WASHINGTON TRUST BANCORP INC
Form 10-Q
May 02, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)
x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended MARCH 31, 2019 or
o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ______ to ______.
Commission file number: 001-32991
WASHINGTON TRUST BANCORP, INC.
(Exact name of registrant as specified in its charter)

RHODE ISLAND	05-0404671
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

23 BROAD STREET

WESTERLY, RHODE ISLAND	02891
(Address of principal executive offices)	(Zip Code)

(401) 348-1200
(Registrant’s telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, 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 x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o
(Do not check if a smaller reporting company)	Emerging growth company o

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. o

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
COMMON STOCK, $.0625 PAR VALUE PER SHARE	WASH	THE NASDAQ STOCK MARKET LLC

The number of shares of common stock of the registrant outstanding as of April 30, 2019 was 17,324,699.

FORM 10-Q
WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
For the Quarter Ended March 31, 2019

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Washington Trust Bancorp, Inc. and Subsidiaries
Consolidated Balance Sheets (unaudited) (Dollars in thousands, except par value)

	March 31, 2019	December 31, 2018
Assets:		
Cash and due from banks	$88,242	$89,923
Short-term investments	3,317	3,552
Mortgage loans held for sale, at fair value	14,608	20,996
Securities:		
Available for sale debt securities, at fair value	994,881	927,810
Held to maturity debt securities, at amortized cost (fair value $10,316 at December 31, 2018)	—	10,415
Total securities	994,881	938,225
Federal Home Loan Bank stock, at cost	48,025	46,068
Loans:		
Total loans	3,738,469	3,680,360
Less allowance for loan losses	27,644	27,072
Net loans	3,710,825	3,653,288
Premises and equipment, net	29,822	29,005
Operating lease right-of-use assets	28,249	—
Investment in bank-owned life insurance	80,786	80,463
Goodwill	63,909	63,909
Identifiable intangible assets, net	7,923	8,162
Other assets	84,142	77,175
Total assets	$5,154,729	$5,010,766
Liabilities:		
Deposits:		
Noninterest-bearing deposits	$577,319	$603,216
Interest-bearing deposits	2,926,941	2,920,832
Total deposits	3,504,260	3,524,048
Federal Home Loan Bank advances	1,056,129	950,722
Junior subordinated debentures	22,681	22,681
Operating lease liabilities	30,187	—
Other liabilities	71,629	65,131
Total liabilities	4,684,886	4,562,582
Commitments and contingencies (Note 18)		
Shareholders' Equity:		
Common stock of $.0625 par value; authorized 60,000,000 shares; issued and outstanding 17,305,279 shares at March 31, 2019 and 17,302,037 at December 31, 2018	1,082	1,081
Paid-in capital	120,743	119,888
Retained earnings	365,521	355,524
Accumulated other comprehensive loss	(17,503)	(28,309)
Total shareholders' equity	469,843	448,184
Total liabilities and shareholders' equity	$5,154,729	$5,010,766

The accompanying notes are an integral part of these unaudited consolidated financial statements.
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Washington Trust Bancorp, Inc. and Subsidiaries

Consolidated Statements of Income (unaudited) (Dollars and shares in thousands, except per share amounts)

Three months ended March 31,	2019	2018
Interest income:		
Interest and fees on loans	$41,744	$34,352
Interest on mortgage loans held for sale	180	226
Taxable interest on debt securities	7,226	5,118
Nontaxable interest on debt securities	9	23
Dividends on Federal Home Loan Bank stock	695	516
Other interest income	340	205
Total interest and dividend income	50,194	40,440
Interest expense:		
Deposits	8,696	4,422
Federal Home Loan Bank advances	6,661	3,983
Junior subordinated debentures	253	183
Total interest expense	15,610	8,588
Net interest income	34,584	31,852
Provision for loan losses	650	—
Net interest income after provision for loan losses	33,934	31,852
Noninterest income:		
Wealth management revenues	9,252	10,273
Mortgage banking revenues	2,646	2,838
Card interchange fees	997	847
Service charges on deposit accounts	875	863
Loan related derivative income	724	141
Income from bank-owned life insurance	649	515
Other income	224	266
Total noninterest income	15,367	15,743
Noninterest expense:		
Salaries and employee benefits	17,619	17,772
Outsourced services	2,606	1,873
Net occupancy	1,998	2,002
Equipment	1,011	1,180
Legal, audit and professional fees	534	726
FDIC deposit insurance costs	429	404
Advertising and promotion	239	177
Amortization of intangibles	239	248
Other expenses	2,289	2,748
Total noninterest expense	26,964	27,130
Income before income taxes	22,337	20,465
Income tax expense	4,842	4,254
Net income	$17,495	$16,211
Net income available to common shareholders	$17,461	$16,173
Weighted average common shares outstanding - basic	17,304	17,234

Weighted average common shares outstanding - diluted		17,401	17,345
Per share information:	Basic earnings per common share	$1.01	$0.94
	Diluted earnings per common share	$1.00	$0.93
	Cash dividends declared per share	$0.47	$0.43

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

Washington Trust Bancorp, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income (unaudited) (Dollars in thousands)

Three months ended March 31,	2019	2018
Net income	$17,495	$16,211
Other comprehensive income (loss), net of tax:		
Net change in fair value of available for sale debt securities	11,021	(10,414)
Net change in fair value of cash flow hedges	(442)	889
Net change in defined benefit plan obligations	227	360
Total other comprehensive income (loss), net of tax	10,806	(9,165)
Total comprehensive income	$28,301	$7,046

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

Washington Trust Bancorp, Inc. and Subsidiaries

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) Income	Total
Balance at January 1, 2019	17,302	$1,081	$119,888	$355,524	($28,309)	$448,184
Net income	—	—	—	17,495	—	17,495
Total other comprehensive income, net of tax	—	—	—	—	10,806	10,806
Cash dividends declared	—	—	—	(8,220)	—	(8,220)
Share-based compensation	—	—	740	—	—	740
Exercise of stock options, issuance of other compensation-related equity awards, net of awards surrendered	3	1	115	—	—	116
Cumulative effect of change in accounting principle	—	—	—	722	—	722
Balance at March 31, 2019	17,305	$1,082	$120,743	$365,521	($17,503)	$469,843

	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	—	—	—	16,211	—	16,211
Total other comprehensive loss, net of tax	—	—	—	—	(9,165)	(9,165)
Cash dividends declared	—	—	—	(7,462)	—	(7,462)
Share-based compensation	—	—	669	—	—	669
Exercise of stock options, issuance of other compensation-related equity awards, net of awards surrendered	35	2	(458)	—	—	(456)
Balance at March 31, 2018	17,262	$1,079	$118,172	$326,505	($32,675)	$413,081

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

Washington Trust Bancorp, Inc. and Subsidiaries

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

Three months ended March 31,		2019	2018
Cash flows from operating activities:			
Net income		$17,495	$16,211
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses		650	—
Depreciation of premises and equipment		838	827
Net amortization of premiums and discounts on securities and loans		822	695
Amortization of intangibles		239	248
Share-based compensation		740	669
Tax benefit from stock option exercises and other equity awards		7	207
Income from bank-owned life insurance		(649)	(515)
Net gains on loan sales and commissions on loans originated for others, including fair value adjustments		(2,474)	(2,679)
Proceeds from sales of loans		51,673	89,575
Loans originated for sale		(46,864)	(79,212)
Decrease in operating lease right-of-use assets		673	—
Decrease in operating lease liabilities		(666)	—
Increase in other assets		(11,022)	(10,973)
Increase in other liabilities		9,532	6,483
Net cash provided by operating activities		20,994	21,536
Cash flows from investing activities:			
Purchases of:	Available for sale debt securities: Mortgage-backed	(62,109)	(40,657)
	Available for sale debt securities: Other	(10,507)	(1,064)
Maturities, calls and principal payments of:	Available for sale debt securities: Mortgage-backed	19,718	20,100
	Available for sale debt securities: Other	10,000	500
	Held to maturity debt securities: Mortgage-backed	—	540
Purchases of Federal Home Loan Bank stock		(1,957)	(610)
Net increase in loans		(54,147)	(15,571)
Purchases of loans		(161)	(1,520)
Purchases of premises and equipment		(1,655)	(811)
Proceeds from surrender of bank-owned life insurance		326	—
Net cash used in investing activities		(100,492)	(39,093)
Cash flows from financing activities:			
Net (decrease) increase in deposits		(19,788)	13,727
Proceeds from Federal Home Loan Bank advances		532,000	515,000
Repayment of Federal Home Loan Bank advances		(426,593)	(497,679)
Payment of contingent consideration liability		—	(1,217)
Net proceeds from stock option exercises and issuance of other equity awards, net of awards surrendered		116	(456)
Cash dividends paid		(8,153)	(6,739)
Net cash provided by financing activities		77,582	22,636
Net (decrease) increase in cash and cash equivalents		(1,916)	5,079
Cash and cash equivalents at beginning of period		93,475	82,923

Cash and cash equivalents at end of period	$91,559	$88,002

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

Washington Trust Bancorp, Inc. and Subsidiaries

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

Three months ended March 31,	2019	2018
Noncash Activities:		
Loans charged off	$103	$690
Loans transferred to property acquired through foreclosure or repossession	—	3,074
In conjunction with the adoption of ASU 2016-02 as detailed in Note 2 to the Unaudited Consolidated Financial Statements, the following assets and liabilities were recognized:		
Operating lease right-of-use assets	28,923	—
Operating lease liabilities	30,853	—
In conjunction with the adoption of ASU 2017-12 as detailed in Note 2 to the Unaudited Consolidated Financial Statements, the following qualifying debt securities classified as held-to-maturity were transferred to available for sale:		
Fair value of debt securities transferred from held-to-maturity to available for sale	10,316	—
Supplemental Disclosures:		
Interest payments	$14,082	$8,047
Income tax payments	1,136	908

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

Condensed Notes to Unaudited Consolidated Financial Statements

Note 1 - Basis of Presentation

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 complete product line of financial services, including commercial, residential and consumer lending, retail and commercial deposit products, and wealth management services through its offices in Rhode Island, eastern Massachusetts and Connecticut; 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 balances and transactions have been eliminated. Certain previously reported amounts have been reclassified to conform to current year’s presentation.

The Bancorp also owns the common stock of two capital trusts, which have issued trust preferred securities. These capital trusts are variable interest entities in which the Bancorp is not the primary beneficiary and, therefore, are not consolidated. The capital trust’s only assets are junior subordinated debentures issued by the Bancorp, which were acquired by the capital trusts using the proceeds from the issuance of the trust preferred securities and common stock. The Bancorp’s equity interest in the capital trusts, classified in other assets, and the junior subordinated debentures are included in the Unaudited Consolidated Balance Sheets. Interest expense on the junior subordinated debentures is included in the Unaudited Consolidated Statements of Income.

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 indicative 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, 2018.

Note 2 - Recently Issued Accounting Pronouncements

Accounting Standards Adopted in 2019

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 depends on its classification as a finance or operating lease. ASU 2016-02 requires a modified retrospective transition, with a package 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” 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” 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 used this optional transition method for the adoption of Topic 842. In December 2018, Accounting Standards Update No. 2018-20, “Leases (Topic 842) Narrow-Scope Improvement for Lessors” was issued to address lessors’ concerns about sales taxes and other similar taxes collected from lessees, certain lessor costs, and recognition of variable payments for contracts with lease and non-lease components. These ASUs were effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Management assembled a project team to address the changes pursuant to Topic 842. The project team identified and reviewed all lease agreements in scope of Topic 842. The Corporation rents premises used in business operations under non-cancelable operating leases, which as of December 31, 2018 were not reflected in its Consolidated Balance Sheets. The Corporation has no finance leases.

The Corporation adopted Topic 842 “Leases” effective January 1, 2019 and has applied the guidance to all operating leases within the scope of Topic 842 at that date. The Corporation elected to adopt the package of practical expedients, which among other things, does not require reassessment of lease classification. The Corporation recognized $28.9 million in operating lease right-of-use-assets, $30.9 million in operating lease liabilities, a reduction in rent-related liabilities of $2.9 million, a reduction of net deferred tax assets of $222 thousand and a cumulative effect adjustment (net of taxes) that increased beginning retained earnings by $722 thousand in the Consolidated Balance Sheets. The cumulative effect adjustment represented the recognition of unamortized deferred gains associated with two leases. There was no change to the timing in recognition of operating lease rent expense on the Corporation’s consolidated financial statements associated with our leases.

In March 2019, Accounting Standards Update No. 2019-01, “Leases (Topic 842) Codification Improvements” (“ASU 2019-01”) was issued to address lessors’ concerns about determining fair value of underlying leased assets and presentation issues in the statement of cash flows for sales-type and direct financing leases. ASU 2019-01 also clarified for both lessees and lessors that transition disclosures related to Topic 250 were not required for annual periods are also not required for interim periods. ASU 2019-01 was effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2019, with early adoption permitted. The Corporation early adopted this ASU 2019-01 effective January 1, 2019 and it 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 was effective for fiscal years beginning after December 15, 2018, with early adoption, including adoption in an interim period, permitted. In addition, ASU 2017-12 also permitted the reclassification of eligible securities from the held-to-maturity classification to the available for sale classification. The Corporation adopted the provisions of ASU 2017-12 on January 1, 2019 using a modified retrospective transition method. As permitted by ASU 2017-12, qualifying debt securities classified as held to maturity with an amortized cost of $10.4 million and a fair value of $10.3 million were reclassified to available for sale upon the adoption date. An unrealized loss of $75 thousand (net of taxes) was recognized in the accumulated other comprehensive income component of shareholders’ equity at the date of adoption. The adoption of ASU 2017-12 did not have a material impact on the Corporation’s consolidated financial statements.

