

# Section 1: 10-Q (FORM 10-Q 6-30-19)

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended **June 30, 2019** or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: **001-32991**

**WASHINGTON TRUST BANCORP, INC.**

(Exact name of registrant as specified in its charter)

**Rhode Island**

(State or other jurisdiction of incorporation or organization)

**05-0404671**

(I.R.S. Employer Identification No.)

**23 Broad Street**

**Westerly, Rhode Island**

(Address of principal executive offices)

**02891**

(Zip Code)

(401) 348-1200

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically 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).  Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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 July 30, 2019 was 17,337,072.



**FORM 10-Q**  
**WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES**  
For the Quarter Ended June 30, 2019

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**PART I. Financial Information**  
**Item 1. Financial Statements**

**Washington Trust Bancorp, Inc. and Subsidiaries**

**Consolidated Balance Sheets (unaudited)**

(Dollars in thousands, except par value)

	June 30, 2019	December 31, 2018
<b>Assets:</b>		
Cash and due from banks	\$115,904	\$89,923
Short-term investments	3,910	3,552
Mortgage loans held for sale, at fair value	39,996	20,996
Securities:		
Available for sale debt securities, at fair value	969,168	927,810
Held to maturity debt securities, at amortized cost (fair value \$10,316 at December 31, 2018)	—	10,415
Total securities	969,168	938,225
Federal Home Loan Bank stock, at cost	49,759	46,068
Loans:		
Total loans	3,730,339	3,680,360
Less allowance for loan losses	27,398	27,072
Net loans	3,702,941	3,653,288
Premises and equipment, net	29,302	29,005
Operating lease right-of-use assets	28,174	—
Investment in bank-owned life insurance	81,351	80,463
Goodwill	63,909	63,909
Identifiable intangible assets, net	7,684	8,162
Other assets	97,574	77,175
Total assets	\$5,189,672	\$5,010,766
<b>Liabilities:</b>		
Deposits:		
Noninterest-bearing deposits	\$587,326	\$603,216
Interest-bearing deposits	2,917,296	2,920,832
Total deposits	3,504,622	3,524,048
Federal Home Loan Bank advances	1,060,960	950,722
Junior subordinated debentures	22,681	22,681
Operating lease liabilities	30,210	—
Other liabilities	86,994	65,131
Total liabilities	4,705,467	4,562,582
Commitments and contingencies (Note 18)		
<b>Shareholders' Equity:</b>		
Common stock of \$.0625 par value; authorized 60,000,000 shares; issued and outstanding 17,335,869 shares at June 30, 2019 and 17,302,037 at December 31, 2018	1,083	1,081
Paid-in capital	121,115	119,888
Retained earnings	373,873	355,524
Accumulated other comprehensive loss	(11,866)	(28,309)
Total shareholders' equity	484,205	448,184
Total liabilities and shareholders' equity	\$5,189,672	\$5,010,766

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

## Washington Trust Bancorp, Inc. and Subsidiaries

### Consolidated Statements of Income (unaudited)

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

Periods ended June 30,	Three Months		Six Months	
	2019	2018	2019	2018
<b>Interest income:</b>				
Interest and fees on loans	\$42,138	\$36,788	\$83,882	\$71,140
Interest on mortgage loans held for sale	288	313	468	539
Taxable interest on debt securities	7,006	5,358	14,232	10,476
Nontaxable interest on debt securities	8	20	17	43
Dividends on Federal Home Loan Bank stock	720	550	1,415	1,066
Other interest income	399	257	739	462
<b>Total interest and dividend income</b>	<b>50,559</b>	<b>43,286</b>	<b>100,753</b>	<b>83,726</b>
<b>Interest expense:</b>				
Deposits	9,469	5,254	18,165	9,676
Federal Home Loan Bank advances	6,980	4,707	13,641	8,690
Junior subordinated debentures	252	214	505	397
<b>Total interest expense</b>	<b>16,701</b>	<b>10,175</b>	<b>32,311</b>	<b>18,763</b>
Net interest income	33,858	33,111	68,442	64,963
Provision for loan losses	525	400	1,175	400
Net interest income after provision for loan losses	33,333	32,711	67,267	64,563
<b>Noninterest income:</b>				
Wealth management revenues	9,549	9,602	18,801	19,875
Mortgage banking revenues	3,640	2,941	6,286	5,779
Card interchange fees	1,018	961	2,015	1,808
Service charges on deposit accounts	929	903	1,804	1,766
Loan related derivative income	746	668	1,470	809
Income from bank-owned life insurance	566	537	1,215	1,052
Net realized losses on securities	(80)	—	(80)	—
Other income	385	381	609	647
<b>Total noninterest income</b>	<b>16,753</b>	<b>15,993</b>	<b>32,120</b>	<b>31,736</b>
<b>Noninterest expense:</b>				
Salaries and employee benefits	18,436	17,304	36,055	35,076
Outsourced services	2,518	2,350	5,124	4,223
Net occupancy	1,904	1,930	3,902	3,932
Equipment	1,028	1,069	2,039	2,249
Legal, audit and professional fees	664	555	1,198	1,281
FDIC deposit insurance costs	540	422	969	826
Advertising and promotion	525	329	764	506
Amortization of intangibles	239	247	478	495
Other expenses	2,297	2,082	4,586	4,830
<b>Total noninterest expense</b>	<b>28,151</b>	<b>26,288</b>	<b>55,115</b>	<b>53,418</b>
Income before income taxes	21,935	22,416	44,272	42,881
Income tax expense	4,662	4,742	9,504	8,996
<b>Net income</b>	<b>\$17,273</b>	<b>\$17,674</b>	<b>\$34,768</b>	<b>\$33,885</b>
<b>Net income available to common shareholders</b>				
Net income available to common shareholders	\$17,238	\$17,636	\$34,699	\$33,809
Weighted average common shares outstanding - basic	17,330	17,272	17,317	17,253
Weighted average common shares outstanding - diluted	17,405	17,387	17,403	17,384

Per share information:	Basic earnings per common share	\$0.99	\$1.02	\$2.00	\$1.96
	Diluted earnings per common share	\$0.99	\$1.01	\$1.99	\$1.94
	Cash dividends declared per share	\$0.51	\$0.43	\$0.98	\$0.86

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)

Periods ended June 30,	Three Months		Six Months	
	2019	2018	2019	2018
Net income	\$17,273	\$17,674	\$34,768	\$33,885
Other comprehensive income (loss), net of tax:				
Net change in fair value of available for sale debt securities	6,033	(3,112)	17,054	(13,526)
Net change in fair value of cash flow hedges	(622)	365	(1,064)	1,254
Net change in defined benefit plan obligations	226	360	453	720
Total other comprehensive income (loss), net of tax	5,637	(2,387)	16,443	(11,552)
Total comprehensive income	\$22,910	\$15,287	\$51,211	\$22,333

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)

For the three months ended June 30, 2019	Common Shares Outstanding	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
Balance at April 1, 2019	17,305	\$1,082	\$120,743	\$365,521	(\$17,503)	\$469,843
Net income	—	—	—	17,273	—	17,273
Total other comprehensive income, net of tax	—	—	—	—	5,637	5,637
Cash dividends declared (\$0.51 per share)	—	—	—	(8,921)	—	(8,921)
Share-based compensation	—	—	764	—	—	764
Exercise of stock options, issuance of other compensation-related equity awards, net of awards surrendered	31	1	(392)	—	—	(391)
Balance at June 30, 2019	17,336	\$1,083	\$121,115	\$373,873	(\$11,866)	\$484,205

For the six months ended June 30, 2019	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	—	—	—	34,768	—	34,768
Total other comprehensive income, net of tax	—	—	—	—	16,443	16,443
Cash dividends declared (\$0.98 per share)	—	—	—	(17,141)	—	(17,141)
Share-based compensation	—	—	1,503	—	—	1,503
Exercise of stock options, issuance of other compensation-related equity awards, net of awards surrendered	34	2	(276)	—	—	(274)
Cumulative effect of change in accounting principle	—	—	—	722	—	722
Balance at June 30, 2019	17,336	\$1,083	\$121,115	\$373,873	(\$11,866)	\$484,205

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)

For the three months ended June 30, 2018	Common Shares Outstanding	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at April 1, 2018	17,262	\$1,079	\$118,172	\$326,505	(\$32,675)	\$413,081
Net income	—	—	—	17,674	—	17,674
Total other comprehensive loss, net of tax	—	—	—	—	(2,387)	(2,387)
Cash dividends declared (\$0.43 per share)	—	—	—	(7,509)	—	(7,509)
Share-based compensation	—	—	649	—	—	649
Exercise of stock options, issuance of other compensation-related equity awards, net of awards surrendered	16	1	62	—	—	63
Balance at June 30, 2018	17,278	\$1,080	\$118,883	\$336,670	(\$35,062)	\$421,571

For the six months ended June 30, 2018	Common Shares Outstanding	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at January 1, 2018	17,227	\$1,077	\$117,961	\$317,756	(\$23,510)	\$413,284
Net income	—	—	—	33,885	—	33,885
Total other comprehensive loss, net of tax	—	—	—	—	(11,552)	(11,552)
Cash dividends declared (\$0.86 per share)	—	—	—	(14,971)	—	(14,971)
Share-based compensation	—	—	1,319	—	—	1,319
Exercise of stock options, issuance of other compensation-related equity awards, net of awards surrendered	51	3	(397)	—	—	(394)
Balance at June 30, 2018	17,278	\$1,080	\$118,883	\$336,670	(\$35,062)	\$421,571

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)

Six months ended June 30,	2019	2018
<b>Cash flows from operating activities:</b>		
Net income	\$34,768	\$33,885
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,175	400
Depreciation of premises and equipment	1,672	1,630
Net amortization of premiums and discounts on securities and loans	1,894	1,386
Amortization of intangibles	478	495
Share-based compensation	1,503	1,319
Tax benefit from stock option exercises and other equity awards	172	352
Income from bank-owned life insurance	(1,215)	(1,052)
Net gains on loan sales and commissions on loans originated for others, including fair value adjustments	(5,998)	(5,465)
Net realized losses on securities	80	—
Proceeds from sales of loans	199,897	182,964
Loans originated for sale	(213,247)	(188,185)
Decrease in operating lease right-of-use assets	748	—
Decrease in operating lease liabilities	(643)	—
Increase in other assets	(26,368)	(16,777)
Increase in other liabilities	23,781	11,815
Net cash provided by operating activities	18,697	22,767
<b>Cash flows from investing activities:</b>		
Purchases of:		
Available for sale debt securities: Mortgage-backed	(72,262)	(61,619)
Available for sale debt securities: Other	(10,507)	(1,064)
Proceeds from sale of:		
Other investment securities available for sale	9,920	—
Maturities, calls and principal payments of:		
Available for sale debt securities: Mortgage-backed	51,590	41,270
Available for sale debt securities: Other	11,045	6,795
Held to maturity debt securities: Mortgage-backed	—	1,077
Purchases of Federal Home Loan Bank stock	(3,691)	(5,764)
Net increase in loans	(50,729)	(115,986)
Purchases of loans	(161)	(1,676)
Purchases of premises and equipment	(1,971)	(1,675)
Purchases of bank-owned life insurance	—	(5,000)
Proceeds from surrender of bank-owned life insurance	326	—
Net cash used in investing activities	(66,440)	(143,642)
<b>Cash flows from financing activities:</b>		
Net (decrease) increase in deposits	(19,426)	78,904
Proceeds from Federal Home Loan Bank advances	1,022,000	1,135,000
Repayment of Federal Home Loan Bank advances	(911,762)	(1,025,303)
Payment of contingent consideration liability	—	(1,217)
Net proceeds from stock option exercises and issuance of other equity awards, net of awards surrendered	(274)	(394)
Cash dividends paid	(16,456)	(14,346)
Net cash provided by financing activities	74,082	172,644
Net increase in cash and cash equivalents	26,339	51,769
Cash and cash equivalents at beginning of period	93,475	82,923
Cash and cash equivalents at end of period	\$119,814	\$134,692

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)

Six months ended June 30,	2019	2018
<b>Noncash Activities:</b>		
Loans charged off	\$922	\$793
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	—
<b>Supplemental Disclosures:</b>		
Interest payments	\$30,341	\$17,576
Income tax payments	9,786	8,570

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 and 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.

In April 2019, Accounting Standards Update No. 2019-04, “Codification Improvements to Topic 326 Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments” (“ASU 2019-04”) was issued to provide additional clarification on the scope and disclosure requirements of Topic 326. ASU 2019-04 includes provisions related to accounting policy elections that can be made by the entity related to accrued interest receivable and expected prepayments on financial assets, the inclusion of recoveries in estimating the allowance for credit losses and consideration of contract extension and renewals when determining the contractual term. This ASU also provides clarification on the tabular vintage disclosures related to line-of-credit arrangements that convert term loans. In May 2019, Accounting Standards Update No. 2019-05, “Financial Instruments - Credit Losses (Topic 326); Targeted Transition Relief” (“ASU 2019-05”) was issued to allow an entity to make an irrevocable fair value option election on instruments within the scope of Topic 326 that are measured at amortized cost, except for held-to-maturity debt securities. This election can be applied on an instrument-by-instrument basis upon the adoption of Topic 326. The effective dates of ASU 2019-04 and ASU 2019-05 are the same as the effective date of ASU 2016-13.

To prepare for the adoption of ASU 2016-13 and related updates, the Corporation has assembled a cross-functional 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 accounting processes that will be put into place for estimating the allowance for credit losses. This has included assessing the adequacy of existing loan and loss data, as well as validating models for default and loss estimates. The new models will include additional assumptions used to calculate credit losses over the estimated life of the financial assets and will include the impact of forecasted economic conditions. The Corporation will continue the validation of models, the development of accounting policies and internal controls and the execution of “trial” runs of its Topic 326 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 \$25.5 million at June 30, 2019 and \$21.6 million at December 31, 2018 and were included in cash and due from banks in the Unaudited Consolidated Balance Sheets.

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

As of June 30, 2019 and December 31, 2018, cash and due from banks included interest-bearing deposits in other banks of \$61.7 million and \$33.7 million, respectively.

