$14	\$—
Loan-related derivative contracts:					
Interest rate swaps with customers	3,884	2,589	1,295	1,025	270
Mirror swaps with counterparties	2,917	2,649	268	—	268
Foreign exchange contracts	26	—	26	—	26
Total	\$6,841	\$5,238	\$1,603	\$1,039	\$564

As of June 30, 2018, there was no pledged collateral to derivative counterparties in the form of cash. As of December 31, 2017, Washington Trust pledged collateral to derivative counterparties in the form of cash totaling \$1.0 million. Washington Trust may need to post additional collateral in the future in proportion to potential increases in unrealized loss positions.

(11) Fair Value Measurements

The Corporation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. As of June 30, 2018 and December 31, 2017, securities available for sale, residential real estate mortgage loans held for sale, derivatives and the contingent consideration liability are recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record at fair value other assets on a nonrecurring basis, such as collateral dependent impaired loans, property acquired through foreclosure or repossession and mortgage servicing rights. These nonrecurring fair value adjustments typically involve the application of lower of cost or market accounting or write-downs of individual assets.

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

Level 1 – Quoted prices for identical assets or liabilities in active markets.

Level 2 – Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable in the markets and which reflect the Corporation's market assumptions.

Fair Value Option Election

GAAP allows for the irrevocable option to elect fair value accounting for the initial and subsequent measurement for certain

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Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

financial assets and liabilities on a contract-by-contract basis. The Corporation has elected the fair value option for residential real estate mortgage loans held for sale to better match changes in fair value of the loans with changes in the fair value of the forward sale commitment contracts used to economically hedge them.

The aggregate principal amount of the residential real estate mortgage loans held for sale recorded at fair value was \$34.6 million and \$26.4 million, respectively, at June 30, 2018 and December 31, 2017. The aggregate fair value of these loans as of the same dates was \$35.2 million and \$26.9 million, respectively. As of June 30, 2018 and December 31, 2017, the aggregate fair value of residential real estate mortgage loans held for sale exceeded the aggregate principal amount by \$655 thousand and \$543 thousand, respectively.

There were no residential real estate mortgage loans held for sale 90 days or more past due as of June 30, 2018 and December 31, 2017.

Changes in fair value of mortgage loans held for sale accounted for under the fair value option election amounted to an increase of \$441 thousand and \$112 thousand in the three and six months ended June 30, 2018, respectively, compared to an increase of \$322 thousand and \$773 thousand in the three and six months ended June 30, 2017, respectively. These amounts were offset in earnings by the changes in fair value of forward sale commitments used to economically hedge them. The changes in fair value are reported as a component of mortgage banking revenues in the Unaudited Consolidated Statements of Income.

Valuation Techniques

Securities

Securities available for sale are recorded at fair value on a recurring basis. When available, the Corporation uses quoted market prices to determine the fair value of securities; such items are classified as Level 1. There were no Level 1 securities held at June 30, 2018 and December 31, 2017.

Level 2 securities include debt securities with quoted prices, which are traded less frequently than exchange-traded instruments. The fair value of these securities is determined using matrix pricing with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category includes obligations of U.S. government-sponsored enterprises, including mortgage-backed securities, obligations of states and political subdivisions, individual name issuer trust preferred debt securities and corporate bonds.

Securities not actively traded whose fair value is determined through the use of cash flows utilizing inputs that are unobservable are classified as Level 3. There were no Level 3 securities held at June 30, 2018 and December 31, 2017.

Mortgage Loans Held for Sale

The fair value of mortgage loans held for sale is estimated based on current market prices for similar loans in the secondary market and therefore are classified as Level 2 assets.

Collateral Dependent Impaired Loans

The fair value of collateral dependent loans that are deemed to be impaired is determined based upon the fair value of the underlying collateral. Such collateral primarily consists of real estate and, to a lesser extent, other business assets. For collateral dependent loans for which repayment is dependent on the sale of the collateral, management adjusts the fair value for estimated costs to sell. For collateral dependent loans for which repayment is dependent on the operation of the collateral, such as accruing troubled debt restructured loans, estimated costs to sell are not incorporated into the measurement. Management may also adjust appraised values to reflect estimated market value declines or apply other

discounts to appraised values resulting from its knowledge of the property. Internal valuations are utilized to determine the fair value of other business assets. Collateral dependent impaired loans are categorized as Level 3.

Property Acquired Through Foreclosure or Repossession

Property acquired through foreclosure or repossession included in other assets in the Unaudited Consolidated Balance Sheets is adjusted to fair value less costs to sell upon transfer out of loans through a charge to allowance for loan losses. Subsequently, it is carried at the lower of carrying value or fair value less costs to sell. Such subsequent valuation charges are charged through earnings. Fair value is generally based upon appraised values of the collateral. Management may adjust appraised values to reflect estimated market value declines or apply other discounts to appraised values for unobservable factors resulting from its knowledge of the property, and such property is categorized as Level 3.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Derivatives

Interest rate cap, swap and floor contracts are traded in over-the-counter markets where quoted market prices are not readily available. Fair value measurements are determined using independent pricing models that utilize primarily market observable inputs, such as swap rates of different maturities and LIBOR rates. The Corporation also evaluates the credit risk of its counterparties as well as that of the Corporation. Accordingly, Washington Trust considers factors such as the likelihood of default by the Corporation and its counterparties, its net exposures and remaining contractual life, among other factors, in determining if any fair value adjustments related to credit risk are required. Counterparty exposure is evaluated by netting positions that are subject to master netting agreements, as well as considering the amount of collateral securing the position, if any. Although the Corporation has determined that the majority of the inputs used to value its interest rate swap, cap and floor contracts fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with interest rate contracts and risk participation agreements utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by the Corporation and its counterparties. However, as of June 30, 2018 and December 31, 2017, the Corporation has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Corporation has classified its derivative valuations in their entirety as Level 2.

Fair value measurements of forward loan commitments (interest rate lock commitments and forward sale commitments) are primarily based on current market prices for similar assets in the secondary market for mortgage loans and therefore are classified as Level 2 assets. The fair value of interest rate lock commitments is also dependent on the ultimate closing of the loans. Pull-through rates are based on the Corporation's historical data and reflect the Corporation's best estimate of the likelihood that a commitment will result in a closed loan. Although the pull-through rates are Level 3 inputs, the Corporation has assessed the significance of the impact of pull-through rates on the overall valuation of its interest rate lock commitments and has determined that they are not significant to the overall valuation. As a result, the Corporation has classified its interest rate lock commitments as Level 2.

Contingent Consideration Liability

A contingent consideration liability was recognized upon the completion of the Halsey acquisition on August 1, 2015 representing the estimated present value of future earn-outs to be paid based on the future revenue growth of the acquired business during the five-year period following the acquisition.

The fair value measurement is based upon unobservable inputs, therefore, the contingent liability is classified within Level 3 of the fair value hierarchy. The unobservable inputs include probability estimates regarding the likelihood of achieving revenue growth targets and the discount rates utilized the discounted cash flow calculations applied to the estimates earn-outs to be paid. The contingent consideration liability is remeasured to fair value at each reporting period taking into consideration changes in those unobservable inputs. Changes in the fair value of the contingent consideration liability are included in noninterest expenses in the Unaudited Consolidated Statements of Income.

One of the two earn-out periods associated with this contingent consideration liability ended December 31, 2017 and a payment of \$1.2 million was made by the Corporation in the first quarter of 2018.

The fair value of the contingency represents the estimated price to transfer the liability between market participants at the measurement date under current market conditions.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Items Recorded at Fair Value on a Recurring Basis

The following tables present the balances of assets and liabilities reported at fair value on a recurring basis:

(Dollars in thousands)

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2018				
Assets:				
Securities available for sale:				
Obligations of U.S. government-sponsored enterprises	\$164,536	\$—	\$164,536	\$—
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	585,684	—	585,684	—
Obligations of states and political subdivisions	937	—	937	—
Individual name issuer trust preferred debt securities	12,500	—	12,500	—
Corporate bonds	13,036	—	13,036	—
Mortgage loans held for sale	35,207	—	35,207	—
Derivative assets	17,136	—	17,136	—
Total assets at fair value on a recurring basis	\$829,036	\$—	\$829,036	\$—
Liabilities:				
Derivative liabilities	\$14,933	\$—	\$14,933	\$—
Contingent consideration liability	187	—	—	187
Total liabilities at fair value on a recurring basis	\$15,120	\$—	\$14,933	\$187

(Dollars in thousands)

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017				
Assets:				
Securities available for sale:				
Obligations of U.S. government-sponsored enterprises	\$157,604	\$—	\$157,604	\$—
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	590,882	—	590,882	—
Obligations of states and political subdivisions	2,359	—	2,359	—
Individual name issuer trust preferred debt securities	16,984	—	16,984	—
Corporate bonds	13,125	—	13,125	—

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Mortgage loans held for sale	26,943	—	26,943	—
Derivative assets	2,759	—	2,759	—
Total assets at fair value on a recurring basis	\$810,656	\$—	\$810,656	\$—
Liabilities:				
Derivative liabilities	\$3,047	\$—	\$3,047	\$—
Contingent consideration liability	1,404	—	—	1,404
Total liabilities at fair value on a recurring basis	\$4,451	\$—	\$3,047	\$1,404

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Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

It is the Corporation's policy to review and reflect transfers between Levels as of the financial statement reporting date. There were no transfers in and/or out of Level 1, 2 or 3 during the six months ended June 30, 2018 and 2017.

The contingent consideration liability is a Level 3 liability remeasured at fair value on a recurring basis. The following table presents the change in the contingent consideration liability, which is included in other liabilities in the Unaudited Consolidated Balance Sheets.

(Dollars in thousands)	Three Months		Six Months	
Periods ended June 30,	2018	2017	2018	2017
Balance at beginning of period	\$187	\$1,737	\$1,404	\$2,047
Change in fair value	—	—	—	(310)
Payments	—	—	(1,217)	—
Balance at end of period	\$187	\$1,737	\$187	\$1,737

Items Recorded at Fair Value on a Nonrecurring Basis

The following table presents the carrying value of assets held at June 30, 2018, which were written down to fair value during the six months ended June 30, 2018:

(Dollars in thousands)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Collateral dependent impaired loans	\$974	\$—	\$—	\$974
Property acquired through foreclosure or repossession	3,074	—	—	3,074
Total assets at fair value on a nonrecurring basis	\$4,048	\$—	\$—	\$4,048

The allowance for loan losses on collateral dependent impaired loans amounted to \$92 thousand at June 30, 2018.

The following table presents the carrying value of assets held at December 31, 2017, which were written down to fair value during the year ended December 31, 2017:

(Dollars in thousands)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Collateral dependent impaired loans	\$1,425	\$—	\$—	\$1,425
Property acquired through foreclosure or repossession	131	—	—	131
Total assets at fair value on a nonrecurring basis	\$1,556	\$—	\$—	\$1,556

The allowance for loan losses on collateral dependent impaired loans amounted to \$690 thousand at December 31, 2017.

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Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

The following tables present valuation techniques and unobservable inputs for assets measured at fair value on a nonrecurring basis for which the Corporation has utilized Level 3 inputs to determine fair value:

(Dollars in thousands)	Fair Value	Valuation Technique	Unobservable Input	Range of Inputs Utilized (Weighted Average)
June 30, 2018				
Collateral dependent impaired loans	\$974	Appraisals of collateral	Discount for costs to sell	0% - 15% (11%)
Property acquired through foreclosure or repossession	\$3,074	Appraisals of collateral	Discount for costs to sell	13%
			Appraisal adjustments (1)	12%

(1) Management may adjust appraisal values to reflect market value declines or other discounts resulting from its knowledge of the property.

(Dollars in thousands)	Fair Value	Valuation Technique	Unobservable Input	Range of Inputs Utilized (Weighted Average)
December 31, 2017				
Collateral dependent impaired loans	\$1,425	Appraisals of collateral	Discount for costs to sell	0% - 15% (15%)
Property acquired through foreclosure or repossession	\$131	Appraisals of collateral	Discount for costs to sell	10%
			Appraisal adjustments (1)	12% - 17% (15%)

(1) Management may adjust appraisal values to reflect market value declines or other discounts resulting from its knowledge of the property.

Valuation of Other Financial Instruments

The following tables present the carrying amount, estimated fair value and placement in the fair value hierarchy of the Corporation's financial instruments. The tables exclude financial instruments for which the carrying value approximates fair value such as cash and cash equivalents, FHLB stock, accrued interest receivable, bank-owned life insurance, non-maturity deposits and accrued interest payable.

(Dollars in thousands)

	Carrying Amount	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2018					
Financial Assets:					
Securities held to maturity	\$11,412	\$11,364	\$—	\$11,364	\$—
Loans, net of allowance for loan losses	3,464,056	3,451,252	—	—	3,451,252

Financial Liabilities:

Time deposits	\$1,144,473	\$1,152,752	\$—	\$1,152,752	\$—
FHLB advances	901,053	900,691	—	900,691	—
Junior subordinated debentures	22,681	19,584	—	19,584	—

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Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(Dollars in thousands)

December 31, 2017	Carrying Amount	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:					
Securities held to maturity	\$12,541	\$12,721	\$—	\$12,721	\$—
Loans, net of allowance for loan losses	3,347,583	3,369,932	—	—	3,369,932
Financial Liabilities:					
Time deposits	\$1,015,095	\$1,018,396	\$—	\$1,018,396	\$—
FHLB advances	791,356	792,887	—	792,887	—
Junior subordinated debentures	22,681	18,559	—	18,559	—

(12) Revenue from Contracts with Customers

Overview

Revenue from contracts with customers in the scope of Accounting Standards Codification (“ASC”) Topic 606 is measured based on the consideration specified in the contract with a customer. The Corporation recognizes revenue from contracts with customers when it satisfies its performance obligations.

The Corporation’s performance obligations are generally satisfied as services are rendered and can either be satisfied at a point in time or over time. Unsatisfied performance obligations at the report date are not material to our unaudited consolidated financial statements.

In certain cases, other parties are involved with providing services to our customers. If the Corporation is a principal in the transaction (providing services itself or through a third party on its behalf), revenues are reported based on the gross consideration received from the customer and any related expenses are reported gross in noninterest expense. If the Corporation is an agent in the transaction (referring customers to another party to provide services), the Corporation reports its net fee or commission retained as revenue.

Accounting Policy Updates

The Corporation adopted Topic 606 “Revenue from Contracts with Customers” effective January 1, 2018 and has applied the guidance to all contracts within the scope of Topic 606 as of that date. As a result, the Corporation has modified its accounting policy for revenue recognition as detailed in this footnote.

As discussed in Note 2, the Corporation applied Topic 606 using the modified retrospective method, therefore, the prior period comparative information has not been adjusted and continues to be reported under Topic 605. There was no cumulative effect adjustment as of January 1, 2018, and there were no material changes to our unaudited consolidated financial statements at or for the six months ended June 30, 2018, as a result of adopting Topic 606.

The Corporation applied the practical expedient pertaining to contracts with original expected duration of one year or less and does not disclose information about remaining performance obligations on such contracts.

The Corporation also applied the practical expedient pertaining to contracts for which, at contract inception, the period between when the entity transfers the services and when the customer pays for those services will be one year or less. As such, the Corporation does not adjust the consideration from customers for the effects of a significant financing component.

