WASHINGTON TRUST BANCORP INC
Form 10-Q
August 02, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended JUNE 30, 2018 or

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

Commission file number: 001-32991

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

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

23 BROAD STREET

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

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

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

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

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

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

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

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

The number of shares of common stock of the registrant outstanding as of July 31, 2018 was 17,278,116.

FORM 10-Q
WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
For the Quarter Ended June 30, 2018

TABLE OF CONTENTS

	Page Number
PART I. Financial Information	
Item 1. Financial Statements (Unaudited)	
Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017	3
Consolidated Statements of Income for the three and six months ended June 30, 2018 and 2017	4
Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2018 and 2017	5
Consolidated Statements of Changes in Shareholders’ Equity for the six months ended June 30, 2018 and 2017	6
Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017	7
Condensed Notes to Unaudited Consolidated Financial Statements	8
(1) General Information	8
(2) Recently Issued Accounting Pronouncements	8
(3) Cash and Due from Banks	10
(4) Securities	11
(5) Loans	14
(6) Allowance for Loan Losses	21
(7) Borrowings	24
(8) Shareholders’ Equity	25
(9) Derivative Financial Instruments	26
(10) Balance Sheet Offsetting	29
(11) Fair Value Measurements	30
(12) Revenue from Contracts with Customers	36
(13) Defined Benefit Pension Plans	39
(14) Share-Based Compensation Arrangements	40
(15) Business Segments	40
(16) Other Comprehensive Income (Loss)	42
(17) Earnings Per Common Share	44
(18) Commitments and Contingencies	45
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	47
Item 3. Quantitative and Qualitative Disclosures About Market Risk	75
Item 4. Controls and Procedures	75
PART II. Other Information	
Item 1. Legal Proceedings	76
Item 1A. Risk Factors	76
Item 6. Exhibits	76
Signatures	77

PART I. Financial Information
Item 1. Financial Statements
Consolidated Balance Sheets (unaudited) (Dollars in thousands, except par value)

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

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

Consolidated Statements of Income (unaudited)

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

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

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

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

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

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

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

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

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

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

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

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

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

Loans transferred to property acquired through foreclosure or repossession	3,074	576
Supplemental Disclosures:		
Interest payments	$17,576	$14,111
Income tax payments	8,570	11,849

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

Condensed Notes to Unaudited Consolidated Financial Statements

(1) General Information

Washington Trust Bancorp, Inc. (the "Bancorp") is a publicly-owned registered bank holding company that has elected to be a financial holding company. The Bancorp's subsidiaries include The Washington Trust Company, of Westerly (the "Bank"), a Rhode Island chartered commercial bank founded in 1800, and Weston Securities Corporation ("WSC"). Through its subsidiaries, the Bancorp offers a comprehensive product line of banking and financial services, including commercial, residential and consumer lending, retail and commercial deposit products, and wealth management services through its offices in Rhode Island, eastern Massachusetts and Connecticut; its automated teller machines ("ATMs"); telephone banking; mobile banking and its internet website (www.washtrust.com).

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

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

The Unaudited Consolidated Financial Statements of the Corporation presented herein have been prepared pursuant to the rules of the Securities and Exchange Commission ("SEC") for quarterly reports on Form 10-Q and do not include all of the information and note disclosures required by GAAP. In the opinion of management, all adjustments (consisting of normal recurring adjustments) and disclosures considered necessary for the fair presentation of the accompanying Unaudited Consolidated Financial Statements have been included. Interim results are not necessarily reflective of the results of the entire year. The accompanying Unaudited Consolidated Financial Statements should be read in conjunction with the Audited Consolidated Financial Statements and notes thereto included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

(2) Recently Issued Accounting Pronouncements

Revenue from Contracts with Customers - Topic 606

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

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

Financial Instruments - Overall - Topic 825

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

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

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

Financial Instruments - Credit Losses - Topic 326
Accounting Standards Update No. 2016-13, "Financial Instruments - Credit Losses" ("ASU 2016-13"), was issued in June 2016. ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit

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

Statement of Cash Flows - Topic 230

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

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

Compensation - Retirement Benefits - Topic 715
Accounting Standards Update No. 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" ("ASU 2017-07"), was issued in March 2017. ASU 2017-07 requires that employers include the service cost component of net periodic benefit cost in the same line item as other employee compensation costs and all other components of net periodic benefit cost in a separate line item(s) in the statement of income. In addition, the line item in which the components of net periodic benefit cost other than the service cost are included shall be identified as such on the statement of income or in the notes to the financial statements. ASU 2017-07 was effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017 requiring retrospective application for all periods presented. Management adopted the provisions of ASU 2017-07 effective January 1, 2018, utilizing the practical expedient that permitted employers to use the amounts previously disclosed in notes to financial statements as an estimation basis for applying the retrospective application requirements. The adoption of ASU 2017-07 resulted in an increase in salaries and employee benefits, a decrease in other expenses and no change to net income. The adoption did not have a material impact on the Corporation's consolidated financial statements. See Note 13 for further details.

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

Derivatives and Hedging - Topic 815
Accounting Standards Update No. 2017-12, "Targeted Improvements to Accounting for Hedging Activities" ("ASU 2017-12"), was issued in August 2017 to better align financial reporting for hedging activities with the economic objectives of those activities. ASU 2017-12 is effective for fiscal years beginning after December 15, 2018, with early adoption, including adoption in an interim period, permitted. The provisions of ASU 2017-12 should be applied on a modified retrospective transition method in which the Corporation will recognize the cumulative effect of the change in the opening balance of retained earnings as of the adoption date. The Corporation has not yet determined the impact

ASU 2017-12 will have on its consolidated financial statements.

(3) Cash and Due from Banks

The Bank maintains certain average reserve balances to meet the requirements of the Board of Governors of the Federal Reserve System ("FRB"). Some or all of these reserve requirements may be satisfied with vault cash. Reserve balances amounted to $13.3 million at June 30, 2018 and $14.1 million at December 31, 2017 and were included in cash and due from banks in the Unaudited Consolidated Balance Sheets.

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(4) Securities

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

(Dollars in thousands)

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

(Dollars in thousands)

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

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

The schedule of maturities of debt securities available for sale and held to maturity is presented below. Mortgage-backed securities are included based on weighted average maturities, adjusted for anticipated prepayments. All other debt securities are included based on contractual maturities. Actual maturities may differ from amounts presented because certain issuers have the right to call or prepay obligations with or without call or prepayment penalties.

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

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

Other-Than-Temporary Impairment Assessment

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

The following tables summarize temporarily impaired securities, segregated by length of time the securities have been in a continuous unrealized loss position:

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

(Dollars in thousands)	Less than 12 Months			12 Months or Longer			Total		
December 31, 2017	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
Obligations of U.S. government-sponsored enterprises	8	$69,681	($798)	8	$87,923	($3,077)	16	$157,604	($3,875)
	20	128,965	(613)	22	279,693	(7,120)	42	408,658	(7,733)

Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises									
Individual name issuer trust preferred debt securities	—	—	—	7	16,984	(1,122)	7	16,984	(1,122)
Corporate bonds	3	921	(5)	3	10,980	(800)	6	11,901	(805)
Total temporarily impaired securities	31	$199,567	($1,416)	40	$395,580	($12,119)	71	$595,147	($13,535)

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Further deterioration in credit quality of the underlying issuers of the securities, further deterioration in the condition of the financial services industry, worsening of the current economic environment, or additional declines in real estate values, among other things, may further affect the fair value of these securities and increase the potential that certain unrealized losses be designated as other-than-temporary in future periods, and the Corporation may incur write-downs.