### 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)

June 30, 2019	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>Available for Sale Debt Securities:</b>				
Obligations of U.S. government-sponsored enterprises	\$236,726	\$1,005	(\$304)	\$237,427
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	704,940	6,722	(4,482)	707,180
Obligations of states and political subdivisions	90	—	—	90
Individual name issuer trust preferred debt securities	13,315	—	(1,014)	12,301
Corporate bonds	13,713	25	(1,568)	12,170
<b>Total available for sale debt securities</b>	<b>\$968,784</b>	<b>\$7,752</b>	<b>(\$7,368)</b>	<b>\$969,168</b>
<b>Total securities</b>	<b>\$968,784</b>	<b>\$7,752</b>	<b>(\$7,368)</b>	<b>\$969,168</b>

(Dollars in thousands)

December 31, 2018	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>Available for Sale Debt Securities:</b>				
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
<b>Total available for sale debt securities</b>	<b>\$949,720</b>	<b>\$2,387</b>	<b>(\$24,297)</b>	<b>\$927,810</b>
<b>Held to Maturity Debt Securities:</b>				
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	\$10,415	\$—	(\$99)	\$10,316
<b>Total held to maturity debt securities</b>	<b>\$10,415</b>	<b>\$—</b>	<b>(\$99)</b>	<b>\$10,316</b>
<b>Total securities</b>	<b>\$960,135</b>	<b>\$2,387</b>	<b>(\$24,396)</b>	<b>\$938,126</b>

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 June 30, 2019 and December 31, 2018, debt securities with a fair value of \$451.5 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	
	Amortized Cost	Fair Value
June 30, 2019		
Due in one year or less	\$106,685	\$106,963
Due after one year to five years	361,981	362,982
Due after five years to ten years	334,575	334,065
Due after ten years	165,543	165,158
<b>Total debt securities</b>	<b>\$968,784</b>	<b>\$969,168</b>

Included in the above table are debt securities with an amortized cost balance of \$262.5 million and a fair value of \$260.6 million at June 30, 2019 that are callable at the discretion of the issuers. Final maturities of the callable securities range from 3 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		
	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
June 30, 2019									
Obligations of U.S. government-sponsored enterprises	—	\$—	\$—	5	\$60,697	(\$304)	5	\$60,697	(\$304)
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	—	—	—	35	295,954	(4,482)	35	295,954	(4,482)
Individual name issuer trust preferred debt securities	—	—	—	5	12,301	(1,014)	5	12,301	(1,014)
Corporate bonds	—	—	—	4	10,432	(1,568)	4	10,432	(1,568)
<b>Total temporarily impaired securities</b>	<b>—</b>	<b>\$—</b>	<b>\$—</b>	<b>49</b>	<b>\$379,384</b>	<b>(\$7,368)</b>	<b>49</b>	<b>\$379,384</b>	<b>(\$7,368)</b>

(Dollars in thousands)	Less than 12 Months			12 Months or Longer			Total		
	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
December 31, 2018									
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. government-sponsored enterprises	10	47,060	(439)	51	438,701	(16,178)	61	485,761	(16,617)
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)
<b>Total temporarily impaired securities</b>	<b>13</b>	<b>\$48,258</b>	<b>(\$448)</b>	<b>77</b>	<b>\$617,932</b>	<b>(\$23,948)</b>	<b>90</b>	<b>\$666,190</b>	<b>(\$24,396)</b>

## 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 June 30, 2019.

### Individual Name Issuer Trust Preferred Debt Securities

Included in debt securities in an unrealized loss position at June 30, 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 June 30, 2019, individual name issuer trust preferred debt securities with an amortized cost of \$6.1 million and unrealized losses of \$518 thousand were rated below investment grade by Standard & Poors, Inc. (“S&P”). Management reviewed the collectibility of these securities taking into consideration such factors as the financial condition of the issuers, reported regulatory capital ratios of the issuers, credit ratings, including ratings in effect as of the reporting period date as well as credit rating changes between the reporting period date and the filing date of this report, and other information. We noted no additional downgrades to below investment grade between June 30, 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 June 30, 2019.

### Corporate Bonds

At June 30, 2019, the Corporation had four corporate bond holdings with unrealized losses totaling \$1.6 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 primarily attributable to changes in the investment spreads and interest rates 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 June 30, 2019.

The following table summarizes amounts relating to sales of securities:

(Dollars in thousands)	Three Months		Six Months	
For the periods ended June 30,	2019	2018	2019	2018
Proceeds from sales	\$9,920	\$—	\$9,920	\$—
Gross realized gains	\$—	\$—	\$—	\$—
Gross realized losses	(80)	—	(80)	—
Net realized losses on securities	(\$80)	\$—	(\$80)	\$—

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

### Note 5 - Loans

The following is a summary of loans:

(Dollars in thousands)	June 30, 2019	December 31, 2018
<b>Commercial:</b>		
Commercial real estate (1)	\$1,482,836	\$1,392,408
Commercial & industrial (2)	583,873	620,704
Total commercial	2,066,709	2,013,112
<b>Residential Real Estate:</b>		
Residential real estate (3)	1,352,113	1,360,387
<b>Consumer:</b>		
Home equity	288,078	280,626
Other (4)	23,439	26,235
Total consumer	311,517	306,861
<b>Total loans (5)</b>	<b>\$3,730,339</b>	<b>\$3,680,360</b>

- (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 \$5.3 million and \$4.7 million, respectively, at June 30, 2019 and December 31, 2018 and net unamortized premiums on purchased loans of \$609 thousand and \$703 thousand, respectively, at June 30, 2019 and December 31, 2018.

As of both June 30, 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			Total Past Due	Current	Total Loans
	30-59	60-89	Over 90			
June 30, 2019						
<b>Commercial:</b>						
Commercial real estate	\$2,744	\$—	\$926	\$3,670	\$1,479,166	\$1,482,836
Commercial & industrial	1	—	—	1	583,872	583,873
Total commercial	2,745	—	926	3,671	2,063,038	2,066,709
<b>Residential Real Estate:</b>						
Residential real estate	4,006	2,758	4,473	11,237	1,340,876	1,352,113
<b>Consumer:</b>						
Home equity	1,763	351	790	2,904	285,174	288,078
Other	13	1	88	102	23,337	23,439
Total consumer	1,776	352	878	3,006	308,511	311,517
<b>Total loans</b>	<b>\$8,527</b>	<b>\$3,110</b>	<b>\$6,277</b>	<b>\$17,914</b>	<b>\$3,712,425</b>	<b>\$3,730,339</b>

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

(Dollars in thousands)	Days Past Due			Total Past Due	Current	Total Loans
December 31, 2018	30-59	60-89	Over 90			
<b>Commercial:</b>						
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
<b>Residential Real Estate:</b>						
Residential real estate	6,318	2,693	1,509	10,520	1,349,867	1,360,387
<b>Consumer:</b>						
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
<b>Total loans</b>	<b>\$7,787</b>	<b>\$3,774</b>	<b>\$2,061</b>	<b>\$13,622</b>	<b>\$3,666,738</b>	<b>\$3,680,360</b>

Included in past due loans at both June 30, 2019 and December 31, 2018 were nonaccrual loans of \$8.6 million.

All loans 90 days or more past due at June 30, 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	
	Jun 30, 2019	Dec 31, 2018	Jun 30, 2019	Dec 31, 2018	Jun 30, 2019	Dec 31, 2018
<b><u>No Related Allowance Recorded</u></b>						
<b>Commercial:</b>						
Commercial real estate	\$926	\$925	\$926	\$926	\$—	\$—
Commercial & industrial	—	4,681	—	4,732	—	—
Total commercial	926	5,606	926	5,658	—	—
<b>Residential Real Estate:</b>						
Residential real estate	9,825	9,347	10,662	9,695	—	—
<b>Consumer:</b>						
Home equity	1,224	1,360	1,224	1,360	—	—
Other	88	—	88	—	—	—
Total consumer	1,312	1,360	1,312	1,360	—	—
Subtotal	12,063	16,313	12,900	16,713	—	—
<b><u>With Related Allowance Recorded</u></b>						
<b>Commercial:</b>						
Commercial real estate	\$—	\$—	\$—	\$—	\$—	\$—
Commercial & industrial	—	52	—	73	—	—
Total commercial	—	52	—	73	—	—
<b>Residential Real Estate:</b>						
Residential real estate	1,145	364	1,171	390	97	100
<b>Consumer:</b>						
Home equity	21	85	21	85	20	24
Other	19	22	19	22	2	3
Total consumer	40	107	40	107	22	27
Subtotal	1,185	523	1,211	570	119	127
Total impaired loans	\$13,248	\$16,836	\$14,111	\$17,283	\$119	\$127
<b>Total:</b>						
Commercial	\$926	\$5,658	\$926	\$5,731	\$—	\$—
Residential real estate	10,970	9,711	11,833	10,085	97	100
Consumer	1,352	1,467	1,352	1,467	22	27
Total impaired loans	\$13,248	\$16,836	\$14,111	\$17,283	\$119	\$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	
	2019	2018	2019	2018
Three months ended June 30,				
<b>Commercial:</b>				
Commercial real estate	\$926	\$—	\$—	\$—
Commercial & industrial	3,868	5,983	49	73
Total commercial	4,794	5,983	49	73
<b>Residential Real Estate:</b>				
Residential real estate	10,728	10,017	107	85
<b>Consumer:</b>				
Home equity	1,332	1,036	13	10
Other	35	88	—	2
Total consumer	1,367	1,124	13	12
<b>Totals</b>	<b>\$16,889</b>	<b>\$17,124</b>	<b>\$169</b>	<b>\$170</b>

(Dollars in thousands)	Average Recorded Investment		Interest Income Recognized	
	2019	2018	2019	2018
Six months ended June 30,				
<b>Commercial:</b>				
Commercial real estate	\$951	\$2,039	\$1	\$—
Commercial & industrial	4,276	5,738	103	139
Total commercial	5,227	7,777	104	139
<b>Residential Real Estate:</b>				
Residential real estate	10,441	9,934	222	197
<b>Consumer:</b>				
Home equity	1,406	853	27	19
Other	28	116	—	5
Total consumer	1,434	969	27	24
<b>Totals</b>	<b>\$17,102</b>	<b>\$18,680</b>	<b>\$353</b>	<b>\$360</b>

### 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.

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

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

(Dollars in thousands)	Jun 30, 2019	Dec 31, 2018
<b>Commercial:</b>		
Commercial real estate	\$926	\$925
Commercial & industrial	—	—
Total commercial	926	925
<b>Residential Real Estate:</b>		
Residential real estate	10,610	9,346
<b>Consumer:</b>		
Home equity	1,243	1,436
Other	88	—
Total consumer	1,331	1,436
<b>Total nonaccrual loans</b>	<b>\$12,867</b>	<b>\$11,707</b>
Accruing loans 90 days or more past due	\$—	\$—

As of June 30, 2019 and December 31, 2018, loans secured by one- to four-family residential property amounting to \$3.5 million and \$761 thousand, respectively, were in process of foreclosure.

Nonaccrual loans of \$4.3 million and \$3.1 million, respectively, were current as to the payment of principal and interest at June 30, 2019 and December 31, 2018.

There were no significant commitments to lend additional funds to borrowers whose loans were on nonaccrual status at June 30, 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 \$882 thousand and \$5.6 million, respectively, at June 30, 2019 and December 31, 2018. The allowance for loan losses included specific reserves for these troubled debt restructurings of \$100 thousand and \$103 thousand, respectively, at June 30, 2019 and December 31, 2018.

For the three and six months ended June 30, 2019, there were no loans modified as a troubled debt restructuring. For the three months ended June 30, 2018, there were no loans modified as a troubled debt restructuring. For the six months ended June 30,

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

2018, there was one loan modified as a troubled debt restructuring with a pre-modification and post-modification recorded investment of \$608 thousand. This troubled debt restructuring included a combination of concessions pertaining to maturity and interest only payment terms.

For the three and six months ended June 30, 2019 and 2018, there were no payment defaults on troubled debt restructured loans modified within the previous 12 months.

As of June 30, 2019, there were no significant commitments to lend additional funds to borrowers whose loans had been restructured.

### 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.

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

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

(Dollars in thousands)	Pass		Special Mention		Classified	
	Jun 30, 2019	Dec 31, 2018	Jun 30, 2019	Dec 31, 2018	Jun 30, 2019	Dec 31, 2018
<b>Commercial:</b>						
Commercial real estate	\$1,460,537	\$1,387,666	\$17,587	\$205	\$4,712	\$4,537
Commercial & industrial	546,188	559,019	22,234	50,426	15,451	11,259
<b>Total commercial</b>	<b>\$2,006,725</b>	<b>\$1,946,685</b>	<b>\$39,821</b>	<b>\$50,631</b>	<b>\$20,163</b>	<b>\$15,796</b>

### 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	
	Jun 30, 2019	Dec 31, 2018	Jun 30, 2019	Dec 31, 2018
<b>Residential Real Estate:</b>				
Self-originated mortgages	\$1,239,272	\$1,238,402	\$10,141	\$9,079
Purchased mortgages	101,604	111,465	1,096	1,441
<b>Total residential real estate</b>	<b>\$1,340,876</b>	<b>\$1,349,867</b>	<b>\$11,237</b>	<b>\$10,520</b>
<b>Consumer:</b>				
Home equity	\$285,174	\$278,637	\$2,904	\$1,989
Other	23,337	26,202	102	33
<b>Total consumer</b>	<b>\$308,511</b>	<b>\$304,839</b>	<b>\$3,006</b>	<b>\$2,022</b>

### **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.

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

The following table presents the activity in the allowance for loan losses for the three months ended June 30, 2019:

(Dollars in thousands)	Commercial			Residential Real Estate	Consumer		Total Consumer	Total
	CRE (1)	C&I (2)	Total Commercial		Home Equity	Other		
Beginning Balance	\$17,191	\$4,498	\$21,689	\$4,009	\$1,589	\$357	\$1,946	\$27,644
Charge-offs	—	(4)	(4)	(486)	(311)	(18)	(329)	(819)
Recoveries	—	20	20	—	22	6	28	48
Provision	(309)	(61)	(370)	1,334	(387)	(52)	(439)	525
Ending Balance	\$16,882	\$4,453	\$21,335	\$4,857	\$913	\$293	\$1,206	\$27,398

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

The following table presents the activity in the allowance for loan losses for the six months ended June 30, 2019:

(Dollars in thousands)	Commercial			Residential Real Estate	Consumer		Total Consumer	Total
	CRE (1)	C&I (2)	Total Commercial		Home Equity	Other		
Beginning Balance	\$15,381	\$5,847	\$21,228	\$3,987	\$1,603	\$254	\$1,857	\$27,072
Charge-offs	—	(18)	(18)	(486)	(372)	(46)	(418)	(922)
Recoveries	—	28	28	—	35	10	45	73
Provision	1,501	(1,404)	97	1,356	(353)	75	(278)	1,175
Ending Balance	\$16,882	\$4,453	\$21,335	\$4,857	\$913	\$293	\$1,206	\$27,398

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

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

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

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

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

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

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



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

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)

	June 30, 2019		December 31, 2018	
	Loans	Related Allowance	Loans	Related Allowance
<b><u>Loans Individually Evaluated for Impairment</u></b>				
<b>Commercial:</b>				
Commercial real estate	\$926	\$—	\$925	\$—
Commercial & industrial	—	—	4,714	—
Total commercial	926	—	5,639	—
<b>Residential Real Estate:</b>				
Residential real estate	10,969	97	9,710	100
<b>Consumer:</b>				
Home equity	1,245	20	1,445	24
Other	107	2	22	3
Total consumer	1,352	22	1,467	27
Subtotal	13,247	119	16,816	127
<b><u>Loans Collectively Evaluated for Impairment</u></b>				
<b>Commercial:</b>				
Commercial real estate	1,481,910	16,882	1,391,483	15,381
Commercial & industrial	583,873	4,453	615,990	5,847
Total commercial	2,065,783	21,335	2,007,473	21,228
<b>Residential Real Estate:</b>				
Residential real estate	1,341,144	4,760	1,350,677	3,887
<b>Consumer:</b>				
Home equity	286,833	893	279,182	1,579
Other	23,332	291	26,212	251
Total consumer	310,165	1,184	305,394	1,830
Subtotal	3,717,092	27,279	3,663,544	26,945
Total	\$3,730,339	\$27,398	\$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 June 30, 2019 and December 31, 2018.