A substantial portion of the Corporation's revenue is specifically excluded from the scope of Topic 606. For the revenue that is within scope of Topic 606, the following is a description of principal activities from which the Corporation generates its revenue from contracts with customers, separated by the timing of revenue recognition.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Revenue Recognized at a Point in Time

The Corporation recognizes revenue that is transactional in nature and such revenue is earned at a point in time. Revenue that is recognized at a point in time includes card interchange fees (fee income related to debit card transactions), ATM fees, wire transfer fees, overdraft charge fees, and stop-payment and returned check fees. Such revenue is derived from transactional information and is recognized as revenue immediately as the transactions occur or upon providing the service to complete the customer's transaction.

Revenue Recognized Over Time

The Corporation recognizes revenue over a period of time, generally monthly, as services are performed and performance obligations are satisfied. Such revenue includes wealth management revenues and service charges on deposit accounts. Wealth management revenues are categorized as either asset-based revenues or transaction-based revenues. Asset-based revenues include trust and investment management fees that are earned based upon a percentage of asset values under administration. Transaction-based revenues include financial planning fees, tax preparation fees, commissions and other service fees. Fee revenue from service charges on deposit accounts represent the service charges assessed to customer who hold deposit accounts at the Bank.

Costs of Obtaining Revenue from Contracts with Customers

The Corporation pays commissions and incentives to its employees in accordance with certain employment arrangements and incentive plans. For commissions and incentives that are excluded from the scope of Topic 606, such as those paid to mortgage originator employees, the Corporation expenses these costs when incurred or applies the guidance in ASC Topic 310. For commissions and incentives that are in-scope of Topic 606, such as those paid to employees in our wealth management services and commercial banking segments in order to obtain customer contracts, contract cost assets are established. The contract cost assets are capitalized and amortized over the estimated useful life that the asset is expected to generate benefits. The amortization of the contract cost asset is recorded within salaries and employee benefits expense.

Disaggregation of Revenue

The following table summarizes total revenues as presented in the Unaudited Consolidated Statements of Income and the related amounts which are from contracts with customers within the scope of Topic 606. As shown below, a substantial portion of our revenues are specifically excluded from the scope of Topic 606.

For the three month ended June 30,	2018		2017	
	As reported in Consolidated Statements of Income	Revenue from contracts in scope of Topic 606	As reported in Consolidated Statements of Income	Revenue from contracts in scope of Topic 606
(Dollars in thousands)				
Net interest income	\$33,111	\$—	\$29,904	\$—
Noninterest income:				
Asset-based wealth management revenues	9,136	9,136	9,401	9,401
Transaction-based wealth management revenues	466	466	541	541
Total wealth management revenues	9,602	9,602	9,942	9,942
Mortgage banking revenues	2,941	—	2,919	—
Service charges on deposit accounts	903	903	901	901
Card interchange fees	961	961	902	902
Income from bank-owned life insurance	537	—	542	—

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Loan related derivative income	668	—	1,144	—
Other income	381	366	456	442
Total noninterest income	15,993	11,832	16,806	12,187
Total revenues	\$49,104	\$11,832	\$46,710	\$12,187

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Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

For the six months ended June 30,	2018		2017	
(Dollars in thousands)	As reported in Consolidated Statements of Income	Revenue from contracts in scope of Topic 606	As reported in Consolidated Statements of Income	Revenue from contracts in scope of Topic 606
Net interest income	\$64,963	\$—	\$58,583	\$—
Noninterest income:				
Asset-based wealth management revenues	19,091	19,091	18,648	18,648
Transaction-based wealth management revenues	784	784	771	771
Total wealth management revenues	19,875	19,875	19,419	19,419
Mortgage banking revenues	5,779	—	5,259	—
Service charges on deposit accounts	1,766	1,766	1,784	1,784
Card interchange fees	1,808	1,808	1,704	1,704
Income from bank-owned life insurance	1,052	—	1,078	—
Loan related derivative income	809	—	1,292	—
Other income	647	632	780	739
Total noninterest income	31,736	24,081	31,316	23,646
Total revenues	\$96,699	\$24,081	\$89,899	\$23,646

The following table presents revenue from contracts with customers based on the timing of revenue recognition:

(Dollars in thousands)	Three Months		Six Months	
Periods ended June 30,	2018	2017	2018	2017
Revenue recognized at a point in time:				
Card interchange fees	\$961	\$902	\$1,808	\$1,704
Service charges on deposit accounts	703	707	1,375	1,399
Other income	248	367	474	589
Revenue recognized over time:				
Wealth management revenues	9,602	9,942	19,875	19,419
Service charges on deposit accounts	200	194	391	385
Other income	118	75	158	150
Total revenues from contracts in scope of Topic 606	\$11,832	\$12,187	\$24,081	\$23,646

Receivables primarily consist of amounts due from customers for wealth management services performed for which the Corporation's performance obligations have been fully satisfied. Receivables amounted to \$5.0 million at June 30, 2018, compared to \$5.7 million at December 31, 2017 and were included in other assets in the Unaudited Consolidated Balance Sheets.

Deferred revenues, which are considered contract liabilities under Topic 606, represent advance consideration received from customers for which the Corporation has a remaining performance obligation to fulfill. Contract liabilities are recognized as revenue over the life of the contract as the performance obligations are satisfied. The balances of contract liabilities were insignificant at both June 30, 2018 and December 31, 2017 and were included in other liabilities in the Unaudited Consolidated Balance Sheets.

Contract cost assets (capitalized commission and incentive costs, net of amortization) at June 30, 2018 were insignificant and were included in other assets in the Unaudited Consolidated Balance Sheets.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(13) Defined Benefit Pension Plans

The Corporation maintains a tax-qualified defined benefit pension plan for the benefit of certain eligible employees who were hired prior to October 1, 2007. The Corporation also has non-qualified retirement plans to provide supplemental retirement benefits to certain employees, as defined in the plans. The defined benefit pension plans were previously amended to freeze benefit accruals after a 10-year transition period ending in December 2023.

The defined benefit pension plan is funded on a current basis, in compliance with the requirements of ERISA.

The non-qualified retirement plans provide for the designation of assets in rabbi trusts. Securities available for sale and other short-term investments designated for this purpose, with the carrying value of \$12.8 million and \$13.3 million are included in the Consolidated Balance Sheets at June 30, 2018 and December 31, 2017, respectively.

The composition of net periodic benefit cost was as follows:

(Dollars in thousands)	Qualified Pension Plan				Non-Qualified Retirement Plans			
	Three Months		Six Months		Three Months		Six Months	
Periods ended June 30,	2018	2017	2018	2017	2018	2017	2018	2017
Net Periodic Benefit Cost:								
Service cost (1)	\$561	\$537	\$1,122	\$1,074	\$27	\$33	\$54	\$65
Interest cost (2)	678	667	1,357	1,336	118	107	237	214
Expected return on plan assets (2)	(1,318)	(1,235)	(2,636)	(2,471)	—	—	—	—
Amortization of prior service (credit) cost (2)	(5)	(5)	(11)	(11)	—	—	—	—
Recognized net actuarial loss (2)	374	278	748	557	103	128	205	193
Net periodic benefit cost	\$290	\$242	\$580	\$485	\$248	\$268	\$496	\$472

(1) Included in salaries and employee benefits expense in the Unaudited Consolidated Statements of Income.

(2) Included in other expenses in the Unaudited Consolidated Statements of Income.

The following table presents the measurement date and weighted-average assumptions used to determine net periodic benefit cost:

	Qualified Pension Plan		Non-Qualified Retirement Plans	
	2018	2017	2018	2017
For the six months ended June 30,				
Measurement date	Dec 31, 2017	Dec 31, 2016	Dec 31, 2017	Dec 31, 2016
Equivalent single discount rate for benefit obligations	3.69%	4.18%	3.58%	3.96%
Equivalent single discount rate for service cost	3.76	4.29	3.79	4.25
Equivalent single discount rate for interest cost	3.42	3.73	3.22	3.36
Expected long-term return on plan assets	6.75	6.75	N/A	N/A
Rate of compensation increase	3.75	3.75	3.75	3.75

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(14) Share-Based Compensation Arrangements

During the six months ended June 30, 2018, the Corporation granted equity awards, which included performance share awards and nonvested share unit awards.

The performance share awards granted to certain executive officers provide them with the opportunity to earn shares of common stock of the Corporation. The performance share awards were valued at fair market value as of January 18, 2018 (the award date), or \$54.25, and will be earned over 3- to 5-year performance periods. The number of shares earned will range from zero to 200% of the target number of shares dependent upon the Corporation's core return on equity and core earnings per share growth ranking compared to an industry peer group. The current assumption based on the most recent peer group information available results in shares earned at 140% of the target, or 41,454 shares.

The Corporation granted to non-employee directors and a certain non-executive officer 6,830 nonvested share units, with 3- to 5-year cliff vesting. The weighted average grant date fair value of the nonvested share units was \$56.65.

(15) Business Segments

Washington Trust segregates financial information in assessing its results among its Commercial Banking and Wealth Management Services operating segments. The amounts in the Corporate unit include activity not related to the segments.

Management uses certain methodologies to allocate income and expenses to the business lines. A funds transfer pricing ("FTP") methodology is used to assign interest income and interest expense to each interest-earning asset and interest-bearing liability on a matched maturity funding basis. The matched maturity funding concept considers the origination date and the earlier of the maturity date or the repricing date of a financial instrument to assign an FTP rate for loans and deposits originated. Loans are assigned a FTP rate for funds used and deposits are assigned a FTP rate for funds provided. Certain indirect expenses are allocated to segments. These include support unit expenses such as technology, operations and other support functions.

Commercial Banking

The Commercial Banking segment includes commercial, residential and consumer lending activities; mortgage banking activities; deposit generation; cash management activities; and direct banking activities, which include the operation of ATMs, telephone and internet banking services and customer support and sales.

Wealth Management Services

Wealth Management Services includes investment management; financial planning; personal trust and estate services, including services as trustee, personal representative, custodian and guardian; and settlement of decedents' estates. Institutional trust services are also provided, including fiduciary services.

Corporate

Corporate includes the Treasury Unit, which is responsible for managing the wholesale investment portfolio and wholesale funding needs. It also includes income from BOLI, as well as administrative and executive expenses not allocated to the operating segments and the residual impact of methodology allocations such as FTP offsets.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

The following table presents the statement of operations and total assets for Washington Trust's reportable segments:

(Dollars in thousands)	Commercial Banking		Wealth Management Services		Corporate		Consolidated Total	
			2018	2017				
Three months ended June 30,	2018	2017	2018	2017	2018	2017	2018	2017
Net interest income (expense)	\$26,644	\$24,633	(\$77)	(\$40)	\$6,544	\$5,311	\$33,111	\$29,904
Provision for loan losses	400	700	—	—	—	—	400	700
Net interest income (expense) after provision for loan losses	26,244	23,933	(77)	(40)	6,544	5,311	32,711	29,204
Noninterest income	5,837	6,347	9,602	9,942	554	517	15,993	16,806
Noninterest expenses:								
Depreciation and amortization expense	637	651	370	414	43	50	1,050	1,115
Other noninterest expenses	15,509	15,323	6,593	6,848	3,136	3,020	25,238	25,191
Total noninterest expenses	16,146	15,974	6,963	7,262	3,179	3,070	26,288	26,306
Income before income taxes	15,935	14,306	2,562	2,640	3,919	2,758	22,416	19,704
Income tax expense	3,387	4,650	655	1,102	700	753	4,742	6,505
Net income	\$12,548	\$9,656	\$1,907	\$1,538	\$3,219	\$2,005	\$17,674	\$13,199
Total assets at period end	\$3,647,649	\$3,346,184	\$68,009	\$66,286	\$1,021,584	\$963,059	\$4,737,242	\$4,375,529
Expenditures for long-lived assets	801	377	11	41	52	96	864	514

(Dollars in thousands)	Commercial Banking		Wealth Management Services		Corporate		Consolidated Total	
			2018	2017				
Six months ended June 30,	2018	2017	2018	2017	2018	2017	2018	2017
Net interest income (expense)	\$52,620	\$48,190	(\$135)	(\$72)	\$12,478	\$10,465	\$64,963	\$58,583
Provision for loan losses	400	1,100	—	—	—	—	400	1,100
Net interest income (expense) after provision for loan losses	52,220	47,090	(135)	(72)	12,478	10,465	64,563	57,483
Noninterest income	10,773	10,789	19,875	19,419	1,088	1,108	31,736	31,316
Noninterest expenses:								
Depreciation and amortization expense	1,274	1,314	766	877	85	102	2,125	2,293
Other noninterest expenses (1)	30,975	29,930	13,792	13,296	6,526	6,073	51,293	49,299
Total noninterest expenses	32,249	31,244	14,558	14,173	6,611	6,175	53,418	51,592
Income before income taxes	30,744	26,635	5,182	5,174	6,955	5,398	42,881	37,207
Income tax expense	6,490	8,679	1,298	2,080	1,208	1,467	8,996	12,226
Net income	\$24,254	\$17,956	\$3,884	\$3,094	\$5,747	\$3,931	\$33,885	\$24,981
Total assets at period end	\$3,647,649	\$3,346,184	\$68,009	\$66,286	\$1,021,584	\$963,059	\$4,737,242	\$4,375,529
Expenditures for long-lived assets	1,252	750	313	343	110	154	1,675	1,247

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(16) Other Comprehensive Income (Loss)

The following tables present the activity in other comprehensive income (loss):

Three months ended June 30,	2018			2017		
(Dollars in thousands)	Pre-tax Amounts	Income Taxes	Net of Tax	Pre-tax Amount	Income Taxes	Net of Tax
Securities available for sale:						
Changes in fair value of securities available for sale	(\$4,068)	(\$956)	(\$3,112)	\$2,902	\$1,074	\$1,828
Net gains on securities reclassified into earnings	—	—	—	—	—	—
Net change in fair value of securities available for sale	(4,068)	(956)	(3,112)	2,902	1,074	1,828
Cash flow hedges:						
Change in fair value of cash flow hedges	455	107	348	(853)	(292)	(561)
Net cash flow hedge losses reclassified into earnings (1)	21	4	17	180	67	113
Net change in fair value of cash flow hedges	476	111	365	(673)	(225)	(448)
Defined benefit plan obligations:						
Defined benefit plan obligation adjustment	—	—	—	(407)	(150)	(257)
Amortization of net actuarial losses (2)	477	113	364	406	149	257
Amortization of net prior service credits (2)	(5)	(1)	(4)	(5)	(1)	(4)
Net change in defined benefit plan obligations	472	112	360	(6)	(2)	(4)
Total other comprehensive (loss) income	(\$3,120)	(\$733)	(\$2,387)	\$2,223	\$847	\$1,376

(1) The pre-tax amounts are included in interest expense on Federal Home Loan Bank advances, interest expense on junior subordinated debentures and interest and fees on loans in the Unaudited Consolidated Statements of Income.

(2) The pre-tax amounts are included in other expenses in the Unaudited Consolidated Statements of Income.

Six months ended June 30,	2018			2017		
(Dollars in thousands)	Pre-tax Amounts	Income Taxes	Net of Tax	Pre-tax Amount	Income Taxes	Net of Tax
Securities available for sale:						
Changes in fair value of securities available for sale	(\$17,681)	(\$4,155)	(\$13,526)	\$3,538	\$1,309	\$2,229
Net gains on securities reclassified into earnings	—	—	—	—	—	—
Net change in fair value of securities available for sale	(17,681)	(4,155)	(13,526)	3,538	1,309	2,229
Cash flow hedges:						
Change in fair value of cash flow hedges	1,258	198	1,060	(827)	(278)	(549)
Net cash flow hedge losses reclassified into earnings (1)	252	58	194	316	117	199
Net change in fair value of cash flow hedges	1,510	256	1,254	(511)	(161)	(350)
Defined benefit plan obligations:						
Defined benefit plan obligation adjustment	—	—	—	(407)	(150)	(257)
Amortization of net actuarial losses (2)	953	225	728	750	276	474
Amortization of net prior service credits (2)	(11)	(3)	(8)	(11)	(3)	(8)
Net change in defined benefit plan obligations	942	222	720	332	123	209
Total other comprehensive income (loss)	(\$15,229)	(\$3,677)	(\$11,552)	\$3,359	\$1,271	\$2,088

(1) The pre-tax amounts are included in interest expense on Federal Home Loan Bank advances, interest expense on junior subordinated debentures and interest and fees on loans in the Unaudited Consolidated Statements of Income.

