

WASHINGTON TRUST BANCORP INC
Form 10-K
March 12, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

(Mark One)

Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended DECEMBER 31, 2014 or

Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____

Commission file number: 001-32991

WASHINGTON TRUST BANCORP, INC.

(Exact name of registrant as specified in its charter)

RHODE ISLAND

05-0404671

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

23 BROAD STREET, WESTERLY, RHODE ISLAND

02891

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: 401-348-1200

Securities registered pursuant to Section 12(b) of the Act:

COMMON STOCK, \$.0625 PAR VALUE PER SHARE

THE NASDAQ STOCK MARKET LLC

(Title of each class)

(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The aggregate market value of voting stock held by non-affiliates of the registrant at June 30, 2014 was \$526,290,337 based on a closing sales price of \$36.77 per share as reported for the NASDAQ OMX®, which includes \$18,355,676 held by The Washington Trust Company, of Westerly under trust agreements and other instruments.

The number of shares of the registrant's common stock, \$.0625 par value per share, outstanding as of February 27, 2015 was 16,761,788.

DOCUMENTS INCORPORATED BY REFERENCE

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Portions of the Registrant's Proxy Statement dated March 16, 2015 for the Annual Meeting of Shareholders to be held April 28, 2015 are incorporated by reference into Part III of this Form 10-K.

FORM 10-K
 WASHINGTON TRUST BANCORP, INC.
 For the Year Ended December 31, 2014

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Forward-Looking Statements

This report contains statements that are “forward-looking statements.” We may also make written or oral 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 generally identify forward-looking statements by the use of the words “believe,” “expect,” “anticipate,” “intend,” “estimate,” “assume,” “outlook,” “will,” “should,” and other expressions that predict or indicate future events and trends and which do not relate to historical matters. You should not rely on forward-looking statements, because they involve known and unknown risks, uncertainties and other factors, some of which are beyond our control. These risks, uncertainties and other factors may cause our actual results, performance or achievements to be materially different than the anticipated future results, performance or achievements expressed or implied by the forward-looking statements.

Some of the factors that might cause these differences include the following: weakness in national, regional or international economic conditions or conditions affecting the banking or financial services industries or financial capital markets; volatility in national and international financial markets; additional government intervention in the U.S. financial system; 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 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, and changes in the assumptions used in making such forward-looking statements. In addition, the factors described under “Risk Factors” in Item 1A of this Annual Report on Form 10-K 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.

PART I

ITEM 1. Business

Washington Trust Bancorp, Inc.

Washington Trust Bancorp, Inc. (the “Bancorp”), a publicly-owned registered bank holding company and financial holding company, was organized in 1984 under the laws of the state of Rhode Island. The Bancorp owns all of the outstanding common stock of The Washington Trust Company, of Westerly (the “Bank”), a Rhode Island chartered commercial bank. The Bancorp was formed in 1984 under a plan of reorganization in which outstanding common shares of the Bank were exchanged for common shares of the Bancorp. See additional information under the caption “Subsidiaries.”

Through its subsidiaries, the Bancorp 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 automated teller machine (“ATMs”) networks; and its Internet website at www.washtrust.com. The Bancorp’s common stock is traded on the NASDAQ OMX® Market under the symbol “WASH.”

The accounting and reporting policies of the Bancorp and its subsidiaries (collectively, the “Corporation” or “Washington Trust”) conform to accounting principles generally accepted in the United States of America (“GAAP”) and to general practices of the banking industry. At December 31, 2014, Washington Trust had total assets of \$3.59 billion, total deposits of \$2.75 billion and total shareholders’ equity of \$346.3 million.

Business Segments

Washington Trust manages its operations through two business segments: Commercial Banking and Wealth Management Services. Activity not related to the segments, such as the investment securities portfolio, wholesale funding activities and administrative units are considered Corporate. See Note 17 to the Consolidated Financial Statements for additional disclosure related to business segments.

Commercial Banking

Lending Activities

The Corporation's lending activities are conducted primarily in southern New England and, to a lesser extent, other states. Washington Trust offers a variety of commercial and retail lending products.

Commercial Loans

Commercial lending represents a significant portion of the Bank's loan portfolio. Commercial loans fall into two major categories: commercial real estate and commercial and industrial loans.