The following table presents maturities and weighted average interest rates on FHLB advances outstanding as of June 30, 2019:

(Dollars in thousands)

	Scheduled Maturity	Weighted Average Rate
July 1, 2019 to December 31, 2019	\$534,996	2.58%
2020	369,533	2.39
2021	86,222	2.73
2022	55,447	3.65
2023	9,428	4.01
2024 and thereafter	5,334	5.06
Balance at June 30, 2019	\$1,060,960	2.60%

As of June 30, 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 \$535.3 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 June 30, 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
<b>June 30, 2019</b>						
Total Capital (to Risk-Weighted Assets):						
Corporation	\$475,982	12.80%	\$297,470	8.00%	N/A	N/A
Bank	473,515	12.74	297,426	8.00	\$371,783	10.00%
Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	448,282	12.06	223,102	6.00	N/A	N/A
Bank	445,815	11.99	223,070	6.00	297,426	8.00
Common Equity Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	426,284	11.46	167,327	4.50	N/A	N/A
Bank	445,815	11.99	167,302	4.50	241,659	6.50
Tier 1 Capital (to Average Assets): (1)						
Corporation	448,282	8.76	204,811	4.00	N/A	N/A
Bank	445,815	8.71	204,724	4.00	255,906	5.00
<b>December 31, 2018</b>						
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 June 30, 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 June 30, 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 June 30, 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 June 30, 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 June 30, 2019 and December 31, 2018, Washington Trust had interest rate swap contracts with commercial loan borrowers with notional amounts of \$678.9 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

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

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

As of June 30, 2019, the notional amounts of risk participation-out agreements and risk participation-in agreements were \$44.7 million and \$46.2 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.

The notional amount of foreign exchange contracts was \$2.8 million as of both June 30, 2019 and December 31, 2018.

### **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 June 30, 2019, the notional amounts of interest rate lock commitments and forward sale commitments were \$89.7 million and \$149.4 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		
	Balance Sheet Location	Fair Value		Balance Sheet Location	Fair Value	
		Jun 30, 2019	Dec 31, 2018		Jun 30, 2019	Dec 31, 2018
<b>Derivatives Designated as Cash Flow Hedging Instruments:</b>						
Interest rate risk management contracts:						
Interest rate caps	Other assets	\$—	\$20	Other liabilities	\$—	\$—
Interest rate swaps	Other assets	7	903	Other liabilities	724	—
Interest rate floors	Other assets	120	37	Other liabilities	—	—
<b>Derivatives not Designated as Hedging Instruments:</b>						
Loan related derivative contracts:						
Interest rate swaps with customers	Other assets	25,857	5,340	Other liabilities	429	7,719
Mirror swaps with counterparties	Other assets	420	7,592	Other liabilities	25,955	5,392
Risk participation agreements	Other assets	1	—	Other liabilities	1	—
Foreign exchange contracts	Other assets	4	—	Other liabilities	—	7
Forward loan commitments:						
Interest rate lock commitments	Other assets	2,102	806	Other liabilities	—	—
Forward sale commitments	Other assets	23	—	Other liabilities	1,560	816
Gross amounts		28,534	14,698		28,669	13,934
Less amounts offset in Consolidated Balance Sheets (1)		551	10,732		551	10,732
Net amounts presented in Consolidated Balance Sheets		27,983	3,966		28,118	3,202
Less collateral pledged (2)		—	—		25,303	1,460
Net amounts		\$27,983	\$3,966		\$2,815	\$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		Six Months	
	2019	2018	2019	2018
Periods ended June 30,				
<b>Derivatives Designated as Cash Flow Hedging Instruments:</b>				
Interest rate risk management contracts:				
Interest rate caps	\$14	\$11	\$14	\$49
Interest rate swaps	(765)	294	(1,231)	1,133
Interest rate floors	129	60	153	72
Total	(\$622)	\$365	(\$1,064)	\$1,254

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)

Periods ended June 30,	Statement of Income Location	Amount of Gain (Loss) Recognized in Income on Derivatives			
		Three Months		Six Months	
		2019	2018	2019	2018
<b>Derivatives not Designated as Hedging Instruments:</b>					
Loan related derivative contracts:					
Interest rate swaps with customers	Loan related derivative income	\$16,974	(\$3,001)	27,284	(12,196)
Mirror swaps with counterparties	Loan related derivative income	(16,246)	3,645	(25,850)	12,969
Risk participation agreements	Loan related derivative income	—	—	—	—
Foreign exchange contracts	Loan related derivative income	18	24	36	36
Forward loan commitments:					
Interest rate lock commitments	Mortgage banking revenues	610	191	\$1,295	\$177
Forward sale commitments	Mortgage banking revenues	(1,439)	(82)	(1,868)	1,236
<b>Total</b>		<b>(\$83)</b>	<b>\$777</b>	<b>\$897</b>	<b>\$2,222</b>

### 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)	June 30, 2019	December 31, 2018
Aggregate fair value	\$39,996	\$20,996
Aggregate principal balance	38,953	20,498
Difference between fair value and principal balance	\$1,043	\$498

Changes in fair value of mortgage loans held for sale accounted for under the fair value option election amounted to an increase of \$679 thousand and \$544 thousand in the three and six months ended June 30, 2019, respectively, compared to an increase of

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

\$441 thousand and \$112 thousand in the three and six months ended June 30, 2018, respectively. These amounts were partially offset in earnings by the changes in fair value of forward sale commitments used to economically hedge them. The changes in fair value are reported as a component of mortgage banking revenues in the Unaudited Consolidated Statements of Income.

There were no mortgage loans held for sale 90 days or more past due as of June 30, 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 June 30, 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 June 30, 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 June 30, 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 the fourth quarter of 2018. There have been no changes to the fair value of the contingent consideration liability for the three and six months ended June 30, 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)

June 30, 2019	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
Available for sale debt securities:				
Obligations of U.S. government-sponsored enterprises	\$237,427	\$—	\$237,427	\$—
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	707,180	—	707,180	—
Obligations of states and political subdivisions	90	—	90	—
Individual name issuer trust preferred debt securities	12,301	—	12,301	—
Corporate bonds	12,170	—	12,170	—
Mortgage loans held for sale	39,996	—	39,996	—
Derivative assets	27,983	—	27,983	—
<b>Total assets at fair value on a recurring basis</b>	<b>\$1,037,147</b>	<b>\$—</b>	<b>\$1,037,147</b>	<b>\$—</b>
<b>Liabilities:</b>				
Derivative liabilities	\$28,118	\$—	\$28,118	\$—
<b>Total liabilities at fair value on a recurring basis</b>	<b>\$28,118</b>	<b>\$—</b>	<b>\$28,118</b>	<b>\$—</b>

## 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)
<b>Assets:</b>				
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	—
<b>Total assets at fair value on a recurring basis</b>	<b>\$952,772</b>	<b>\$—</b>	<b>\$952,772</b>	<b>\$—</b>
<b>Liabilities:</b>				
Derivative liabilities	\$3,202	\$—	\$3,202	\$—
<b>Total liabilities at fair value on a recurring basis</b>	<b>\$3,202</b>	<b>\$—</b>	<b>\$3,202</b>	<b>\$—</b>

It is the Corporation's policy to review and reflect transfers between Levels as of the financial statement reporting date. There were no transfers in and/or out of Level 1, 2 or 3 during the six months ended June 30, 2019 and 2018.

### Items Recorded at Fair Value on a Nonrecurring Basis

The following table presents the carrying value of assets held at June 30, 2019, which were written down to fair value during the six months ended June 30, 2019:

(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)
<b>Assets:</b>			
Collateral dependent impaired loans	\$768	\$—	\$768
<b>Total assets at fair value on a nonrecurring basis</b>	<b>\$768</b>	<b>\$—</b>	<b>\$768</b>

The allowance for loan losses on collateral dependent impaired loans amounted to \$20 thousand at June 30, 2019.

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

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)
<b>Assets:</b>				
Collateral dependent impaired loans	\$883	\$—	\$—	\$883
Property acquired through foreclosure or repossession	2,142	—	—	2,142
<b>Total assets at fair value on a nonrecurring basis</b>	<b>\$3,025</b>	<b>\$—</b>	<b>\$—</b>	<b>\$3,025</b>

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

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)

June 30, 2019	Fair Value	Valuation Technique	Unobservable Input	Range of Inputs Utilized (Weighted Average)
Collateral dependent impaired loans	\$768	Appraisals of collateral	Discount for costs to sell	0% - 12% (12%)
			Appraisal adjustments (1)	0% - 100% (16%)

(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.

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

### 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)

June 30, 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)
<b>Financial Assets:</b>					
Loans, net of allowance for loan losses	\$3,702,941	\$3,693,614	\$—	\$—	\$3,693,614
<b>Financial Liabilities:</b>					
Time deposits	\$1,284,538	\$1,302,002	\$—	\$1,302,002	\$—
FHLB advances	1,060,960	1,066,411	—	1,066,411	—
Junior subordinated debentures	22,681	19,457	—	19,457	—

(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)
<b>Financial Assets:</b>					
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
<b>Financial Liabilities:</b>					
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	—

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

### Note 11 - Revenue from Contracts with Customers

The following tables summarize 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 June 30,

	2019		2018	
	As reported in Consolidated Statements of Income	Revenue from contracts in scope of Topic 606	As reported in Consolidated Statements of Income	Revenue from contracts in scope of Topic 606
(Dollars in thousands)				
Net interest income	\$33,858	\$—	\$33,111	\$—
Noninterest income:				
Asset-based wealth management revenues	9,141	9,141	9,136	9,136
Transaction-based wealth management revenues	408	408	466	466
Total wealth management revenues	9,549	9,549	9,602	9,602
Mortgage banking revenues	3,640	—	2,941	—
Card interchange fees	1,018	1,018	961	961
Service charges on deposit accounts	929	929	903	903
Loan related derivative income	746	—	668	—
Income from bank-owned life insurance	566	—	537	—
Net realized losses on securities	(80)	—	—	—
Other income	385	371	381	366
<b>Total noninterest income</b>	<b>16,753</b>	<b>11,867</b>	<b>15,993</b>	<b>11,832</b>
<b>Total revenues</b>	<b>\$50,611</b>	<b>\$11,867</b>	<b>\$49,104</b>	<b>\$11,832</b>

For the six months ended June 30,

	2019		2018	
	As reported in Consolidated Statements of Income	Revenue from contracts in scope of Topic 606	As reported in Consolidated Statements of Income	Revenue from contracts in scope of Topic 606
(Dollars in thousands)				
Net interest income	\$68,442	\$—	\$64,963	\$—
Noninterest income:				
Asset-based wealth management revenues	18,062	18,062	19,091	19,091
Transaction-based wealth management revenues	739	739	784	784
Total wealth management revenues	18,801	18,801	19,875	19,875
Mortgage banking revenues	6,286	—	5,779	—
Card interchange fees	2,015	2,015	1,808	1,808
Service charges on deposit accounts	1,804	1,804	1,766	1,766
Loan related derivative income	1,470	—	809	—
Income from bank-owned life insurance	1,215	—	1,052	—
Net realized losses on securities	(80)	—	—	—
Other income	609	595	647	632
<b>Total noninterest income</b>	<b>32,120</b>	<b>23,215</b>	<b>31,736</b>	<b>24,081</b>
<b>Total revenues</b>	<b>\$100,562</b>	<b>\$23,215</b>	<b>\$96,699</b>	<b>\$24,081</b>

## 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		Six Months	
Periods ended June 30,	2019	2018	2019	2018
<b>Revenue recognized at a point in time:</b>				
Card interchange fees	\$1,018	\$961	\$2,015	\$1,808
Service charges on deposit accounts	719	703	1,381	1,375
Other income	324	248	503	474
<b>Revenue recognized over time:</b>				
Wealth management revenues	9,549	9,602	18,801	19,875
Service charges on deposit accounts	210	200	423	391
Other income	47	118	92	158
<b>Total revenues from contracts in scope of Topic 606</b>	<b>\$11,867</b>	<b>\$11,832</b>	<b>\$23,215</b>	<b>\$24,081</b>

Receivables primarily consist of amounts due from customers for wealth management services performed for which the Corporation's performance obligations have been fully satisfied. Receivables amounted to \$5.0 million at June 30, 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 June 30, 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 \$580 thousand at June 30, 2019, compared to \$458 thousand at December 31, 2018 and were included in other assets in the Unaudited Consolidated Balance Sheets.

### 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.

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

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		Six Months		Three Months		Six Months	
	2019	2018	2019	2018	2019	2018	2019	2018
Periods ended June 30,								
<b>Net Periodic Benefit Cost:</b>								
Service cost (1)	\$509	\$561	\$1,018	\$1,122	\$32	\$27	\$63	\$54
Interest cost (2)	742	678	1,484	1,357	141	118	282	237
Expected return on plan assets (2)	(1,123)	(1,318)	(2,247)	(2,636)	—	—	—	—
Amortization of prior service credit (2)	(4)	(5)	(8)	(11)	—	—	—	—
Recognized net actuarial loss (2)	198	374	396	748	101	103	203	205
<b>Net periodic benefit cost</b>	<b>\$322</b>	<b>\$290</b>	<b>\$643</b>	<b>\$580</b>	<b>\$274</b>	<b>\$248</b>	<b>\$548</b>	<b>\$496</b>

(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	
	2019	2018	2019	2018
For the six months ended June 30,				
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 six months ended June 30, 2019, the Corporation granted performance share unit awards and nonvested share unit awards.

Performance share awards were granted to certain executive and non-executive officers to 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 determined by the closing price of the Corporation's common stock on the award date. The weighted average fair value of the performance share awards was \$52.83. The number of shares to be vested will be contingent upon the Corporation's attainment of certain performance measures as detailed in the performance share award agreements. The performance share awards will be earned over a 3-year performance period and the current performance assumption results in 43,360 shares being earned.

The Corporation granted to non-executive officers and directors 10,870 nonvested share units, with 3-year cliff vesting. The weighted average grant date fair value of the nonvested share units was \$51.43.