Accounting Standards Update No. 2018-16, “Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes” (“ASU 2018-16”), was issued in October 2018 to permit the use of the Overnight Index Swap rate based on the Secured Overnight Financing Rate as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815 in addition to existing benchmark interest rates that are currently used for hedge accounting. ASU 2018-16 was effective for fiscal years beginning after December 15, 2018, and interim periods with those fiscal years. The provisions required prospective application for qualifying new or re-designated hedging relationships entered into on or after the date of adoption. The Corporation adopted the provisions of ASU 2018-16 on January 1, 2019 and it did not have a material impact on the Corporation’s consolidated financial statements.

Accounting Standards Pending Adoption

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. The Corporation will adopt ASU 2016-03 on

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

January 1, 2020 and is currently evaluating the effect that this ASU will have on the consolidated financial statements and disclosures.

Management has assembled a project team that meets regularly to address the additional data requirements necessary, to determine the approach for implementation and to identify new internal controls over enhanced processes that will be put into place for estimating the allowance under ASU 2016-13. This has included assessing the adequacy of existing loan and loss data, as well as developing models for default and loss estimates. The Corporation expects to continue the validation of models, the development of accounting policies and internal controls and the execution of “trial” or “parallel” runs of its ASU 2016-13 compliant methodology throughout 2019.

Fair Value Measurement - Topic 820
Accounting Standards Update No. 2018-13, “Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement” (“ASU 2018-13”), was issued in August 2018 to modify the disclosure requirements related to fair value. ASU 2018-13 is effective for fiscal years beginning after December 15, 2019, with early adoption permitted, including adoption in an interim period. Certain provisions under ASU 2018-13 require prospective application, while other provisions require retrospective application to all periods presented in the consolidated financial statements upon adoption. The adoption of ASU 2018-13 is not expected to have a material impact on the Corporation’s consolidated financial statements.

Compensation - Retirement Benefits - Topic 715
Accounting Standards Update No. 2018-14, “Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans” (“ASU 2018-14”), was issued in August 2018 to modify the disclosure requirements associated with defined benefit pension plans and other postretirement plans. ASU 2018-14 is effective for fiscal years ending after December 15, 2020, with early adoption permitted. The provisions under ASU 2018-14 are required to be applied retrospectively. The adoption of ASU 2018-14 is not expected to have a material impact on the Corporation’s consolidated financial statements.

Intangibles - Goodwill and Other - Internal-Use Software - Topic 350
Accounting Standards Update No. 2018-15, “Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract” (“ASU 2018-15”), was issued in August 2018 to align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with those requirements that currently exist in GAAP for capitalizing implementation costs incurred to develop or obtain internal-use software. Implementation costs would either be capitalized or expensed as incurred depending on the project stage. All costs in the preliminary and post-implementation project stages are expensed as incurred, while certain costs within the application development stage are capitalized. The provisions under ASU 2018-15 can either be applied retrospectively or prospectively. ASU 2018-15 is effective for fiscal years beginning after December 15, 2019, with early adoption permitted, including adoption in an interim period. The adoption of ASU 2018-15 is not expected to have a material impact on the Corporation’s consolidated financial statements.

Note 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 $25.7 million at March 31, 2019 and $21.6 million at December 31, 2018 and were included in cash and due from banks in the Unaudited Consolidated Balance Sheets.

As of March 31, 2019 and December 31, 2018, cash and due from banks included interest-bearing deposits in other banks of $38.5 million and $33.7 million, respectively.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Note 4 - Securities
The following tables present the amortized cost, gross unrealized holding gains, gross unrealized holding losses and fair value of securities by major security type and class of security:
(Dollars in thousands)

March 31, 2019	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for Sale Debt Securities:				
Obligations of U.S. government-sponsored enterprises	$246,717	$682	($1,927)	$245,472
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	727,511	4,341	(8,347)	723,505
Obligations of states and political subdivisions	935	2	—	937
Individual name issuer trust preferred debt securities	13,311	—	(941)	12,370
Corporate bonds	13,911	9	(1,323)	12,597
Total available for sale debt securities	$1,002,385	$5,034	($12,538)	$994,881
Total securities	$1,002,385	$5,034	($12,538)	$994,881

(Dollars in thousands)

December 31, 2018	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for Sale Debt Securities:				
Obligations of U.S. government-sponsored enterprises	$246,708	$442	($4,467)	$242,683
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	675,368	1,943	(16,518)	660,793
Obligations of states and political subdivisions	935	2	—	937
Individual name issuer trust preferred debt securities	13,307	—	(1,535)	11,772
Corporate bonds	13,402	—	(1,777)	11,625
Total available for sale debt securities	$949,720	$2,387	($24,297)	$927,810
Held to Maturity Debt Securities:				
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	$10,415	$—	($99)	$10,316
Total held to maturity debt securities	$10,415	$—	($99)	$10,316
Total securities	$960,135	$2,387	($24,396)	$938,126

As discussed in Note 2, on January 1, 2019, the Corporation adopted ASU 2017-12. As permitted by ASU 2017-12, qualifying debt securities classified as held to maturity with an amortized cost of $10.4 million and a fair value of $10.3 million were reclassified to available for sale upon the adoption date. An unrealized loss of $75 thousand (net of taxes) was recognized in the accumulated other comprehensive income component of shareholders' equity at the date of adoption.

As of March 31, 2019 and December 31, 2018, debt securities with a fair value of $497.5 million and $439.7 million, respectively, were pledged as collateral for 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 available for sale debt securities 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	
March 31, 2019	Amortized Cost	Fair Value
Due in one year or less	$74,364	$73,944
Due after one year to five years	345,082	343,090
Due after five years to ten years	351,603	348,484
Due after ten years	231,336	229,363
Total debt securities	$1,002,385	$994,881

Included in the above table are debt securities with an amortized cost balance of $273.4 million and a fair value of $269.8 million at March 31, 2019 that are callable at the discretion of the issuers. Final maturities of the callable securities range from 2 months to 18 years, with call features ranging from 1 month to 4 years.

Other-Than-Temporary Impairment Assessment

Management 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		
March 31, 2019	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
Obligations of U.S. government-sponsored enterprises	—	$—	$—	14	$139,573	($1,927)	14	$139,573	($1,927)
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	—	—	—	47	409,374	(8,347)	47	409,374	(8,347)
Individual name issuer trust preferred debt securities	—	—	—	5	12,370	(941)	5	12,370	(941)
Corporate bonds	—	—	—	7	11,874	(1,323)	7	11,874	(1,323)
Total temporarily impaired securities	—	$—	$—	73	$573,191	($12,538)	73	$573,191	($12,538)

(Dollars in thousands)	Less than 12 Months			12 Months or Longer			Total		
December 31, 2018	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
Obligations of U.S. government-sponsored enterprises	—	$—	$—	16	$157,032	($4,467)	16	$157,032	($4,467)
Mortgage-backed securities issued by U.S. government agencies and U.S.	10	47,060	(439)	51	438,701	(16,178)	61	485,761	(16,617)

government-sponsored enterprises									
Individual name issuer trust preferred debt securities	—	—	—	5	11,772	(1,535)	5	11,772	(1,535)
Corporate bonds	3	1,198	(9)	5	10,427	(1,768)	8	11,625	(1,777)
Total temporarily impaired securities	13	$48,258	($448)	77	$617,932	($23,948)	90	$666,190	($24,396)

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Further deterioration in credit quality of the underlying issuers of the securities, 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.

Obligations of 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. 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, the Corporation does not intend to sell these securities and it is not more-likely-than-not that the Corporation will be required to sell these securities before recovery of their cost basis, which may be maturity. Therefore, management does not consider these investments to be other-than-temporarily impaired at March 31, 2019.

Individual Name Issuer Trust Preferred Debt Securities

Included in debt securities in an unrealized loss position at March 31, 2019 were five trust preferred securities issued by four individual companies in the banking sector. Management believes the unrealized losses on these holdings were 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 March 31, 2019, individual name issuer trust preferred debt securities with an amortized cost of $6.1 million and unrealized losses of $446 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 March 31, 2019 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, the Corporation does not intend to sell these securities and it is not more-likely-than-not that the Corporation will be required to sell these securities before recovery of their cost basis, which may be maturity. Therefore, management does not consider these investments to be other-than-temporarily impaired at March 31, 2019.

Corporate Bonds

At March 31, 2019, the Corporation had seven corporate bond holdings with unrealized losses totaling $1.3 million. These investment grade corporate bonds were issued by large corporations, primarily in the financial services industry. 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, the Corporation does not intend to sell these securities and it is not more-likely-than-not that the Corporation will be required to sell these securities before recovery of their cost basis, which may be maturity. Therefore, management does not consider these investments to be other-than-temporarily impaired at March 31, 2019.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Note 5 - Loans
The following is a summary of loans:

(Dollars in thousands)	March 31, 2019	December 31, 2018
Commercial:		
Commercial real estate (1)	$1,463,682	$1,392,408
Commercial & industrial (2)	610,608	620,704
Total commercial	2,074,290	2,013,112
Residential Real Estate:		
Residential real estate (3)	1,359,072	1,360,387
Consumer:		
Home equity	279,938	280,626
Other (4)	25,169	26,235
Total consumer	305,107	306,861
Total loans (5)	$3,738,469	$3,680,360

(1) Consists of commercial mortgages primarily secured by income-producing property, as 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) Consists of loans to businesses and individuals, a substantial portion of which are fully or partially collateralized by real estate.
(3) Consists of mortgage and homeowner construction loans secured by one- to four-family residential properties.
(4) Consists of loans to individuals secured by general aviation aircraft and other personal installment loans.
(5) Includes net unamortized loan origination costs of $4.9 million and $4.7 million, respectively, at March 31, 2019 and December 31, 2018 and net unamortized premiums on purchased loans of $668 thousand and $703 thousand, respectively, at March 31, 2019 and December 31, 2018.

As of both March 31, 2019 and December 31, 2018, loans amounting to $2.0 billion were 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					
March 31, 2019	30-59	60-89	Over 90	Total Past Due	Current	Total Loans
Commercial:						
Commercial real estate	$—	$—	$926	$926	$1,462,756	$1,463,682
Commercial & industrial	1	—	—	1	610,607	610,608
Total commercial	1	—	926	927	2,073,363	2,074,290
Residential Real Estate:						
Residential real estate	5,868	2,749	2,232	10,849	1,348,223	1,359,072
Consumer:						
Home equity	1,851	433	627	2,911	277,027	279,938
Other	13	—	—	13	25,156	25,169
Total consumer	1,864	433	627	2,924	302,183	305,107

Total loans	$7,733	$3,182	$3,785	$14,700	$3,723,769	$3,738,469

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(Dollars in thousands)	Days Past Due					
December 31, 2018	30-59	60-89	Over 90	Total Past Due	Current	Total Loans
Commercial:						
Commercial real estate	$155	$925	$—	$1,080	$1,391,328	$1,392,408
Commercial & industrial	—	—	—	—	620,704	620,704
Total commercial	155	925	—	1,080	2,012,032	2,013,112
Residential Real Estate:						
Residential real estate	6,318	2,693	1,509	10,520	1,349,867	1,360,387
Consumer:						
Home equity	1,281	156	552	1,989	278,637	280,626
Other	33	—	—	33	26,202	26,235
Total consumer	1,314	156	552	2,022	304,839	306,861
Total loans	$7,787	$3,774	$2,061	$13,622	$3,666,738	$3,680,360

Included in past due loans at both March 31, 2019 and December 31, 2018 were nonaccrual loans of $8.6 million.

All loans 90 days or more past due at March 31, 2019 and December 31, 2018 were classified as nonaccrual.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Impaired Loans

Impaired loans include nonaccrual loans and 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	
	Mar 31, 2019	Dec 31, 2018	Mar 31, 2019	Dec 31, 2018	Mar 31, 2019	Dec 31, 2018
No Related Allowance Recorded						
Commercial:						
Commercial real estate	$926	$925	$926	$926	$—	$—
Commercial & industrial	4,645	4,681	4,633	4,732	—	—
Total commercial	5,571	5,606	5,559	5,658	—	—
Residential Real Estate:						
Residential real estate	9,659	9,347	10,010	9,695	—	—
Consumer:						
Home equity	1,297	1,360	1,297	1,360	—	—
Other	—	—	—	—	—	—
Total consumer	1,297	1,360	1,297	1,360	—	—
Subtotal	16,527	16,313	16,866	16,713	—	—
With Related Allowance Recorded						
Commercial:						
Commercial real estate	$—	$—	$—	$—	$—	$—
Commercial & industrial	—	52	—	73	—	—
Total commercial	—	52	—	73	—	—
Residential Real Estate:						
Residential real estate	736	364	762	390	98	100
Consumer:						
Home equity	111	85	111	85	111	24
Other	21	22	20	22	1	3
Total consumer	132	107	131	107	112	27
Subtotal	868	523	893	570	210	127
Total impaired loans	$17,395	$16,836	$17,759	$17,283	$210	$127
Total:						
Commercial	$5,571	$5,658	$5,559	$5,731	$—	$—
Residential real estate	10,395	9,711	10,772	10,085	98	100
Consumer	1,429	1,467	1,428	1,467	112	27
Total impaired loans	$17,395	$16,836	$17,759	$17,283	$210	$127

(1) The recorded investment in impaired loans consists of unpaid principal balance, net of charge-offs, interest payments received applied to principal and unamortized deferred loan origination fees and costs. For 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 March 31,	2019	2018	2019	2018
Commercial:				
Commercial real estate	$976	$4,100	$1	$—
Commercial & industrial	4,689	5,492	54	66
Total commercial	5,665	9,592	55	66
Residential Real Estate:				
Residential real estate	10,151	9,850	115	112
Consumer:				
Home equity	1,480	667	14	9
Other	21	144	—	3
Total consumer	1,501	811	14	12
Totals	$17,317	$20,253	$184	$190

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 is reversed against current period income. Subsequent interest payments received on nonaccrual loans are applied to the outstanding principal balance of the loan or recognized as interest income depending on management's assessment of the ultimate collectability of the loan. Loans are removed from nonaccrual status when they have been current as to principal and interest for a period of time, the borrower has demonstrated an ability to comply with repayment terms, and when, in management's opinion, the loans are considered to be fully collectible.