(2) The pre-tax amounts are included in other expenses in the Unaudited Consolidated Statements of Income.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

The following tables present the changes in accumulated other comprehensive income (loss) by component, net of tax:

(Dollars in thousands)	Net Unrealized Losses on Available For Sale Securities	Net Unrealized (Losses) Gains on Cash Flow Hedges	Pension Benefit Adjustment	Total
Balance at December 31, 2017	(\$7,534)	(\$428)	(\$15,548)	(\$23,510)
Other comprehensive (loss) income before reclassifications	(13,526)	1,060	—	(12,466)
Amounts reclassified from accumulated other comprehensive income	—	194	720	914
Net other comprehensive (loss) income	(13,526)	1,254	720	(11,552)
Balance at June 30, 2018	(\$21,060)	\$826	(\$14,828)	(\$35,062)

(Dollars in thousands)	Net Unrealized (Losses) Gains on Available For Sale Securities	Net Unrealized Losses on Cash Flow Hedges	Pension Benefit Adjustment	Total
Balance at December 31, 2016	(\$6,825)	(\$300)	(\$12,632)	(\$19,757)
Other comprehensive income (loss) before reclassifications	2,229	(549)	—	1,680
Amounts reclassified from accumulated other comprehensive income	—	199	209	408
Net other comprehensive income (loss)	2,229	(350)	209	2,088
Balance at June 30, 2017	(\$4,596)	(\$650)	(\$12,423)	(\$17,669)

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(17) Earnings Per Common Share

The following table presents the calculation of earnings per common share:

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

Periods ended June 30,	Three Months		Six Months	
	2018	2017	2018	2017
Earnings per common share - basic:				
Net income	\$17,674	\$13,199	\$33,885	\$24,981
Less dividends and undistributed earnings allocated to participating securities	(38)	(29)	(76)	(56)
Net income applicable to common shareholders	\$17,636	\$13,170	\$33,809	\$24,925
Weighted average common shares	17,272	17,206	17,253	17,196
Earnings per common share - basic	\$1.02	\$0.77	\$1.96	\$1.45
Earnings per common share - diluted:				
Net income	\$17,674	\$13,199	\$33,885	\$24,981
Less dividends and undistributed earnings allocated to participating securities	(38)	(29)	(76)	(56)
Net income applicable to common shareholders	\$17,636	\$13,170	\$33,809	\$24,925
Weighted average common shares	17,272	17,206	17,253	17,196
Dilutive effect of common stock equivalents	115	110	131	116
Weighted average diluted common shares	17,387	17,316	17,384	17,312
Earnings per common share - diluted	\$1.01	\$0.76	\$1.94	\$1.44

Weighted average common stock equivalents, not included in common stock equivalents above because they were anti-dilutive, totaled 43,871 and 3,475, respectively, for the three months ended June 30, 2018 and 2017. Anti-dilutive weighted average common stock equivalents for the six months ended June 30, 2018 totaled 48,956. There were no anti-dilutive weighted average common stock equivalents outstanding for the six months ended June 30, 2017.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(18) Commitments and Contingencies

Financial Instruments with Off-Balance Sheet Risk

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to manage the Corporation's exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby letters of credit, forward loan commitments, loan related derivative contracts and interest rate risk management contracts. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the Corporation's Unaudited Consolidated Balance Sheets. The contract or notional amounts of these instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments. The Corporation's credit policies with respect to interest rate swap agreements with commercial borrowers, commitments to extend credit and financial guarantees are similar to those used for loans. The interest rate swaps with other counterparties are generally subject to bilateral collateralization terms.

The following table presents the contractual and notional amounts of financial instruments with off-balance sheet risk:

(Dollars in thousands)	Jun 30, 2018	Dec 31, 2017
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit:		
Commercial loans	\$526,999	\$537,310
Home equity lines	262,825	254,855
Other loans	43,774	48,819
Standby letters of credit	8,056	6,666
Financial instruments whose notional amounts exceed the amount of credit risk:		
Forward loan commitments:		
Interest rate lock commitments	99,535	45,139
Forward sale commitments	54,266	71,539
Loan related derivative contracts:		
Interest rate swaps with customers	567,013	545,049
Mirror swaps with counterparties	567,013	545,049
Risk participation-in agreements	33,967	34,052
Foreign exchange contracts	2,924	3,005
Interest rate risk management contracts:		
Interest rate swaps	60,000	60,000

See Note 9 for additional disclosure pertaining to derivative financial instruments.

Commitments to Extend Credit

Commitments to extend credit are agreements to lend to a customer as long as there are no violations of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, total commitment amounts do not necessarily represent future cash requirements. Each borrower's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained is based on management's credit evaluation of the borrower.

Standby Letters of Credit

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These standby letters of credit are primarily issued to support the financing needs of the Bank's commercial

customers. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loan facilities to customers. The collateral supporting those commitments is essentially the same as for other commitments. Most standby letters of credit extend for one year. The maximum potential amount of undiscounted future payments, not reduced by amounts that may be recovered totaled \$8.1 million and \$6.7 million, as of June 30, 2018 and December 31, 2017, respectfully. At June 30, 2018 and December 31, 2017, there were no liabilities to beneficiaries resulting from standby letters of credit. Fee income on standby letters of credit was insignificant for the three and six months ended June 30, 2018 and 2017.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Forward Loan Commitments

Interest rate lock commitments are extended to borrowers and relate to the origination of residential real estate mortgage loans held for sale. To mitigate the interest rate risk and pricing risk associated with these rate locks and residential real estate mortgage loans held for sale, the Corporation enters into forward sale commitments. Both interest rate lock commitments and forward sale commitments are derivative financial instruments.

Leases

At June 30, 2018, the Corporation was committed to rent premises used in business operations under non-cancelable operating leases. Rental expense under the operating leases amounted to \$1.1 million and \$2.1 million, respectively, for the three and six months ended June 30, 2018, compared to \$1.0 million and \$2.1 million, respectively, for the same periods in 2017. The following table presents the minimum annual lease payments under the terms of these leases, exclusive of renewal provisions:

(Dollars in thousands)

July 1, 2018 to December 31, 2018	\$1,755
2019	3,557
2020	2,806
2021	2,463
2022	2,082
2023 and thereafter	24,610
Total minimum lease payments	\$37,273

Lease expiration dates range from 3 months to 23 years, with additional renewal options on certain leases ranging from 1 to 5 years.

Management's Discussion and Analysis

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the Corporation's Audited Consolidated Financial Statements and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2017, and in conjunction with the condensed Unaudited Consolidated Financial Statements and notes thereto included in Item 1 of this report. Operating results for the three and six months ended June 30, 2018 are not necessarily indicative of the results for the full-year ended December 31, 2018 or any future period. Certain previously reported amounts have been reclassified to conform to the current year's presentation.

Forward-Looking Statements

This report contains statements that are "forward-looking statements." We may also make forward-looking statements in other documents we file with the SEC, in our annual reports to shareholders, in press releases and other written materials, and in oral statements made by our officers, directors or employees. You can identify forward-looking statements by the use of the words "believe," "expect," "anticipate," "intend," "estimate," "assume," "outlook," "will," "should" and other expressions that predict or indicate future events and trends and which do not relate to historical matters. You should not rely on forward-looking statements, because they involve known and unknown risks, uncertainties and other factors, some of which are beyond our control. These risks, uncertainties and other factors may cause our actual results, performance or achievements to be materially different than the anticipated future results, performance or achievements expressed or implied by the forward-looking statements.

Some of the factors that might cause these differences include the following: weakness in national, regional or international economic conditions or conditions affecting the banking or financial services industries or financial capital markets; volatility in national and international financial markets; reductions in net interest income resulting from interest rate volatility as well as changes in the balance and mix of loans and deposits; reductions in the market value or outflows of wealth management assets under administration; changes in the value of securities and other assets; reductions in loan demand; changes in loan collectibility, default and charge-off rates; changes in the size and nature of our competition; changes in legislation or regulation and accounting principles, policies and guidelines; operational risks such as cyberattacks; natural disasters; and changes in the assumptions used in making such forward-looking statements. In addition, the factors described under "Risk Factors" in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, as updated by our Quarterly Reports on Form 10-Q and other filings submitted to the SEC, may result in these differences. You should carefully review all of these factors and you should be aware that there may be other factors that could cause these differences. These forward-looking statements were based on information, plans and estimates at the date of this report, and we assume no obligation to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events or other changes.

Critical Accounting Policies and Estimates

Accounting policies involving significant judgments, estimates and assumptions by management, which have, or could have, a material impact on the Corporation's consolidated financial statements are considered critical accounting policies. Management considers the following to be its critical accounting policies: the determination of allowance for loan losses, the valuation of goodwill and identifiable intangible assets, the assessment of investment securities for impairment and accounting for defined benefit pension plans. There have been no significant changes in the Corporation's critical accounting policies and estimates from those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Recently Issued Accounting Pronouncements

See Note 2 to the Unaudited Consolidated Financial Statements for details of recently issued accounting pronouncements and their expected impact on the Corporation's financial statements.

Overview

Washington Trust offers a comprehensive product line of banking and financial services to individuals and businesses, 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; its ATM networks; and its internet website at www.washtrust.com.

Our largest source of operating income is net interest income, the difference between interest earned on loans and securities and interest paid on deposits and borrowings. In addition, we generate noninterest income from a number of sources, including wealth management services, mortgage banking activities and deposit services. Our principal noninterest expenses include salaries and employee benefits, occupancy and facility-related costs, technology and other administrative expenses.

Management's Discussion and Analysis

Our financial results are affected by interest rate fluctuations, changes in economic and market conditions, competitive conditions within our market area and changes in legislation, regulation and/or accounting principles. Adverse changes in economic growth, consumer confidence, credit availability and corporate earnings could negatively impact our financial results.

We continue to leverage our strong statewide brand to build market share and remain steadfast in our commitment to provide superior service.

Results of Operations

The following table presents a summarized consolidated statement of operations:

(Dollars in thousands)	Three Months				Six Months			
			Change				Change	
For the periods ended June 30,	2018	2017	\$	%	2018	2017	\$	%
Net interest income	\$33,111	\$29,904	\$3,207	11 %	\$64,963	\$58,583	\$6,380	11 %
Noninterest income	15,993	16,806	(813)	(5)	31,736	31,316	420	1
Total revenues	49,104	46,710	2,394	5	96,699	89,899	6,800	8
Provision for loan losses	400	700	(300)	(43)	400	1,100	(700)	(64)
Noninterest expense	26,288	26,306	(18)	—	53,418	51,592	1,826	4
Income before income taxes	22,416	19,704	2,712	14	42,881	37,207	5,674	15
Income tax expense	4,742	6,505	(1,763)	(27)	8,996	12,226	(3,230)	(26)
Net income	\$17,674	\$13,199	\$4,475	34 %	\$33,885	\$24,981	\$8,904	36 %

The following table presents a summary of performance metrics and ratios:

For the periods ended June 30,	Three Months		Six Months	
	2018	2017	2018	2017
Diluted earnings per common share	\$1.01	\$0.76	\$1.94	\$1.44
Return on average assets (net income divided by average assets)	1.53 %	1.22 %	1.49 %	1.16 %
Return on average equity (net income available for common shareholders divided by average equity)	16.99 %	13.07 %	16.48 %	12.54 %
Net interest income as a % of total revenues	67 %	64 %	67 %	65 %
Noninterest income as a % of total revenues	33 %	36 %	33 %	35 %

Net income totaled \$17.7 million and \$33.9 million, respectively, for the three and six months ended June 30, 2018, compared to \$13.2 million and \$25.0 million, respectively, for the same periods in 2017. Income before income taxes for the three and six months ended June 30, 2018 increased by \$2.7 million and \$5.7 million, respectively, compared to the same periods a year ago, largely due to growth in net interest income. Despite a higher level of income before income taxes, income tax expense for the three and six months ended June 30, 2018 decreased by \$1.8 million and \$3.2 million, respectively, compared to the same periods in 2017, due to the December 2017 enactment of the Tax Cuts and Jobs Act ("the Tax Act"), which included the reduction of the federal corporate income tax rate from 35% to 21%, effective January 1, 2018.

Management's Discussion and Analysis

Average Balances / Net Interest Margin - Fully Taxable Equivalent (FTE) Basis

The following tables present average balance and interest rate information. Tax-exempt income is converted to a fully taxable equivalent basis using the statutory federal income tax rate adjusted for applicable state income taxes net of the related federal tax benefit. Unrealized gains (losses) on available for sale securities and fair value adjustments on mortgage loans held for sale are excluded from the average balance and yield calculations. Nonaccrual loans, as well as interest recognized on these loans, are included in amounts presented for loans.