### 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	
	2019	2018	2019	2018	2019	2018	2019	2018
	Three months ended June 30,							
Net interest income (expense)	\$27,867	\$26,644	(\$120)	(\$77)	\$6,111	\$6,544	\$33,858	\$33,111
Provision for loan losses	525	400	—	—	—	—	525	400
Net interest income (expense) after provision for loan losses	27,342	26,244	(120)	(77)	6,111	6,544	33,333	32,711
Noninterest income	6,690	5,837	9,557	9,602	506	554	16,753	15,993
Noninterest expenses:								
Depreciation and amortization expense	672	637	363	370	39	43	1,074	1,050
Other noninterest expenses	16,660	15,509	6,937	6,593	3,480	3,136	27,077	25,238
Total noninterest expenses	17,332	16,146	7,300	6,963	3,519	3,179	28,151	26,288
Income before income taxes	16,700	15,935	2,137	2,562	3,098	3,919	21,935	22,416
Income tax expense	3,603	3,387	582	655	477	700	4,662	4,742
Net income	\$13,097	\$12,548	\$1,555	\$1,907	\$2,621	\$3,219	\$17,273	\$17,674
Total assets at period end	\$3,916,915	\$3,647,649	\$77,757	\$68,009	\$1,195,000	\$1,021,584	\$5,189,672	\$4,737,242
Expenditures for long-lived assets	297	801	—	11	19	52	316	864
(Dollars in thousands)	Commercial Banking		Wealth Management Services		Corporate		Consolidated Total	
	2019	2018	2019	2018	2019	2018	2019	2018
	Six months ended June 30,							
Net interest income (expense)	\$55,169	\$52,620	(\$247)	(\$135)	\$13,520	\$12,478	\$68,442	\$64,963
Provision for loan losses	1,175	400	—	—	—	—	1,175	400
Net interest income (expense) after provision for loan losses	53,994	52,220	(247)	(135)	13,520	12,478	67,267	64,563
Noninterest income	12,146	10,773	18,808	19,875	1,166	1,088	32,120	31,736
Noninterest expenses:								
Depreciation and amortization expense	1,342	1,274	729	766	79	85	2,150	2,125
Other noninterest expenses	32,421	30,975	13,414	13,792	7,130	6,526	52,965	51,293
Total noninterest expenses	33,763	32,249	14,143	14,558	7,209	6,611	55,115	53,418
Income before income taxes	32,377	30,744	4,418	5,182	7,477	6,955	44,272	42,881
Income tax expense	7,024	6,490	1,199	1,298	1,281	1,208	9,504	8,996
Net income	\$25,353	\$24,254	\$3,219	\$3,884	\$6,196	\$5,747	\$34,768	\$33,885
Total assets at period end	\$3,916,915	\$3,647,649	\$77,757	\$68,009	\$1,195,000	\$1,021,584	\$5,189,672	\$4,737,242
Expenditures for long-lived assets	1,597	1,252	292	313	82	110	1,971	1,675

## 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 June 30,  (Dollars in thousands)	2019			2018		
	Pre-tax Amounts	Income Taxes	Net of Tax	Pre-tax Amounts	Income Taxes	Net of Tax
<b>Securities available for sale:</b>						
Changes in fair value of available for sale debt securities	\$7,807	\$1,835	\$5,972	(\$4,068)	(\$956)	(\$3,112)
Net losses on debt securities reclassified into earnings (1)	80	19	61	—	—	—
Net change in fair value of available for sale debt securities	7,887	1,854	6,033	(4,068)	(956)	(3,112)
<b>Cash flow hedges:</b>						
Change in fair value of cash flow hedges	(824)	(194)	(630)	455	107	348
Net cash flow hedge losses reclassified into earnings (2)	10	2	8	21	4	17
Net change in fair value of cash flow hedges	(814)	(192)	(622)	476	111	365
<b>Defined benefit plan obligations:</b>						
Amortization of net actuarial losses (3)	300	71	229	477	113	364
Amortization of net prior service credits (3)	(4)	(1)	(3)	(5)	(1)	(4)
Net change in defined benefit plan obligations	296	70	226	472	112	360
<b>Total other comprehensive income (loss)</b>	<b>\$7,369</b>	<b>\$1,732</b>	<b>\$5,637</b>	<b>(\$3,120)</b>	<b>(\$733)</b>	<b>(\$2,387)</b>

(1) The pre-tax amount is reported as net realized losses on securities in the Unaudited Consolidated Statements of Income.

(2) 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.

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

Six months ended June 30,  (Dollars in thousands)	2019			2018		
	Pre-tax Amounts	Income Taxes	Net of Tax	Pre-tax Amounts	Income Taxes	Net of Tax
<b>Securities available for sale:</b>						
Changes in fair value of available for sale debt securities	\$22,213	\$5,220	\$16,993	(\$17,681)	(\$4,155)	(\$13,526)
Net losses on debt securities reclassified into earnings (1)	80	19	61	—	—	—
Net change in fair value of available for sale debt securities	22,293	5,239	17,054	(17,681)	(4,155)	(13,526)
<b>Cash flow hedges:</b>						
Change in fair value of cash flow hedges	(1,370)	(322)	(1,048)	1,258	198	1,060
Net cash flow hedge losses reclassified into earnings (2)	(21)	(5)	(16)	252	58	194
Net change in fair value of cash flow hedges	(1,391)	(327)	(1,064)	1,510	256	1,254
<b>Defined benefit plan obligations:</b>						
Amortization of net actuarial losses (3)	600	141	459	953	225	728
Amortization of net prior service credits (3)	(8)	(2)	(6)	(11)	(3)	(8)
Net change in defined benefit plan obligations	592	139	453	942	222	720
<b>Total other comprehensive (loss) income</b>	<b>\$21,494</b>	<b>\$5,051</b>	<b>\$16,443</b>	<b>(\$15,229)</b>	<b>(\$3,677)</b>	<b>(\$11,552)</b>

(1) The pre-tax amount is reported as net realized losses on securities in the Unaudited Consolidated Statements of Income.

(2) 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.

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

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

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

(Dollars in thousands)

For the three months ended June 30, 2019	Net Unrealized (Losses) Gains on Available For Sale Debt Securities	Net Unrealized (Losses) Gains on Cash Flow Hedges	Defined Benefit Pension Plan Adjustment	Total
Balance at April 1, 2019	(\$5,741)	(\$251)	(\$11,511)	(\$17,503)
Other comprehensive income (loss) before reclassifications	5,972	(630)	—	5,342
Amounts reclassified from accumulated other comprehensive income	61	8	226	295
Net other comprehensive income (loss)	6,033	(622)	226	5,637
Balance at June 30, 2019	\$292	(\$873)	(\$11,285)	(\$11,866)

(Dollars in thousands)

For the six months ended June 30, 2019	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 January 1, 2019	(\$16,762)	\$191	(\$11,738)	(\$28,309)
Other comprehensive income (loss) before reclassifications	16,993	(1,048)	—	15,945
Amounts reclassified from accumulated other comprehensive income	61	(16)	453	498
Net other comprehensive income (loss)	17,054	(1,064)	453	16,443
Balance at June 30, 2019	\$292	(\$873)	(\$11,285)	(\$11,866)

(Dollars in thousands)

For the three months ended June 30, 2018	Net Unrealized Losses on Available For Sale Debt Securities	Net Unrealized Gains on Cash Flow Hedges	Defined Benefit Pension Plan Adjustment	Total
Balance at April 1, 2018	(\$17,948)	\$461	(\$15,188)	(\$32,675)
Other comprehensive (loss) income before reclassifications	(3,112)	348	—	(2,764)
Amounts reclassified from accumulated other comprehensive income	—	17	360	377
Net other comprehensive (loss) income	(3,112)	365	360	(2,387)
Balance at June 30, 2018	(\$21,060)	\$826	(\$14,828)	(\$35,062)

(Dollars in thousands)

For the six months ended June 30, 2018	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 January 1, 2018	(\$7,534)	(\$428)	(\$15,548)	(\$23,510)
Other comprehensive (loss) income before reclassifications	(13,526)	1,060	—	(12,466)
Amounts reclassified from accumulated other comprehensive income	—	194	720	914
Net other comprehensive (loss) income	(13,526)	1,254	720	(11,552)
Balance at June 30, 2018	(\$21,060)	\$826	(\$14,828)	(\$35,062)

## 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)

Periods ended June 30,	Three Months		Six Months	
	2019	2018	2019	2018
<b>Earnings per common share - basic:</b>				
Net income	\$17,273	\$17,674	\$34,768	\$33,885
Less dividends and undistributed earnings allocated to participating securities	(35)	(38)	(69)	(76)
Net income available to common shareholders	\$17,238	\$17,636	\$34,699	\$33,809
Weighted average common shares	17,330	17,272	17,317	17,253
Earnings per common share - basic	\$0.99	\$1.02	\$2.00	\$1.96
<b>Earnings per common share - diluted:</b>				
Net income	\$17,273	\$17,674	\$34,768	\$33,885
Less dividends and undistributed earnings allocated to participating securities	(35)	(38)	(69)	(76)
Net income available to common shareholders	\$17,238	\$17,636	\$34,699	\$33,809
Weighted average common shares	17,330	17,272	17,317	17,253
Dilutive effect of common stock equivalents	75	115	86	131
Weighted average diluted common shares	17,405	17,387	17,403	17,384
Earnings per common share - diluted	\$0.99	\$1.01	\$1.99	\$1.94

Weighted average common stock equivalents, not included in common stock equivalents above because they were anti-dilutive, totaled 87,950 and 87,863, respectively for the three and six months ended June 30, 2019, compared to 43,871 and 48,956, respectively, for the same periods in 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 June 30, 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 the Corporation’s 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 June 30, 2019, the Corporation does not have any leases that have not yet commenced. At June 30, 2019, lease expiration dates ranged from 3 months to 22 years, with additional renewal options on certain leases ranging from 1 to 5 years. At June 30, 2019, the weighted average remaining lease term for the Corporation’s operating leases was 14.2 years.

Rental expense for operating leases is recognized on a straight-line basis over the lease term and amounted to \$940 thousand and \$1.9 million, respectively, for the three and six months ended June 30, 2019, compared to \$938 thousand and \$1.9 million, respectively, for the same periods in 2018. Variable lease components, such as consumer price index adjustments, are expensed as incurred and not included in ROU assets and operating lease liabilities.

The following table presents the undiscounted annual lease payments under the terms of the Corporation’s operating leases at June 30, 2019, including a reconciliation to the present value of operating lease liabilities recognized in the Corporation’s Unaudited Consolidated Balance Sheets:

(Dollars in thousands)

July 1, 2019 to December 31, 2019	\$1,856
2020	3,515
2021	3,312
2022	3,165
2023	3,090
2024 and thereafter	24,716
Total operating lease payments (1)	39,654
Less interest	9,444
Present value of operating lease liabilities (2)	\$30,210

(1) Includes \$4.2 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.

## 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)

Periods ended June 30, 2019	Three Months	Six Months
<b>Lease Expense:</b>		
Operating lease expense	\$928	\$1,856
Variable lease expense	12	23
Total lease expense (1)	\$940	\$1,879
<b>Cash Paid:</b>		
Cash paid reducing operating lease liabilities	\$831	\$1,751

(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
<b>Total minimum lease payments</b>		<b>\$36,201</b>

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)

	Jun 30, 2019	Dec 31, 2018
<b>Financial instruments whose contract amounts represent credit risk:</b>		
Commitments to extend credit:		
Commercial loans	\$480,851	\$533,884
Home equity lines	285,601	270,462
Other loans	87,343	46,698
Standby letters of credit	9,189	7,706
<b>Financial instruments whose notional amounts exceed the amount of credit risk:</b>		
Forward loan commitments:		
Interest rate lock commitments	89,682	30,766
Forward sale commitments	149,404	61,993
Loan related derivative contracts:		
Interest rate swaps with customers	678,865	648,050
Mirror swaps with counterparties	678,865	648,050
Risk participation-in agreements	46,205	46,510
Foreign exchange contracts	2,763	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 \$9.2 million and \$7.7 million, respectively, as of June 30, 2019 and December 31, 2018. At June 30, 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 and six months ended June 30, 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 and six months ended June 30, 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," and other expressions that predict or indicate future events and trends and which do not relate to historical matters. You should not rely on forward-looking statements, because they involve known and unknown risks, uncertainties and other factors, some of which are beyond our control. These risks, uncertainties and other factors may cause our actual results, performance or achievements to be materially different than the anticipated future results, performance or achievements expressed or implied by the forward-looking statements.

Some of the factors that might cause these differences include the following: weakness in national, regional or international economic conditions or conditions affecting the banking or financial services industries or financial capital markets; volatility in national and international financial markets; reductions in net interest income resulting from interest rate volatility as well as changes in the balance and mix of loans and deposits; reductions in the market value or outflows of wealth management assets under administration; changes in the value of securities and other assets; reductions in loan demand; changes in loan 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](http://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

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

### **Risk Management**

The Corporation has a comprehensive enterprise risk management (“ERM”) program through which the Corporation identifies, measures, monitors and controls current and emerging material risks.

The Board of Directors is responsible for oversight of the ERM program. The ERM program enables the aggregation of risk across the Corporation and ensures the Corporation has the tools, programs and processes in place to support informed decision making, to anticipate risks before they materialize and to ensure the Corporation’s risk profile is consistent with its risk strategy.

The Board of Directors has approved an ERM Policy that addresses each category of risk. The risk categories include: credit risk, interest rate risk, liquidity risk, price and market risk, compliance risk, strategic and reputation risk, and operational risk. A description of each risk category is provided below.

Credit risk represents the possibility that borrowers or other counterparties may not repay loans or other contractual obligations according to their terms due to changes in the financial capacity, ability and willingness of such borrowers or counterparties to meet their obligations. In some cases, the collateral securing payment of the loans may be sufficient to assure repayment, but in other cases the Corporation may experience significant credit losses which could have an adverse effect on its operating results. The Corporation makes various assumptions and judgments about the collectability of its loan portfolio, including the creditworthiness of its borrowers and counterparties and the value of the real estate and other assets serving as collateral for the repayment of loans. Credit risk also exists with respect to investment securities. For further discussion regarding the credit risk and the credit quality of the Corporation’s loan portfolio, see Note 5 and Note 6 to the Unaudited Consolidated Financial Statements. For further discussion regarding the Corporation’s securities portfolio, see Note 4 to the Unaudited Consolidated Financial Statements.

Interest rate risk is the risk of loss to future earnings due to changes in interest rates. It exists because the repricing frequency and magnitude of interest earning assets and interest bearing liabilities are not identical. Liquidity risk is the risk that the Corporation will not have the ability to generate adequate amounts of cash in the most economical way for it to meet its maturing liability obligations and customer loan demand. For detailed disclosure regarding liquidity management, asset/liability management and interest rate risk, see “Liquidity and Capital Resources” and Asset/Liability Management and Interest Rate Risk sections below.