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

(Dollars in thousands)	Mar 31, 2019	Dec 31, 2018
Commercial:		
Commercial real estate	$926	$925
Commercial & industrial	—	—
Total commercial	926	925
Residential Real Estate:		
Residential real estate	10,032	9,346
Consumer:		
Home equity	1,407	1,436
Other	—	—
Total consumer	1,407	1,436
Total nonaccrual loans	$12,365	$11,707
Accruing loans 90 days or more past due	$—	$—

As of March 31, 2019 and December 31, 2018, loans secured by one- to four-family residential property amounting to $1.7 million and $761 thousand, respectively, were in process of foreclosure.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Nonaccrual loans of $3.8 million and $3.1 million, respectively, were current as to the payment of principal and interest at March 31, 2019 and December 31, 2018.

There were no significant commitments to lend additional funds to borrowers whose loans were on nonaccrual status at March 31, 2019.

Troubled Debt Restructurings
Loans are considered to be troubled debt restructurings when the Corporation has granted concessions to a borrower due to the borrower's financial condition that it otherwise would not have considered. These concessions may include modifications of the terms of the debt such as deferral of payments, extension of maturity, reduction of principal balance, reduction of the stated interest rate other than normal market rate adjustments, or a combination of these concessions. Debt may be bifurcated with separate terms for each tranche of the restructured debt. Restructuring of 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 collectability of the loan. Loans which are already on nonaccrual status at the time of the restructuring generally remain on nonaccrual status for approximately six months before management considers such loans for return to accruing status. Accruing restructured loans are placed into nonaccrual status if and when the borrower fails to comply with the restructured terms and management deems it unlikely that the borrower will return to a status of compliance in the near term.

Troubled debt restructurings are reported as such for at least one year from the date of the restructuring. In years after the restructuring, troubled debt restructured loans are removed from this classification if the restructuring did not involve a below-market rate concession and the loan is not deemed to be impaired based on the terms specified in the restructuring agreement.

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 $5.5 million and $5.6 million, respectively, at March 31, 2019 and December 31, 2018. The allowance for loan losses included specific reserves for these troubled debt restructurings of $99 thousand and $103 thousand, respectively, at March 31, 2019 and December 31, 2018.

For the three months ended March 31, 2019, there were no loans modified as a troubled debt restructuring. For the three months ended March 31, 2018, there was one commercial and industrial 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.

For the three months ended March 31, 2019 and 2018, there were no payment defaults on troubled debt restructured loans modified within the previous 12 months.

As of March 31, 2019, there were no significant commitments to lend additional funds to borrowers whose loans had been restructured.

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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. 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 collectability. 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. On a quarterly basis, management reviews the criticized loan portfolio, which generally consists of commercial loans that are risk-rated special mention or worse, and other selected loans. Management's review focuses on the current status of the loans and strategies to improve the credit. An annual loan review program is conducted by a third party to provide an independent evaluation of the creditworthiness of the commercial loan portfolio, the quality of the underwriting and credit risk management practices and the appropriateness of the risk rating classifications. This review is supplemented with selected targeted internal reviews of the commercial loan portfolio.

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

(Dollars in thousands)	Pass	Special Mention	Classified

	Mar 31, 2019	Dec 31, 2018	Mar 31, 2019	Dec 31, 2018	Mar 31, 2019	Dec 31, 2018
Commercial:						
Commercial real estate	$1,441,182	$1,387,666	$17,778	$205	$4,722	$4,537
Commercial & industrial	571,489	559,019	27,073	50,426	12,046	11,259
Total commercial	$2,012,671	$1,946,685	$44,851	$50,631	$16,768	$15,796

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Residential and Consumer
Management monitors the relatively homogeneous residential real estate and consumer loan portfolios on an ongoing basis using delinquency information by loan type. For non-impaired residential real estate and consumer loans, the Corporation assigns loss allocation factors to each respective loan type.

Other techniques are utilized to monitor indicators of credit deterioration in the residential real estate loans and consumer loan portfolios. Among these techniques is the periodic tracking of loans with an updated Fair Isaac Corporation ("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.

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

(Dollars in thousands)	Current		Past Due	
	Mar 31, 2019	Dec 31, 2018	Mar 31, 2019	Dec 31, 2018
Residential Real Estate:				
Self-originated mortgages	$1,240,306	$1,238,402	$9,751	$9,079
Purchased mortgages	107,917	111,465	1,098	1,441
Total residential real estate	$1,348,223	$1,349,867	$10,849	$10,520
Consumer:				
Home equity	$277,027	$278,637	$2,911	$1,989
Other	25,156	26,202	13	33
Total consumer	$302,183	$304,839	$2,924	$2,022

Note 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.

The following table presents the activity in the allowance for loan losses for the three months ended March 31, 2019:

(Dollars in thousands)	Commercial				Consumer			
	CRE (1)	C&I (2)	Total Commercial	Residential Real Estate	Home Equity	Other	Total Consumer	Total
Beginning Balance	$15,381	$5,847	$21,228	$3,987	$1,603	$254	$1,857	$27,072
Charge-offs	—	(14)	(14)	—	(61)	(28)	(89)	(103)
Recoveries	—	8	8	—	13	4	17	25
Provision	1,810	(1,343)	467	22	34	127	161	650
Ending Balance	$17,191	$4,498	$21,689	$4,009	$1,589	$357	$1,946	$27,644

(1) Commercial real estate loans.

(2) Commercial & industrial loans.

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 March 31, 2018:

(Dollars in thousands)	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)	(6)	(633)	—	(35)	(22)	(57)	(690)
Recoveries	25	29	54	—	7	5	12	66
Provision	(308)	268	(40)	67	(192)	165	(27)	—
Ending Balance	$11,819	$5,871	$17,690	$5,494	$2,192	$488	$2,680	$25,864

(1) Commercial real estate loans.
(2) Commercial & industrial loans.

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

(Dollars in thousands)	March 31, 2019		December 31, 2018	
	Loans	Related Allowance	Loans	Related Allowance
Loans Individually Evaluated for Impairment				
Commercial:				
Commercial real estate	$926	$—	$925	$—
Commercial & industrial	4,626	—	4,714	—
Total commercial	5,552	—	5,639	—
Residential Real Estate:				
Residential real estate	10,394	98	9,710	100
Consumer:				
Home equity	1,408	111	1,445	24
Other	20	1	22	3
Total consumer	1,428	112	1,467	27
Subtotal	17,374	210	16,816	127
Loans Collectively Evaluated for Impairment				
Commercial:				
Commercial real estate	1,462,756	17,191	1,391,483	15,381
Commercial & industrial	605,982	4,498	615,990	5,847
Total commercial	2,068,738	21,689	2,007,473	21,228
Residential Real Estate:				
Residential real estate	1,348,678	3,911	1,350,677	3,887
Consumer:				
Home equity	278,530	1,478	279,182	1,579
Other	25,149	356	26,212	251
Total consumer	303,679	1,834	305,394	1,830
Subtotal	3,721,095	27,434	3,663,544	26,945
Total	$3,738,469	$27,644	$3,680,360	$27,072

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Note 7 - Federal Home Loan Bank Advances
Advances payable to the FHLB amounted to $1.1 billion and $950.7 million, respectively, at March 31, 2019 and December 31, 2018.

The following table presents maturities and weighted average interest rates on FHLB advances outstanding as of March 31, 2019:

(Dollars in thousands)	Scheduled Maturity	Weighted Average Rate	
April 1, 2019 to December 31, 2019	$822,665	2.63	%
2020	77,033	2.10	
2021	86,222	2.73	
2022	55,447	3.65	
2023	9,428	4.01	
2024 and thereafter	5,334	5.06	
Balance at March 31, 2019	$1,056,129	2.68	%

As of March 31, 2019 and December 31, 2018, the Bank had access to a $40.0 million unused line of credit with the FHLB and also had remaining available borrowing capacity of $575.7 million and $628.5 million, respectively. The Bank pledges certain qualified investment securities and loans as collateral to the FHLB.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Note 8 - Shareholders' Equity
Regulatory Capital Requirements
Capital levels at March 31, 2019 exceeded the regulatory minimum levels to be 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
March 31, 2019						
Total Capital (to Risk-Weighted Assets):						
Corporation	$467,260	12.59 %	$296,925	8.00 %	N/A	N/A
Bank	463,549	12.49	296,892	8.00	$371,115	10.00 %
Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	439,374	11.84	222,694	6.00	N/A	N/A
Bank	435,663	11.74	222,669	6.00	296,892	8.00
Common Equity Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	417,376	11.25	167,020	4.50	N/A	N/A
Bank	435,663	11.74	167,002	4.50	241,225	6.50
Tier 1 Capital (to Average Assets): (1)						
Corporation	439,374	8.69	202,274	4.00	N/A	N/A
Bank	435,663	8.62	202,213	4.00	252,767	5.00
December 31, 2018						
Total Capital (to Risk-Weighted Assets):						
Corporation	455,699	12.56	290,146	8.00	N/A	N/A
Bank	453,033	12.49	290,128	8.00	362,660	10.00
Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	428,338	11.81	217,609	6.00	N/A	N/A
Bank	425,672	11.74	217,596	6.00	290,128	8.00
Common Equity Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	406,340	11.20	163,207	4.50	N/A	N/A
Bank	425,672	11.74	163,197	4.50	235,729	6.50
Tier 1 Capital (to Average Assets): (1)						
Corporation	428,338	8.89	192,690	4.00	N/A	N/A
Bank	425,672	8.84	192,652	4.00	240,815	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 1.875% on January 1, 2018. The capital conservation buffer increased another 0.625% on January 1, 2019, reaching the full requirement of 2.50%.

The Bancorp owns the common stock of two capital trusts, which have issued trust preferred securities. In accordance with GAAP, the capital trusts are treated as unconsolidated subsidiaries. At both March 31, 2019 and December 31, 2018, $22.0 million in trust preferred securities were included in the Tier 1 Capital of the Corporation for regulatory capital reporting purposes pursuant to the Federal Reserve’s capital adequacy guidelines.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Note 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 March 31, 2019 and December 31, 2018, 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 March 31, 2019 and December 31, 2018, 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 March 31, 2019 and December 31, 2018, 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 changes in fair value of derivatives designated as cash flow hedges are recorded in other comprehensive income and subsequently reclassified to earnings when gains or losses are realized.

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 March 31, 2019 and December 31, 2018, Washington Trust had interest rate swap contracts with commercial loan borrowers with notional amounts of $671.5 million and $648.0 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.

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 March 31, 2019, the notional amounts of risk participation-out agreements and risk participation-in agreements were $57.0 million and $46.4 million, respectively, compared to $57.3 million and $46.5 million, respectively, as of December 31, 2018.

Foreign Exchange Contracts
Foreign exchange contracts represent contractual commitments 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 March 31, 2019 and December 31, 2018, the notional amount of foreign exchange contracts was $2.7 million and $2.8 million, respectively.

Loan Commitments
Interest rate lock commitments are extended to borrowers and relate to the origination of mortgage loans held for sale. To mitigate the interest rate risk and pricing risk associated with rate locks and 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 therefore, the changes in fair value of these commitments are reflected in earnings.

As of March 31, 2019, the notional amounts of interest rate lock commitments and forward sale commitments were $64.1 million and $94.6 million, respectively, compared to $30.8 million and $62.0 million, respectively, as of December 31, 2018.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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		
		Fair Value			Fair Value	
	Balance Sheet Location	Mar 31, 2019	Dec 31, 2018	Balance Sheet Location	Mar 31, 2019	Dec 31, 2018
Derivatives Designated as Cash Flow Hedging Instruments:						
Interest rate risk management contracts:						
Interest rate caps	Other assets	$3	$20	Other liabilities	$—	$—
Interest rate swaps	Other assets	291	903	Other liabilities	—	—
Interest rate floors	Other assets	16	37	Other liabilities	—	—
Derivatives not Designated as Hedging Instruments:						
Loan related derivative contracts:						
Interest rate swaps with customers	Other assets	11,176	5,340	Other liabilities	2,952	7,719
Mirror swaps with counterparties	Other assets	2,897	7,592	Other liabilities	11,236	5,392
Risk participation agreements	Other assets	—	—	Other liabilities	1	—
Foreign exchange contracts	Other assets	8	—	Other liabilities	—	7
Forward loan commitments:						
Interest rate lock commitments	Other assets	1,491	806	Other liabilities	—	—
Forward sale commitments	Other assets	—	—	Other liabilities	818	816
Gross amounts		15,882	14,698		15,007	13,934
Less amounts offset in Consolidated Balance Sheets (1)		1,899	10,732		1,899	10,732
Net amounts presented in Consolidated Balance Sheets		13,983	3,966		13,108	3,202
Less collateral pledged (2)		—	—		9,569	1,460
Net amounts		$13,983	$3,966		$3,539	$1,742

(1) Interest rate risk management contracts and loan related derivative contracts with counterparties are subject to master netting arrangements.