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

The gross unrealized losses on U.S. government agency and U.S government-sponsored debt securities, including mortgage-backed securities, were primarily attributable to relative changes in interest rates since the time of purchase. The contractual cash flows for these securities are guaranteed by U.S. government agencies and U.S. government-sponsored enterprises. Based on the assessment of these factors, management believes that the unrealized losses on these debt security holdings are a function of changes in investment spreads and interest rate movements and not changes in credit quality. Management expects to recover the entire amortized cost basis of these securities. Furthermore, Washington Trust does not intend to sell these securities and it is not more-likely-than-not that Washington Trust will be required to sell these securities before recovery of their cost basis, which may be maturity. Therefore, management does not consider these investments to be other-than-temporarily impaired at June 30, 2018.

Trust Preferred Debt Securities of Individual Name Issuers

Included in debt securities in an unrealized loss position at June 30, 2018 were five trust preferred security holdings issued by four individual companies in the banking sector. Management believes the unrealized loss position in these holdings was attributable to the general widening of spreads for this category of debt securities issued by financial services companies since the time these securities were purchased. Based on the information available through the filing date of this report, all individual name issuer trust preferred debt securities held in our portfolio continue to accrue interest and make payments as expected with no payment deferrals or defaults on the part of the issuers. As of June 30, 2018, individual name issuer trust preferred debt securities with an amortized cost of $6.1 million and unrealized losses of $398 thousand were rated below investment grade by Standard & Poors, Inc. ("S&P"). Management reviewed the collectibility of these securities taking into consideration such factors as the financial condition of the issuers, reported regulatory capital ratios of the issuers, credit ratings, including ratings in effect as of the reporting period date as well as credit rating changes between the reporting period date and the filing date of this report, and other information. We noted no additional downgrades to below investment grade between June 30, 2018 and the filing date of this report. Based on this review, management concluded that it expects to recover the entire amortized cost basis of these securities. Furthermore, Washington Trust does not intend to sell these securities and it is not more-likely-than-not that Washington Trust will be required to sell these securities before recovery of their cost basis, which may be maturity. Therefore, management does not consider these investments to be other-than-temporarily impaired at June 30, 2018.

Corporate Bonds

At June 30, 2018, Washington Trust had nine corporate bond holdings with unrealized losses totaling $877 thousand. These investment grade corporate bonds were issued by large corporations. Management believes the unrealized losses on these bonds are a function of the changes in the investment spreads and interest rate movements and not changes in the credit quality of the issuers of the debt securities. Management expects to recover the entire amortized cost basis of these securities. Furthermore, Washington Trust does not intend to sell these securities and it is not more-likely-than-not that Washington Trust will be required to sell these securities before recovery of their cost basis, which may be maturity. Therefore, management does not consider these investments to be other-than-temporarily impaired at June 30, 2018.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(5) Loans

The following is a summary of loans:

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

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

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

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

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

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

Past Due Loans

Past due status is based on the contractual payment terms of the loan. The following tables present an age analysis of past due loans, segregated by class of loans:

(Dollars in thousands)	Days Past Due					
June 30, 2018	30-59	60-89	Over 90	Total Past Due	Current	Total Loans
Commercial:						
Commercial real estate	$—	$—	$—	$—	$1,218,643	$1,218,643
Commercial & industrial	2,454	—	397	2,851	629,178	632,029
Total commercial	2,454	—	397	2,851	1,847,821	1,850,672
Residential Real Estate:						
Residential real estate	6,540	1,150	3,553	11,243	1,316,175	1,327,418
Consumer:						

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

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

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Impaired Loans

Impaired loans are nonaccrual loans, which are loans for which it is probable that the Corporation will not be able to collect all amounts due according to the contractual terms of the loan agreements, as well as loans restructured in a troubled debt restructuring. The Corporation identifies loss allocations for impaired loans on an individual loan basis.

The following is a summary of impaired loans:

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

(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.