Price and market risk refers to the risk of loss arising from adverse changes in interest rates and other relevant market rates and prices, such as equity prices. Interest rate risk, discussed above, is the most significant market risk to which the Corporation is exposed. The Corporation is also exposed to financial market risk and housing market risk.

Compliance risk represents the risk of regulatory sanctions or financial loss resulting from the failure to comply with laws, rules and regulations and standards of good banking practice. Activities which may expose the Corporation to compliance risk include, but are not limited to, those dealing with the prevention of money laundering, privacy and data protection, adherence to all applicable laws and regulations, and employment and tax matters.

Strategic and reputation risk represent the risk of loss due to impairment of reputation, failure to fully develop and execute business plans, and failure to assess existing and new opportunities and threats in business, markets, and products.

Operational risk is the risk of loss due to human behavior, inadequate or failed internal systems and controls, and external influences such as market conditions, fraudulent activities, natural disasters and security risks.

ERM is an overarching program that includes all areas of the Corporation. A framework approach is utilized to assign responsibility and to ensure that the various business units and activities involved in the risk management life-cycle are effectively integrated. The Corporation has adopted the “three lines of defense” concept that is an industry best practice for ERM. Business units are the first line of defense in managing risk. They are responsible for identifying, measuring, monitoring, and controlling current and emerging risks. They must report on and escalate their concerns. Corporate functions such as Credit Risk Management, Financial Administration, Information Assurance and Compliance, comprise the second line of defense. They are responsible for policy setting and for reviewing and challenging the risk management activities of the business units. They

## Management's Discussion and Analysis

collaborate closely with business units on planning and resource allocation with respect to risk management. Internal Audit is a third line of defense. They provide independent assurance to the Board of Directors of the effectiveness of the first and second lines in fulfilling their risk management responsibilities.

For additional factors that could adversely impact Washington Trust's future results of operations and financial condition, see the section labeled "Risk Factors" in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

### Results of Operations

The following table presents a summarized consolidated statement of operations:

(Dollars in thousands)	Three Months				Six Months			
	2019	2018	Change		2019	2018	Change	
			\$	%			\$	%
For the periods ended June 30,								
Net interest income	\$33,858	\$33,111	\$747	2%	\$68,442	\$64,963	\$3,479	5%
Noninterest income	16,753	15,993	760	5	32,120	31,736	384	1
Total revenues	50,611	49,104	1,507	3	100,562	96,699	3,863	4
Provision for loan losses	525	400	125	31	1,175	400	775	194
Noninterest expense	28,151	26,288	1,863	7	55,115	53,418	1,697	3
Income before income taxes	21,935	22,416	(481)	(2)	44,272	42,881	1,391	3
Income tax expense	4,662	4,742	(80)	(2)	9,504	8,996	508	6
Net income	\$17,273	\$17,674	(\$401)	(2%)	\$34,768	\$33,885	\$883	3%

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

For the periods ended June 30,	Three Months		Six Months	
	2019	2018	2019	2018
Diluted earnings per common share	\$0.99	\$1.01	\$1.99	\$1.94
Return on average assets (net income divided by average assets)	1.34%	1.53%	1.37%	1.49%
Return on average equity (net income available for common shareholders divided by average equity)	14.58%	16.99%	15.04%	16.48%
Net interest income as a percentage of total revenues	67%	67%	68%	67%
Noninterest income as a percentage of total revenues	33%	33%	32%	33%

Net income totaled \$17.3 million and \$34.8 million for the three and six months ended June 30, 2019, compared to \$17.7 million and \$33.9 million for the same periods in 2018. The increase in net interest income reflected loan growth, purchases of debt securities, the impact of market rate increases in 2018, which were partially offset by a higher cost of funds. Growth in noninterest income reflected increased mortgage loan sale activities. The year-to-date increase in noninterest income also reflected a lower level of wealth management revenues and a higher level of loan related derivative income. The comparison of noninterest expense was impacted by one-time incentive bonuses recognized in the first quarter of 2018. Excluding the one-time incentive bonuses, the increase in noninterest expense reflected increases in salaries and employee benefits, outsourced services and advertising and promotion.

## 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 June 30,	2019			2018			Change		
(Dollars in thousands)	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
<b>Assets:</b>									
Cash, federal funds sold and short-term investments	\$72,976	\$399	2.19	\$56,142	\$257	1.84	\$16,834	\$142	0.35
Mortgage loans held for sale	28,532	288	4.05	30,203	313	4.16	(1,671)	(25)	(0.11)
Taxable debt securities	996,590	7,006	2.82	821,772	5,358	2.62	174,818	1,648	0.20
Nontaxable debt securities	805	11	5.48	1,956	26	5.33	(1,151)	(15)	0.15
Total securities	997,395	7,017	2.82	823,728	5,384	2.62	173,667	1,633	0.20
FHLB stock	49,574	720	5.83	43,331	550	5.09	6,243	170	0.74
Commercial real estate	1,468,382	17,509	4.78	1,225,926	13,463	4.40	242,456	4,046	0.38
Commercial & industrial	606,835	7,482	4.95	622,141	7,569	4.88	(15,306)	(87)	0.07
Total commercial	2,075,217	24,991	4.83	1,848,067	21,032	4.56	227,150	3,959	0.27
Residential real estate	1,350,865	13,606	4.04	1,275,171	12,426	3.91	75,694	1,180	0.13
Home equity	284,195	3,579	5.05	284,188	3,278	4.63	7	301	0.42
Other	24,189	292	4.84	29,696	360	4.86	(5,507)	(68)	(0.02)
Total consumer	308,384	3,871	5.03	313,884	3,638	4.65	(5,500)	233	0.38
Total loans	3,734,466	42,468	4.56	3,437,122	37,096	4.33	297,344	5,372	0.23
Total interest-earning assets	4,882,943	50,892	4.18	4,390,526	43,600	3.98	492,417	7,292	0.20
Noninterest-earning assets	288,619			238,290			50,329		
Total assets	\$5,171,562			\$4,628,816			\$542,746		
<b>Liabilities and Shareholders' Equity:</b>									
Interest-bearing demand deposits	\$129,334	\$624	1.94	\$86,204	\$101	0.47	\$43,130	\$523	1.47
NOW accounts	462,217	75	0.07	460,712	57	0.05	1,505	18	0.02
Money market accounts	659,021	1,831	1.11	664,127	960	0.58	(5,106)	871	0.53
Savings accounts	366,449	71	0.08	375,690	57	0.06	(9,241)	14	0.02
Time deposits (in-market)	796,606	3,992	2.01	662,969	2,265	1.37	133,637	1,727	0.64
Total interest-bearing in-market deposits	2,413,627	6,593	1.10	2,249,702	3,440	0.61	163,925	3,153	0.49
Wholesale brokered time deposits	507,376	2,876	2.27	430,118	1,814	1.69	77,258	1,062	0.58
Total interest-bearing deposits	2,921,003	9,469	1.30	2,679,820	5,254	0.79	241,183	4,215	0.51
FHLB advances	1,050,660	6,980	2.66	874,746	4,707	2.16	175,914	2,273	0.50
Junior subordinated debentures	22,681	252	4.46	22,681	214	3.78	—	38	0.68
Total interest-bearing liabilities	3,994,344	16,701	1.68	3,577,247	10,175	1.14	417,097	6,526	0.54
Noninterest-bearing demand deposits	608,099			574,258			33,841		
Other liabilities	94,766			60,878			33,888		
Shareholders' equity	474,353			416,433			57,920		
Total liabilities and shareholders' equity	\$5,171,562			\$4,628,816			\$542,746		
Net interest income (FTE)		\$34,191			\$33,425			\$766	
Interest rate spread			2.50			2.84			(0.34)
Net interest margin			2.81			3.05			(0.24)

## Management's Discussion and Analysis

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

(Dollars in thousands)

Three months ended June 30,	2019	2018	Change
Commercial loans	\$330	\$308	\$22
Nontaxable debt securities	3	6	(3)
<b>Total</b>	<b>\$333</b>	<b>\$314</b>	<b>\$19</b>

Six months ended June 30,

(Dollars in thousands)	2019			2018			Change		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
<b>Assets:</b>									
Cash, federal funds sold and short-term investments	\$64,713	\$739	2.30	\$54,649	\$462	1.70	\$10,064	\$277	0.60
Mortgage loans held for sale	22,588	468	4.18	27,329	539	3.98	(4,741)	(71)	0.20
Taxable debt securities	998,738	14,232	2.87	813,193	10,476	2.60	185,545	3,756	0.27
Nontaxable debt securities	870	21	4.87	2,154	55	5.15	(1,284)	(34)	(0.28)
Total debt securities	999,608	14,253	2.88	815,347	10,531	2.60	184,261	3,722	0.28
FHLB stock	48,288	1,415	5.91	42,116	1,066	5.10	6,172	349	0.81
Commercial real estate	1,446,923	34,388	4.79	1,222,136	25,809	4.26	224,787	8,579	0.53
Commercial & industrial	612,568	15,026	4.95	615,698	14,392	4.71	(3,130)	634	0.24
Total commercial	2,059,491	49,414	4.84	1,837,834	40,201	4.41	221,657	9,213	0.43
Residential real estate	1,354,330	27,371	4.08	1,251,904	24,355	3.92	102,426	3,016	0.16
Home equity	281,404	7,142	5.12	285,684	6,439	4.55	(4,280)	703	0.57
Other	24,905	609	4.93	30,188	729	4.87	(5,283)	(120)	0.06
Total consumer	306,309	7,751	5.10	315,872	7,168	4.58	(9,563)	583	0.52
Total loans	3,720,130	84,536	4.58	3,405,610	71,724	4.25	314,520	12,812	0.33
Total interest-earning assets	4,855,327	101,411	4.21	4,345,051	84,322	3.91	510,276	17,089	0.30
Noninterest-earning assets	278,714			234,485			44,229		
Total assets	\$5,134,041			\$4,579,536			\$554,505		
<b>Liabilities and Shareholders' Equity:</b>									
Interest-bearing demand deposits	\$147,522	\$1,311	1.79	\$83,368	\$129	0.31	\$64,154	\$1,182	1.48
NOW accounts	458,563	159	0.07	455,036	111	0.05	3,527	48	0.02
Money market accounts	652,671	3,440	1.06	691,245	1,840	0.54	(38,574)	1,600	0.52
Savings accounts	367,826	131	0.07	371,873	114	0.06	(4,047)	17	0.01
Time deposits (in-market)	793,012	7,719	1.96	640,548	4,085	1.29	152,464	3,634	0.67
Total interest-bearing in-market deposits	2,419,594	12,760	1.06	2,242,070	6,279	0.56	177,524	6,481	0.50
Wholesale brokered time deposits	490,680	5,405	2.22	419,738	3,397	1.63	70,942	2,008	0.59
Total interest-bearing deposits	2,910,274	18,165	1.26	2,661,808	9,676	0.73	248,466	8,489	0.53
FHLB advances	1,039,037	13,641	2.65	843,033	8,690	2.08	196,004	4,951	0.57
Junior subordinated debentures	22,681	505	4.49	22,681	397	3.53	—	108	0.96
Total interest-bearing liabilities	3,971,992	32,311	1.64	3,527,522	18,763	1.07	444,470	13,548	0.57
Noninterest-bearing demand deposits	607,569			579,379			28,190		
Other liabilities	89,133			58,926			30,207		
Shareholders' equity	465,347			413,709			51,638		
Total liabilities and shareholders' equity	\$5,134,041			\$4,579,536			\$554,505		
Net interest income (FTE)		\$69,100			\$65,559			\$3,541	
Interest rate spread			2.57			2.84			(0.27)
Net interest margin			2.87			3.04			(0.17)



## Management's Discussion and Analysis

(Dollars in thousands)

Six months ended June 30,	2019	2018	Change
Commercial loans	\$654	\$584	\$70
Nontaxable debt securities	4	12	(8)
<b>Total</b>	<b>\$658</b>	<b>\$596</b>	<b>\$62</b>

### Net Interest Income

Net interest income continues to be the primary source of our operating income. Net interest income for the three and six months ended June 30, 2019 totaled \$33.9 million and \$68.4 million, respectively, compared to \$33.1 million and \$65.0 million, respectively, for the same periods 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 and six months ended June 30, 2019, income associated with loan payoffs and prepayment penalties amounted to \$37 thousand and \$86 thousand, respectively, compared to \$483 thousand and \$530 thousand, respectively, for the same periods in 2018.

FTE net interest income for the three and six months ended June 30, 2019 amounted to \$34.2 million and \$69.1 million, respectively, up by \$766 thousand and \$3.5 million, respectively, from the same periods in 2018. The net interest margin was 2.81% and 2.87%, respectively, for the three and six months ended June 30, 2019, compared to 3.05% and 3.04%, respectively, for the same periods a year ago. Excluding the impact of income associated with loan payoffs and prepayment penalties from each period, net interest income for the three and six months ended June 30, 2019 increased by \$1.2 million and \$4.0 million, respectively, from the same periods in 2018. Excluding the impact of income associated with loan payoffs and prepayment penalties from each period, the net interest margin was 2.81% and 2.87%, respectively, for the three and six months ended June 30, 2019, compared to 3.01% and 3.02%, respectively, for the same periods in 2018. The comparison of net interest margin reflected relatively higher market interest rates on variable rate loans, offset by a higher cost of funds.

Total average securities for the three and six months ended June 30, 2019 increased by \$173.7 million and \$184.3 million, respectively, from the average balances for the same periods a year earlier. The FTE rate of return on the securities portfolio for the three and six months ended June 30, 2019 was 2.82% and 2.88%, respectively, compared to 2.62% and 2.60%, respectively, for the same periods in 2018, due primarily to purchases of relatively higher yielding debt securities in the latter portion of 2018.

Total average loan balances for the three and six months ended June 30, 2019 increased by \$297.3 million and \$314.5 million, respectively, from the average loan balances for the comparable 2018 periods, primarily due to growth in average commercial real estate and residential real estate loan balances. The yield on total loans for the three and six months ended June 30, 2019 was 4.56% and 4.58%, compared to 4.33% and 4.25%, respectively, for the same periods in 2018. In 2019, yields on LIBOR-based and prime-based loans reflected relatively higher market interest rates.

The average balance of FHLB advances for the three and six months ended June 30, 2019 increased by \$175.9 million and \$196.0 million, respectively, compared to the average balances for the same periods in 2018 to fund loan growth and purchases of securities. The average rate paid on such advances for the three and six months ended June 30, 2019 was 2.66% and 2.65%, respectively, compared to 2.16% and 2.08%, respectively, for the same periods in 2018, due to higher rates on short-term advances.

Included in total average interest-bearing deposits were of out-of-market wholesale brokered time deposits, which increased by \$77.3 million and \$70.9 million, respectively, from the same periods in 2018. The average rate paid on wholesale brokered time deposits for the three and six months ended June 30, 2019 was 2.27% and 2.22%, respectively, compared to 1.69% and 1.63%, respectively, for the same periods in 2018, as maturities were replaced with wholesale brokered time deposits with higher rates.