Commercial real estate loans consist of commercial mortgages secured by real property where the primary source of repayment is derived from rental income associated with the property or the proceeds of the sale, refinancing or permanent financing of the property. Commercial real estate loans also include construction loans made to businesses for land development or the on-site construction of industrial, commercial, or residential buildings. Commercial real estate loans frequently involve larger loan balances to single borrowers or groups of related borrowers. The Bank's commercial real estate loans are secured by a variety of property types, such as retail facilities, office buildings, commercial mixed use, lodging, multi-family dwellings and industrial and warehouse properties. At December 31, 2014, commercial real estate loans represented 60% and 33%, respectively, of the commercial loan and total loan portfolios.

Commercial and industrial loans primarily provide working capital, equipment financing and financing for other business-related purposes. Commercial and industrial loans are frequently collateralized by equipment, inventory, accounts receivable, and/or general business assets. A significant portion of the Bank's commercial and industrial loans is also collateralized by real estate. Commercial and industrial loans also include tax exempt loans made to states and political subdivisions, as well as industrial development or revenue bonds issued through quasi-public corporations for the benefit of a private or non-profit entity where that entity rather than the governmental entity is obligated to pay the debt service. The Bank's commercial and industrial loan portfolio includes loans to business sectors such as healthcare/social assistance, owner occupied and other real estate, retail trade, manufacturing, construction businesses, wholesale trade, accommodation and food services, entertainment and recreation, public administration and professional services. At December 31, 2014, commercial and industrial loans represented 40% and 21%, respectively, of the commercial loan and total loan portfolios.

The commercial loan portfolio represented 54% of total loans at December 31, 2014. In making commercial loans, Washington Trust may occasionally solicit the participation of other banks. Washington Trust also participates from time to time in commercial loans originated by other banks. In such cases, these loans are individually underwritten by us using standards similar to those employed for our self-originated loans. Occasionally, the guaranteed portion of Small Business Administration ("SBA") loans are sold to investors.

Residential Real Estate Mortgages

The residential real estate portfolio represented 34% of total loans at December 31, 2014. Residential real estate mortgages are primarily originated by commissioned mortgage originator employees. Residential mortgages are originated both for sale in the secondary market as well as for retention in the Bank's loan portfolio. Loan sales to the secondary market provide funds for additional lending and other banking activities. Loans originated for sale in the secondary market are sold to investors such as the Federal Home Loan Mortgage Corporation ("FHLMC"), Federal National Mortgage Association ("FNMA") and other institutional investors. Washington Trust sells loans with servicing retained or released. Residential real estate mortgages are also originated for various investors in a broker capacity, including conventional mortgages and reverse mortgages. In recent years, Washington Trust has expanded its residential mortgage business beyond its branch network, through the addition of residential mortgage lending offices in eastern Massachusetts and Connecticut. In 2014, residential mortgage loan originations for retention in portfolio amounted to \$353.4 million, while loans originated for sale in the secondary market, including loans originated in a broker capacity, totaled \$346.9 million.

Prior to March 2009, Washington Trust had periodically purchased one- to four-family residential mortgages originated in other states as well as southern New England from other financial institutions. All residential mortgage loans purchased from other financial institutions were individually underwritten by us at the time of purchase using standards similar to those employed for our self-originated loans. At December 31, 2014, purchased residential mortgage balances represented 3% and 1% of the total residential real estate mortgage and total loan portfolios, respectively.

Consumer Loans

The consumer loan portfolio represented 12% of total loans as of December 31, 2014. Consumer loans include home equity loans and lines of credit, personal installment loans and loans to individuals secured by general aviation aircraft and automobiles. Home equity lines and home equity loans represent 86% of the total consumer portfolio at December 31, 2014. All home equity lines and home equity loans were originated by Washington Trust in its general market area. The Bank estimates that approximately 69% of the combined home equity line and home equity loan balances are first lien positions or subordinate to other Washington Trust mortgages.

Credit Risk Management and Asset Quality

Washington Trust utilizes the following general practices to manage credit risk:

- Limiting the amount of credit that individual lenders may extend;
- Establishment of formal, documented processes for credit approval accountability;
- Prudent initial underwriting and analysis of borrower, transaction, market and collateral risks;
- Ongoing servicing of the majority of individual loans and lending relationships;
- Continuous monitoring of the portfolio, market dynamics and the economy; and
- Periodic reevaluation of our strategy and overall exposure as economic, market and other relevant conditions change.