- 16-

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

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

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

Nonaccrual Loans

Loans, with the exception of certain well-secured loans that are in the process of collection, are placed on nonaccrual status and interest recognition is suspended when such loans are 90 days or more overdue with respect to principal and/or interest, or sooner if considered appropriate by management. Well-secured loans are permitted to remain on accrual status provided that full collection of principal and interest is assured and the loan is in the process of collection. Loans are also placed on nonaccrual status when, in the opinion of management, full collection of principal and interest is doubtful. When loans are placed on nonaccrual status, interest previously accrued but not collected on such loans is reversed against current period income. Subsequent interest payments received on nonaccrual loans are applied to the outstanding principal balance of the loan or recognized as interest income depending on management’s assessment of the ultimate collectability of the loan. Loans are removed from nonaccrual status when they have been current as to principal and interest generally for a period of six months, the borrower has demonstrated an ability to comply with repayment terms, and when, in management’s opinion, the loans are considered to be fully collectible.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

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

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

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

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Troubled Debt Restructurings

Loans are considered restructured in a troubled debt restructuring when the Corporation has granted concessions, that it otherwise would not have considered, to a borrower experiencing financial difficulties. These concessions may include modifications of the terms of the debt such as deferral of payments, extension of maturity, reduction of principal balance, reduction of the stated interest rate other than normal market rate adjustments, or a combination of these concessions. Debt may be bifurcated with separate terms for each tranche of the restructured debt. Restructuring a loan in lieu of aggressively enforcing the collection of the loan may benefit the Corporation by increasing the ultimate probability of collection.

Restructured loans are classified as accruing or non-accruing based on management's assessment of the collectibility of the loan. Loans that are already on nonaccrual status at the time of the restructuring generally remain on nonaccrual status for approximately 6 months before management considers such loans for return to accruing status. Accruing restructured loans are placed into nonaccrual status if and when the borrower fails to comply with the restructured terms and management deems it unlikely that the borrower will return to a status of compliance in the near term.

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

Troubled debt restructurings are classified as impaired loans. The recorded investment in troubled debt restructurings consists of unpaid principal balance, net of charge-offs and unamortized deferred loan origination fees and costs, at the time of the restructuring. For accruing troubled debt restructured loans, the recorded investment also includes accrued interest. The recorded investment in troubled debt restructurings was $6.6 million and $11.2 million, respectively, at June 30, 2018 and December 31, 2017. These amounts included insignificant balances of accrued interest. The allowance for loan losses included specific reserves for these troubled debt restructurings of $123 thousand and $1.1 million, respectively, at June 30, 2018 and December 31, 2017.

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

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

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

- 19-

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

A description of the commercial loan categories is as follows:

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

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

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

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

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

Residential and Consumer

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

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

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

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

(6) Allowance for Loan Losses

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(7) Borrowings
Federal Home Loan Bank Advances
Advances payable to the FHLB amounted to $901.1 million and $791.4 million, respectively, at June 30, 2018 and December 31, 2017.

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

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

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(8) Shareholders’ Equity
Regulatory Capital Requirements
At both June 30, 2018 and December 31, 2017, the Corporation and the Bank were considered “well capitalized.”

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

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

(1) Leverage ratio.

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

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

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

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

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

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

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

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

Risk Participation Agreements

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

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

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

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

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

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

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

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

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

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(10) Balance Sheet Offsetting

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

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

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

(11) Fair Value Measurements

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

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

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

- Level 2 – Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable in the markets and which reflect the Corporation's market assumptions.

Fair Value Option Election

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

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

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

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

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

Valuation Techniques

Securities

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

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

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

Mortgage Loans Held for Sale

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

Collateral Dependent Impaired Loans

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

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

Property Acquired Through Foreclosure or Repossession

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

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

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

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

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

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Items Recorded at Fair Value on a Recurring Basis

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

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

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

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

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

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

Items Recorded at Fair Value on a Nonrecurring Basis

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

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

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

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

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

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

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

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

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

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

Valuation of Other Financial Instruments

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

(Dollars in thousands)

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

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(Dollars in thousands)

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

(12) Revenue from Contracts with Customers

Overview

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

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

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

Accounting Policy Updates

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

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

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

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

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

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

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

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

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

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

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

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

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

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

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(13) Defined Benefit Pension Plans

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

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

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

The composition of net periodic benefit cost was as follows:

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

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

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

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(14) Share-Based Compensation Arrangements
During the six months ended June 30, 2018, the Corporation granted equity awards, which included performance share awards and nonvested share unit awards.