Average in-market interest-bearing deposits, which excludes wholesale brokered time deposits, for the three and six months ended June 30, 2019 increased by \$163.9 million and \$177.5 million, respectively, from the average balances for the same

## Management's Discussion and Analysis

periods in 2018, largely due to growth in time deposits and demand deposits, offset, in part, by a decline in money market accounts. The average rate paid on in-market interest-bearing deposits for the three and six months ended June 30, 2019 increased by 49 basis points and 50 basis points, respectively, compared to the same periods 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 and six months ended June 30, 2019 increased by \$33.8 million and \$28.2 million, respectively, from the average balances for the same periods in 2018.

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

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

(Dollars in thousands)

	Three Months Ended June 30, 2019 vs. 2018			Six Months Ended June 30, 2019 vs. 2018		
	Change Due to			Change Due to		
	Volume	Rate	Net Change	Volume	Rate	Net Change
<b>Interest on Interest-Earning Assets:</b>						
Cash, federal funds sold and other short-term investments	\$87	\$55	\$142	\$95	\$182	\$277
Mortgage loans held for sale	(17)	(8)	(25)	(97)	26	(71)
Taxable debt securities	1,213	435	1,648	2,581	1,175	3,756
Nontaxable debt securities	(16)	1	(15)	(31)	(3)	(34)
Total securities	1,197	436	1,633	2,550	1,172	3,722
FHLB stock	85	85	170	167	182	349
Commercial real estate	2,816	1,230	4,046	5,117	3,462	8,579
Commercial & industrial	(192)	105	(87)	(75)	709	634
Total commercial	2,624	1,335	3,959	5,042	4,171	9,213
Residential real estate	756	424	1,180	2,012	1,004	3,016
Home equity	—	301	301	(97)	800	703
Other	(67)	(1)	(68)	(129)	9	(120)
Total consumer	(67)	300	233	(226)	809	583
Total loans	3,313	2,059	5,372	6,828	5,984	12,812
Total interest income	4,665	2,627	7,292	9,543	7,546	17,089
<b>Interest on Interest-Bearing Liabilities:</b>						
Interest-bearing demand deposits	72	451	523	164	1,018	1,182
NOW accounts	—	18	18	1	47	48
Money market accounts	(7)	878	871	(108)	1,708	1,600
Savings accounts	(2)	16	14	(1)	18	17
Time deposits (in-market)	521	1,206	1,727	1,142	2,492	3,634
Total interest-bearing in-market deposits	584	2,569	3,153	1,198	5,283	6,481
Wholesale brokered time deposits	365	697	1,062	639	1,369	2,008
Total interest-bearing deposits	949	3,266	4,215	1,837	6,652	8,489
FHLB advances	1,057	1,216	2,273	2,272	2,679	4,951
Junior subordinated debentures	—	38	38	—	108	108
Total interest expense	2,006	4,520	6,526	4,109	9,439	13,548
Net interest income (FTE)	\$2,659	(\$1,893)	\$766	\$5,434	(\$1,893)	\$3,541

### 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



## Management's Discussion and Analysis

an allowance for loan losses that reflects management's best estimate of probable losses inherent in the loan portfolio at the balance sheet date.

Loan loss provisions of \$525 thousand and \$1.2 million, respectively, were charged to earnings for the three and six months ended June 30, 2019, compared to \$400 thousand for both the three and six months ended June 30, 2018. These provisions were based on management's assessment of asset quality and credit quality metrics, growth and changes in the loan portfolio, and loss exposure allocations.

Net charge-offs totaled \$771 thousand and \$849 thousand, respectively, for the three and six months ended June 30, 2019 and were largely attributable to one residential real estate relationship. Net charge-offs were \$90 thousand and \$714 thousand, respectively, for the same periods in 2018.

The allowance for loan losses was \$27.4 million, or 0.73% of total loans, at June 30, 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)	Three Months				Six Months			
	2019	2018	Change		2019	2018	Change	
			\$	%			\$	%
<b>Periods ended June 30,</b>								
<b>Noninterest income:</b>								
Wealth management revenues	\$9,549	\$9,602	(\$53)	(1%)	\$18,801	\$19,875	(\$1,074)	(5)%
Mortgage banking revenues	3,640	2,941	699	24	6,286	5,779	507	9
Card interchange fees	1,018	961	57	6	2,015	1,808	207	11
Service charges on deposit accounts	929	903	26	3	1,804	1,766	38	2
Loan related derivative income	746	668	78	12	1,470	809	661	82
Income from bank-owned life insurance	566	537	29	5	1,215	1,052	163	15
Net realized gains on securities	(80)	—	(80)	100	(80)	—	(80)	100
Other income	385	381	4	1	609	647	(38)	(6)
<b>Total noninterest income</b>	<b>\$16,753</b>	<b>\$15,993</b>	<b>\$760</b>	<b>5 %</b>	<b>\$32,120</b>	<b>\$31,736</b>	<b>\$384</b>	<b>1 %</b>

### Noninterest Income Analysis

Revenue from wealth management services is our largest source of noninterest income, representing 59% of total noninterest income for the six months ended June 30, 2019, compared to 63% for the same period in 2018. 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)	Three Months				Six Months			
	2019	2018	Change		2019	2018	Change	
			\$	%			\$	%
<b>Periods ended June 30,</b>								
<b>Wealth management revenues:</b>								
Asset-based revenues	\$9,141	\$9,136	\$5	— %	18,062	19,091	(1,029)	(5)
Transaction-based revenues	408	466	(58)	(12)	739	784	(45)	(6)
<b>Total wealth management revenues</b>	<b>\$9,549</b>	<b>\$9,602</b>	<b>(\$53)</b>	<b>(1)%</b>	<b>\$18,801</b>	<b>\$19,875</b>	<b>(\$1,074)</b>	<b>(5)%</b>

Wealth management revenues for the three and six months ended June 30, 2019 decreased by \$53 thousand and \$1.1 million,

## Management's Discussion and Analysis

respectively, from the comparable periods in 2018. The year-to-date decrease in 2019 was largely due to a decline in asset-based revenues.

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

(Dollars in thousands)	Three Months		Six Months	
Periods ended June 30,	2019	2018	2019	2018
<b>Wealth management assets under administration:</b>				
Balance at the beginning of period	\$6,350,128	\$6,343,720	\$5,910,814	\$6,714,637
Net investment appreciation & income	222,489	133,450	742,546	101,426
Net client asset flows	(93,727)	(257,015)	(174,470)	(595,908)
Balance at the end of period	\$6,478,890	\$6,220,155	\$6,478,890	\$6,220,155

While the June 30, 2019 end of period wealth management assets under administration balances were up by 4% from a year ago, the average balance of wealth management assets for the three and six months ended June 30, 2019 was up by \$106.3 million, or 2%, and down by \$227.4 million, or 3%, respectively, compared to the average balance of wealth management assets for the same periods in 2018. The year-over-year comparison in average wealth management assets was adversely impacted by net client outflows largely associated with the loss of certain client-facing personnel in the first quarter of 2018, and may be further adversely impacted by outflows associated with the loss of two additional senior counselors in the second quarter of 2019. These two senior counselors managed, or were associated with, approximately \$1.0 billion of wealth management assets as of June 30, 2019.

Mortgage banking revenues represented 20% of total noninterest income for the six months ended June 30, 2019, compared to 18% for the same period in 2018. 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)	Three Months				Six Months			
Periods ended June 30,	2019	2018	Change		2019	2018	Change	
			\$	%			\$	%
<b>Mortgage banking revenues:</b>								
Gains and commissions on loan sales (1)	\$3,523	\$2,786	\$737	26 %	\$5,997	\$5,465	\$532	10 %
Loan servicing fee income, net (2)	117	155	(38)	(25)	289	314	(25)	(8)
Total mortgage banking revenues	\$3,640	\$2,941	\$699	24 %	\$6,286	\$5,779	\$507	9 %
Loans sold to the secondary market (3)	\$137,414	\$105,421	\$31,993	30 %	\$229,493	\$202,261	\$27,232	13 %

(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 and six months ended June 30, 2019, mortgage banking revenues were up by \$699 thousand and \$507 thousand, respectively, compared to the same periods in 2018. The increase in mortgage banking revenues largely reflected higher sales volume of loans sold in the secondary market. For the six months ended June 30, 2019 and 2018, loans originated for sale represented 67% and 52%, respectively, of total residential real estate loan originations. In 2019, a higher proportion of total residential real estate loan originations were originated for sale.

Loan related derivative income for the three and six months ended June 30, 2019 increased by \$78 thousand and \$661 thousand, respectively, from the comparable periods in 2018. The year-to-date increase was largely due to a higher volume of commercial borrower interest rate swap transactions.

## Management's Discussion and Analysis

Income from bank-owned life insurance for the three and six months ended June 30, 2019 increased by \$29 thousand and \$163 thousand, respectively, from the same periods in 2018. The year-to-date 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.

### Noninterest Expense

The following table presents noninterest expense comparisons:

(Dollars in thousands)	Three Months				Six Months			
	2019	2018	Change		2019	2018	Change	
			\$	%			\$	%
<b>Noninterest expense:</b>								
Salaries and employee benefits	\$18,436	\$17,304	\$1,132	7 %	\$36,055	\$35,076	\$979	3 %
Outsourced services	2,518	2,350	168	7	5,124	4,223	901	21
Net occupancy	1,904	1,930	(26)	(1)	3,902	3,932	(30)	(1)
Equipment	1,028	1,069	(41)	(4)	2,039	2,249	(210)	(9)
Legal, audit and professional fees	664	555	109	20	1,198	1,281	(83)	(6)
FDIC deposit insurance costs	540	422	118	28	969	826	143	17
Advertising and promotion	525	329	196	60	764	506	258	51
Amortization of intangibles	239	247	(8)	(3)	478	495	(17)	(3)
Other	2,297	2,082	215	10	4,586	4,830	(244)	(5)
<b>Total noninterest expense</b>	<b>\$28,151</b>	<b>\$26,288</b>	<b>\$1,863</b>	<b>7 %</b>	<b>\$55,115</b>	<b>\$53,418</b>	<b>\$1,697</b>	<b>3 %</b>

### Noninterest Expense Analysis

Salaries and employee benefits expense for the three and six months ended June 30, 2019 increased by \$1.1 million and \$979 thousand, respectively, compared to the same periods in 2018, reflecting an increase in salaries and wages costs and lower deferred labor costs. The increase in salaries and wages included annual merit increases, while the decrease in deferred labor associated with portfolio loan originations was due to a lower proportion of residential real estate loans originated for retention for portfolio in 2019 compared to 2018. Year-to-date salaries and employee benefits expense was also impacted by one-time incentive bonuses of approximately \$450 thousand that were recognized in the first quarter of 2018. There were no such one-time bonuses recognized in 2019.

Outsourced services expense for the three and six months ended June 30, 2019 increased by \$168 thousand and \$901 thousand, respectively, compared to the same periods in 2018. Equipment expense for the three and six months ended June 30, 2019 decreased by \$41 thousand and \$210 thousand, respectively, from the same periods a year ago. Both the increase in outsourced services and decline in equipment expense reflected changes to and expansion of services provided by third party vendors, including software application processing and operational services.

Advertising and promotion expense for the three and six months ended June 30, 2019 increased by \$196 thousand and \$258 thousand, respectively, compared to the same periods in 2018, reflecting timing of promotional activities.

### Income Taxes

The following table presents the Corporation's income tax provision and applicable tax rates for the periods indicated:

(Dollars in thousands)	Three Months		Six Months	
	2019	2018	2019	2018
Income tax expense	\$4,662	\$4,742	\$9,504	\$8,996
Effective income tax rate	21.3%	21.2%	21.5%	21.0%

The effective income tax rates for the three and six months ended June 30, 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.

## Management's Discussion and Analysis

The increase in the effective tax rate for the six months ended June 30, 2019 compared to the same period in 2018 largely reflected a decrease in 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.

#### Commercial Banking

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

(Dollars in thousands)	Three Months				Six Months			
	2019	2018	Change		2019	2018	Change	
			\$	%			\$	%
Periods ended June 30,								
Net interest income	\$27,867	\$26,644	\$1,223	5%	\$55,169	\$52,620	\$2,549	5%
Provision for loan losses	525	400	125	31	1,175	400	775	194
Net interest income after provision for loan losses	27,342	26,244	1,098	4	53,994	52,220	1,774	3
Noninterest income	6,690	5,837	853	15	12,146	10,773	1,373	13
Noninterest expense	17,332	16,146	1,186	7	33,763	32,249	1,514	5
Income before income taxes	16,700	15,935	765	5	32,377	30,744	1,633	5
Income tax expense	3,603	3,387	216	6	7,024	6,490	534	8
Net income	\$13,097	\$12,548	\$549	4%	\$25,353	\$24,254	\$1,099	5%

Net interest income for the Commercial Banking segment for the three and six months ended June 30, 2019, increased by \$1.2 million and \$2.5 million, respectively, from the same periods 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.

Loan loss provisions of \$525 thousand and \$1.2 million, respectively, were charged to earnings for the three and six months ended June 30, 2019, compared to \$400 thousand for both the three and six months ended June 30, 2018. These provisions were based on management's assessment of asset quality and credit quality metrics, growth and changes in the loan portfolio, and loss exposure allocations.

Noninterest income derived from the Commercial Banking segment for the three and six months ended June 30, 2019 was up by \$853 thousand and \$1.4 million, respectively, from the comparable periods in 2018. The increase largely reflected higher mortgage banking revenues and loan related derivative income. See additional discussion under the caption "Noninterest Income."

Commercial Banking noninterest expenses for the three and six months ended June 30, 2019 were up by \$1.2 million and \$1.5 million, respectively, from the same periods in 2018, reflecting increased salaries and employee benefits expense and lower deferred labor. See further discussion of salaries and employee benefits expense under the caption "Noninterest Expense Analysis" above. The increase in Commercial Banking noninterest expenses also includes higher outsourced services expense associated with the expansion of services provided by third party vendors.

## Management's Discussion and Analysis

### Wealth Management Services

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

(Dollars in thousands)	Three Months				Six Months			
	2019	2018	Change		2019	2018	Change	
			\$	%			\$	%
Periods ended June 30,								
Net interest expense	(\$120)	(\$77)	(\$43)	56%	(\$247)	(\$135)	(\$112)	83%
Noninterest income	9,557	9,602	(45)	—	18,808	19,875	(1,067)	(5)
Noninterest expense	7,300	6,963	337	5	14,143	14,558	(415)	(3)
Income before income taxes	2,137	2,562	(425)	(17)	4,418	5,182	(764)	(15)
Income tax expense	582	655	(73)	(11)	1,199	1,298	(99)	(8)
Net income	\$1,555	\$1,907	(\$352)	(18%)	\$3,219	\$3,884	(\$665)	(17%)

For the three and six months ended June 30, 2019, noninterest income derived from the Wealth Management Services segment decreased by \$45 thousand and \$1.1 million, respectively, compared to the same periods in 2018. See further discussion of wealth management revenues under the caption "Noninterest Income" above.