(2) Collateral pledged to derivative counterparties is in the form of cash. Washington Trust may need to post additional collateral in the future in proportion to potential increases in unrealized loss positions.

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	
Three months ended March 31,	2019	2018
Derivatives Designated as Cash Flow Hedging Instruments:		
Interest rate risk management contracts:		
Interest rate caps	$—	$38

Interest rate swaps	(466)	839
Interest rate floors	24	12
Total	($442)	$889

See Note 15 for additional disclosure pertaining to the amounts reclassified from accumulated other comprehensive income into earnings for derivatives designated as cash flow hedging instruments.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(Dollars in thousands)		Amount of Gain (Loss) Recognized in Income on Derivatives	
Three months ended March 31,	Statement of Income Location	2019	2018
Derivatives not Designated as Hedging Instruments:			
Loan related derivative contracts:			
Interest rate swaps with customers	Loan related derivative income	$10,310	($9,195)
Mirror swaps with counterparties	Loan related derivative income	(9,604)	9,324
Risk participation agreements	Loan related derivative income	—	—
Foreign exchange contracts	Loan related derivative income	18	12
Forward loan commitments:			
Interest rate lock commitments	Mortgage banking revenues	685	(14)
Forward sale commitments	Mortgage banking revenues	(429)	1,318
Total		$980	$1,445

Note 10 - Fair Value Measurements

The Corporation uses fair value measurements to record fair value adjustments on certain assets and liabilities and to determine fair value disclosures. Items recorded at fair value on a recurring basis include securities available for sale, mortgage loans held for sale and derivatives. 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 financial assets and liabilities on a contract-by-contract basis. The Corporation has elected the fair value option for 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 following table presents a summary of mortgage loans held for sale accounted for under the fair value option:
(Dollars in thousands)

	March 31, 2019	December 31, 2018
Aggregate fair value	$14,608	$20,996
Aggregate principal balance	14,244	20,498
Difference between fair value and principal balance	$364	$498

Changes in fair value of mortgage loans held for sale accounted for under the fair value option election amounted to a decrease of $135 thousand in the three months ended March 31, 2019, compared to a decrease of $329 thousand in the three months ended March 31, 2018. These amounts were partially offset in earnings by the changes in fair value of forward sale commitments

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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.

There were no mortgage loans held for sale 90 days or more past due as of March 31, 2019 and December 31, 2018.

Valuation Techniques

Debt Securities

Available for sale debt securities are recorded at fair value on a recurring basis. When available, the Corporation uses quoted market prices to determine the fair value of debt securities; such items are classified as Level 1. There were no Level 1 debt securities held at March 31, 2019 and December 31, 2018.

Level 2 debt securities 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.

Debt 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 debt securities held at March 31, 2019 and December 31, 2018.

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.

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, factors such as the likelihood of default by the Corporation and its counterparties, its net exposures and remaining contractual life are considered 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 March 31, 2019 and December 31, 2018, 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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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 Associates, Inc. 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 was based upon unobservable inputs; therefore, the contingent liability was classified within Level 3 of the fair value hierarchy. The unobservable inputs included probability estimates regarding the likelihood of achieving revenue growth targets and the discount rates utilized the discounted cash flow calculations applied to the estimated earn-outs to be paid. The contingent consideration liability was 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 were included in noninterest expenses in the 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 likelihood of payout on the remaining earn-out period had been deemed remote and as a result the fair value of the contingent consideration liability was reduced to zero in 2018. There have been no changes to the fair value of the contingent consideration liability for the three months ended March 31, 2019.

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)

March 31, 2019	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available for sale debt securities:				
Obligations of U.S. government-sponsored enterprises	$245,472	$—	$245,472	$—
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	723,505	—	723,505	—

Obligations of states and political subdivisions	937	—	937	—
Individual name issuer trust preferred debt securities	12,370	—	12,370	—
Corporate bonds	12,597	—	12,597	—
Mortgage loans held for sale	14,608	—	14,608	—
Derivative assets	13,983	—	13,983	—
Total assets at fair value on a recurring basis	$1,023,472	$—	$1,023,472	$—
Liabilities:				
Derivative liabilities	$13,108	$—	$13,108	$—
Total liabilities at fair value on a recurring basis	$13,108	$—	$13,108	$—

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(Dollars in thousands) December 31, 2018	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available for sale debt securities:				
Obligations of U.S. government-sponsored enterprises	$242,683	$—	$242,683	$—
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	660,793	—	660,793	—
Obligations of states and political subdivisions	937	—	937	—
Individual name issuer trust preferred debt securities	11,772	—	11,772	—
Corporate bonds	11,625	—	11,625	—
Mortgage loans held for sale	20,996	—	20,996	—
Derivative assets	3,966	—	3,966	—
Total assets at fair value on a recurring basis	$952,772	$—	$952,772	$—
Liabilities:				
Derivative liabilities	$3,202	$—	$3,202	$—
Total liabilities at fair value on a recurring basis	$3,202	$—	$3,202	$—

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 three months ended March 31, 2019 and 2018.

Items Recorded at Fair Value on a Nonrecurring Basis

During the three months ended March 31, 2019, one collateral dependent impaired loan with a carrying value of $103 thousand at December 31, 2018 was written down to a fair value of zero.

The allowance for loan losses on collateral dependent impaired loans amounted to $111 thousand at March 31, 2019.

The following table presents the carrying value of assets held at December 31, 2018, which were written down to fair value during the year ended December 31, 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	$883	$—	$—	$883

Property acquired through foreclosure or repossession	2,142	—	—	2,142
Total assets at fair value on a nonrecurring basis	$3,025	$—	$—	$3,025

The allowance for loan losses on collateral dependent impaired loans amounted to $24 thousand at December 31, 2018.

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) March 31, 2019	Fair Value	Valuation Technique	Unobservable Input	Range of Inputs Utilized (Weighted Average)
Collateral dependent impaired loans	$—	Appraisals of collateral	Appraisal adjustments (1)	100%

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

(Dollars in thousands) December 31, 2018	Fair Value	Valuation Technique	Unobservable Input	Range of Inputs Utilized (Weighted Average)
Collateral dependent impaired loans	$883	Appraisals of collateral	Discount for costs to sell	0% - 10% (10%)
			Appraisal adjustments (1)	0% - 100% (2%)
Property acquired through foreclosure or repossession	$2,142	Appraisals of collateral	Discount for costs to sell	13%
			Appraisal adjustments (1)	12% - 28% (20%)

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

Valuation of Financial Instruments

The estimated fair values and related carrying amounts for financial instruments for which fair value is only disclosed are presented below as of the periods indicated. 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)

March 31, 2019	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:					
Loans, net of allowance for loan losses	$3,710,825	$3,664,361	$—	$—	$3,664,361
Financial Liabilities:					
Time deposits	$1,276,464	$1,292,947	$—	$1,292,947	$—
FHLB advances	1,056,129	1,058,936	—	1,058,936	—
Junior subordinated debentures	22,681	19,363	—	19,363	—

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(Dollars in thousands)

December 31, 2018	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:					
Held to maturity debt securities	$10,415	$10,316	$—	$10,316	$—
Loans, net of allowance for loan losses	3,653,288	3,598,025	—	—	3,598,025
Financial Liabilities:					
Time deposits	$1,255,108	$1,269,433	$—	$1,269,433	$—
FHLB advances	950,722	950,691	—	950,691	—
Junior subordinated debentures	22,681	19,226	—	19,226	—

Note 11 - Revenue from Contracts with Customers

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 months ended March 31,	2019		2018	
(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	$34,584	$—	$31,852	$—
Noninterest income:				
Asset-based wealth management revenues	8,921	8,921	9,955	9,955
Transaction-based wealth management revenues	331	331	318	318
Total wealth management revenues	9,252	9,252	10,273	10,273
Mortgage banking revenues	2,646	—	2,838	—
Card interchange fees	997	997	847	847
Service charges on deposit accounts	875	875	863	863
Loan related derivative income	724	—	141	—
Income from bank-owned life insurance	649	—	515	—
Other income	224	224	266	266
Total noninterest income	15,367	11,348	15,743	12,249
Total revenues	$49,951	$11,348	$47,595	$12,249

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

(Dollars in thousands)

Three months ended March 31,	2019	2018
Revenue recognized at a point in time:		
Card interchange fees	$997	$847
Service charges on deposit accounts	662	672
Other income	179	226
Revenue recognized over time:		
Wealth management revenues	9,252	10,273
Service charges on deposit accounts	213	191
Other income	45	40
Total revenues from contracts in scope of Topic 606	$11,348	$12,249

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 March 31, 2019, compared to $4.8 million at December 31, 2018 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 March 31, 2019 and December 31, 2018 and were included in other liabilities in the Unaudited Consolidated Balance Sheets.

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 carrying value of contract cost assets amounted to $483 thousand at March 31, 2019, compared to $458 thousand at December 31, 2018 and were included in other assets in the Unaudited Consolidated Balance Sheets.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Note 12 - Defined Benefit Pension Plans

Washington Trust maintains a qualified pension plan for the benefit of certain eligible employees who were hired prior to October 1, 2007. Washington Trust 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 qualified pension plan is funded on a current basis, in compliance with the requirements of ERISA.

The following table presents components of net periodic benefit cost and other amounts recognized in other comprehensive income (loss), on a pre-tax basis:

(Dollars in thousands)	Qualified Pension Plan		Non-Qualified Retirement Plans	
Three months ended March 31,	2019	2018	2019	2018
Net Periodic Benefit Cost:				
Service cost (1)	$509	$561	$31	$27
Interest cost (2)	742	679	141	119
Expected return on plan assets (2)	(1,124)	(1,318)	—	—
Amortization of prior service credit (2)	(4)	(6)	—	—
Recognized net actuarial loss (2)	198	374	102	102
Net periodic benefit cost	$321	$290	$274	$248

(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	
For the three months ended March 31,	2019	2018	2019	2018
Measurement date	Dec 31, 2018	Dec 31, 2017	Dec 31, 2018	Dec 31, 2017
Equivalent single discount rate for benefit obligations	4.38%	3.69%	4.28%	3.58%
Equivalent single discount rate for service cost	4.44	3.76	4.48	3.79
Equivalent single discount rate for interest cost	4.12	3.42	3.98	3.22
Expected long-term return on plan assets	5.75	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)

Note 13 - Share-Based Compensation Arrangements
During the three months ended March 31, 2019, the Corporation granted performance share unit 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 17, 2019 (the award date), or $52.87, and will be earned over a 3-year performance period. 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 41,440 shares.

The Corporation granted to a non-executive officer 1,000 nonvested share units, with 3-year cliff vesting. The weighted average grant date fair value of the nonvested share units was $51.31.

Note 14 - 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 bank-owned life insurance ("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	
Three months ended March 31,	2019	2018	2019	2018	2019	2018	2019	2018
Net interest income (expense)	$27,302	$25,976	($127)	($58)	$7,409	$5,934	$34,584	$31,852
Provision for loan losses	650	—	—	—	—	—	650	—
Net interest income (expense) after provision for loan losses	26,652	25,976	(127)	(58)	7,409	5,934	33,934	31,852
Noninterest income	5,455	4,936	9,252	10,273	660	534	15,367	15,743
Noninterest expenses:								
Depreciation and amortization expense	672	637	365	396	40	42	1,077	1,075
Other noninterest expenses	15,758	15,466	6,478	7,199	3,651	3,390	25,887	26,055
Total noninterest expenses	16,430	16,103	6,843	7,595	3,691	3,432	26,964	27,130
Income before income taxes	15,677	14,809	2,282	2,620	4,378	3,036	22,337	20,465
Income tax expense	3,421	3,103	617	643	804	508	4,842	4,254
Net income	$12,256	$11,706	$1,665	$1,977	$3,574	$2,528	$17,495	$16,211
Total assets at period end	$3,884,052	$3,521,309	$76,657	$66,567	$1,194,020	$978,450	$5,154,729	$4,566,326
Expenditures for long-lived assets	1,300	598	292	154	63	59	1,655	811

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Note 15 - Other Comprehensive Income (Loss)
The following tables present the activity in other comprehensive income (loss):

Three months ended March 31,	2019			2018		
(Dollars in thousands)	Pre-tax Amounts	Income Taxes	Net of Tax	Pre-tax Amounts	Income Taxes	Net of Tax
Securities available for sale:						
Changes in fair value of available for sale debt securities	$14,406	$3,385	$11,021	($13,613)	($3,199)	($10,414)
Net gains on debt securities reclassified into earnings	—	—	—	—	—	—
Net change in fair value of available for sale debt securities	14,406	3,385	11,021	(13,613)	(3,199)	(10,414)
Cash flow hedges:						
Change in fair value of cash flow hedges	(546)	(128)	(418)	803	91	712
Net cash flow hedge losses reclassified into earnings (1)	(31)	(7)	(24)	231	54	177
Net change in fair value of cash flow hedges	(577)	(135)	(442)	1,034	145	889
Defined benefit plan obligations:						
Amortization of net actuarial losses (2)	300	70	230	476	112	364
Amortization of net prior service credits (2)	(4)	(1)	(3)	(6)	(2)	(4)
Net change in defined benefit plan obligations	296	69	227	470	110	360
Total other comprehensive income (loss)	$14,125	$3,319	$10,806	($12,109)	($2,944)	($9,165)

(1) The pre-tax amounts are included in interest expense on FHLB 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.