Three months ended June 30,	2018			2017		
(Dollars in thousands)	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
Assets:						
Cash, federal funds sold and short-term investments	\$56,142	\$257	1.84 %	\$60,428	\$156	1.04 %
Mortgage loans held for sale	30,203	313	4.16	21,977	223	4.07
Taxable debt securities	821,772	5,358	2.62	773,280	4,844	2.51
Nontaxable debt securities	1,956	26	5.33	7,076	109	6.18
Total securities	823,728	5,384	2.62	780,356	4,953	2.55
FHLB stock	43,331	550	5.09	44,362	439	3.97
Commercial real estate	1,225,926	13,463	4.40	1,162,002	11,032	3.81
Commercial & industrial	622,141	7,569	4.88	576,312	6,607	4.60
Total commercial	1,848,067	21,032	4.56	1,738,314	17,639	4.07
Residential real estate	1,275,171	12,426	3.91	1,140,918	10,865	3.82
Home equity	284,188	3,278	4.63	296,971	3,047	4.12
Other	29,696	360	4.86	35,082	417	4.77
Total consumer	313,884	3,638	4.65	332,053	3,464	4.18
Total loans	3,437,122	37,096	4.33	3,211,285	31,968	3.99
Total interest-earning assets	4,390,526	43,600	3.98	4,118,408	37,739	3.68
Noninterest-earning assets	238,290			236,056		
Total assets	\$4,628,816			\$4,354,464		
Liabilities and Shareholders' Equity:						
Interest-bearing demand deposits	\$86,204	\$101	0.47 %	\$54,675	(\$8)	(0.06) %
NOW accounts	460,712	57	0.05	437,282	57	0.05
Money market accounts	664,127	960	0.58	711,711	640	0.36
Savings accounts	375,690	57	0.06	361,545	52	0.06
Time deposits (in-market)	662,969	2,265	1.37	559,442	1,460	1.05
Wholesale brokered time deposits	430,118	1,814	1.69	392,734	1,390	1.42
Total interest-bearing deposits	2,679,820	5,254	0.79	2,517,389	3,591	0.57
FHLB advances	874,746	4,707	2.16	817,349	3,509	1.72
Junior subordinated debentures	22,681	214	3.78	22,681	149	2.63
Other	—	—	—	13	—	—
Total interest-bearing liabilities	3,577,247	10,175	1.14	3,357,432	7,249	0.87
Noninterest-bearing demand deposits	574,258			543,781		
Other liabilities	60,878			49,013		
Shareholders' equity	416,433			404,238		
Total liabilities and shareholders' equity	\$4,628,816			\$4,354,464		
Net interest income (FTE)		\$33,425			\$30,490	
Interest rate spread			2.84 %			2.81 %
Net interest margin			3.05 %			2.97 %

Management's Discussion and Analysis

Interest income amounts presented in the preceding table include the following adjustments for taxable equivalency:
(Dollars in thousands)

Three months ended June 30, 2018	2017
Commercial loans	\$308\$549
Nontaxable debt securities	6 37
Total	\$314\$586

Six months ended June 30, (Dollars in thousands)	2018 Average Balance	Interest	Yield/ Rate	2017 Average Balance	Interest	Yield/ Rate
Assets:						
Cash, federal funds sold and short-term investments	\$54,649	\$462	1.70%	\$58,323	\$260	0.90 %
Mortgage loans held for sale	27,329	539	3.98	23,194	445	3.87
Taxable debt securities	813,193	10,476	2.60	764,666	9,553	2.52
Nontaxable debt securities	2,154	55	5.15	9,286	282	6.12
Total debt securities	815,347	10,531	2.60	773,952	9,835	2.56
FHLB stock	42,116	1,066	5.10	43,994	826	3.79
Commercial real estate	1,222,136	25,809	4.26	1,184,294	21,588	3.68
Commercial & industrial	615,698	14,392	4.71	575,162	12,765	4.48
Total commercial	1,837,834	40,201	4.41	1,759,456	34,353	3.94
Residential real estate	1,251,904	24,355	3.92	1,134,516	21,511	3.82
Home equity	285,684	6,439	4.55	297,481	5,924	4.02
Other	30,188	729	4.87	36,064	863	4.83
Total consumer	315,872	7,168	4.58	333,545	6,787	4.10
Total loans	3,405,610	71,724	4.25	3,227,517	62,651	3.91
Total interest-earning assets	4,345,051	84,322	3.91	4,126,980	74,017	3.62
Noninterest-earning assets	234,485			232,957		
Total assets	\$4,579,536			\$4,359,937		
Liabilities and Shareholders' Equity:						
Interest-bearing demand deposits	\$83,368	\$129	0.31 %	\$55,722	\$7	0.03 %
NOW accounts	455,036	111	0.05	428,998	108	0.05
Money market accounts	691,245	1,840	0.54	732,988	1,239	0.34
Savings accounts	371,873	114	0.06	359,730	102	0.06
Time deposits (in-market)	640,548	4,085	1.29	557,161	2,878	1.04
Wholesale brokered time deposits	419,738	3,397	1.63	394,992	2,759	1.41
Total interest-bearing deposits	2,661,808	9,676	0.73	2,529,591	7,093	0.57
FHLB advances	843,033	8,690	2.08	824,442	6,853	1.68
Junior subordinated debentures	22,681	397	3.53	22,681	287	2.55
Other	—	—	—	20	1	10.08
Total interest-bearing liabilities	3,527,522	18,763	1.07	3,376,734	14,234	0.85
Noninterest-bearing demand deposits	579,379			535,544		
Other liabilities	58,926			46,962		
Shareholders' equity	413,709			400,697		
Total liabilities and shareholders' equity	\$4,579,536			\$4,359,937		
Net interest income (FTE)		\$65,559			\$59,783	
Interest rate spread			2.84 %			2.77 %
Net interest margin			3.04 %			2.92 %

Management's Discussion and Analysis

Interest income amounts presented in the preceding table include the following adjustments for taxable equivalency:

(Dollars in thousands)

Six months ended June 30, 2018	2017
Commercial loans	\$584\$1,102
Nontaxable debt securities	12 98
Total	\$596\$1,200

Net Interest Income

Net interest income continues to be the primary source of our operating income. Net interest income for the three and six months ended June 30, 2018 totaled \$33.1 million and \$65.0 million, respectively, compared to \$29.9 million and \$58.6 million, respectively, for the same periods in 2017. Net interest income is affected by the level of and changes in interest rates, and changes in the amount and composition of interest-earning assets and interest-bearing liabilities. Included in interest income are loan prepayment fees and certain other fees, such as late charges.

The following discussion presents net interest income on a fully taxable equivalent (“FTE”) basis by adjusting income and yields on tax-exempt loans and securities to be comparable to taxable loans and securities.

The analysis of net interest income, net interest margin and the yield on loans is impacted by the level of loan prepayment and other fee income recognized in each period. For the three and six months ended June 30, 2018, loan prepayment and other fee income amounted to \$570 thousand and \$699 thousand, respectively, compared to \$628 thousand and \$835 thousand, respectively, for the same periods in 2017.

FTE net interest income for the three and six months ended June 30, 2018 amounted to \$33.4 million and \$65.6 million, respectively, up by \$2.9 million and \$5.8 million, respectively, from the same periods in 2017. The net interest margin was 3.05% and 3.04%, respectively, for the three and six months ended June 30, 2018, compared to 2.97% and 2.92%, respectively, for the same periods a year ago. Excluding the impact of loan prepayment and other fee income from each period, net interest income for the three and six months ended June 30, 2018 increased by \$3.0 million and \$5.9 million, respectively, from the same periods in 2017. Excluding the impact of loan prepayment and other fee income from each period, the net interest margin was 3.00% and 3.01%, respectively, for the three and six months ended June 30, 2018, compared to 2.91% and 2.88%, respectively, for the same periods in 2017. While the net interest margin benefited from the rise in market interest rates on variable rate loans and growth in lower-cost in-market deposit balances, it was also impacted by a higher cost of funds.

In future periods, yields on loans and securities will be affected by the amount and composition of loan growth and additions to the securities portfolio, the runoff of existing portfolio balances and the level of market interest rates.

Total average loans for the three and six months ended June 30, 2018 increased by \$225.8 million and \$178.1 million, respectively, from the average balances for the comparable 2017 periods, reflecting increases in average residential real estate and commercial loan balances. The yield on total loans for the three and six months ended June 30, 2018 was 4.33% and 4.25%, respectively, compared to 3.99% and 3.91%, respectively, for the same periods in 2017. Excluding the impact of loan prepayment fee income and other fee income from each period, the yield on total loans for the three and six months ended June 30, 2018 was 4.26% and 4.21%, respectively, compared to 3.92% and 3.86%, respectively, for the same periods in 2017. Yields on LIBOR-based and prime-based loans reflected the increases in market rates of interest.

Total average securities for the three and six months ended June 30, 2018 increased by \$43.4 million and \$41.4 million, respectively, from the average balances for the same periods a year earlier. The FTE rate of return on the securities portfolio for the three and six months ended June 30, 2018 was 2.62% and 2.60%, respectively, compared to 2.55% and 2.56%, respectively, for the same periods in 2017.

The average balance of FHLB advances for the three and six months ended June 30, 2018 increased by \$57.4 million and \$18.6 million, respectively, compared to the average balances for the same periods in 2017. The average rate paid on such advances for the three and six months ended June 30, 2018 was 2.16% and 2.08%, respectively, compared to 1.72% and 1.68%, respectively, for the same periods in 2017, due to higher rates on short-term advances.

Management's Discussion and Analysis

Total average interest-bearing deposits for the three and six months ended June 30, 2018 increased by \$162.4 million and \$132.2 million, respectively, from the average balances for the same periods in 2017. Included in total average interest-bearing deposits were of out-of-market wholesale brokered time deposits, which increased by \$37.4 million and \$24.7 million, respectively, from the same periods in 2017. Excluding wholesale brokered time deposits, average in-market interest-bearing deposits for the three and six months ended June 30, 2018 increased by \$125.0 million and \$107.5 million, respectively, from the average balances for the same periods in 2017, due to growth in promotional time deposits. The average rate paid on in-market interest-bearing deposits for the three and six months ended June 30, 2018 increased by 19 basis points and 15 basis points, respectively, compared to the same periods in 2017, which was largely attributable to increases in the rates paid on time deposits and money market accounts.

The average balance of noninterest-bearing demand deposits for the three and six months ended June 30, 2018 increased by \$30.5 million and \$43.8 million, respectively, from the average balances for the same periods in 2017.

Volume / Rate Analysis - Interest Income and Expense (FTE Basis)

The following table presents certain information on a FTE basis regarding changes in our interest income and interest expense for the period indicated. The net change attributable to both volume and rate has been allocated proportionately.

(Dollars in thousands)	Three Months Ended June 30, 2018 vs. 2017 Change Due to			Six Months Ended June 30, 2018 vs. 2017 Change Due to		
	Volume	Rate	Net Change	Volume	Rate	Net Change
Interest on Interest-Earning Assets:						
Cash, federal funds sold and other short-term investments	(\$12)	)\$113	\$101	(\$17)	)\$219	\$202
Mortgage loans held for sale	85	5	90	81	13	94
Taxable debt securities	303	211	514	615	308	923
Nontaxable debt securities	(70)	)(13	)(83	)(188	)(39	)(227
Total securities	233	198	431	427	269	696
FHLB stock	(10)	)121	111	(36)	)276	240
Commercial real estate	637	1,794	2,431	712	3,509	4,221
Commercial & industrial	544	418	962	941	686	1,627
Total commercial	1,181	2,212	3,393	1,653	4,195	5,848
Residential real estate	1,301	260	1,561	2,270	574	2,844
Home equity	(135)	)366	231	(242)	)757	515
Other	(65)	)8	(57)	)(141	)7	(134)
Total consumer	(200)	)374	174	(383)	)764	381
Total loans	2,282	2,846	5,128	3,540	5,533	9,073
Total interest income	2,578	3,283	5,861	3,995	6,310	10,305
Interest on Interest-Bearing Liabilities:						
Interest-bearing demand deposits	(2)	)111	109	6	116	122
NOW accounts	—	—	—	3	—	3
Money market accounts	(45)	)365	320	(75)	)676	601
Savings accounts	5	—	5	12	—	12
Time deposits (in-market)	304	501	805	463	744	1,207
Wholesale brokered time deposits	141	283	424	183	455	638
Total interest-bearing deposits	403	1,260	1,663	592	1,991	2,583

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FHLB advances	258	940	1,198	159	1,678	1,837
Junior subordinated debentures	—	65	65	—	110	110
Other	—	—	—	(1	)—	(1
Total interest expense	661	2,265	2,926	750	3,779	4,529
Net interest income (FTE)	\$1,917	\$1,018	\$2,935	\$3,245	\$2,531	\$5,776

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Noninterest Income

Noninterest income is an important source of revenue for Washington Trust. The principal categories of noninterest income are shown in the following table:

(Dollars in thousands)	Three Months				Six Months			
	2018	2017	Change		2018	2017	Change	
Periods ended June 30,			\$	%			\$	%
Noninterest income:								
Wealth management revenues	\$9,602	\$9,942	(\$340)	(3)%	\$19,875	\$19,419	\$456	2 %
Mortgage banking revenues	2,941	2,919	22	1	5,779	5,259	520	10
Service charges on deposit accounts	903	901	2	—	1,766	1,784	(18)	(1)
Card interchange fees	961	902	59	7	1,808	1,704	104	6
Income from bank-owned life insurance	537	542	(5)	(1)	1,052	1,078	(26)	(2)
Loan related derivative income	668	1,144	(476)	(42)	809	1,292	(483)	(37)
Other income	381	456	(75)	(16)	647	780	(133)	(17)
Total noninterest income	\$15,993	\$16,806	(\$813)	(5)%	\$31,736	\$31,316	\$420	1 %

Noninterest Income Analysis

Revenue from wealth management services is our largest source of noninterest income. A substantial portion of wealth management revenues is largely dependent on the value of wealth management assets under administration and is closely tied to the performance of the financial markets. This portion of wealth management revenues is referred to as “asset-based” and primarily includes trust and investment management fees. Wealth management revenues also include “transaction-based” revenues, such as financial planning, commissions and other service fees that are not primarily derived from the value of assets.

The categories of wealth management revenues are shown in the following table:

(Dollars in thousands)	Three Months				Six Months			
	2018	2017	Change		2018	2017	Change	
Periods ended June 30,			\$	%			\$	%
Wealth management revenues:								
Trust and investment management fees	\$9,136	\$8,781	\$355	4 %	\$19,091	\$17,299	\$1,792	10 %
Mutual fund fees	—	620	(620)	(100)	—	1,349	(1,349)	(100)
Asset-based revenues	9,136	9,401	(265)	(3)	19,091	18,648	443	2
Transaction-based revenues	466	541	(75)	(14)	784	771	13	2
Total wealth management revenues	\$9,602	\$9,942	(\$340)	(3)%	\$19,875	\$19,419	\$456	2 %

Wealth management revenues for the three and six months ended June 30, 2018 decreased by \$340 thousand and increased by \$456 thousand, respectively, from the comparable periods in 2017, reflecting a higher level of trust and investment management fees and a decline in mutual fund fees.

Trust and investment management fee income benefited from financial market appreciation, as the average balance of assets under administration for the six months ended June 30, 2018 amounted to \$6.5 billion, up by 4% from the comparable 2017 period. Trust and investment management fee income was also positively impacted by a fee increase on a portion of our wealth management business that went effective at the beginning of 2018. However, this revenue source was adversely impacted by net client asset outflows of \$595.9 million in the first six months of 2018. Approximately 85% of these outflows were associated with the loss of certain client-facing personnel in the latter portion of the first quarter of 2018.

The decline in mutual fund fees noted in the above table was attributable to a change in 2017 in the business activities of our Weston Financial Group, Inc. (“Weston Financial”) and WSC subsidiaries. Prior to September 30, 2017, Weston Financial, a registered investment adviser subsidiary of the Bank, served as the investment adviser to a group of mutual funds. WSC, a broker-dealer subsidiary of the Bancorp, acted as the underwriter and principal distributor to these mutual funds. In 2017, Weston

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Financial concluded that the continued operation of the mutual funds was not in the best interest of its shareholders and recommended the dissolution of the mutual funds to its board of trustees. In the third quarter of 2017, the mutual funds were dissolved and liquidated pursuant to an Agreement and Plan of Dissolution and Liquidation approved by the shareholders of the mutual funds in August 2017. The dissolution of the mutual funds did not significantly impact the amount of Weston Financial's assets under management.

The following table presents the changes in wealth management assets under administration:

(Dollars in thousands)	Three Months		Six Months	
Periods ended June 30,	2018	2017	2018	2017
Wealth management assets under administration:				
Balance at the beginning of period	\$6,343,720	\$6,243,301	\$6,714,637	\$6,063,293
Net investment (depreciation) appreciation & income	133,450	162,924	101,426	383,347
Net client asset flows	(257,015)	(2,724)	(595,908)	(43,139)
Balance at the end of period	\$6,220,155	\$6,403,501	\$6,220,155	\$6,403,501

Assets under administration stood at \$6.2 billion at June 30, 2018, down by \$183 million, or 3%, from a year ago, and down by \$494 million, or 7%, from December 31, 2017. The decline in the end of period balance of wealth management assets from December 31, 2017 was largely due to net client asset outflows as further described above.

Mortgage banking revenues are dependent on mortgage origination volume and are sensitive to interest rates and the condition of housing markets.