For the three months ended June 30, 2019, noninterest expenses for the Wealth Management Services segment increased by \$337 thousand, largely reflecting increased salaries and employee benefits expense attributable to business development efforts, as well as increased legal costs. For the six months ended June 30, 2019, noninterest expenses for the Wealth Management Services segment decreased by \$415 thousand, primarily due to software system implementation costs incurred in 2018 associated with an April 2018 system implementation. This decrease was partially offset by increased salaries and employee benefits expense, higher outsourced services expense and increased legal costs.

### Corporate

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

(Dollars in thousands)	Three Months				Six Months			
	2019	2018	Change		2019	2018	Change	
			\$	%			\$	%
Periods ended June 30,								
Net interest income	\$6,111	\$6,544	(\$433)	(7%)	\$13,520	\$12,478	\$1,042	8%
Noninterest income	506	554	(48)	(9)	1,166	1,088	78	7
Noninterest expense	3,519	3,179	340	11	7,209	6,611	598	9
Income before income taxes	3,098	3,919	(821)	(21)	7,477	6,955	522	8
Income tax expense	477	700	(223)	(32)	1,281	1,208	73	6
Net income	\$2,621	\$3,219	(\$598)	(19%)	\$6,196	\$5,747	\$449	8%

Net interest income for the Corporate unit for the three and six months ended June 30, 2019 was down by \$433 thousand and up by \$1.0 million, respectively, compared to the same periods in 2018. While the changes reflected increased investment income due to growth in the investment securities portfolio and higher dividend income on FHLB stock, they were also impacted by a decline in the interest rate spread due to higher wholesale funding costs.

Noninterest expense for the Corporate unit for the three and six months ended June 30, 2019 was up by \$340 thousand and \$598 thousand, respectively, from the same periods in 2018, reflecting increases in staffing levels and advertising and promotional activities.

## Management's Discussion and Analysis

### Financial Condition

#### Summary

The following table presents selected financial condition data:

(Dollars in thousands)

	June 30, 2019	December 31, 2018	Change	
			\$	%
Cash and due from banks	\$115,904	\$89,923	\$25,981	29%
Total securities	969,168	938,225	30,943	3
Total loans	3,730,339	3,680,360	49,979	1
Allowance for loan losses	27,398	27,072	326	1
Total assets	5,189,672	5,010,766	178,906	4
Total deposits	3,504,622	3,524,048	(19,426)	(1)
FHLB advances	1,060,960	950,722	110,238	12
Total shareholders' equity	484,205	448,184	36,021	8

Total assets amounted to \$5.2 billion at June 30, 2019, up by \$178.9 million, or 4%, from the end of 2018. Included in the increase in total assets was the recognition of operating lease right-of-use assets totaling \$28.9 million due to the adoption of ASU 2016-02 on January 1, 2019 as disclosed in Note 2 to the Unaudited Consolidated Financial Statements. The remaining increase in total assets reflected loan growth, purchases of securities and an increase in the balance of cash and due from banks. Total deposits decreased by \$19.4 million, or 1%, and FHLB advances increased by \$110.2 million, or 12%, from the end of 2018. Shareholders' equity amounted to \$484.2 million at June 30, 2019, up by \$36.0 million from the balance at the end of 2018. As of June 30, 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.

#### 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 has not maintained a portfolio of trading securities. Securities available for sale may be sold in response to changes in market conditions, prepayment risk, rate fluctuations, liquidity, or capital requirements. Debt securities available for sale are reported at fair value, with any unrealized gains and losses excluded from earnings and reported as a separate component of shareholders' equity, net of tax, until realized. Debt securities held to maturity are reported at amortized cost.

#### Determination of Fair Value

The Corporation uses an independent pricing service to obtain quoted prices. The prices provided by the independent pricing service are generally based on observable market data in active markets. The determination of whether markets are active or inactive is based upon the level of trading activity for a particular security class. The Corporation reviews the independent pricing service's documentation to gain an understanding of the appropriateness of the pricing methodologies. The Corporation also reviews the prices provided by the independent pricing service for reasonableness based upon current trading levels for similar securities. If the prices appear unusual, they are re-examined and the value is either confirmed or revised. In addition, the Corporation periodically performs independent price tests of securities to ensure proper valuation and to verify our understanding of how securities are priced. As of June 30, 2019 and December 31, 2018, the Corporation did not make any adjustments to the prices provided by the pricing service.

## Management's Discussion and Analysis

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)	June 30, 2019		December 31, 2018	
	Amount	%	Amount	%
<b>Available for Sale Debt Securities:</b>				
Obligations of U.S. government-sponsored enterprises	\$237,427	24%	\$242,683	26%
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	707,180	74	660,793	72
Obligations of states and political subdivisions	90	—	937	—
Individual name issuer trust preferred debt securities	12,301	1	11,772	1
Corporate bonds	12,170	1	11,625	1
<b>Total available for sale debt securities</b>	<b>\$969,168</b>	<b>100%</b>	<b>\$927,810</b>	<b>100%</b>

(Dollars in thousands)	June 30, 2019		December 31, 2018	
	Amount	%	Amount	%
<b>Held to Maturity Debt Securities:</b>				
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	\$—	—%	\$10,415	100%
<b>Total held to maturity debt securities</b>	<b>\$—</b>	<b>—%</b>	<b>\$10,415</b>	<b>100%</b>

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 \$82.8 million and \$62.7 million, respectively, were purchased during the six months ended June 30, 2019 and 2018. The 2019 purchases had a weighted average yield of 3.61%, while the 2018 purchases had a weighted average yield of 3.21%. In 2019, the purchases were partially offset by routine principal pay-downs on mortgage-backed securities, calls, maturities and the sale of one 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 a fair value of \$10.3 million were reclassified to available for sale upon the adoption date.

The securities portfolio stood at \$969.2 million as of June 30, 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 June 30, 2019 the net unrealized gain position on securities available for sale amounted to \$384 thousand compared to a net unrealized loss position of \$22.0 million on securities available for sale and held to maturity as of December 31, 2018. These net positions included gross unrealized losses of \$7.4 million and \$24.4 million, respectively, of as June 30, 2019 and December 31, 2018. The decrease in gross unrealized losses in 2019 was primarily concentrated in obligations of U.S. government agencies and U.S. government-sponsored enterprises, including mortgage-backed securities, and largely attributable to relative changes in interest rates since the time of purchase. See Note 4 to the Unaudited Consolidated Financial Statements for additional information.

## Management's Discussion and Analysis

### Loans

Total loans amounted to \$3.7 billion at June 30, 2019, up by \$50.0 million, or 1%, from the end of 2018, due to growth in commercial loan portfolio.

The following is a summary of loans:

(Dollars in thousands)	June 30, 2019		December 31, 2018	
	Amount	%	Amount	%
<b>Commercial:</b>				
Commercial real estate (1)	\$1,482,836	40%	\$1,392,408	38 %
Commercial & industrial (2)	583,873	15	620,704	17
Total commercial	2,066,709	55	2,013,112	55
<b>Residential Real Estate:</b>				
Residential real estate (3)	1,352,113	36	1,360,387	37
<b>Consumer:</b>				
Home equity	288,078	8	280,626	8
Other (4)	23,439	1	26,235	—
Total consumer	311,517	9	306,861	8
<b>Total loans</b>	<b>\$3,730,339</b>	<b>100%</b>	<b>\$3,680,360</b>	<b>100 %</b>

(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 June 30, 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 \$386.5 million and \$406.4 million, respectively, at June 30, 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 June 30, 2019, up by \$90.4 million, or 6%, from the balance at December 31, 2018. Included in commercial real estate loans were construction and development loans of \$227.1 million and \$190.9 million, respectively, as of June 30, 2019 and December 31, 2018. For the six months ended June 30, 2019, commercial real estate loan originations and advances amounted to \$178.9 million, which were partially offset by payoffs.

## Management's Discussion and Analysis

Commercial real estate loans are secured by a variety of property types, with approximately 90% of the total at June 30, 2019 composed of multi-family dwellings, retail facilities, office buildings, lodging, healthcare facilities, industrial and warehouse properties and commercial mixed use properties. The average commercial real estate loan size was \$2.9 million and the largest individual commercial real estate loan outstanding was \$26.0 million as of June 30, 2019.

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

(Dollars in thousands)

	June 30, 2019		December 31, 2018	
	Amount	% of Total	Amount	% of Total
Rhode Island	\$384,603	26%	\$377,249	27%
Connecticut	603,036	41	570,116	41
Massachusetts	407,350	27	356,615	26
Subtotal	1,394,989	94	1,303,980	94
All other states	87,847	6	88,428	6
<b>Total</b>	<b>\$1,482,836</b>	<b>100%</b>	<b>\$1,392,408</b>	<b>100%</b>

### *Commercial and Industrial Loans*

Commercial and industrial loans amounted to \$583.9 million at June 30, 2019, down by \$36.8 million, or 6%, from the balance at December 31, 2018. For the six months ended June 30, 2019, originations amounted to \$37.4 million and were offset by lower line utilization, payoffs and paydowns.

Shared national credit balances outstanding included in the commercial and industrial loan portfolio totaled \$73.7 million at June 30, 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 June 30, 2019.

The commercial and industrial loan portfolio includes loans to a variety of business types, with 90% of the total at June 30, 2019 composed of health care/social assistance, educational services, manufacturing, owner occupied and other real estate, professional, scientific and technical, retail trade, transportation and warehousing, entertainment and recreation, other services, finance and insurance services, public administration and construction businesses. The average commercial and industrial loan size was \$608 thousand and the largest individual commercial and industrial loan outstanding was \$19.3 million as of June 30, 2019.

### Residential Real Estate Loans

The residential real estate loan portfolio represented 36% of total loans at June 30, 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)

Periods ended June 30,	Three Months				Six Months			
	2019		2018		2019		2018	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Originations for retention in portfolio	\$69,736	30%	\$128,479	51%	\$121,433	33%	\$196,319	48%
Originations for sale to the secondary market (1)	162,123	70	122,693	49	247,949	67	210,413	52
<b>Total</b>	<b>\$231,859</b>	<b>100%</b>	<b>\$251,172</b>	<b>100%</b>	<b>\$369,382</b>	<b>100%</b>	<b>\$406,732</b>	<b>100%</b>

(1) Includes brokered loans.

## Management's Discussion and Analysis

The table below presents residential real estate loan sales activity:

(Dollars in thousands) Periods ended June 30,	Three Months				Six Months			
	2019		2018		2019		2018	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Loans sold with servicing rights retained	\$18,292	13%	\$24,367	23%	\$27,782	12%	\$57,942	29%
Loans sold with servicing rights released (1)	119,122	87	81,054	77	201,711	88	144,319	71
<b>Total</b>	<b>\$137,414</b>	<b>100%</b>	<b>\$105,421</b>	<b>100%</b>	<b>\$229,493</b>	<b>100%</b>	<b>\$202,261</b>	<b>100%</b>

(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 \$3.4 million and \$3.7 million, respectively, as of June 30, 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 \$577.5 million and \$588.5 million, respectively, as of June 30, 2019 and December 31, 2018.

Residential real estate loans held in portfolio amounted to \$1.4 billion at June 30, 2019, down by \$8.3 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 and six months ended June 30, 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)	June 30, 2019		December 31, 2018	
	Amount	% of Total	Amount	% of Total
Rhode Island	\$347,406	26%	\$352,141	26%
Connecticut	144,664	11	141,775	10
Massachusetts	844,024	62	849,435	63
Subtotal	1,336,094	99	1,343,351	99
All other states	16,019	1	17,036	1
<b>Total (1)</b>	<b>\$1,352,113</b>	<b>100%</b>	<b>\$1,360,387</b>	<b>100%</b>

(1) Includes residential real estate loans purchased from other financial institutions totaling \$102.7 million and \$112.9 million, respectively, as of June 30, 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 \$311.5 million at June 30, 2019, up by \$4.7 million, or 2%, from December 31, 2018. Home equity lines and home equity loans represented 92% of the total consumer portfolio at June 30, 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 \$14.9 million and \$17.6 million, respectively, at June 30, 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)	Jun 30, 2019	Dec 31, 2018
<b>Commercial:</b>		
Commercial real estate	\$926	\$925
Commercial & industrial	—	—
Total commercial	926	925
<b>Residential Real Estate:</b>		
Residential real estate	10,610	9,346
<b>Consumer:</b>		
Home equity	1,243	1,436
Other	88	—
Total consumer	1,331	1,436
Total nonaccrual loans	12,867	11,707
Property acquired through foreclosure or repossession, net	2,142	2,142
Total nonperforming assets	\$15,009	\$13,849
Nonperforming assets to total assets	0.29%	0.28%
Nonperforming loans to total loans	0.34%	0.32%
Total past due loans to total loans	0.48%	0.37%
Accruing loans 90 days or more past due	\$—	\$—

Total nonperforming assets increased by \$1.2 million from the end of 2018, reflecting a net increase in nonaccrual residential real estate loans.

At June 30, 2019, property acquired through foreclosure consisted of one commercial property.

### Nonaccrual Loans

During the six months ended June 30, 2019, the Corporation made no changes in its practices or policies concerning the placement of loans into nonaccrual status.

The following table presents the activity in nonaccrual loans:

(Dollars in thousands)	Three Months		Six Months	
For the periods ended June 30,	2019	2018	2019	2018
Balance at beginning of period	\$12,365	\$10,521	\$11,707	\$15,211
Additions to nonaccrual status	1,620	2,457	3,544	3,667
Loans returned to accruing status	(118)	(475)	(973)	(819)
Loans charged-off	(819)	(103)	(922)	(793)
Loans transferred to other real estate owned	—	—	—	(3,074)
Payments, payoffs and other changes	(181)	(655)	(489)	(2,447)
Balance at end of period	\$12,867	\$11,745	\$12,867	\$11,745

## Management's Discussion and Analysis

The following table presents additional detail on nonaccrual loans:

(Dollars in thousands)	June 30, 2019				December 31, 2018			
	Days Past Due		Total	% (1)	Days Past Due		Total	% (1)
	Over 90	Under 90			Over 90	Under 90		
<b>Commercial:</b>								
Commercial real estate	\$926	\$—	\$926	0.06%	\$—	\$925	\$925	0.07%
Commercial & industrial	—	—	—	—	—	—	—	—
Total commercial	926	—	926	0.04	—	925	925	0.05
<b>Residential Real Estate:</b>								
Residential real estate	4,473	6,137	10,610	0.78	1,509	7,837	9,346	0.69
<b>Consumer:</b>								
Home equity	790	453	1,243	0.43	552	884	1,436	0.51
Other	88	—	88	0.38	—	—	—	—
Total consumer	878	453	1,331	0.43	552	884	1,436	0.47
<b>Total nonaccrual loans</b>	<b>\$6,277</b>	<b>\$6,590</b>	<b>\$12,867</b>	<b>0.34%</b>	<b>\$2,061</b>	<b>\$9,646</b>	<b>\$11,707</b>	<b>0.32%</b>

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

There were no significant commitments to lend additional funds to borrowers whose loans were on nonaccrual status at June 30, 2019.