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

(Dollars in thousands)	Net Unrealized (Losses) Gains on Available For Sale Debt Securities	Net Unrealized Gains (Losses) on Cash Flow Hedges	Defined Benefit Pension Plan Adjustment	Total
Balance at December 31, 2018	($16,762)	$191	($11,738)	($28,309)
Other comprehensive income (loss) before reclassifications	11,021	(418)	—	10,603
Amounts reclassified from accumulated other comprehensive income	—	(24)	227	203
Net other comprehensive income (loss)	11,021	(442)	227	10,806
Balance at March 31, 2019	($5,741)	($251)	($11,511)	($17,503)

(Dollars in thousands)	Net Unrealized Losses on Available For Sale Debt Securities	Net Unrealized (Losses) Gains on Cash Flow Hedges	Defined Benefit Pension Plan Adjustment	Total

Balance at December 31, 2017	($7,534)	($428)	($15,548)	($23,510)
Other comprehensive (loss) income before reclassifications	(10,414)	712	—	(9,702)
Amounts reclassified from accumulated other comprehensive income	—	177	360	537
Net other comprehensive (loss) income	(10,414)	889	360	(9,165)
Balance at March 31, 2018	($17,948)	$461	($15,188)	($32,675)

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Note 16 - Earnings per Common Share

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

(Dollars and shares in thousands, except per share amounts)		
Three months ended March 31,	2019	2018
Earnings per common share - basic:		
Net income	$17,495	$16,211
Less dividends and undistributed earnings allocated to participating securities	(34)	(38)
Net income available to common shareholders	$17,461	$16,173
Weighted average common shares	17,304	17,234
Earnings per common share - basic	$1.01	$0.94
Earnings per common share - diluted:		
Net income	$17,495	$16,211
Less dividends and undistributed earnings allocated to participating securities	(34)	(38)
Net income available to common shareholders	$17,461	$16,173
Weighted average common shares	17,304	17,234
Dilutive effect of common stock equivalents	97	111
Weighted average diluted common shares	17,401	17,345
Earnings per common share - diluted	$1.00	$0.93

Weighted average common stock equivalents, not included in common stock equivalents above because they were anti-dilutive, totaled 87,775 and 45,832, respectively for the three months ended March 31, 2019 and 2018.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Note 17 - Leases
The Corporation has committed to rent premises used in business operations under non-cancelable operating leases and determines if an arrangement meets the definition of a lease upon inception.

The Corporation adopted the provisions of ASU 2016-02 (Topic 842) on January 1, 2019. Operating lease right-of-use (“ROU”) assets represent a right to use an underlying asset for the contractual lease term. Operating lease liabilities represent an obligation to make lease payments arising from the lease. Upon adoption, operating lease ROU assets totaling $28.9 million and operating lease liabilities totaling $30.9 million were recognized in our Unaudited Consolidated Balance Sheets for leases that existed at the adoption date, based on the present value of lease payments over the remaining lease term. Operating leases entered into after the adoption date will be recognized as an operating lease ROU asset and operating lease liability at the commencement date of the new lease.

The Corporation’s leases do not provide an implicit interest rate, therefore the Corporation used its incremental collateralized borrowing rates commensurate with the underlying lease terms to determine the present value of operating lease liabilities. The weighted average discount rate used to discount operating lease liabilities at March 31, 2019 was 3.66%.

The Corporation’s operating lease agreements contain both lease and non-lease components, which are generally accounted for separately. The Corporation’s lease agreements do not contain any residual value guarantees.

Operating leases with terms of 12 months or less are included in ROU assets and operating lease liabilities recorded in our Unaudited Consolidated Balance Sheets. Operating lease terms include options to extend when it is reasonably certain that the Corporation will exercise such options, determined on a lease-by-lease basis. As of March 31, 2019, the Corporation does not have any leases that have not yet commenced. At March 31, 2019, lease expiration dates ranged from 2 months to 22 years, with additional renewal options on certain leases ranging from 1 to 5 years. At March 31, 2019, the weighted average remaining lease term for the Corporation’s operating leases was 14.4 years.

Rental expense for operating leases is recognized on a straight-line basis over the lease term and amounted to $939 thousand and $916 thousand, respectively, for the three months ended March 31, 2019 and 2018. Variable lease components, such as fair market value adjustments, are expensed as incurred and not included in ROU assets and operating lease liabilities.

The following table presents the minimum annual lease payments under the terms of these leases, inclusive of renewal options that the Corporation is reasonably certain to renew, at March 31, 2019:

(Dollars in thousands)	
April 1, 2019 to December 31, 2019	$2,665
2020	3,433
2021	3,270
2022	3,123
2023	2,991
2024 and thereafter	24,318
Total operating lease payments (1)	39,800
Less interest	9,613
Present value of operating lease liabilities (2)	$30,187

(1) Includes $4.7 million related to options to extend lease terms that are reasonably certain of being exercised.
(2) Includes short-term operating lease liabilities of $2.5 million.

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Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

The following table presents the components of total lease expense and operating cash flows:

(Dollars in thousands)	
Three months ended March 31,	2019
Lease Expense:	
Operating lease expense	$928
Variable lease expense	11
Total lease expense (1)	$939
Cash Paid:	
Cash paid reducing operating lease liabilities	$920

(1) Included in net occupancy expenses in the Unaudited Consolidated Income Statement.

The following table presents the minimum annual lease payments under the terms of these leases, exclusive of renewal provisions at December 31, 2018:

(Dollars in thousands)		
Years ending December 31:	2019	$3,544
	2020	2,980
	2021	2,677
	2022	2,293
	2023	2,059
	2024 and thereafter	22,648
Total minimum lease payments		$36,201

At December 31, 2018, lease expiration dates ranged from 5 months to 22 years, with additional renewal options on certain leases ranging from 1 to 5 years.

Note 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:

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(Dollars in thousands)	Mar 31, 2019	Dec 31, 2018
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit:		
Commercial loans	$502,781	$533,884
Home equity lines	278,477	270,462
Other loans	48,750	46,698
Standby letters of credit	8,469	7,706
Financial instruments whose notional amounts exceed the amount of credit risk:		
Forward loan commitments:		
Interest rate lock commitments	64,104	30,766
Forward sale commitments	94,640	61,993
Loan related derivative contracts:		
Interest rate swaps with customers	671,492	648,050
Mirror swaps with counterparties	671,492	648,050
Risk participation-in agreements	46,357	46,510
Foreign exchange contracts	2,726	2,784
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 $8.5 million and $7.7 million, respectively, as of March 31, 2019 and December 31, 2018. At March 31, 2019 and December 31, 2018, there were no liabilities to beneficiaries resulting from standby letters of credit. Fee income on standby letters of credit was insignificant for the three months ended March 31, 2019 and 2018.

Forward Loan Commitments
Interest rate lock commitments are extended to borrowers and relate to the origination of mortgage loans held for sale. To mitigate the interest rate risk and pricing risk associated with these rate locks and 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.

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, 2018, 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 months ended March 31, 2019 are not necessarily indicative of the results for the full-year ended December 31, 2019 or any future period. Certain previously reported amounts have been reclassified to conform to 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 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 collectability, 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, including cyberattacks, hacking and identity theft and 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, 2018, 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, 2018.

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
The Corporation 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, which is 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 benefit costs, outsourced services provided by third-party vendors, occupancy and facility-related costs 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. In January 2019, Washington Trust opened a new full-service branch in North Providence, Rhode Island.

Results of Operations

The following table presents a summarized consolidated statement of operations:

(Dollars in thousands)			Change	
For the three months ended March 31,	2019	2018	$	%
Net interest income	$34,584	$31,852	$2,732	9 %
Noninterest income	15,367	15,743	(376)	(2)
Total revenues	49,951	47,595	2,356	5
Provision for loan losses	650	—	650	—
Noninterest expense	26,964	27,130	(166)	(1)
Income before income taxes	22,337	20,465	1,872	9
Income tax expense	4,842	4,254	588	14
Net income	$17,495	$16,211	$1,284	8 %

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

For the three months ended March 31,	2019	2018
Diluted earnings per common share	$1.00	$0.93
Return on average assets (net income divided by average assets)	1.39 %	1.45 %
Return on average equity (net income available for common shareholders divided by average equity)	15.52 %	15.96 %
Net interest income as a percentage of total revenues	69 %	67 %
Noninterest income as a percentage of total revenues	31 %	33 %

Net income totaled $17.5 million for the three months ended March 31, 2019, compared to $16.2 million for the same period in 2018. Income before income taxes for the three months ended March 31, 2019 increased by $1.9 million, compared to the same period a year ago, largely due to growth in net interest income. The increase in income tax expense for the three months ended March 31, 2019, compared to the same period a year ago, largely reflects a higher level of pretax income in 2019.

Management's Discussion and Analysis

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

The following table presents 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 March 31,	2019			2018			Change		
(Dollars in thousands)	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets:									
Cash, federal funds sold and short-term investments	$56,359	$340	2.45	$53,138	$205	1.56	$3,221	$135	0.89
Mortgage loans held for sale	16,587	180	4.40	24,424	226	3.75	(7,837)	(46)	0.65
Taxable debt securities	1,000,911	7,226	2.93	804,518	5,118	2.58	196,393	2,108	0.35
Nontaxable debt securities	935	10	4.34	2,355	29	4.99	(1,420)	(19)	(0.65)
Total securities	1,001,846	7,236	2.93	806,873	5,147	2.59	194,973	2,089	0.34
FHLB stock	46,988	695	6.00	40,888	516	5.12	6,100	179	0.88
Commercial real estate	1,425,225	16,879	4.80	1,218,702	12,346	4.11	206,523	4,533	0.69
Commercial & industrial	618,364	7,544	4.95	608,784	6,823	4.55	9,580	721	0.40
Total commercial	2,043,589	24,423	4.85	1,827,486	19,169	4.25	216,103	5,254	0.60
Residential real estate	1,357,835	13,765	4.11	1,228,379	11,929	3.94	129,456	1,836	0.17
Home equity	278,581	3,564	5.19	287,176	3,160	4.46	(8,595)	404	0.73
Other	25,629	316	5.00	30,706	370	4.89	(5,077)	(54)	0.11
Total consumer	304,210	3,880	5.17	317,882	3,530	4.50	(13,672)	350	0.67
Total loans	3,705,634	42,068	4.60	3,373,747	34,628	4.16	331,887	7,440	0.44
Total interest-earning assets	4,827,414	50,519	4.24	4,299,070	40,722	3.84	528,344	9,797	0.40
Noninterest-earning assets	268,689			230,638			38,051		
Total assets	$5,096,103			$4,529,708			$566,395		
Liabilities and Shareholders' Equity:									
Interest-bearing demand deposits	$165,911	$686	1.68	$80,502	$28	0.14	$85,409	$658	1.54
NOW accounts	454,868	84	0.07	449,298	54	0.05	5,570	30	0.02
Money market accounts	646,250	1,609	1.01	718,664	880	0.50	(72,414)	729	0.51
Savings accounts	369,219	61	0.07	368,012	57	0.06	1,207	4	0.01
Time deposits (in-market)	789,378	3,727	1.91	617,878	1,820	1.19	171,500	1,907	0.72
Total interest-bearing in-market deposits	2,425,626	6,167	1.03	2,234,354	2,839	0.51	191,272	3,328	0.52
Wholesale brokered time deposits	473,799	2,529	2.16	409,243	1,583	1.57	64,556	946	0.59
Total interest-bearing deposits	2,899,425	8,696	1.22	2,643,597	4,422	0.68	255,828	4,274	0.54
FHLB advances	1,027,285	6,661	2.63	810,967	3,983	1.99	216,318	2,678	0.64
Junior subordinated debentures	22,681	253	4.52	22,681	183	3.27	—	70	1.25
Total interest-bearing liabilities	3,949,391	15,610	1.60	3,477,245	8,588	1.00	472,146	7,022	0.60
Noninterest-bearing demand deposits	607,033			584,557			22,476		
Other liabilities	83,438			56,951			26,487		
Shareholders' equity	456,241			410,955			45,286		
	$5,096,103			$4,529,708			$566,395		

Total liabilities and shareholders' equity			
Net interest income (FTE)	$34,909	$32,134	$2,775
Interest rate spread	2.64	2.84	(0.20)
Net interest margin	2.93	3.03	(0.10)

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 March 31,	2019	2018	Change
Commercial loans	$324	$276	$48
Nontaxable debt securities	1	6	(5)
Total	$325	$282	$43

Net Interest Income
Net interest income continues to be the primary source of our operating income. Net interest income for the three months ended March 31, 2019 totaled $34.6 million, compared to $31.9 million for the same period in 2018. 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. Income associated with loan payoffs and prepayment penalties is included in net interest income.

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 may be impacted by the level of income associated with loan payoffs and prepayment penalties recognized in each period. For the three months ended March 31, 2019 and 2018, income associated with loan payoffs and prepayment penalties was insignificant.

FTE net interest income for the three months ended March 31, 2019 amounted to $34.9 million, up by $2.8 million, or 9%, from the same period in 2018. The net interest margin was 2.93% for the three months ended March 31, 2019, compared to 3.03% for the same period a year ago. While the net interest margin benefited from a rise in market interest rates on variable rate loans, it was also adversely impacted by a higher cost of funds.