The composition of mortgage banking revenues and the volume of loans sold to the secondary market are shown in the following table:

(Dollars in thousands)	Three Months				Six Months			
Periods ended June 30,	2018	2017	Change		2018	2017	Change	
			\$	%			\$	%
Mortgage banking revenues:								
Gains and commissions on loan sales (1)	\$2,786	\$2,784	\$2	— %	\$5,465	\$5,052	\$413	8 %
Loan servicing fee income, net (2)	155	135	20	15	314	207	107	52
Total mortgage banking revenues	\$2,941	\$2,919	\$22	1 %	\$5,779	\$5,259	\$520	10 %

Loans sold to the secondary market \$105,421 \$137,444 (\$32,023)(23)% \$202,261 \$244,356 (\$42,095)(17)%

(1) Includes gains on loan sales and commissions on loans originated for others, servicing right gains, fair value adjustments on loans held for sale and fair value adjustments and gains on forward loan commitments.

(2) Represents loan servicing fee income, net of servicing right amortization and valuation adjustments.

For the three and six months ended June 30, 2018, mortgage banking revenues were up by \$22 thousand and \$520 thousand, respectively, from the same periods in 2017. While the volume of loans sold in 2018 declined compared to 2017, mortgage banking revenues benefited from an increase in fair value adjustments on mortgage loan commitments and loans held for sale and a higher sales yield on loans sold to the secondary market. The increase in fair value adjustments and sales yield was associated with the commencement of a portfolio-based economic hedging program that commenced at the beginning of 2018. Prior to 2018, Washington Trust economically hedged mortgage loan commitments only on a loan by loan basis.

Loan related derivative income for the three and six months ended June 30, 2018 decreased by \$476 thousand and \$483 thousand, respectively, from the comparable periods in 2017, largely due to relatively less volume, reflecting a

lower level of commercial loan borrower demand for interest rate swap transactions.

Provision and Allowance for Loan Losses

The provision for loan losses is based on management's periodic assessment of the adequacy of the allowance for loan losses which, in turn, is based on such interrelated factors as the composition of the loan portfolio and its inherent risk characteristics;

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the level of nonperforming loans and net charge-offs, both current and historic; local economic and credit conditions; the direction of real estate values; and regulatory guidelines. The provision for loan losses is charged against earnings in order to maintain an allowance for loan losses that reflects management's best estimate of probable losses inherent in the loan portfolio at the balance sheet date.

Loan loss provisions charged to earnings totaled \$400 thousand for both the three and six months ended June 30, 2018, compared to \$700 thousand and \$1.1 million, respectively, for the three and six months ended June 30, 2017. These provisions were based on management's assessment of asset quality and credit quality metrics, as well as changes in the loan portfolio and loss exposure allocations.

For the three and six months ended June 30, 2018, net charge-offs totaled \$90 thousand and \$714 thousand, respectively, compared to net charge-offs of \$484 thousand and \$442 thousand, respectively, for the three and six months ended June 30, 2017.

The allowance for loan losses was \$26.2 million, or 0.75% of total loans, at June 30, 2018, compared to \$26.5 million, or 0.79% of total loans, at December 31, 2017. See additional discussion under the caption "Asset Quality" for further information on the allowance for loan losses.

Noninterest Expense

The following table presents noninterest expense comparisons:

(Dollars in thousands)	Three Months				Six Months			
	2018	2017	Change		2018	2017	Change	
Periods ended June 30,			\$	%			\$	%
Noninterest expenses:								
Salaries and employee benefits	\$17,304	\$17,418	(\$114)	(1)%	\$35,076	\$34,335	\$741	2 %
Outsourced services	2,350	1,710	640	37	4,223	3,167	1,056	33
Net occupancy	1,930	1,767	163	9	3,932	3,734	198	5
Equipment	1,069	1,313	(244)	(19)	2,249	2,780	(531)	(19)
Legal, audit and professional fees	555	582	(27)	(5)	1,281	1,198	83	7
FDIC deposit insurance costs	422	469	(47)	(10)	826	950	(124)	(13)
Advertising and promotion	329	362	(33)	(9)	506	599	(93)	(16)
Amortization of intangibles	247	257	(10)	(4)	495	534	(39)	(7)
Change in fair value of contingent consideration	—	—	—	—	—	(310)	310	100
Other	2,082	2,428	(346)	(14)	4,830	4,605	225	5
Total noninterest expense	\$26,288	\$26,306	(\$18)	— %	\$53,418	\$51,592	\$1,826	4 %

Noninterest Expense Analysis

Salaries and employee benefits expense for the three and six months ended June 30, 2018 decreased by \$114 thousand and increased by \$741 thousand, respectively, compared to the same periods in 2017. The year-to-date increase reflected annual merit increases and special employee compensation enhancements made in 2018. As previously announced, the reduction of the federal corporate income tax rate by the Tax Act provided Washington Trust with the opportunity to further recognize and invest in our employees with special compensation enhancements. In the first quarter of 2018, one-time cash incentive bonuses of approximately \$450 thousand were expensed and paid to employees below a certain compensation threshold. In addition in the first quarter of 2018, we implemented a \$1.00 per hour salary increase for employees below a certain compensation level.

Outsourced services for the three and six months ended June 30, 2018 increased by \$640 thousand and \$1.1 million, respectively, compared to the same periods in 2017. Equipment expense for the three and six months ended June 30, 2018 decreased by \$244 thousand and \$531 thousand, respectively, from the same periods a year ago. Both the increase in outsourced services and the decline in equipment expense reflects the expansion of services, including software application processing and operational services, provided by third party vendors.

During the six months ended June 30, 2017, the Corporation recorded a net reduction to noninterest expenses of \$310 thousand reflecting the change in fair value of a contingent consideration liability. As part of the consideration to acquire Halsey Associates,

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Inc. ("Halsey"), a contingent consideration liability was initially recorded at fair value in August 2015 representing the estimated present value of future earn-outs to be paid based on the future revenue growth of Halsey during the 5-year period following the acquisition. One of the two earn-out periods associated with this contingent consideration liability ended December 31, 2017.

Other expenses for the three and six months ended June 30, 2018 decreased by \$346 thousand and increased by \$225 thousand, respectively, from the same periods in 2017. The year-over-year comparisons of other expenses were impacted by the following:

In June 2017, a goodwill impairment charge of \$150 thousand was recognized on WSC, a small broker-dealer subsidiary.

For the three and six months ended June 30, 2018, software system implementation costs of \$114 thousand and \$795 thousand, respectively, were recognized. This compares to \$217 thousand of such costs for both the three and six months ended June 30, 2017. The 2018 amounts were primarily associated with our new wealth management and trust accounting system, which was completed in April 2018. The 2017 amounts were also associated with the new wealth management and trust accounting system, as well as the migration of our loan and deposit accounting system from an in-house environment to an externally hosted environment that was completed in October 2017.

Excluding the impact of the items mentioned above, other expenses for the three and six months ended June 30, 2018 decreased by \$93 thousand and \$203 thousand, respectively, from the same periods a year ago.

Income Taxes

The following table presents the Corporation's income tax provision and applicable tax rates for the periods indicated: (Dollars in thousands)

	Three Months		Six Months		
Periods ended June 30,	2018	2017	2018	2017	
Income tax expense	\$4,742	\$6,505	\$8,996	\$12,226	
Effective income tax rate	21.2	% 33.0	% 21.0	% 32.9	%

The decline in income tax expense and in the effective tax rates from the prior year was due to the December 2017 enactment of the Tax Act, which included the reduction of the federal corporate tax rate from 35% to 21% effective January 1, 2018.

The effective income tax rates for the three and six months ended June 30, 2018 and 2017 differed from the federal rates of 21.0% in 2018 and 35.0% in 2017 primarily due to the benefits of tax-exempt loan and investment security income, income from BOLI, state income taxes, federal tax credits and the recognition of excess tax benefits associated with the settlement of share-based awards.

Segment Reporting

Washington Trust manages its operations through two business segments, Commercial Banking and Wealth Management Services. Activity not related to the segments, including activity related to the investment securities portfolio, wholesale funding matters and administrative units are considered Corporate. The Corporate unit also includes income from BOLI and the residual impact of methodology allocations such as funds transfer pricing offsets. Methodologies used to allocate income and expenses to business lines are periodically reviewed and revised. See Note 15 to the Unaudited Consolidated Financial Statements for additional disclosure related to business segments.

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Commercial Banking

The following table presents a summarized statement of operations for the Commercial Banking business segment: (Dollars in thousands)

	Three Months				Six Months			
			Change				Change	
Periods ended June 30,	2018	2017	\$	%	2018	2017	\$	%
Net interest income	\$26,644	\$24,633	\$2,011	8 %	\$52,620	\$48,190	\$4,430	9 %
Provision for loan losses	400	700	(300)	(43)	400	1,100	(700)	(64)
Net interest income after provision for loan losses	26,244	23,933	2,311	10	52,220	47,090	5,130	11
Noninterest income	5,837	6,347	(510)	(8)	10,773	10,789	(16)	—
Noninterest expense	16,146	15,974	172	1	32,249	31,244	1,005	3
Income before income taxes	15,935	14,306	1,629	11	30,744	26,635	4,109	15
Income tax expense	3,387	4,650	(1,263)	(27)	6,490	8,679	(2,189)	(25)
Net income	\$12,548	\$9,656	\$2,892	30 %	\$24,254	\$17,956	\$6,298	35 %

Net interest income for this operating segment for the three and six months ended June 30, 2018, increased by \$2.0 million and \$4.4 million, respectively, from the same periods in 2017, largely reflecting growth in loans, which was partially offset by a shift in the mix of deposits to higher cost categories and increases in rates paid on time deposits and money market accounts.

Loan loss provisions charged to earnings totaled \$400 thousand for both the three and six months ended June 30, 2018, compared to \$700 thousand and \$1.1 million, respectively, for the three and six months ended June 30, 2017. These provisions were based on management's assessment of asset quality and credit quality metrics, as well as changes in the loan portfolio and loss exposure allocations.

Noninterest income derived from the Commercial Banking segment for the three and six months ended June 30, 2018 was down by \$510 thousand and \$16 thousand, respectively, from the comparable periods in 2017. The quarter-to-date decrease was largely due to a lower volume of loan related derivative transactions and related income in 2018. On a year-to-date basis, the decline in loan related derivative income was essentially offset by higher mortgage banking revenues.

Commercial Banking noninterest expenses for the three and six months ended June 30, 2018 were up by \$172 thousand and \$1.0 million, respectively, from the same periods in 2017. The year-to-date increase largely reflected increases in salaries and employee benefits costs and outsourced services, partially offset by declines in equipment expense and software system implementation costs.

Wealth Management Services

The following table presents a summarized statement of operations for the Wealth Management Services business segment:

(Dollars in thousands)	Three Months				Six Months			
			Change				Change	
Periods ended June 30,	2018	2017	\$	%	2018	2017	\$	%
Net interest expense	(\$77)	(\$40)	(\$37)	93 %	(\$135)	(\$72)	(\$63)	88 %
Noninterest income	9,602	9,942	(340)	(3)	19,875	19,419	456	2
Noninterest expense	6,963	7,262	(299)	(4)	14,558	14,173	385	3
Income before income taxes	2,562	2,640	(78)	(3)	5,182	5,174	8	—
Income tax expense	655	1,102	(447)	(41)	1,298	2,080	(782)	(38)
Net income	\$1,907	\$1,538	\$369	24 %	\$3,884	\$3,094	\$790	26 %

For the three and six months ended June 30, 2018, noninterest income derived from the Wealth Management Services segment decreased by \$340 thousand and increased by \$456 thousand, respectively, compared to the same periods in 2017. Both the

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quarter-to-date and year-to-date changes were concentrated in asset-based revenues. See further discussion of wealth management revenues under the caption "Noninterest Income" above.

For the three and six months ended June 30, 2018, noninterest expenses for the Wealth Management Services segment decreased by \$299 thousand and increased by \$385 thousand, respectively, from the same periods in 2017. The noninterest expense comparison for this segment was impacted by the following items:

In the first quarter of 2017, a non-taxable fair value adjustment on a contingent consideration liability of \$310 thousand was recognized, which decreased noninterest expenses.

In the second quarter of 2017, a non-taxable goodwill impairment charge of \$150 thousand was recognized.

For the three and six months ended June 30, 2018, software system implementation costs of \$90 thousand and \$753 thousand, respectively, were recognized compared to \$85 thousand for both the three and six months ended June 30, 2017.

Excluding the impact of the items mentioned above, total noninterest expenses for the Wealth Management Services segment for the three and six months ended June 30, 2018 decreased by \$154 thousand and \$443 thousand, respectively, from the same periods in 2017. The decreases reflected lower salaries and benefits costs and equipment expense, partially offset by higher outsourced services.

Corporate

The following table presents a summarized statement of operations for the Corporate unit:

(Dollars in thousands)	Three Months				Six Months			
			Change				Change	
Periods ended June 30,	2018	2017	\$	%	2018	2017	\$	%
Net interest income	\$6,544	\$5,311	\$1,233	23 %	\$12,478	\$10,465	\$2,013	19 %
Noninterest income	554	517	37	7	1,088	1,108	(20)	(2)
Noninterest expense	3,179	3,070	109	4	6,611	6,175	436	7
Income before income taxes	3,919	2,758	1,161	42	6,955	5,398	1,557	29
Income tax expense	700	753	(53)	(7)	1,208	1,467	(259)	(18)
Net income	\$3,219	\$2,005	\$1,214	61 %	\$5,747	\$3,931	\$1,816	46 %

Net interest income for the Corporate unit for the three and six months ended June 30, 2018 was up by \$1.2 million and \$2.0 million, respectively, compared to the same periods in 2017, reflecting increased investment income due to growth in the investment securities portfolio and higher dividend income on FHLB stock, partially offset by increased FHLB borrowing costs.

Noninterest expenses for the Corporate unit for the three and six months ended June 30, 2018 were up by \$109 thousand and \$436 thousand, respectively, from the same periods in 2017, reflecting increased staffing.

Management's Discussion and Analysis

Financial Condition

Summary

The following table presents selected financial condition data:

			Change	
	June 30, 2018	December 31, 2017	\$	%
Cash and due from banks	\$132,068	\$79,853	\$52,215	65 %
Total securities	788,105	793,495	(5,390)	(1 %)
Total loans	3,490,230	3,374,071	116,159	3
Allowance for loan losses	26,174	26,488	(314)	(1)
Total assets	4,737,242	4,529,850	207,392	5
Total deposits	3,321,611	3,242,707	78,904	2
FHLB advances	901,053	791,356	109,697	14
Total shareholders' equity	421,571	413,284	8,287	2

Total assets stood at \$4.7 billion at June 30, 2018, up by \$207.4 million from the end of 2017, largely reflecting loan growth and an increase in the balance of cash and due from banks.

In the six months ended June 30, 2018, total deposits increased by \$78.9 million and FHLB advances increased by \$109.7 million.

Shareholders' equity amounted to \$421.6 million at June 30, 2018, up by \$8.3 million from the balance at the end of 2017, reflecting net income of \$33.9 million, offset by \$15.0 million in dividends declared and a \$11.6 million reduction in the accumulated comprehensive income component of shareholders' equity largely due to a temporary decline in the fair value of available for sale securities. As of June 30, 2018, the Bancorp and the Bank were "well-capitalized." See Note 8 to the Unaudited Consolidated Financial Statements for additional discussion on regulatory capital requirements.

Securities

Washington Trust's securities portfolio is managed to generate interest income, to implement interest rate risk management strategies, and to provide a readily available source of liquidity for balance sheet management. Securities are designated as either available for sale, held to maturity or trading at the time of purchase. The Corporation does not currently maintain a portfolio of trading securities. Securities available for sale may be sold in response to changes in market conditions, prepayment risk, rate fluctuations, liquidity, or capital requirements. Debt securities available for sale are reported at fair value, with any unrealized gains and losses excluded from earnings and reported as a separate component of shareholders' equity, net of tax, until realized. Debt securities held to maturity are reported at amortized cost.