As of June 30, 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 \$10.6 million at June 30, 2019, up by \$1.3 million from the end of 2018. As of June 30, 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 June 30, 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.

## 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)	Jun 30, 2019	Dec 31, 2018
<b><u>Accruing troubled debt restructured loans</u></b>		
<b>Commercial:</b>		
Commercial & industrial	\$—	\$4,714
<b>Residential Real Estate:</b>		
Residential real estate	360	363
<b>Consumer:</b>		
Home equity	—	10
Other	20	21
Total consumer	20	31
Total accruing troubled debt restructured loans	380	5,108
<b><u>Nonaccrual troubled debt restructured loans</u></b>		
<b>Residential Real Estate:</b>		
Residential real estate	\$501	\$510
Total nonaccrual troubled debt restructured loans	501	510
Total troubled debt restructured loans	\$881	\$5,618

### Troubled Debt Restructurings

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

Restructured loans are classified as accruing or non-accruing based on management's assessment of the collectability of the loan. Loans that are already on nonaccrual status at the time of the restructuring generally remain on nonaccrual status for approximately six months before management considers such loans for return to accruing status. Accruing restructured loans are placed into nonaccrual status if and when the borrower fails to comply with the restructured terms and management deems it unlikely that the borrower will return to a status of compliance in the near term.

Troubled debt restructurings are reported as such for at least one year from the date of the restructuring. In years after the restructuring, troubled debt restructured loans are removed from this classification if the restructuring did not involve a below-market rate concession and the loan is not deemed to be impaired based on the terms specified in the restructuring agreement. As of June 30, 2019, there were no significant commitments to lend additional funds to borrowers whose loans had been restructured.

Troubled debt restructured loans decreased by \$4.7 million from the end of December 31, 2018 due to the payoff of one accruing commercial loan that occurred in the second quarter of 2019.

The allowance for loans losses included specific reserves for troubled debt restructurings of \$100 thousand and \$103 thousand, respectively, at June 30, 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)	June 30, 2019		December 31, 2018	
	Amount	% (1)	Amount	% (1)
<b>Commercial:</b>				
Commercial real estate	\$3,670	0.25%	\$1,080	0.08%
Commercial & industrial	1	—	—	—
Total commercial	3,671	0.18	1,080	0.05
<b>Residential Real Estate:</b>				
Residential real estate	11,237	0.83	10,520	0.77
<b>Consumer:</b>				
Home equity	2,904	1.01	1,989	0.71
Other	102	0.44	33	0.13
Total consumer	3,006	0.96	2,022	0.66
<b>Total past due loans</b>	<b>\$17,914</b>	<b>0.48%</b>	<b>\$13,622</b>	<b>0.37%</b>

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

As of June 30, 2019, the composition of past due loans (loans past due 30 days or more) was 80% residential and consumer and 20% commercial, compared to 92% and 8%, respectively, at December 31, 2018.

Total past due loans increased by \$4.3 million from the end of 2018, largely due to one commercial real estate loan with a carrying value of \$2.7 million that went delinquent in the second quarter of 2019. This loan returned to current status in early July 2019.

Total past due loans included \$8.6 million of nonaccrual loans as of both June 30, 2019 and December 31, 2018. All loans 90 days or more past due at June 30, 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 June 30, 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 \$19.2 million in potential problem loans at June 30, 2019, compared to \$14.9 million at December 31, 2018. As of June 30, 2019, 94% of the balance of potential problem loans consisted of five commercial relationships. As of the filing date of this report, all of these commercial relationships 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.

## Management's Discussion and Analysis

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 loan losses. In addition, the balance and trends of credit quality indicators, including the commercial loan categories of Pass, Special Mention and Classified, are integrated into the process used to determine the allocation of loss exposure. See Note 5 to the Unaudited Consolidated Financial Statements under the caption "Credit Quality Indicators" for additional information. Management believes that the level of allowance for loan losses at June 30, 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)	Jun 30, 2019	Dec 31, 2018
Collateral dependent impaired loans (1)	\$11,603	\$10,466
Impaired loans measured on discounted cash flow method (2)	1,644	6,350
<b>Total impaired loans</b>	<b>\$13,247</b>	<b>\$16,816</b>

(1) Net of partial charge-offs of \$775 thousand and \$289 thousand, respectively, at June 30, 2019 and December 31, 2018.

(2) Net of partial charge-offs of \$85 thousand at both June 30, 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)	June 30, 2019			December 31, 2018		
	Loans	Related Allowance	Allowance / Loans	Loans	Related Allowance	Allowance / Loans
Impaired loans individually evaluated for impairment	\$13,247	\$119	0.90%	\$16,816	\$127	0.76%
Loans collectively evaluated for impairment	3,717,092	27,279	0.73	3,663,544	26,945	0.74
<b>Total</b>	<b>\$3,730,339</b>	<b>\$27,398</b>	<b>0.73%</b>	<b>\$3,680,360</b>	<b>\$27,072</b>	<b>0.74%</b>

## Management's Discussion and Analysis

Loan loss provisions of \$525 thousand and \$1.2 million, respectively, were charged to earnings for the three and six months ended June 30, 2019, compared to \$400 thousand for both the three and six months ended June 30, 2018. These provisions were based on management's assessment of asset quality and credit quality metrics, growth and changes in the loan portfolio, and loss exposure allocations.

Net charge-offs totaled \$771 thousand and \$849 thousand, respectively, for the three and six months ended June 30, 2019 and were largely attributable to one residential real estate relationship. Net charge-offs were \$90 thousand and \$714 thousand, respectively, for the same periods in 2018.

As of June 30, 2019, the allowance for loan losses was \$27.4 million, or 0.73% 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)

	June 30, 2019		December 31, 2018	
	Amount	% (1)	Amount	% (1)
<b>Allocation of Allowance for Loan Losses</b>				
<b>Commercial:</b>				
Commercial real estate	\$16,882	40%	\$15,381	38%
Commercial & industrial	4,453	15	5,847	17
<b>Total commercial</b>	<b>21,335</b>	<b>55</b>	<b>21,228</b>	<b>55</b>
<b>Residential Real Estate:</b>				
Residential real estate	4,857	36	3,987	37
<b>Consumer:</b>				
Home equity	913	8	1,603	8
Other	293	1	254	—
<b>Total consumer</b>	<b>1,206</b>	<b>9</b>	<b>1,857</b>	<b>8</b>
<b>Total allowance for loan losses at end of period</b>	<b>\$27,398</b>	<b>100%</b>	<b>\$27,072</b>	<b>100%</b>

(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)

	June 30, 2019	December 31, 2018	Change	
			\$	%
Noninterest-bearing demand deposits	\$587,326	\$603,216	(\$15,890)	(3%)
Interest-bearing demand deposits	128,355	178,733	(50,378)	(28)
NOW accounts	484,615	466,568	18,047	4
Money market accounts	654,719	646,878	7,841	1
Savings accounts	365,069	373,545	(8,476)	(2)
Time deposits (in-market)	801,501	778,105	23,396	3
Total in-market deposits	3,021,585	3,047,045	(25,460)	(1)
Wholesale brokered time deposits	483,037	477,003	6,034	1
<b>Total deposits</b>	<b>\$3,504,622</b>	<b>\$3,524,048</b>	<b>(\$19,426)</b>	<b>(1)%</b>

Total deposits amounted to \$3.5 billion at June 30, 2019, down by \$19.4 million, or 1%, from December 31, 2018. This included an increase of \$6.0 million of out-of-market brokered time deposits. Excluding out-of-market brokered time deposits, in-market deposits were down by \$25.5 million, or 1%, from the balance at December 31, 2018, reflecting a decline in demand account balances due to seasonal outflows of various institutional and governmental depositors based on their underlying business cycles. This decline was 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 June 30, 2019, up by \$110.2 million, or 12%, 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 59% of total average assets in the six months ended June 30, 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.

## Management's Discussion and Analysis

The table below presents unused funding capacity by source as of the dates indicated:

(Dollars in thousands)

	June 30, 2019	December 31, 2018
<b>Additional Funding Capacity:</b>		
Federal Home Loan Bank of Boston (1)	\$535,258	\$628,468
Federal Reserve Bank of Boston (2)	26,670	27,608
Unencumbered investment securities	512,087	493,623
<b>Total</b>	<b>\$1,074,015</b>	<b>\$1,149,699</b>

- (1) As of June 30, 2019 and December 31, 2018, loans with a carrying value of \$2.0 billion and \$2.0 billion, respectively, and securities available for sale with carrying values of \$283.9 million and \$236.7 million, respectively, were pledged to the FHLB resulting in this additional borrowing capacity.
- (2) As of June 30, 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 six months ended June 30, 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 \$18.7 million for the six months ended June 30, 2019, which was generated by net income of \$34.8 million and adjustments to reconcile net income to net cash provided by operating activities. Net cash used in investing activities totaled \$66.4 million for the six months ended June 30, 2019, reflecting outflows to purchase debt securities and fund loan growth. These outflows were partially offset by net inflows from maturities, calls, sales and principal payments of securities. For the six months ended June 30, 2019, net cash provided by financing activities amounted to \$74.1 million, largely due to net increases in FHLB advances, partially offset by 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 \$484.2 million at June 30, 2019, up by \$36.0 million from December 31, 2018, including net income of \$34.8 million and an increase of \$16.4 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 \$17.1 million for dividend declarations.

The Corporation declared a quarterly dividend of 51 cents per share for the three months ended June 30, 2019, compared to 43 cents per share for the same period in 2018.

The ratio of total equity to total assets amounted to 9.33% at June 30, 2019 compared to a ratio of 8.94% at December 31, 2018. Book value per share at June 30, 2019 and December 31, 2018 amounted to \$27.93 and \$25.90, respectively.

The Bancorp and the Bank are subject to various regulatory capital requirements. Total risk-based capital ratio amounted to 12.80% at June 30, 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 transactions include commitments to extend credit, standby letters of credit, forward loan commitments, loan related derivative

## Management's Discussion and Analysis

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 June 30, 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 June 30, 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 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.

## Management's Discussion and Analysis

	June 30, 2019		December 31, 2018	
	Months 1 - 12	Months 13 - 24	Months 1 - 12	Months 13 - 24
100 basis point rate decrease	(3.60)%	(5.47)%	(3.60)%	(5.30)%
100 basis point rate increase	2.09	0.28	1.94	(0.46)
200 basis point rate increase	5.86	3.13	5.85	2.62
300 basis point rate increase	9.64	5.56	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 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 June 30, 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)	\$2,255	(\$11,245)
Obligations of states and political subdivisions	—	—
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	16,972	(63,498)
Trust preferred debt and other corporate debt securities	(34)	53
<b>Total change in market value as of June 30, 2019</b>	<b>\$19,193</b>	<b>(\$74,690)</b>
<b>Total change in market value as of December 31, 2018</b>	<b>\$31,617</b>	<b>(\$85,191)</b>

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

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

### **Item 4. Controls and Procedures**

#### **Disclosure Controls and Procedures**

As required by Rule 13a-15 under the Exchange Act, as amended (the “Exchange Act”), the Corporation carried out an evaluation under the supervision and with the participation of the Corporation’s management, including the Corporation’s principal executive officer and principal financial officer, of the Corporation’s disclosure controls and procedures as of the period ended June 30, 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 June 30, 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 1A 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	
31.1	<a href="#">Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 – Filed herewith.</a>
31.2	<a href="#">Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 – Filed herewith.</a>
32.1	<a href="#">Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Furnished herewith. (1)</a>
101	The following materials from Washington Trust Bancorp, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2019 formatted in iXBRL: (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 consolidated financial statements.

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

## Signatures

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

WASHINGTON TRUST BANCORP, INC.

\_\_\_\_\_  
(Registrant)

Date: August 1, 2019  
\_\_\_\_\_

By: /s/ Edward O. Handy III  
\_\_\_\_\_

Edward O. Handy III  
Chairman and Chief Executive Officer  
(principal executive officer)

Date: August 1, 2019  
\_\_\_\_\_

By: /s/ Ronald S. Ohsberg  
\_\_\_\_\_

Ronald S. Ohsberg  
Senior Executive Vice President, Chief Financial Officer and Treasurer  
(principal financial officer)

Date: August 1, 2019  
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By: /s/ Maria N. Janes  
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Maria N. Janes  
Executive Vice President and Controller  
(principal accounting officer)

## Exhibit Index

Exhibit Number	
31.1	<a href="#">Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 – Filed herewith.</a>
31.2	<a href="#">Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 – Filed herewith.</a>
32.1	<a href="#">Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Furnished herewith. (1)</a>
101	The following materials from Washington Trust Bancorp, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2019 formatted in iXBRL: (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 consolidated financial statements.

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

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## Section 2: EX-31.1 (EXHIBIT 31.1 TO FORM 10-Q 6-30-19)

### EXHIBIT 31.1

#### CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Edward O. Handy III, Chairman and Chief Executive Officer of Washington Trust Bancorp, Inc., certify that:

- I have reviewed this Quarterly Report on Form 10-Q, for the period ended June 30, 2019, of Washington Trust Bancorp, Inc. (the "Registrant");
- Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
- The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal

control over financial reporting.

Date: August 1, 2019

By: /s/ Edward O. Handy III  
Edward O. Handy III  
Chairman and Chief Executive Officer  
(principal executive officer)

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## Section 3: EX-31.2 (EXHIBIT 31.2 TO FORM 10-Q 6-30-19)

### EXHIBIT 31.2

#### CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Ronald S. Ohsberg, Senior Executive Vice President, Chief Financial Officer and Treasurer of Washington Trust Bancorp, Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q, for the period ended June 30, 2019, of Washington Trust Bancorp, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: August 1, 2019

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

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## Section 4: EX-32.1 (EXHIBIT 32.1 TO FORM 10-Q 6-30-19)

### EXHIBIT 32.1

#### CERTIFICATIONS PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned officer of Washington Trust Bancorp, Inc. (the "Corporation"), hereby certifies that the Corporation's Quarterly Report on Form 10-Q for the period ended June 30, 2019 to which this certification is attached (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: August 1, 2019

By: /s/ Edward O. Handy III

Edward O. Handy III  
Chairman and Chief Executive Officer  
(principal executive officer)

The undersigned officer of Washington Trust Bancorp, Inc. (the "Corporation"), hereby certifies that the Corporation's Quarterly Report on Form 10-Q for the period ended June 30, 2019 to which this certification is attached (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: August 1, 2019

By: /s/ Ronald S. Ohsberg

Ronald S. Ohsberg  
Senior Executive Vice President, Chief Financial Officer and Treasurer  
(principal financial officer)

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