Total average securities for the three months ended March 31, 2019 increased by $195.0 million, or 24%, from the average balances for the same period a year earlier. The FTE rate of return on the securities portfolio for the three months ended March 31, 2019 was 2.93%, compared to 2.59% for the same period in 2018, due primarily to purchases of relatively higher yielding debt securities.

Total average loan balances for the three months ended March 31, 2019 increased by $331.9 million, or 10%, from the average loan balances for the comparable 2018 period, primarily due to growth in average commercial real estate and residential real estate loan balances. The yield on total loans for the three months ended March 31, 2019 was 4.60%, compared to 4.16% for the same period in 2018. Yields on LIBOR-based and prime-based loans reflected increases in market interest rates.

The average balance of FHLB advances for the three months ended March 31, 2019 increased by $216.3 million, or 27%, compared to the average balances for the same period in 2018. The average rate paid on such advances for the three months ended March 31, 2019 was 2.63%, compared to 1.99% for the same period in 2018, due to higher rates on short-term advances.

Total average interest-bearing deposits for the three months ended March 31, 2019 increased by $255.8 million, or 10%, from the average balances for the same period in 2018. Included in total average interest-bearing deposits were of out-of-market wholesale brokered time deposits, which increased by $64.6 million from the same period in 2018. Excluding wholesale brokered time deposits, average in-market interest-bearing deposits for the three months ended

March 31, 2019 increased by $191.3 million, or 9%, from the average balances for the same period in 2018, with growth in time deposits and demand deposits, partially offset by a decline in money market accounts. The average rate paid on in-market interest-bearing deposits for the three months ended March 31, 2019 increased by 52 basis points, compared to the same period in 2018, largely due to higher rates paid on promotional time deposits, as well as competitive pricing on money market accounts and interest-bearing demand deposits.

The average balance of noninterest-bearing demand deposits for the three months ended March 31, 2019 increased by $22.5 million, or 4%, from the average balances for the same period in 2018.

Management's Discussion and Analysis

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 March 31, 2019 vs. 2018 Change Due to		
	Volume	Rate	Net Change
Interest on Interest-Earning Assets:			
Cash, federal funds sold and other short-term investments	$13	$122	$135
Mortgage loans held for sale	(81)	35	(46)
Taxable debt securities	1,355	753	2,108
Nontaxable debt securities	(16)	(3)	(19)
Total securities	1,339	750	2,089
FHLB stock	83	96	179
Commercial real estate	2,280	2,253	4,533
Commercial & industrial	103	618	721
Total commercial	2,383	2,871	5,254
Residential real estate	1,303	533	1,836
Home equity	(98)	502	404
Other	(62)	8	(54)
Total consumer	(160)	510	350
Total loans	3,526	3,914	7,440
Total interest income	4,880	4,917	9,797
Interest on Interest-Bearing Liabilities:			
Interest-bearing demand deposits	58	600	658
NOW accounts	1	29	30
Money market accounts	(97)	826	729
Savings accounts	—	4	4
Time deposits (in-market)	600	1,307	1,907
Total interest-bearing in-market deposits	562	2,766	3,328
Wholesale brokered time deposits	280	666	946
Total interest-bearing deposits	842	3,432	4,274
FHLB advances	1,214	1,464	2,678
Junior subordinated debentures	—	70	70
Total interest expense	2,056	4,966	7,022
Net interest income (FTE)	$2,824	($49)	$2,775

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; 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.

A loan loss provision of $650 thousand was charged to earnings for the three months ended March 31, 2019. This provision was based on management's assessment of asset quality and credit quality metrics, growth and changes in the loan portfolio, and loss exposure allocations. For three months ended March 31, 2018, management concluded that no loan loss provision was necessary. Net charge-offs totaled $78 thousand for the three months ended March 31, 2019, compared to $624 thousand for the same period in 2018.

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The allowance for loan losses was $27.6 million, or 0.74% of total loans, at March 31, 2019, compared to $27.1 million, or 0.74% of total loans, at December 31, 2018. See additional discussion under the caption “Asset Quality” for further information on the allowance for loan losses.

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)			Change	
Three months ended March 31,	2019	2018	$	%
Noninterest income:				
Wealth management revenues	$9,252	$10,273	($1,021)	(10 %)
Mortgage banking revenues	2,646	2,838	(192)	(7)
Card interchange fees	997	847	150	18
Service charges on deposit accounts	875	863	12	1
Loan related derivative income	724	141	583	413
Income from bank-owned life insurance	649	515	134	26
Other income	224	266	(42)	(16)
Total noninterest income	$15,367	$15,743	($376)	(2)%

Noninterest Income Analysis

Revenue from wealth management services is our largest source of noninterest income, representing 60% of total noninterest income in 2019. 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 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)			Change	
Three months ended March 31,	2019	2018	$	%
Wealth management revenues:				
Asset-based revenues	$8,921	$9,955	($1,034)	(10)%
Transaction-based revenues	331	318	13	4
Total wealth management revenues	$9,252	$10,273	($1,021)	(10)%

Wealth management revenues for the three months ended March 31, 2019 decreased by $1.0 million, or 10%, from the comparable period in 2018, reflecting a lower level of asset-based revenues.

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

(Dollars in thousands)		
Three months ended March 31,	2019	2018
Wealth management assets under administration:		
Balance at the beginning of period	$5,910,814	$6,714,637
Net investment appreciation (depreciation) & income	520,057	(32,024)
Net client asset flows	(80,743)	(338,893)
Balance at the end of period	$6,350,128	$6,343,720

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Assets under administration stood at $6.4 billion at March 31, 2019, a modest increase of $6.4 million from a year ago, and up by $439.3 million, or 7%, from December 31, 2018. The increase in the end of period balance of wealth management assets from December 31, 2018 was largely due to financial market appreciation.

While the March 31, 2019 end of period assets under administration balances were up from a year ago, the average balance of wealth management assets for the three months ended March 31, 2019 was down by $502.7 million, or 8%, compared to the average balance of wealth management assets for the same period in 2018. In 2018, the decline in wealth management assets reflected net client outflows largely associated with the loss of certain client-facing personnel in the first quarter of 2018, as well as financial market declines.

Mortgage banking revenues represented 17% of total noninterest income in 2019. These 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)			Change	
Three months ended March 31,	2019	2018	$	%
Mortgage banking revenues:				
Gains and commissions on loan sales (1)	$2,474	$2,679	($205)	(8)%
Loan servicing fee income, net (2)	172	159	13	8
Total mortgage banking revenues	$2,646	$2,838	($192)	(7)%
Loans sold to the secondary market (3)	$92,079	$96,840	($4,761)	(5)%

(1) Includes gains on loan sales, commissions on loans originated for others, servicing right gains, fair value adjustments on mortgage 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.
(3) Includes brokered loans.

For the three months ended March 31, 2019, mortgage banking revenues were down by $192 thousand, or 7%, from the same period in 2018. The decline in mortgage banking revenues reflected lower sales volume, as well as a modest decline in the sale yield on loans sold to the secondary market.

Loan related derivative income for the three months ended March 31, 2019 increased by $583 thousand from the comparable period in 2018. The increase was largely due to a higher volume of commercial borrower interest rate swap transactions.

Income from bank-owned life insurance for the three months ended March 31, 2019 increased by $134 thousand from the same period in 2018. The increase was largely due to a $91 thousand gain that was recognized in the first quarter of 2019 resulting from the receipt of tax-exempt life insurance proceeds.

Management's Discussion and Analysis

Noninterest Expense

The following table presents noninterest expense comparisons:

(Dollars in thousands)			Change	
Three months ended March 31,	2019	2018	$	%
Noninterest expense:				
Salaries and employee benefits	$17,619	$17,772	($153)	(1)%
Outsourced services	2,606	1,873	733	39
Net occupancy	1,998	2,002	(4)	—
Equipment	1,011	1,180	(169)	(14)
Legal, audit and professional fees	534	726	(192)	(26)
FDIC deposit insurance costs	429	404	25	6
Advertising and promotion	239	177	62	35
Amortization of intangibles	239	248	(9)	(4)
Other	2,289	2,748	(459)	(17)
Total noninterest expense	$26,964	$27,130	($166)	(1)%

Noninterest Expense Analysis

Outsourced services for the three months ended March 31, 2019 increased by $733 thousand, compared to the same period in 2018. The increase in outsourced services reflects the expansion of services, including software application processing and operational services, provided by third party vendors.

Other expenses for the three months ended March 31, 2019 decreased by $459 thousand, compared to the same period in 2018. The decrease was largely due to software system implementation costs recognized in the first quarter of 2018 associated with our wealth management and trust accounting system that was implemented in April 2018.

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 ended March 31,	2019	2018
Income tax expense	$4,842	$4,254
Effective income tax rate	21.7 %	20.8 %

The effective income tax rates for the three months ended March 31, 2019 and 2018 differed from the federal rate of 21%, primarily due to state income tax expense, offset by the benefits of tax-exempt income, income from BOLI, federal tax credits and the recognition of excess tax benefits associated with the settlement of share-based awards.

The increase in the effective tax rate for the three months ended March 31, 2019 compared to the same period in 2018 was largely due to a decrease in the amount of excess tax benefits recognized upon the settlement of share-based compensation awards.

Segment Reporting

The Corporation 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 14 to the Unaudited Consolidated Financial Statements for additional disclosure related to business segments.

Management's Discussion and Analysis

Commercial Banking

The following table presents a summarized statement of operations for the Commercial Banking business segment:

(Dollars in thousands)			Change	
Three months ended March 31,	2019	2018	$	%
Net interest income	$27,302	$25,976	$1,326	5 %
Provision for loan losses	650	—	650	100
Net interest income after provision for loan losses	26,652	25,976	676	3
Noninterest income	5,455	4,936	519	11
Noninterest expense	16,430	16,103	327	2
Income before income taxes	15,677	14,809	868	6
Income tax expense	3,421	3,103	318	10
Net income	$12,256	$11,706	$550	5 %

Net interest income for the Commercial Banking segment for the three months ended March 31, 2019, increased by $1.3 million, or 5%, from the same period in 2018, 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 in-market deposits.

A loan loss provision of $650 thousand was charged to earnings for the three months ended March 31, 2019. This provision was based on management's assessment of asset quality and credit quality metrics, growth and changes in the loan portfolio, and loss exposure allocations. For three months ended March 31, 2018, management concluded that no loan loss provision was necessary.

Noninterest income derived from the Commercial Banking segment for the three months ended March 31, 2019 was up by $519 thousand, or 11%, from the comparable period in 2018. The increase largely reflected higher loan related derivative income and lower mortgage banking revenues, both of which were volume driven. See additional discussion under the caption "Noninterest Income."

Commercial Banking noninterest expenses for the three months ended March 31, 2019 were up by $327 thousand from the same period in 2018, reflecting higher outsourced services expense.

Wealth Management Services

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

(Dollars in thousands)			Change	
Three months ended March 31,	2019	2018	$	%
Net interest expense	($127)	($58)	($69)	119 %
Noninterest income	9,252	10,273	(1,021)	(10)
Noninterest expense	6,843	7,595	(752)	(10)
Income before income taxes	2,282	2,620	(338)	(13)
Income tax expense	617	643	(26)	(4)
Net income	$1,665	$1,977	($312)	(16 %)

For the three months ended March 31, 2019, noninterest income derived from the Wealth Management Services segment decreased by $1.0 million, or 10%, compared to the same period in 2018. reflecting a decline in asset-based revenues. See further discussion of wealth management revenues under the caption "Noninterest Income" above.

For the three months ended March 31, 2019, noninterest expenses for the Wealth Management Services segment decreased by $752 thousand, or 10%, from the same period in 2018. Included in noninterest expenses for the three months ended March 31, 2018 were software system implementation costs of $663 thousand incurred in connection with our wealth management and

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trust accounting system that was implemented in April 2018. No such costs were recognized for the three months ended March 31, 2019.

Corporate

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

(Dollars in thousands)			Change	
Three months ended March 31,	2019	2018	$	%
Net interest income	$7,409	$5,934	$1,475	25 %
Noninterest income	660	534	126	24
Noninterest expense	3,691	3,432	259	8
Income before income taxes	4,378	3,036	1,342	44
Income tax expense	804	508	296	58
Net income	$3,574	$2,528	$1,046	41 %

Net interest income for the Corporate unit for the three months ended March 31, 2019 was up by $1.5 million, or 25%, compared to the same period in 2018, 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 income for the Corporate unit for for the three months ended March 31, 2019 was up by $126 thousand, or 24%, from the same period in 2018, largely due to higher income from BOLI. See further discussion of income from BOLI under the caption “Noninterest Income” above.

Noninterest expenses for the Corporate unit for the three months ended March 31, 2019 were up by $259 thousand from the same period in 2018, reflecting modest increases in a variety of expense categories.