Determination of Fair Value

The Corporation uses an independent pricing service to obtain quoted prices. The prices provided by the independent pricing service are generally based on observable market data in active markets. The determination of whether markets are active or inactive is based upon the level of trading activity for a particular security class. The Corporation reviews the independent pricing service's documentation to gain an understanding of the appropriateness of the pricing methodologies. The Corporation also reviews the prices provided by the independent pricing service for reasonableness based upon current trading levels for similar securities. If the prices appear unusual, they are re-examined and the value is either confirmed or revised. In addition, the Corporation periodically performs independent price tests of securities to ensure proper valuation and to verify our understanding of how securities are

priced. As of June 30, 2018 and December 31, 2017, the Corporation did not make any adjustments to the prices provided by the pricing service.

Our fair value measurements generally utilize Level 2 inputs, representing quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, and model-derived valuations in which all significant input assumptions are observable in active markets.

See Notes 4 and 11 to the Unaudited Consolidated Financial Statements for additional information regarding the determination of fair value of investment securities.

Management's Discussion and Analysis

Securities Portfolio

The carrying amounts of securities held are as follows:

(Dollars in thousands)	June 30, 2018		December 31, 2017	
	Amount	%	Amount	%
Securities Available for Sale:				
Obligations of U.S. government-sponsored enterprises	\$164,536	21 %	\$157,604	20 %
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	585,684	75	590,882	76
Obligations of states and political subdivisions	937	—	2,359	—
Individual name issuer trust preferred debt securities	12,500	2	16,984	2
Corporate bonds	13,036	2	13,125	2
Total securities available for sale	\$776,693	100 %	\$780,954	100 %

(Dollars in thousands)	June 30, 2018		December 31, 2017	
	Amount	%	Amount	%
Securities Held to Maturity:				
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	\$11,412	100 %	\$12,541	100 %
Total securities held to maturity	\$11,412	100 %	\$12,541	100 %

The securities portfolio stood at \$788.1 million as of June 30, 2018, or 17% of total assets, compared to \$793.5 million as of December 31, 2017, or 18% of total assets. The largest component of the securities portfolio is mortgage-backed securities, all of which are issued by U.S. government agencies or U.S. government-sponsored enterprises.

Debt securities primarily consisting of obligations of U.S. government agencies and U.S. government-sponsored enterprises, including mortgage-backed securities, totaling \$62.7 million with a weighted average yield of 3.21% were purchased during the six months ended June 30, 2018. These purchases were offset by routine principal pay-downs on mortgage-backed securities, calls of debt securities and a decline in the fair value of available for sale securities.

As of June 30, 2018 and December 31, 2017, the net unrealized loss position on securities available for sale and held to maturity amounted to \$27.6 million and \$9.7 million, respectively, and included gross unrealized losses of \$29.2 million and \$13.5 million, respectively. As of June 30, 2018, the gross unrealized losses were concentrated in obligations of U.S. government agencies and U.S. government-sponsored enterprises, including mortgage-backed securities, and were primarily attributable to relative changes in interest rates since the time of purchase. Management evaluated the impairment status of these debt securities and does not consider these investments to be other-than-temporarily impaired at June 30, 2018. See Note 4 to the Unaudited Consolidated Financial Statements for additional information.

As of June 30, 2018, Washington Trust owns trust preferred securities of four individual name issuers in the financial services industry. The following table presents information concerning these holdings, including credit ratings. The Corporation's Investment Policy contains rating standards that specifically reference ratings issued by Moody's and S&P.

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Individual Name Issuer Trust Preferred Debt Securities

(Dollars in thousands)	June 30, 2018				Credit Ratings		Form 10-Q Filing Date	
	(i)	Amortized Cost	Fair Value	Unrealized Losses	Moody's	S&P	Moody's	S&P
Named Issuer (parent holding company)								
Wells Fargo & Company	2	5,174	4,903	(271)	A1/Baa1	BBB/BBB-	A1/Baa1	BBB/BBB-
SunTrust Banks, Inc.	1	4,181	3,927	(254)	Baa2	BB+ (ii)	Baa2	BB+ (ii)
Northern Trust Corporation	1	1,990	1,860	(130)	A3	BBB+	A3	BBB+
Huntington Bancshares Incorporated	1	1,954	1,810	(144)	Baa2	BB+ (ii)	Baa2	BB+ (ii)
Totals	5	\$13,299	\$12,500	(\$799)				

(i) Number of separate issuances, including issuances of acquired institutions.

(ii) Rating is below investment grade.

The Corporation's evaluation of the impairment status of individual name trust preferred securities includes various considerations in addition to the degree of impairment and the duration of impairment. We review the reported regulatory capital ratios of the issuer and, in all cases, the regulatory capital ratios were deemed to be in excess of the regulatory minimums. Credit ratings were also taken into consideration, 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. We noted no additional downgrades to below investment grade between June 30, 2018 and the filing date of this report. Where available, credit ratings from multiple rating agencies are obtained and rating downgrades are specifically analyzed. Our review process for these credit-sensitive holdings also includes a periodic review of relevant financial information for each issuer, such as quarterly financial reports, press releases and analyst reports. This information is used to evaluate the current and prospective financial condition of the issuer in order to assess the issuer's ability to meet its debt obligations. Through the filing date of this report, each of the individual name issuer securities was current with respect to interest payments. Based on our evaluation of the facts and circumstances relating to each issuer, management concluded that all principal and interest payments for these individual name issuer trust preferred debt securities would be collected according to their contractual terms and 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 at maturity. Therefore, management does not consider these investments to be other-than-temporarily impaired at June 30, 2018.

Further deterioration in credit quality of the underlying issuers of the securities, further deterioration in the condition of the financial services industry, 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 may be designated as other-than-temporary in future periods, and the Corporation may incur write-downs.

Management's Discussion and Analysis

Loans

The following is a summary of loans:

(Dollars in thousands)	June 30, 2018		December 31, 2017	
	Amount	%	Amount	%
Commercial:				
Commercial real estate (1)	\$1,218,643	35 %	\$1,210,495	36 %
Commercial & industrial (2)	632,029	18	612,334	18
Total commercial	1,850,672	53	1,822,829	54
Residential Real Estate:				
Residential real estate (3)	1,327,418	38	1,227,248	36
Consumer:				
Home equity	283,744	8	292,467	9
Other (4)	28,396	1	31,527	1
Total consumer	312,140	9	323,994	10
Total loans	\$3,490,230	100 %	\$3,374,071	100 %

Commercial real estate loans consist of commercial mortgages primarily secured by income producing property, as (1) well as construction and development loans. Construction and development loans are made to businesses for land development or the on-site construction of industrial, commercial, or residential buildings.

(2) Commercial & industrial consist of loans to businesses and individuals, a substantial portion of which are fully or partially collateralized by real estate.

(3) Residential real estate loans consist of mortgage and homeowner construction loans secured by one- to four- family residential properties.

(4) Other consumer loans consists of loans to individuals secured by general aviation aircraft and other personal installment loans.

Total loans amounted to \$3.5 billion at June 30, 2018, up by \$116.2 million from the end of 2017, reflecting increases of \$100.2 million and \$27.8 million, respectively, in the residential real estate and commercial loan portfolios, partially offset by a decrease of \$11.9 million in the consumer loan portfolio.

Commercial Loans

The commercial loan portfolio represented 53% of total loans at June 30, 2018.

In making commercial loans, we may occasionally solicit the participation of other banks. Washington Trust also participates in commercial loans originated by other banks. In such cases, these loans are individually underwritten by us using standards similar to those employed for our self-originated loans. Our participation in commercial loans originated by other banks amounted to \$380.4 million and \$364.0 million, respectively, at June 30, 2018 and December 31, 2017. Our participation in commercial loans originated by other banks also includes shared national credits. Effective January 1, 2018, shared national credits are defined as participations in loans or loan commitments of at least \$100.0 million that are shared by three or more banks.

Commercial loans fall into two major categories, commercial real estate and commercial and industrial loans. Commercial real estate loans consist of commercial mortgages secured by real property where the primary source of repayment is derived from rental income associated with the property or the proceeds of the sale, refinancing or permanent financing of the property. Commercial real estate loans also include construction loans made to businesses for land development or the on-site construction of industrial, commercial, or residential buildings. Commercial and industrial loans primarily provide working capital, equipment financing and financing for other business-related

purposes. Commercial and industrial loans are frequently collateralized by equipment, inventory, accounts receivable, and/or general business assets. A significant portion of the Bank's commercial and industrial loans is also collateralized by real estate. Commercial and industrial loans also include tax exempt loans made to states and political subdivisions, as well as industrial development or revenue bonds issued through quasi-public corporations for the benefit of a private or non-profit entity where that entity rather than the governmental entity is obligated to pay the debt service.

Commercial Real Estate Loans

Commercial real estate loans totaled \$1.2 billion at June 30, 2018, up by \$8.1 million, or 1%, from the balance at December 31, 2017. Included in commercial real estate loans were construction and development loans of \$175.7 million and \$138.0 million,

Management's Discussion and Analysis

respectively, as of June 30, 2018 and December 31, 2017. In 2018, commercial real estate loan originations and advances were \$132.3 million, which were partially offset by payoffs and transfers of completed commercial construction loans to the commercial and industrial portfolio.

Commercial real estate loans are secured by a variety of property types, with approximately 90% of the total at June 30, 2018 composed of multi-family dwellings, retail facilities, office buildings, lodging, commercial mixed use properties, industrial and warehouse, and healthcare facilities. The average loan balance outstanding in the portfolio was \$2.5 million and the largest individual commercial real estate loan outstanding was \$26.2 million as of June 30, 2018.

The following table presents a geographic summary of commercial real estate loans, including commercial construction, by property location:

(Dollars in thousands) June 30, 2018			December 31, 2017	
	Amount	% of Total	Amount	% of Total
Rhode Island	\$346,215	28 %	\$360,834	30 %
Connecticut	488,429	40	461,230	38
Massachusetts	300,353	25	309,013	26
Subtotal	1,134,997	93	1,131,077	94
All other states	83,646	7	79,418	6
Total	\$1,218,643	100 %	\$1,210,495	100 %

Commercial and Industrial Loans

Commercial and industrial loans amounted to \$632.0 million at June 30, 2018, up by \$19.7 million, or 3%, from the balance at December 31, 2017. In 2018, the increase included a transfer of \$21.6 million of completed commercial construction loans into the commercial and industrial portfolio. New loan originations were essentially offset with payoffs in 2018.

Shared national credit balances outstanding included in the commercial and industrial loan portfolio totaled \$88.1 million at June 30, 2018. Of this balance, \$68.6 million was included in the pass-rated category of commercial loan credit quality and \$19.5 million was included in the special mention category. All of these loans were current with respect to contractual payment terms at June 30, 2018.

The commercial and industrial loan portfolio includes loans to a variety of business types. Approximately 90% of the total is composed of health care/social assistance, manufacturing, owner occupied and other real estate, educational services, professional, scientific and technical, retail trade, transportation and warehousing, entertainment and recreation, finance and insurance services, other services, public administration and construction businesses. The average loan balance outstanding in the portfolio was \$573 thousand and the largest individual commercial and industrial loan outstanding was \$19.9 million as of June 30, 2018.

Residential Real Estate Loans

The residential real estate loan portfolio represented 38% of total loans at June 30, 2018.

Residential real estate loans are originated both for sale to the secondary market as well as for retention in the Bank's loan portfolio. We also originate residential real estate loans for various investors in a broker capacity, including conventional mortgages and reverse mortgages.

Management's Discussion and Analysis

The table below presents residential real estate loan origination activity:

(Dollars in thousands) Periods ended June 30,	Three Months				Six Months			
	2018	2017			2018	2017		
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Originations for retention in portfolio	\$128,479	51 %	\$94,794	40 %	\$196,319	48 %	\$152,701	38 %
Originations for sale to the secondary market (1)	122,693	49	144,491	60	210,413	52	246,932	62
Total	\$251,172	100 %	\$239,285	100 %	\$406,732	100 %	\$399,633	100 %

(1) Includes loans originated in a broker capacity.

Loans are sold with servicing retained or released. The table below presents residential real estate loan sales activity:

(Dollars in thousands) Periods ended June 30,	Three Months				Six Months			
	2018	2017			2018	2017		
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Loans sold with servicing rights retained	\$24,367	23 %	\$29,199	21 %	\$57,942	29 %	\$51,766	21 %
Loans sold with servicing rights released (1)	81,054	77	108,245	79	144,319	71	192,590	79
Total	\$105,421	100 %	\$137,444	100 %	\$202,261	100 %	\$244,356	100 %

(1) Includes loans originated in a broker capacity.

Loans sold with the retention of servicing result in the capitalization of servicing rights. Loan servicing rights are included in other assets and are subsequently amortized as an offset to mortgage banking revenues over the estimated period of servicing. The net balance of capitalized servicing rights amounted to \$3.7 million and \$3.6 million, respectively, as of June 30, 2018 and December 31, 2017. The balance of residential mortgage loans serviced for others, which are not included in the Unaudited Consolidated Balance Sheets, amounted to \$588.8 million and \$568.3 million, respectively, as of June 30, 2018 and December 31, 2017.

Residential real estate loans held in portfolio amounted to \$1.3 billion at June 30, 2018, up by \$100.2 million, or 8%, from the balance at December 31, 2017. A higher percentage of residential real estate mortgage loans were originated for retention in portfolio during the three and six months ended June 30, 2018, compared to the same periods in 2017.

The following is a geographic summary of residential real estate mortgages by property location:

(Dollars in thousands) June 30, 2018	December 31, 2017			
	Amount	% of Total	Amount	% of Total
Rhode Island	\$347,605	26 %	\$343,340	28 %
Connecticut	145,949	11	140,843	12
Massachusetts	817,288	62	726,712	59
Subtotal	1,310,842	99	1,210,895	99
All other states	16,576	1	16,353	1
Total (1)	\$1,327,418	100 %	\$1,227,248	100 %

(1) Includes residential real estate loans purchased from other financial institutions totaling \$122.5 million and \$129.5 million, respectively, as of June 30, 2018 and December 31, 2017.

Consumer Loans

Consumer loans include home equity loans and lines of credit and personal installment loans. Washington Trust also purchases loans to individuals secured by general aviation aircraft.

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The consumer loan portfolio totaled \$312.1 million at June 30, 2018, down by \$11.9 million, or 4%, from December 31, 2017, largely due to lower home equity line utilization. Home equity lines and home equity loans represented 91% of the total consumer portfolio at June 30, 2018. The Bank estimates that approximately 65% of the combined home equity line and home equity loan balances are first lien positions or subordinate to other Washington Trust mortgages. Purchased consumer loans amounted to \$19.3 million and \$21.7 million, respectively, at June 30, 2018 and December 31, 2017.

Asset Quality

Nonperforming Assets

Nonperforming assets include nonaccrual loans and property acquired through foreclosure or repossession.

The following table presents nonperforming assets and additional asset quality data:

(Dollars in thousands)	Jun 30, 2018	Dec 31, 2017		
Commercial:				
Commercial real estate	\$—	\$4,954		
Commercial & industrial	397	283		
Total commercial	397	5,237		
Residential Real Estate:				
Residential real estate	10,206	9,414		
Consumer:				
Home equity	1,133	544		
Other	9	16		
Total consumer	1,142	560		
Total nonaccrual loans	11,745	15,211		
Property acquired through foreclosure or repossession, net	3,206	131		
Total nonperforming assets	\$14,951	\$15,342		
Nonperforming assets to total assets	0.32	% 0.34	%	
Nonperforming loans to total loans	0.34	% 0.45	%	
Total past due loans to total loans	0.48	% 0.59	%	
Accruing loans 90 days or more past due	\$—	\$—		

Total nonperforming assets declined by \$391 thousand from the end of 2017, with a \$3.5 million decline in nonaccrual loans and a \$3.1 million increase in property acquired through foreclosure.