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

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

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

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

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

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

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

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

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

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

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

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

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

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

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(17) Earnings Per Common Share

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

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

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

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(18) Commitments and Contingencies

Financial Instruments with Off-Balance Sheet Risk

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

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

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

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

Commitments to Extend Credit

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

Standby Letters of Credit

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

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

Forward Loan Commitments

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

Leases

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

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

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

Management's Discussion and Analysis

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

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

Forward-Looking Statements

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

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

Critical Accounting Policies and Estimates

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

Recently Issued Accounting Pronouncements

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

Overview

Washington Trust offers a comprehensive product line of banking and financial services to individuals and businesses, including commercial, residential and consumer lending, retail and commercial deposit products, and wealth management services through its offices in Rhode Island, eastern Massachusetts and Connecticut; its ATM networks; and its internet website at www.washtrust.com.

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

Management's Discussion and Analysis

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

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

Results of Operations

The following table presents a summarized consolidated statement of operations:

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

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

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

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

Management's Discussion and Analysis

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

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

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

Management's Discussion and Analysis

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

(Dollars in thousands)		
Three months ended June 30,	2018	2017
Commercial loans	$308	$549
Nontaxable debt securities	6	37
Total	$314	$586

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

Management's Discussion and Analysis

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

(Dollars in thousands)		
Six months ended June 30,	2018	2017
Commercial loans	$584	$1,102
Nontaxable debt securities	12	98
Total	$596	$1,200

Net Interest Income

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

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

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

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

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

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

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

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

Management's Discussion and Analysis

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

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

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

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

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

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

Management's Discussion and Analysis

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

Noninterest Income Analysis

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

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

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

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

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

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

Management's Discussion and Analysis

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

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

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

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

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

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

(Dollars in thousands)	Three Months				Six Months			
			Change				Change	
Periods ended June 30,	2018	2017	$	%	2018	2017	$	%
Mortgage banking revenues:								
Gains and commissions on loan sales (1)	$2,786	$2,784	$2	— %	$5,465	$5,052	$413	8 %
Loan servicing fee income, net (2)	155	135	20	15	314	207	107	52
Total mortgage banking revenues	$2,941	$2,919	$22	1 %	$5,779	$5,259	$520	10 %
Loans sold to the secondary market	$105,421	$137,444	($32,023)	(23)%	$202,261	$244,356	($42,095)	(17)%

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

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

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

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

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

Provision and Allowance for Loan Losses

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

Management's Discussion and Analysis

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

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

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

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

Noninterest Expense

The following table presents noninterest expense comparisons:

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

Noninterest Expense Analysis

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

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

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

Management's Discussion and Analysis

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

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

- In June 2017, a goodwill impairment charge of $150 thousand was recognized on WSC, a small broker-dealer subsidiary.
- For the three and six months ended June 30, 2018, software system implementation costs of $114 thousand and $795 thousand, respectively, were recognized. This compares to $217 thousand of such costs for both the three and six months ended June 30, 2017. The 2018 amounts were primarily associated with our new wealth management and trust accounting system, which was completed in April 2018. The 2017 amounts were also associated with the new wealth management and trust accounting system, as well as the migration of our loan and deposit accounting system from an in-house environment to an externally hosted environment that was completed in October 2017.

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

Income Taxes

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

(Dollars in thousands)

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

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

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

Segment Reporting

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

- 56-

Management's Discussion and Analysis

Commercial Banking

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

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

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

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

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

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

Wealth Management Services

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

(Dollars in thousands)	Three Months				Six Months			
			Change				Change	
Periods ended June 30,	2018	2017	$	%	2018	2017	$	%
Net interest expense	($77)	($40)	($37)	93 %	($135)	($72)	($63)	88 %
Noninterest income	9,602	9,942	(340)	(3)	19,875	19,419	456	2
Noninterest expense	6,963	7,262	(299)	(4)	14,558	14,173	385	3
Income before income taxes	2,562	2,640	(78)	(3)	5,182	5,174	8	