Financial Condition

Summary

The following table presents selected financial condition data:

(Dollars in thousands)			Change	
	March 31, 2019	December 31, 2018	$	%
Total securities	$994,881	$938,225	$56,656	6 %
Total loans	3,738,469	3,680,360	58,109	2
Allowance for loan losses	27,644	27,072	572	2
Total assets	5,154,729	5,010,766	143,963	3
Total deposits	3,504,260	3,524,048	(19,788)	(1)
FHLB advances	1,056,129	950,722	105,407	11
Total shareholders’ equity	469,843	448,184	21,659	5

Total assets stood at $5.2 billion at March 31, 2019, up by $144.0 million, or 3%, from the end of 2018, largely reflecting loan growth and purchases of securities. Also included in the increase in total assets was the recognition of operating lease right-of-use assets due to the adoption of ASU 2016-02 on January 1, 2019 as disclosed in Note 2 to the Unaudited Consolidated Financial Statements. Total deposits decreased by $19.8 million, or 1%, and FHLB advances increased by $105.4 million, or 11%, from the end of 2018. Shareholders’ equity amounted to $469.8 million at March 31, 2019, up by $21.7 million from the balance at the end of 2018. As of March 31, 2019, the Bancorp and the Bank were “well capitalized.” See Note 8 to the Unaudited Consolidated Financial Statements for additional discussion on regulatory capital requirements.

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Securities

Investment security activity is monitored by an Investment Committee, the members of which also sit on the Asset/Liability Committee ("ALCO"). Asset and liability management objectives are the primary influence on the Corporation's investment activities. However, the Corporation also recognizes that there are certain specific risks inherent in investment portfolio activity. The securities portfolio is managed in accordance with regulatory guidelines and established internal corporate investment policies that provide limitations on specific risk factors such as market risk, credit risk and concentration, liquidity risk and operational risk to help monitor risks associated with investing in securities. Reports on the activities conducted by Investment Committee and the ALCO are presented to the Board of Directors on a regular basis.

The Corporation'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 March 31, 2019 and December 31, 2018, 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 10 to the Unaudited Consolidated Financial Statements for additional information regarding the determination of fair value of investment securities.

Securities Portfolio

The carrying amounts of securities held are as follows:

(Dollars in thousands)	March 31, 2019			December 31, 2018		
	Amount	%		Amount	%	
Available for Sale Debt Securities:						
Obligations of U.S. government-sponsored enterprises	$245,472	25	%	$242,683	26	%
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	723,505	73		660,793	72	

Obligations of states and political subdivisions	937	—	937	—
Individual name issuer trust preferred debt securities	12,370	1	11,772	1
Corporate bonds	12,597	1	11,625	1
Total available for sale debt securities	$994,881	100%	$927,810	100%

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(Dollars in thousands)	March 31, 2019		December 31, 2018	
	Amount	%	Amount	%
Held to Maturity Debt Securities:				
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	$—	— %	$10,415	100 %
Total held to maturity debt securities	$—	— %	$10,415	100 %

As noted above, the securities portfolio is managed to generate interest income, for interest rate risk management purposes, and to provide an available source of liquidity for balance sheet management. Debt securities totaling $72.6 million and $41.7 million, respectively, were purchased during the three months ended March 31, 2019 and 2018. The 2019 purchases had a weighted average yield of 3.69%, while the 2018 purchases had a weighted average yield of 3.03%. These purchases were partially offset by routine principal pay-downs on mortgage-backed securities and a called debt security.

As disclosed in Note 2 to the Unaudited Consolidated Financial Statements, on January 1, 2019, the Corporation adopted the provisions of ASU 2017-12. As permitted by ASU 2017-12, debt securities classified as held-to-maturity with an amortized cost of $10.4 million and and a fair value of $10.3 million were reclassified to available for sale upon the adoption date.

The securities portfolio stood at $994.9 million as of March 31, 2019, or 19% of total assets, compared to $938.2 million as of December 31, 2018, or 19% 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.

As of March 31, 2019 and December 31, 2018, the net unrealized loss position on securities available for sale and held to maturity amounted to $7.5 million and $22.0 million, respectively, and included gross unrealized losses of $12.5 million and $24.4 million, respectively. As of March 31, 2019, 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 March 31, 2019. See Note 4 to the Unaudited Consolidated Financial Statements for additional information.

Loans

Total loans amounted to $3.7 billion at March 31, 2019, up by $58.1 million, or 2%, from the end of 2018, due to growth in commercial real estate loans.

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The following is a summary of loans:

(Dollars in thousands)	March 31, 2019		December 31, 2018	
	Amount	%	Amount	%
Commercial:				
Commercial real estate (1)	$1,463,682	39 %	$1,392,408	38 %
Commercial & industrial (2)	610,608	16	620,704	17
Total commercial	2,074,290	55	2,013,112	55
Residential Real Estate:				
Residential real estate (3)	1,359,072	36	1,360,387	37
Consumer:				
Home equity	279,938	7	280,626	8
Other (4)	25,169	1	26,235	—
Total consumer	305,107	8	306,861	8
Total loans	$3,738,469	100%	$3,680,360	100%

(1) Consists of commercial mortgages primarily secured by income-producing property, as 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) Consists of loans to businesses and individuals, a substantial portion of which are fully or partially collateralized by real estate.
(3) Consists of mortgage and homeowner construction loans secured by one- to four-family residential properties.
(4) Consists of loans to individuals secured by general aviation aircraft and other personal installment loans.

Commercial Loans
The commercial loan portfolio represented 55% of total loans at March 31, 2019.

In making commercial loans, we may occasionally solicit the participation of other banks. The Bank 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 $419.4 million and $406.4 million, respectively, at March 31, 2019 and December 31, 2018. Our participation in commercial loans originated by other banks also includes shared national credits. 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 $1.5 billion at March 31, 2019, up by $71.3 million, or 5%, from the balance at December 31, 2018. Included in commercial real estate loans were construction and development loans of $210.7 million and $190.9 million, respectively, as of March 31, 2019 and December 31, 2018. For the three months ended March 31, 2019, commercial real estate loan originations and advances amounted to $93.5 million, which were partially offset by payoffs.

Commercial real estate loans are secured by a variety of property types, with approximately 90% of the total at March 31, 2019 composed of multi-family dwellings, retail facilities, office buildings, lodging, healthcare facilities, commercial mixed use and

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industrial and warehouse properties. The average commercial real estate loan size was $2.9 million and the largest individual commercial real estate loan outstanding was $25.9 million as of March 31, 2019.

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

(Dollars in thousands)	March 31, 2019		December 31, 2018	
	Amount	% of Total	Amount	% of Total
Rhode Island	$386,990	26 %	$377,249	27 %
Connecticut	582,934	40	570,116	41
Massachusetts	402,276	28	356,615	26
Subtotal	1,372,200	94	1,303,980	94
All other states	91,482	6	88,428	6
Total	$1,463,682	100 %	$1,392,408	100 %

Commercial and Industrial Loans

Commercial and industrial loans amounted to $610.6 million at March 31, 2019, down by $10.1 million, or 2%, from the balance at December 31, 2018. For the three months ended March 31, 2019, modest originations were offset by lower line utilization, payoffs and paydowns.

Shared national credit balances outstanding included in the commercial and industrial loan portfolio totaled $84.2 million at March 31, 2019. All of these loans were included in the pass-rated category of commercial loan credit quality and were current with respect to contractual payment terms at March 31, 2019.

The commercial and industrial loan portfolio includes loans to a variety of business types, with 90% of the total at March 31, 2019 composed of health care/social assistance, manufacturing, educational services, owner occupied and other real estate, retail trade, professional, scientific and technical, transportation and warehousing, entertainment and recreation, other services, finance and insurance services, public administration and accommodation and food services. The average commercial and industrial loan size was $621 thousand and the largest individual commercial and industrial loan outstanding was $19.4 million as of March 31, 2019.

Residential Real Estate Loans

The residential real estate loan portfolio represented 36% of total loans at March 31, 2019.

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.

The table below presents residential real estate loan origination activity:

(Dollars in thousands) Three months ended March 31,	2019		2018	
	Amount	% of Total	Amount	% of Total
Originations for retention in portfolio	$51,697	38 %	$67,840	44 %
Originations for sale to the secondary market (1)	85,826	62	87,720	56
Total	$137,523	100 %	$155,560	100 %

(1) Includes brokered loans.

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The table below presents residential real estate loan sales activity:

(Dollars in thousands)				
Three months ended March 31,	2019		2018	
	Amount	% of Total	Amount	% of Total
Loans sold with servicing rights retained	$9,490	10 %	$33,575	35 %
Loans sold with servicing rights released (1)	82,589	90	63,265	65
Total	$92,079	100 %	$96,840	100 %

(1) Includes brokered loans.

Loans are sold with servicing retained or released. 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 $3.5 million and $3.7 million, respectively, as of March 31, 2019 and December 31, 2018. The balance of residential mortgage loans serviced for others, which are not included in the Unaudited Consolidated Balance Sheets, amounted to $580.0 million and $588.5 million, respectively, as of March 31, 2019 and December 31, 2018.

Residential real estate loans held in portfolio amounted to $1.4 billion at March 31, 2019, down by $1.3 million from the balance at December 31, 2018. A lower percentage of residential real estate mortgage loans were originated for retention in portfolio during the three months ended March 31, 2019, compared to the same periods in 2018.

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

(Dollars in thousands)	March 31, 2019		December 31, 2018	
	Amount	% of Total	Amount	% of Total
Rhode Island	$349,232	26 %	$352,141	26 %
Connecticut	142,472	10	141,775	10
Massachusetts	850,940	63	849,435	63
Subtotal	1,342,644	99	1,343,351	99
All other states	16,428	1	17,036	1
Total (1)	$1,359,072	100 %	$1,360,387	100 %

(1) Includes residential real estate loans purchased from other financial institutions totaling $109.0 million and $112.9 million, respectively, as of March 31, 2019 and December 31, 2018.

Consumer Loans

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

The consumer loan portfolio totaled $305.1 million at March 31, 2019, down by $1.8 million, or 1%, from December 31, 2018. Home equity lines and home equity loans represented 92% of the total consumer portfolio at March 31, 2019. 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 $16.4 million and $17.6 million, respectively, at March 31, 2019 and December 31, 2018.

Asset Quality

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

Management's Discussion and Analysis

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

(Dollars in thousands)	Mar 31, 2019	Dec 31, 2018
Commercial:		
Commercial real estate	$926	$925
Commercial & industrial	—	—
Total commercial	926	925
Residential Real Estate:		
Residential real estate	10,032	9,346
Consumer:		
Home equity	1,407	1,436
Other	—	—
Total consumer	1,407	1,436
Total nonaccrual loans	12,365	11,707
Property acquired through foreclosure or repossession, net	2,142	2,142
Total nonperforming assets	$14,507	$13,849
Nonperforming assets to total assets	0.28 %	0.28 %
Nonperforming loans to total loans	0.33 %	0.32 %
Total past due loans to total loans	0.39 %	0.37 %
Accruing loans 90 days or more past due	$—	$—

Total nonperforming assets increased by $658 thousand from the end of 2018, reflecting an increase in nonaccrual residential real estate loans. At March 31, 2019, property acquired through foreclosure consisted of one commercial property.

Nonaccrual Loans

During the three months ended March 31, 2019, 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 March 31, 2019.

The following table presents the activity in nonaccrual loans:

(Dollars in thousands)

For the three months ended March 31,	2019	2018
Balance at beginning of period	$11,707	$15,211
Additions to nonaccrual status	1,924	1,210
Loans returned to accruing status	(855)	(344)
Loans charged-off	(103)	(690)
Loans transferred to other real estate owned	—	(3,074)
Payments, payoffs and other changes	(308)	(1,792)
Balance at end of period	$12,365	$10,521

Management's Discussion and Analysis

The following table presents additional detail on nonaccrual loans:

(Dollars in thousands)	March 31, 2019				December 31, 2018			
	Days Past Due				Days Past Due			
	Over 90	Under 90	Total	% (1)	Over 90	Under 90	Total	% (1)
Commercial:								
Commercial real estate	$926	$—	$926	0.06%	$—	$925	$925	0.07%
Commercial & industrial	—	—	—	—	—	—	—	—
Total commercial	926	—	926	0.04	—	925	925	0.05
Residential Real Estate:								
Residential real estate	2,232	7,800	10,032	0.74	1,509	7,837	9,346	0.69
Consumer:								
Home equity	627	780	1,407	0.50	552	884	1,436	0.51
Other	—	—	—	—	—	—	—	—
Total consumer	627	780	1,407	0.46	552	884	1,436	0.47
Total nonaccrual loans	$3,785	$8,580	$12,365	0.33%	$2,061	$9,646	$11,707	0.32%

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

As of March 31, 2019, the composition of nonaccrual loans was 93% residential and consumer and 7% commercial, compared to 92% and 8%, respectively, at December 31, 2018.

Nonaccrual residential real estate mortgage loans amounted to $10.0 million at March 31, 2019, up by $686 thousand from the end of 2018. As of March 31, 2019, the balance of nonaccrual residential mortgage loans was predominately secured by properties in Massachusetts, Rhode Island and Connecticut. Included in total nonaccrual residential real estate loans at March 31, 2019 were five loans purchased for portfolio and serviced by others amounting to $1.5 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 March 31, 2019, there were no significant commitments to lend additional funds to borrowers whose loans had been restructured.

Management's Discussion and Analysis

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)	Mar 31, 2019	Dec 31, 2018
Accruing troubled debt restructured loans		
Commercial:		
Commercial real estate	$—	$—
Commercial & industrial	4,627	4,714
Total commercial	4,627	4,714
Residential Real Estate:		
Residential real estate	362	363
Consumer:		
Home equity	—	10
Other	21	21
Total consumer	21	31
Total accruing troubled debt restructured loans	5,010	5,108
Nonaccrual troubled debt restructured loans		
Commercial:		
Commercial real estate	—	—
Commercial & industrial	—	—
Total commercial	—	—
Residential Real Estate:		
Residential real estate	506	510
Consumer:		
Home equity	—	—
Other	—	—
Total consumer	—	—
Total nonaccrual troubled debt restructured loans	506	510
Total troubled debt restructured loans	$5,516	$5,618

The allowance for loans losses included specific reserves for troubled debt restructurings of $99 thousand and $103 thousand, respectively, at March 31, 2019 and December 31, 2018.