Nonaccrual Loans

During the six months ended June 30, 2018, the Corporation made no changes in its practices or policies concerning the placement of loans into nonaccrual status. In addition, there were no significant commitments to lend additional funds to borrowers whose loans were on nonaccrual status at June 30, 2018.

Management's Discussion and Analysis

The following table presents additional detail on nonaccrual loans:

(Dollars in thousands)	June 30, 2018				December 31, 2017			
	Days Past Due		Total	% (1)	Days Past Due		Total	% (1)
	Over 90	Under 90			Over 90	Under 90		
Commercial:								
Commercial real estate	\$—	\$—	\$—	— %	\$4,954	\$—	\$4,954	0.41 %
Commercial & industrial	397	—	397	0.06	281	2	283	0.05
Total commercial	397	—	397	0.02	5,235	2	5,237	0.29
Residential Real Estate:								
Residential real estate	3,553	6,653	10,206	0.77	3,903	5,511	9,414	0.77
Consumer:								
Home equity	487	646	1,133	0.40	268	276	544	0.19
Other	—	9	9	0.03	14	2	16	0.05
Total consumer	487	655	1,142	0.37	282	278	560	0.17
Total nonaccrual loans	\$4,437	\$7,308	\$11,745	0.34 %	\$9,420	\$5,791	\$15,211	0.45 %

(1) Percentage of nonaccrual loans to the total loans outstanding within the respective category.

As of June 30, 2018, the composition of nonaccrual loans was 3% commercial and 97% residential and consumer, compared to 34% and 66%, respectively, at December 31, 2017.

Total nonaccrual loans declined by \$3.5 million from the end of 2017 due to the resolution of two nonaccrual commercial real estate relationships. In March 2018, a nonaccrual commercial real estate loan with a carrying value of \$3.1 million was transferred to property acquired through foreclosure. Also in March 2018, a second nonaccrual commercial real estate loan with a carrying value of \$1.8 million was reclassified to loans held for sale as the loan was sold in April at carrying value.

Nonaccrual residential real estate mortgage loans amounted to \$10.2 million at June 30, 2018, up by \$792 thousand from the end of 2017. As of June 30, 2018, the balance of nonaccrual residential mortgage loans was predominately secured by properties in Rhode Island, Connecticut and Massachusetts. Included in total nonaccrual residential real estate loans at June 30, 2018 were four loans purchased for portfolio and serviced by others amounting to \$1.2 million. Management monitors the collection efforts of its third party servicers as part of its assessment of the collectibility of nonperforming loans.

Troubled Debt Restructurings

Loans are considered restructured in a troubled debt restructuring when the Corporation has granted concessions, that it otherwise would not have considered, to a borrower experiencing financial difficulties. These concessions include modifications of the terms of the debt such as reduction of the stated interest rate other than normal market rate adjustments, extension of maturity dates, or reduction of principal balance or accrued interest. The decision to restructure a loan, versus 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 collectability of the loan. Loans that 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.

As of June 30, 2018, there were no significant commitments to lend additional funds to borrowers whose loans had been restructured.

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The following table sets forth information on troubled debt restructured loans as of the dates indicated. The amounts below consist of unpaid principal balance, net of charge-offs and unamortized deferred loan origination fees and costs. Accrued interest is not included in the carrying amounts set forth below. See Note 5 to the Unaudited Consolidated Financial Statements for additional information.

(Dollars in thousands)	Jun 30, Dec 31, 2018 2017	
Accruing troubled debt restructured loans		
Commercial:		
Commercial real estate	\$—	\$—
Commercial & industrial	5,345	4,875
Total commercial	5,345	4,875
Residential Real Estate:		
Residential real estate	366	369
Consumer:		
Home equity	11	13
Other	24	130
Total consumer	35	143
Total accruing troubled debt restructured loans	5,746	5,387
Nonaccrual troubled debt restructured loans		
Commercial:		
Commercial real estate	—	4,954
Commercial & industrial	282	281
Total commercial	282	5,235
Residential Real Estate:		
Residential real estate	522	529
Consumer:		
Home equity	—	—
Other	—	—
Total consumer	—	—
Total nonaccrual troubled debt restructured loans	804	5,764
Total troubled debt restructured loans	\$6,550	\$11,151

The allowance for loans losses included specific reserves for troubled debt restructurings of \$123 thousand and \$1.1 million, respectively, at June 30, 2018 and December 31, 2017.

Troubled debt restructured loans declined by \$4.6 million from the end of 2017, reflecting the resolution of two nonaccrual commercial real estate relationships discussed under the caption “Nonaccrual Loans.”

Management's Discussion and Analysis

Past Due Loans

The following table presents past due loans by category:

(Dollars in thousands)	June 30, 2018		December 31, 2017	
	Amount	% (1)	Amount	% (1)
Commercial:				
Commercial real estate	\$—	—	% \$4,960	0.41 %
Commercial & industrial	2,851	0.45	4,076	0.67
Total commercial	2,851	0.15	9,036	0.50
Residential Real Estate:				
Residential real estate	11,243	0.85	7,855	0.64
Consumer:				
Home equity	2,585	0.91	3,141	1.07
Other	16	0.06	43	0.14
Consumer loans	2,601	0.83	3,184	0.98
Total past due loans	\$16,695	0.48	% \$20,075	0.59 %

(1) Percentage of past due loans to the total loans outstanding within the respective category.

As of June 30, 2018, the composition of past due loans, loans past due 30 days or more, was 17% commercial and 83% residential and consumer, compared to 45% and 55%, respectively, at December 31, 2017.

Total past due loans declined by \$3.4 million from the end of 2017, reflecting a \$6.2 million decrease in commercial loans and a \$583 thousand decrease in consumer loans, partially offset by a \$3.4 million increase in residential real estate loans. The decline in past due commercial loans reflected the resolution of two nonaccrual commercial real estate relationships discussed under the caption “Nonaccrual Loans.” The increase in past due residential real estate loans was concentrated in self-originated mortgage loans predominantly secured by properties in Rhode Island, Massachusetts and Connecticut.

Total past due loans as of June 30, 2018 and December 31, 2017 included nonaccrual loans of \$8.6 million and \$11.8 million, respectively. All loans 90 days or more past due at June 30, 2018 and December 31, 2017 were classified as nonaccrual.

Potential Problem Loans

The Corporation classifies certain loans as “substandard,” “doubtful,” or “loss” based on criteria consistent with guidelines provided by banking regulators. Potential problem loans consist of classified accruing commercial loans that were less than 90 days past due at June 30, 2018 and other loans for which known information about possible credit problems of the related borrowers causes management to have doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in disclosure of such loans as nonperforming at some time in the future. These loans are not included in the amounts of nonaccrual or restructured loans presented above. Management cannot predict the extent to which economic conditions or other factors may impact borrowers and the potential problem loans. Accordingly, there can be no assurance that other loans will not become 90 days or more past due, be placed on nonaccrual, become restructured, or require increased allowance coverage and provision for loan losses. The Corporation has identified approximately \$8.5 million in potential problem loans at June 30, 2018, compared to \$9.7 million at December 31, 2017. Potential problem loans are assessed for loss exposure using the methods described in Note 5 to the Unaudited Consolidated Financial Statements under the caption “Credit Quality Indicators.”

Allowance for Loan Losses

Establishing an appropriate level of allowance for loan losses necessarily involves a high degree of judgment. The Corporation uses a methodology to systematically measure the amount of estimated loan loss exposure inherent in the loan portfolio for purposes of establishing a sufficient allowance for loan losses. See additional discussion regarding the allowance for loan losses, in Item 7 under the caption “Critical Accounting Policies and Estimates” of Washington Trust’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017 and in Note 6 to the Unaudited Consolidated Financial Statements.

The allowance for loan losses is management’s best estimate of incurred losses inherent in the loan portfolio as of the balance sheet date. The allowance is increased by provisions charged to earnings and by recoveries of amounts previously charged off,

Management's Discussion and Analysis

and is reduced by charge-offs on loans. The status of nonaccrual loans, delinquent loans and performing loans were all taken into consideration in the assessment of the adequacy of the allowance for loans losses. In addition, the balance and trends of credit quality indicators, including the commercial loan categories of Pass, Special Mention and Classified, are integrated into the process used to determine the allocation of loss exposure. See Note 5 to the Unaudited Consolidated Financial Statements under the caption "Credit Quality Indicators" for additional information. Management believes that the level of allowance for loan losses at June 30, 2018 is adequate and consistent with asset quality and credit quality indicators. Management will continue to assess the adequacy of the allowance for loan losses in accordance with its established policies.

The Bank's general practice is to identify problem credits early and recognize full or partial charge-offs as promptly as practicable when it is determined that the collection of loan principal is unlikely. The Bank recognizes full or partial charge-offs on collateral dependent impaired loans when the collateral is deemed to be insufficient to support the carrying value of the loan. The Bank does not recognize a recovery when an updated appraisal indicates a subsequent increase in value.

Appraisals are generally obtained with values determined on an "as is" basis from independent appraisal firms for real estate collateral dependent commercial loans in the process of collection or when warranted by other deterioration in the borrower's credit status. Updates to appraisals are generally obtained for troubled or nonaccrual loans or when management believes it is warranted. The Corporation has continued to maintain appropriate professional standards regarding the professional qualifications of appraisers and has an internal review process to monitor the quality of appraisals.

For residential mortgages and real estate collateral dependent consumer loans that are in the process of collection, valuations are obtained from independent appraisal firms with values determined on an "as is" basis.

The estimation of loan loss exposure inherent in the loan portfolio includes, among other procedures, the identification of loss allocations for individual loans deemed to be impaired; and the application of loss allocation factors for non-impaired loans based on historical loss experience and estimated loss emergence period, with adjustments for various exposures that management believes are not adequately represented by historical loss experience.

The following is a summary of impaired loans by measurement type:

(Dollars in thousands)	Jun 30, Dec 31,	
	2018	2017
Collateral dependent impaired loans (1)	\$11,397	\$13,880
Impaired loans measured on discounted cash flow method (2)	6,094	6,718
Total impaired loans	\$17,491	\$20,598

(1) Net of partial charge-offs of \$163 thousand and \$5.1 million, respectively, at June 30, 2018 and December 31, 2017.

(2) Net of partial charge-offs of \$84 thousand at both June 30, 2018 and December 31, 2017.

Various loan loss allowance coverage ratios are affected by the timing and extent of charge-offs, particularly with respect to impaired collateral dependent loans. For such loans, the Bank generally recognizes a partial charge-off equal to the identified loss exposure; therefore, the remaining allocation of loss is minimal.

The following table presents additional detail on the Corporation's loan portfolio and associated allowance for loan losses:

(Dollars in thousands)	June 30, 2018	December 31, 2017
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	Loans	Related Allowance / Loans	Allowance Allowance / Loans		Loans	Related Allowance / Loans	Allowance Allowance / Loans	
Impaired loans individually evaluated for impairment	\$17,491	\$198	1.13	%	\$20,598	\$1,129	5.48	%
Loans collectively evaluated for impairment	3,472,739	25,976	0.75		3,353,473	25,359	0.76	
Total	\$3,490,230	\$26,174	0.75	%	\$3,374,071	\$26,488	0.79	%

The decline in collateral dependent impaired loans individually evaluated for impairment reflected the resolution of two nonaccrual commercial real estate relationships disclosed under the caption "Nonaccrual Loans."

Management's Discussion and Analysis

Loan loss provisions charged to earnings totaled \$400 thousand for both the three and six months ended June 30, 2018, compared to \$700 thousand and \$1.1 million, respectively, for the three and six months ended June 30, 2017. These provisions were based on management's assessment of asset quality and credit quality metrics, as well as changes in the loan portfolio and loss exposure allocations.

Net charge-offs totaled \$90 thousand and \$714 thousand, respectively, for the three and six months ended June 30, 2018, compared to \$484 thousand and \$442 thousand, respectively for the same periods in 2017.

As of June 30, 2018, the allowance for loan losses was \$26.2 million, or 0.75% of total loans, compared to \$26.5 million, or 0.79% of total loans, at December 31, 2017, largely reflecting a decrease in specific reserves on impaired loans.

The following table presents the allocation of the allowance for loan losses. The allocation below is neither indicative of the specific amounts or the loan categories in which future charge-offs may occur, nor is it an indicator of any future loss trends. The total allowance is available to absorb losses from any segment of the loan portfolio.

(Dollars in thousands)	June 30, 2018		December 31, 2017	
	Amount	% (1)	Amount	% (1)
Commercial:				
Commercial real estate	\$12,443	35 %	\$12,729	36 %
Commercial & industrial	6,642	18	5,580	18
Total commercial	19,085	53	18,309	54
Residential Real Estate:				
Residential real estate	5,314	38	5,427	36
Consumer:				
Home equity	1,375	8	2,412	9
Other	400	1	340	1
Total consumer	1,775	9	2,752	10
Balance at end of period	\$26,174	100%	\$26,488	100%

(1) Percentage of loans within the respective category to total loans outstanding.

Sources of Funds

Our sources of funds include deposits, brokered time deposits, FHLB advances, other borrowings and proceeds from the sales, maturities and payments of loans and investment securities. Washington Trust uses funds to originate and purchase loans, purchase investment securities, conduct operations, expand the branch network and pay dividends to shareholders.

Deposits

Washington Trust offers a wide variety of deposit products to consumer and business customers. Deposits provide an important source of funding for the Bank as well as an ongoing stream of fee revenue.

Washington Trust is a participant in the Demand Deposit Marketplace ("DDM") program, Insured Cash Sweep ("ICS") program and the Certificate of Deposit Account Registry Service ("CDARS") program. Washington Trust uses these deposit sweep services to place customer funds into interest-bearing demand accounts, money market accounts, and/or time deposits issued by other participating banks. Customer funds are placed at one or more participating banks to ensure that each deposit customer is eligible for the full amount of FDIC insurance. As a program participant, we receive reciprocal amounts of deposits from other participating banks. DDM, ICS and CDARS deposits are considered

to be brokered deposits for bank regulatory purposes. We consider these reciprocal deposit balances to be in-market deposits as distinguished from traditional out-of-market wholesale brokered deposits.

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The following table presents a summary of deposits:

	June 30, 2018	December 31, 2017	Change	
			\$	%
Noninterest-bearing demand deposits	\$577,656	\$578,410	(\$754)	— %
Interest-bearing demand deposits	136,640	82,728	53,912	65
NOW accounts	481,905	466,605	15,300	3
Money market accounts	604,954	731,345	(126,391)	(17)
Savings accounts	375,983	368,524	7,459	2
Time deposits (in-market)	698,286	617,368	80,918	13
Wholesale brokered time deposits	446,187	397,727	48,460	12
Total deposits	\$3,321,611	\$3,242,707	\$78,904	2 %
Total in-market deposits	\$2,875,424	\$2,844,980	\$30,444	1 %

Total deposits amounted to \$3.3 billion at June 30, 2018, up by \$78.9 million from December 31, 2017. This included an increase of \$48.5 million of out-of-market brokered time deposits. Excluding out-of-market brokered time deposits, in-market deposits were up by \$30.4 million from the balance at December 31, 2017, reflecting growth in time deposits attributable to promotional campaigns, as well as an increase in interest-bearing demand deposits due to the implementation of a program in June 2018 to transition approximately \$70 million of wealth management client assets previously held in outside accounts into the insured reciprocal DDM program described above. These increases were partially offset by a decline in money market and demand account balances, reflecting seasonal outflows of various institutional and governmental depositors based on their underlying business cycles.

FHLB Advances

FHLB advances are used to meet short-term liquidity needs and also to fund loan growth and additions to the securities portfolio. FHLB advances totaled \$901.1 million at June 30, 2018, up by \$109.7 million from the balance at the end of 2017.

Liquidity and Capital Resources

Liquidity Management

Liquidity is the ability of a financial institution to meet maturing liability obligations and customer loan demand. Washington Trust's primary source of liquidity is in-market deposits, which funded approximately 62% of total average assets in the six months ended June 30, 2018. While the generally preferred funding strategy is to attract and retain low-cost deposits, the ability to do so is affected by competitive interest rates and terms in the marketplace. Other sources of funding include discretionary use of purchased liabilities (e.g., FHLB term advances and brokered time deposits), cash flows from the Corporation's securities portfolios and loan repayments. Securities designated as available for sale may also be sold in response to short-term or long-term liquidity needs although management has no intention to do so at this time. For a more detailed discussion on Washington Trust's detailed liquidity funding policy and contingency funding plan, see additional information in Item 7 under the caption "Liquidity and Capital Resources" of Washington Trust's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

The Asset/Liability Committee ("ALCO") establishes and monitors internal liquidity measures to manage liquidity exposure. Liquidity remained within target ranges established by the ALCO during the six months ended June 30, 2018. Based on its assessment of the liquidity considerations described above, management believes the Corporation's sources of funding meets anticipated funding needs.

Net cash provided by operating activities amounted to \$22.8 million for the six months ended June 30, 2018, which was generated by net income of \$33.9 million and adjustments to reconcile net income to net cash provided by operating activities. These adjustments included mortgage banking activities and increases in other assets and other liabilities. Net cash used in investing activities totaled \$143.6 million for the six months ended June 30, 2018, reflecting outflows to fund loan growth and purchase investment securities, FHLB stock and bank-owned life insurance. These outflows were partially offset by net inflows from principal paydowns, calls and maturities of debt securities. For the six months ended June 30, 2018, net cash provided by financing activities amounted to \$172.6 million, largely due to net increases in FHLB advances and deposits, partially offset by

Management's Discussion and Analysis

the payment of dividends to shareholders. See the Corporation's Unaudited Consolidated Statements of Cash Flows for further information about sources and uses of cash.

Capital Resources

Total shareholders' equity amounted to \$421.6 million at June 30, 2018, up by \$8.3 million from December 31, 2017, including net income of \$33.9 million, offset by \$15.0 million for dividend declarations and a \$11.6 million reduction in the accumulated comprehensive income component of shareholders' equity primarily resulting from a temporary decline in the fair value of available for sale securities.

The Corporation declared a quarterly dividend of 43 cents per share for the three months ended June 30, 2018, compared to 38 cents per share for the same period in 2017. Year-to-date dividends declared amounted to 86 cents per share, an increase of 10 cents per share, or 13%, from the same period a year ago.

The ratio of total equity to total assets amounted to 8.90% at June 30, 2018 compared to a ratio of 9.12% at December 31, 2017. Book value per share at June 30, 2018 and December 31, 2017 amounted to \$24.40 and \$23.99, respectively.

The Bancorp and the Bank are subject to various regulatory capital requirements and are considered "well capitalized," with a total risk-based capital ratio of 12.61% at June 30, 2018, compared to 12.45% at December 31, 2017. See Note 8 to the Unaudited Consolidated Financial Statements for additional discussion of regulatory capital requirements.

Off-Balance Sheet Arrangements

For additional information on derivative financial instruments and financial instruments with off-balance sheet risk see Notes 9 and 18 to the Unaudited Consolidated Financial Statements.

Asset/Liability Management and Interest Rate Risk

Interest rate risk is the primary market risk category associated with the Corporation's operations. Interest rate risk is the risk of loss to future earnings due to changes in interest rates. The ALCO is responsible for establishing policy guidelines on liquidity and acceptable exposure to interest rate risk. Periodically, the ALCO reports on the status of liquidity and interest rate risk matters to the Bank's Board of Directors. The objective of the ALCO is to manage assets and funding sources to produce results that are consistent with Washington Trust's liquidity, capital adequacy, growth, risk and profitability goals.

The Corporation utilizes the size and duration of the investment securities portfolio, the size and duration of the wholesale funding portfolio, off-balance sheet interest rate contracts and the pricing and structure of loans and deposits, to manage interest rate risk. The off-balance sheet interest rate contracts may include interest rate swaps, caps and floors. These interest rate contracts involve, to varying degrees, credit risk and interest rate risk. Credit risk is the possibility that a loss may occur if a counterparty to a transaction fails to perform according to terms of the contract. The notional amount of the interest rate contracts is the amount upon which interest and other payments are based. The notional amount is not exchanged, and therefore, should not be taken as a measure of credit risk. See Notes 9 and 18 to the Unaudited Consolidated Financial Statements for additional information.

The ALCO uses income simulation to measure interest rate risk inherent in the Corporation's on-balance sheet and off-balance sheet financial instruments at a given point in time by showing the effect of interest rate shifts on net interest income over a 12-month horizon, a 13- to 24-month horizon and a 60-month horizon. The simulations assume that the size and general composition of the Corporation's balance sheet remain static over the simulation horizons, with the exception of certain deposit mix shifts from low-cost core savings to higher-cost time deposits in selected

interest rate scenarios. Additionally, the simulations take into account the specific repricing, maturity, call options, and prepayment characteristics of differing financial instruments that may vary under different interest rate scenarios. The characteristics of financial instrument classes are reviewed periodically by the ALCO to ensure their accuracy and consistency.

The ALCO reviews simulation results to determine whether the Corporation's exposure to a decline in net interest income remains within established tolerance levels over the simulation horizons and to develop appropriate strategies to manage this exposure. As of June 30, 2018 and December 31, 2017, net interest income simulations indicated that exposure to changing interest rates over the simulation horizons remained within tolerance levels established by the Corporation. The Corporation defines maximum unfavorable net interest income exposure to be a change of no more than 5% in net interest income over the first 12 months, no more than 10% over the second 12 months, and no more than 10% over the full 60-month simulation horizon. All changes are measured in comparison to the projected net interest income that would result from an "unchanged" rate scenario where both

Management's Discussion and Analysis

interest rates and the composition of the Corporation's balance sheet remain stable for a 60-month period. In addition to measuring the change in net interest income as compared to an unchanged interest rate scenario, the ALCO also measures the trend of both net interest income and net interest margin over a 60-month horizon to ensure the stability and adequacy of this source of earnings in different interest rate scenarios.

The ALCO regularly reviews a wide variety of interest rate shift scenario results to evaluate interest risk exposure, including scenarios showing the effect of steepening or flattening changes in the yield curve of up to 500 basis points as well as parallel changes in interest rates of up to 400 basis points. Because income simulations assume that the Corporation's balance sheet will remain static over the simulation horizon, the results do not reflect adjustments in strategy that the ALCO could implement in response to rate shifts.

The following table sets forth the estimated change in net interest income from an unchanged interest rate scenario over the periods indicated for parallel changes in market interest rates using the Corporation's on- and off-balance sheet financial instruments as of June 30, 2018 and December 31, 2017. Interest rates are assumed to shift by a parallel 100, 200 or 300 basis points upward or 100 basis points downward over a 12-month period, except for core savings deposits, which are assumed to shift by lesser amounts due to their relative historical insensitivity to market interest rate movements. Further, deposits are assumed to have certain minimum rate levels below which they will not fall. It should be noted that the rate scenarios shown do not necessarily reflect the ALCO's view of the "most likely" change in interest rates over the periods indicated.

	June 30, 2018		December 31, 2017	
	Months 1 - 12	Months 13 - 24	Months 1 - 12	Months 13 - 24
100 basis point rate decrease	(3.55)%	(6.30)%	(3.88)%	(7.94)%
100 basis point rate increase	1.83	0.04	3.02	2.52
200 basis point rate increase	5.67	3.99	7.31	7.64
300 basis point rate increase	9.49	7.68	11.65	12.77

The ALCO estimates that the negative exposure of net interest income to falling rates as compared to an unchanged rate scenario results from a more rapid decline in earning asset yields compared to rates paid on deposits. If market interest rates were to fall from their already low levels and remain lower for a sustained period, certain core savings and time deposit rates could decline more slowly and by a lesser amount than other market rates. Asset yields would likely decline more rapidly than deposit costs as current asset holdings mature or reprice, since cash flow from mortgage-related prepayments and redemption of callable securities would increase as market rates fall.

The positive exposure of net interest income to rising rates as compared to an unchanged rate scenario results from a more rapid projected relative rate of increase in asset yields than funding costs over the near term. For simulation purposes, deposit rate changes are anticipated to lag behind other market rates in both timing and magnitude. The ALCO's estimate of interest rate risk exposure to rising rate environments, including those involving changes to the shape of the yield curve, incorporates certain assumptions regarding the shift in deposit balances from low-cost core savings categories to higher-cost deposit categories, which has characterized a shift in funding mix during the past rising interest rate cycles.

The relative changes from December 31, 2017 to June 30, 2018, as shown in the above table, were attributable to several factors, including a higher absolute level of market interest rates and a relative increase in the proportion of wholesale funding and promotional time deposit balances. Interest rate risk modeling assumes that wholesale funding sources are more sensitive to changes in market interest rates than core deposits. Furthermore, the amount of time deposits scheduled to mature during the 13-24 month time period has increased as compared with the prior quarter, as

a result of our ongoing deposit promotions. Our modeling assumption is that these time deposit maturities will reprice at higher rates during rising rate scenarios.

While the ALCO reviews and updates simulation assumptions and also periodically back-tests the simulation results to ensure that the assumptions are reasonable and current, income simulation may not always prove to be an accurate indicator of interest rate risk or future net interest margin. Over time, the repricing, maturity and prepayment characteristics of financial instruments and the composition of the Corporation's balance sheet may change to a different degree than estimated. Simulation modeling assumes a static balance sheet, with the exception of certain modeled deposit mix shifts from low-cost core savings deposits to higher-cost time deposits in rising rate scenarios as noted above.

Management's Discussion and Analysis

Due to the low level of market interest rates, the banking industry has attracted and retained low-cost core savings deposits over the past several years. The ALCO recognizes that a portion of these increased levels of low-cost balances could shift into higher yielding alternatives in the future, particularly if interest rates rise and as confidence in financial markets strengthens, and has modeled increased amounts of deposit shifts out of these low-cost categories into higher-cost alternatives in the rising rate simulation scenarios presented above. Deposit balances may also be subject to possible outflow to non-bank alternatives in a rising rate environment, which may cause interest rate sensitivity to differ from the results as presented. Another significant simulation assumption is the sensitivity of core savings deposits to fluctuations in interest rates. Income simulation results assume that changes in both core savings deposit rates and balances are related to changes in short-term interest rates. The relationship between short-term interest rate changes and core deposit rate and balance changes may differ from the ALCO's estimates used in income simulation.

It should also be noted that the static balance sheet assumption does not necessarily reflect the Corporation's expectation for future balance sheet growth, which is a function of the business environment and customer behavior.

Mortgage-backed securities and mortgage loans involve a level of risk that unforeseen changes in prepayment speeds may cause related cash flows to vary significantly in differing rate environments. Such changes could affect the level of reinvestment risk associated with cash flow from these instruments, as well as their market value. Changes in prepayment speeds could also increase or decrease the amortization of premium or accretion of discounts related to such instruments, thereby affecting interest income.

The Corporation also monitors the potential change in market value of its available for sale debt securities in changing interest rate environments. The purpose is to determine market value exposure that may not be captured by income simulation, but which might result in changes to the Corporation's capital position. Results are calculated using industry-standard analytical techniques and securities data.

The following table summarizes the potential change in market value of the Corporation's available for sale debt securities as of June 30, 2018 and December 31, 2017 resulting from immediate parallel rate shifts:
(Dollars in thousands)

Security Type	Down 100 Basis Points	Up 200 Basis Points
U.S. government-sponsored enterprise securities (callable)	\$5,437	(\$13,412)
Obligations of states and political subdivisions	1	(3)
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	29,682	(53,582)
Trust preferred debt and other corporate debt securities	(43)	112
Total change in market value as of June 30, 2018	\$35,077	(\$66,885)
Total change in market value as of December 31, 2017	\$17,308	(\$69,453)

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Information regarding quantitative and qualitative disclosures about market risk appears under Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” under the caption “Asset/Liability Management and Interest Rate Risk.”

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As required by Rule 13a-15 under the Exchange Act, as amended (the “Exchange Act”), the Corporation carried out an evaluation under the supervision and with the participation of the Corporation’s management, including the Corporation’s principal executive officer and principal financial officer, of the Corporation’s disclosure controls and procedures as of the period ended June 30, 2018. Based upon that evaluation, the principal executive officer and principal financial officer concluded that the Corporation’s disclosure controls and procedures are effective and designed to ensure that information required to be disclosed by the Corporation in the reports it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and (ii) accumulated and communicated to the Corporation’s management including its Chief Executive Officer and Chief Financial Officer as appropriate to allow timely decisions regarding required disclosures. The Corporation will continue to review and document its disclosure controls and procedures and consider such changes in future evaluations of the effectiveness of such controls and procedures, as it deems appropriate.

Internal Control Over Financial Reporting

During the quarter ended June 30, 2018 the Corporation implemented a new wealth management and trust accounting system and internal controls over financial reporting were revised in connection with this change. The Corporation’s pre- and post-implementation internal controls over financial reporting were evaluated by management, including the principal executive officer and principal financial officer, and deemed to be operating effectively.

PART II. Other Information

Item 1. Legal Proceedings

The Corporation is involved in various claims and legal proceedings arising out of the ordinary course of business. Management is of the opinion, based on its review with counsel of the development of such matters to date, that the ultimate disposition of such matters will not materially affect the consolidated financial position or results of operations of the Corporation.

Item 1A. Risk Factors

There have been no material changes in the risk factors described in Item 1A to Part I of Washington Trust's Annual Report on Form 10-K for the year ended December 31, 2017.

Item 6. Exhibits

(a) Exhibits. The following exhibits are included as part of this Form 10-Q:

Exhibit

Number

- | | |
|------|--|
| 31.1 | <u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 – Filed herewith.</u> |
| 31.2 | <u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 – Filed herewith.</u> |
| 32.1 | <u>Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Furnished herewith. (1)</u> |
| 101 | The following materials from Washington Trust Bancorp, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Shareholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) related notes to these financial statements - Filed herewith. |

(1) These certifications are not "filed" for purposes of Section 18 of the Exchange Act or incorporated by reference into any filing under the Securities Act or the Securities Exchange Act.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WASHINGTON TRUST BANCORP, INC.
(Registrant)

Date: August 2, 2018 By: /s/ Edward O. Handy III
Edward O. Handy III
Chairman and Chief Executive Officer
(principal executive officer)

Date: August 2, 2018 By: /s/ Ronald S. Ohsberg
Ronald S. Ohsberg
Senior Executive Vice President, Chief Financial Officer and Treasurer
(principal financial officer)

Date: August 2, 2018 By: /s/ Maria N. Janes
Maria N. Janes
Executive Vice President and Controller
(principal accounting officer)

Exhibit Index

Exhibit
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