Management's Discussion and Analysis

Past Due Loans

The following table presents past due loans by category:

(Dollars in thousands)	March 31, 2019		December 31, 2018	
	Amount	% (1)	Amount	% (1)
Commercial:				
Commercial real estate	$926	0.06 %	$1,080	0.08 %
Commercial & industrial	1	—	—	—
Total commercial	927	0.04	1,080	0.05
Residential Real Estate:				
Residential real estate	10,849	0.80	10,520	0.77
Consumer:				
Home equity	2,911	1.04	1,989	0.71
Other	13	0.05	33	0.13
Total consumer	2,924	0.96	2,022	0.66
Total past due loans	$14,700	0.39 %	$13,622	0.37 %

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

As of March 31, 2019, the composition of past due loans, loans past due 30 days or more, was 94% residential and consumer and 6% commercial, compared to 92% and 8%, respectively, at December 31, 2018.

Total past due loans increased by $1.1 million from the end of 2018, largely due to an increase in past due home equity lines and loans.

Total past due loans as of March 31, 2019 and December 31, 2018 included nonaccrual loans of $8.6 million and $8.6 million, respectively. All loans 90 days or more past due at March 31, 2019 and December 31, 2018 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 March 31, 2019 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.

Management has identified approximately $17.3 million in potential problem loans at March 31, 2019, compared to $14.9 million at December 31, 2018. As of March 31, 2019, approximately 85% of the balance of potential problem loans consisted of four commercial relationships, all of which were current with respect to payment terms. 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, 2018 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, and is reduced by charge-offs on loans. The status of nonaccrual loans, past due 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 March 31, 2019 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 Corporation’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. Full or partial charge-offs on collateral dependent impaired loans are recognized when the collateral is deemed to be insufficient to support the carrying value of the loan. The Corporation 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.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will not be able to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Impaired loans include nonaccrual loans and loans restructured in a troubled debt restructuring. The following is a summary of impaired loans by measurement type:

(Dollars in thousands)	Mar 31, 2019	Dec 31, 2018
Collateral dependent impaired loans (1)	$11,565	$10,466
Impaired loans measured on discounted cash flow method (2)	5,809	6,350
Total impaired loans	$17,374	$16,816

(1) Net of partial charge-offs of $289 thousand at both March 31, 2019 and December 31, 2018.
(2) Net of partial charge-offs of $85 thousand at both March 31, 2019 and December 31, 2018.

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)	March 31, 2019				December 31, 2018			
	Loans	Related Allowance	Allowance / Loans		Loans	Related Allowance	Allowance / Loans	
Impaired loans individually evaluated for impairment	$17,374	$210	1.21	%	$16,816	$127	0.76	%
Loans collectively evaluated for impairment	3,721,095	27,434	0.74		3,663,544	26,945	0.74	
Total	$3,738,469	$27,644	0.74	%	$3,680,360	$27,072	0.74	%

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A loan loss provision of $650 thousand was charged to earnings for the three months ended March 31, 2019. This provision was based on management's assessment of asset quality and credit quality metrics, growth and changes in the loan portfolio, and loss exposure allocations. For three months ended March 31, 2018, management concluded that no loan loss provision was necessary.

Net charge-offs totaled $78 thousand for the three months ended March 31, 2019, compared to $624 thousand for the same period in 2018.

As of March 31, 2019, the allowance for loan losses was $27.6 million, or 0.74% of total loans, compared to $27.1 million, or 0.74% of total loans, at December 31, 2018.

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)	March 31, 2019		December 31, 2018	
	Amount	% (1)	Amount	% (1)
Commercial:				
Commercial real estate	$17,191	39 %	$15,381	38 %
Commercial & industrial	4,498	16	5,847	17
Total commercial	21,689	55	21,228	55
Residential Real Estate:				
Residential real estate	4,009	36	3,987	37
Consumer:				
Home equity	1,589	7	1,603	8
Other	357	2	254	—
Total consumer	1,946	9	1,857	8
Balance at end of period	$27,644	100%	$27,072	100%

(1) Percentage of loans outstanding in 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. The Corporation uses funds to originate and purchase loans, purchase investment securities, conduct operations, expand the branch network and pay dividends to shareholders.

Deposits

The Corporation 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.

The Bank 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. The Bank uses these deposit sweep services to place customer and client funds into interest-bearing demand accounts, money market accounts, and/or time deposits issued by other participating banks. Customer and client 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. We consider these reciprocal deposit balances to be in-market deposits as distinguished from traditional out-of-market wholesale brokered deposits.

Management's Discussion and Analysis

The following table presents a summary of deposits:

(Dollars in thousands)			Change	
	March 31, 2019	December 31, 2018	$	%
Noninterest-bearing demand deposits	$577,319	$603,216	($25,897)	(4%)
Interest-bearing demand deposits	162,598	178,733	(16,135)	(9)
NOW accounts	471,682	466,568	5,114	1
Money market accounts	644,949	646,878	(1,929)	—
Savings accounts	371,248	373,545	(2,297)	(1)
Time deposits (in-market)	792,470	778,105	14,365	2
Total in-market deposits	3,020,266	3,047,045	(26,779)	(1)
Wholesale brokered time deposits	483,994	477,003	6,991	1
Total deposits	$3,504,260	$3,524,048	($19,788)	(1)%

Total deposits amounted to $3.5 billion at March 31, 2019, down by $19.8 million, or 1%, from December 31, 2018. This included an increase of $7.0 million of out-of-market brokered time deposits. Excluding out-of-market brokered time deposits, in-market deposits were down by $26.8 million, or 1%, from the balance at December 31, 2018, reflecting a decline in demand account balances, partially offset by growth in promotional certificates of deposit.

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 $1.1 billion at March 31, 2019, up by $105.4 million, or 11%, from the balance at the end of 2018.

Liquidity and Capital Resources

Liquidity Management

Liquidity is the ability of a financial institution to meet maturing liability obligations and customer loan demand. The Corporation's primary source of liquidity is in-market deposits, which funded approximately 60% of total average assets in the three months ended March 31, 2019. 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 the Corporation'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, 2018.

The Corporation has a detailed liquidity funding policy and a contingency funding plan that provide for the prompt and comprehensive response to unexpected demands for liquidity. Management employs stress testing methodology to estimate needs for contingent funding that could result from unexpected outflows of funds in excess of "business as usual" cash flows. In management's estimation, risks are concentrated in two major categories: (1) runoff of in-market deposit balances; and (2) unexpected drawdown of loan commitments. Of the two categories, potential runoff of deposit balances would have the most significant impact on contingent liquidity. Our stress test scenarios, therefore, emphasize attempts to quantify deposits at risk over selected time horizons. In addition to these unexpected outflow risks, several other "business as usual" factors enter into the calculation of the adequacy of contingent liquidity including: (1) payment proceeds from loans and investment securities; (2) maturing debt obligations; and (3) maturing time deposits. The Corporation has established collateralized borrowing capacity with the FRB and also maintains additional collateralized borrowing capacity with the FHLB in excess of levels used in the ordinary course of business. Borrowing capacity is impacted by the amount and type of assets available to be pledged.

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The table below presents unused funding capacity by source as of the dates indicated:
(Dollars in thousands)

	March 31, 2019	December 31, 2018
Additional Funding Capacity:		
Federal Home Loan Bank of Boston (1)	$575,675	$628,468
Federal Reserve Bank of Boston (2)	27,857	27,608
Unencumbered investment securities	491,653	493,623
Total	$1,095,185	$1,149,699

(1) As of both March 31, 2019 and December 31, 2018, loans with a carrying value of $2.0 billion and securities available for sale with a carrying value of $286.1 million and $236.7 million, respectively, were pledged to the FHLB resulting in this additional borrowing capacity.

(2) As of March 31, 2019 and December 31, 2018, loans with a carrying value of $21.6 million and $22.9 million, respectively, and securities available for sale with a carrying value of $17.2 million and $16.4 million, respectively, were pledged to the FRB resulting in this additional unused borrowing capacity.

In addition to the amounts presented above, the Bank also had access to a $40.0 million unused line of credit with the FHLB.

The ALCO establishes and monitors internal liquidity measures to manage liquidity exposure. Liquidity remained within target ranges established by the ALCO during the three months ended March 31, 2019. Based on its assessment of the liquidity considerations described above, management believes the Corporation’s sources of funding meet anticipated funding needs.

Net cash provided by operating activities amounted to $21.0 million for the three months ended March 31, 2019, which was generated by net income of $17.5 million and adjustments to reconcile net income to net cash provided by operating activities. Net cash used in investing activities totaled $100.5 million for the three months ended March 31, 2019, reflecting outflows to purchase debt securities and fund loan growth. These outflows were partially offset by net inflows from maturities, calls and principal payments. For the three months ended March 31, 2019, net cash provided by financing activities amounted to $77.6 million, largely due to net increases in FHLB advances, partially offset a net decrease in deposits and 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 $469.8 million at March 31, 2019, up by $21.7 million from December 31, 2018, including net income of $17.5 million and an increase of $10.8 million in the accumulated comprehensive income component of shareholders’ equity, primarily resulting from an increase in the fair value of available for sale debt securities. These increases were partially offset by $8.2 million for dividend declarations.

The Corporation declared a quarterly dividend of 47 cents per share for the three months ended March 31, 2019, compared to 43 cents per share for the same period in 2018.

The ratio of total equity to total assets amounted to 9.11% at March 31, 2019 compared to a ratio of 8.94% at December 31, 2018. Book value per share at March 31, 2019 and December 31, 2018 amounted to $27.15 and $25.90, respectively.

The Bancorp and the Bank are subject to various regulatory capital requirements. Total risk-based capital ratio amounted to 12.59% at March 31, 2019, compared to 12.56% at December 31, 2018. Capital levels exceeded the regulatory minimum levels to be considered “well capitalized.” See Note 8 to the Unaudited Consolidated Financial Statements for additional discussion of regulatory capital requirements.

Off-Balance Sheet Arrangements

In the normal course of business, the Corporation engages in a variety of financial transactions that, in accordance with GAAP, are not recorded in the financial statements, or are recorded in amounts that differ from the notional amounts. Such transactions are used to meet the financing needs of its customers and to manage the exposure to fluctuations in interest rates. These financial

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transactions include commitments to extend credit, standby letters of credit, forward loan commitments, loan related derivative contracts and interest rate risk management contracts. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. The Corporation’s credit policies with respect to interest rate swap agreements with commercial borrowers, commitments to extend credit, and standby letters of credit are similar to those used for loans. Interest rate risk management contracts with other counterparties are generally subject to bilateral collateralization terms.

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 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 the Corporation’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 March 31, 2019 and December 31, 2018, net interest income simulations indicated that exposure to changing interest rates over the simulation horizons remained within tolerance levels established by the Corporation. All changes are measured in comparison to the projected net interest income that would result from an “unchanged” rate scenario where both 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 rate 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 March 31, 2019 and December 31, 2018. 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

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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.

	March 31, 2019		December 31, 2018	
	Months 1 - 12	Months 13 - 24	Months 1 - 12	Months 13 - 24
100 basis point rate decrease	(3.34)%	(4.74)%	(3.60)%	(5.30)%
100 basis point rate increase	2.09	0.01	1.94	(0.46)
200 basis point rate increase	5.67	2.63	5.85	2.62
300 basis point rate increase	9.26	5.09	9.75	5.49

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 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 overall 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.

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.

The banking industry attracted and retained low-cost core savings deposits during the low interest rate cycle that lasted several years. The ALCO recognizes that a portion of these increased levels of low-cost balances could continue to shift into higher yielding alternatives in the future, particularly if interest rates continue to rise and as confidence in financial markets strengthens, and has modeled 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 residential 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.

Management's Discussion and Analysis

The following table summarizes the potential change in market value of the Corporation’s available for sale debt securities as of March 31, 2019 and December 31, 2018 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)	$4,294	($16,236)
Obligations of states and political subdivisions	1	(2)
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	25,242	(74,855)
Trust preferred debt and other corporate debt securities	(99)	167
Total change in market value as of March 31, 2019	$29,438	($90,926)
Total change in market value as of December 31, 2018	$31,617	($85,191)

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 March 31, 2019. 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

There has been no change in our internal controls over financial reporting during the quarter ended March 31, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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 IA to Part I of Washington Trust's Annual Report on Form 10-K for the year ended December 31, 2018.

Item 6. Exhibits

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

Exhibit Number	
10.1	Terms of Amended and Restated Change in Control with an executive officer, dated March 27, 2019 - Filed herewith. (1)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 – Filed herewith.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 – Filed herewith.
32.1	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. (2)
101	The following materials from Washington Trust Bancorp, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2019 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) Management contract or compensatory plan or arrangement.

(2) 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:	May 2, 2019	By:	/s/ Edward O. Handy III Edward O. Handy III Chairman and Chief Executive Officer (principal executive officer)
Date:	May 2, 2019	By:	/s/ Ronald S. Ohsberg Ronald S. Ohsberg Senior Executive Vice President, Chief Financial Officer and Treasurer (principal financial officer)
Date:	May 2, 2019	By:	/s/ Maria N. Janes Maria N. Janes Executive Vice President and Controller (principal accounting officer)

Exhibit Index

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