The credit risk management function is conducted independently of the lending groups. Credit risk management is responsible for oversight of the commercial loan rating system, determining the adequacy of the allowance for loan losses and for preparing monthly and quarterly reports regarding the credit quality of the loan portfolio to ensure compliance with the credit policy. In addition, it is responsible for managing nonperforming and classified assets. On a quarterly basis, the criticized loan portfolio, which consists of commercial loans that are risk rated special mention or worse, are reviewed by management, 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 reviews of the commercial loan portfolio. Various techniques are utilized to monitor indicators of credit deterioration in the portfolios of residential real estate mortgages and home equity lines and loans, along with selected targeted reviews within these portfolios. Among these techniques is the periodic tracking of loans with an updated FICO score and an estimated loan to value (“LTV”) ratio. LTV is determined via statistical modeling analyses. The indicated LTV levels are estimated based on such factors as the location, the original LTV, and the date of origination of the loan and do not reflect actual appraisal amounts.

The Board of Directors of the Bank monitors credit risk management through two committees, the Finance Committee and the Audit Committee. The Finance Committee has primary oversight responsibility for the credit granting function, including approval authority for credit granting policies, review of management’s credit granting activities and approval of large exposure credit requests. The Audit Committee oversees various systems and procedures performed by management to monitor the credit quality of the loan portfolio, conduct a loan review program, maintain the integrity of the loan rating system and determine the adequacy of the allowance for loan losses. The Audit Committee also approves the policy and methodology for establishing the allowance for loan losses. These committees report the results of their respective oversight functions to the Bank’s Board of Directors. In addition, the Bank’s Board of Directors receives information concerning asset quality measurements and trends on a regular basis.

Deposit Activities

Deposits represent Washington Trust’s primary source of funds and are gathered primarily from the areas surrounding our branch network. The Bank offers a wide variety of deposit products with a range of interest rates and terms to consumer, commercial, non-profit and municipal deposit customers. Washington Trust’s deposit accounts consist of interest-bearing checking, noninterest-bearing checking, savings, money market and certificates of deposit. A variety of retirement deposit accounts are offered to personal and business customers. Additional deposit services provided to

customers include debit cards, ATMs, telephone banking, Internet banking, mobile banking, remote deposit capture and

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other cash management services. From time to time, brokered time deposits from out-of-market institutional sources are utilized as part of our overall funding strategy.

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

Wealth Management Services

The Corporation’s wealth management business generated revenues totaling \$33.4 million in 2014, representing 22% of total revenues. Washington Trust provides a broad range of wealth management services to personal and institutional clients and mutual funds. These services include investment management; financial planning; personal trust services, including services as trustee, administrator, custodian and guardian; and estate settlement. Institutional trust services are also provided, including custody and fiduciary services. Wealth management services are provided through the Bank and its registered investment adviser subsidiary, Weston Financial Group, Inc. The Corporation also operates a broker-dealer subsidiary which primarily conducts transactions for Weston Financial Group clients. See additional information under the caption “Subsidiaries.” Noninterest income from wealth management services includes trust and investment management fees and mutual fund fees, which are classified as asset-based revenues since they are primarily derived from the value of wealth management assets under administration. Noninterest income from wealth management services also includes transaction-based revenues, such as financing planning, commissions and other service fees, which are not primarily derived from the value of assets.

At December 31, 2014, wealth management assets under administration totaled \$5.07 billion. These assets are not included in the Consolidated Financial Statements.

Investment Securities Portfolio

Washington Trust’s investment securities portfolio is managed to generate interest income, to implement interest rate risk management strategies and to provide a readily available source of liquidity for balance sheet management. See Note 4 to the Consolidated Financial Statements for additional information.

Washington Trust may acquire, hold and transact in various types of investment securities in accordance with applicable federal regulations, state statutes and guidelines specified in Washington Trust’s internal investment policy. At December 31, 2014, the Corporation’s investment securities portfolio consisted of U.S. government agency and government-sponsored agency debt obligations, including mortgage-backed securities; municipal securities; corporate debt securities; and individual name issuer trust preferred debt securities.

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

Wholesale Funding Activities

The Corporation utilizes advances from the Federal Home Loan Bank of Boston (“FHLBB”) as well as other borrowings as part of its overall funding strategy. FHLBB advances are used to meet short-term liquidity needs, to purchase securities and to originate and purchase loans. The FHLBB is a cooperative that provides services, including funding in the form of advances, to its member banking institutions. As a requirement of membership, the Bank must own a minimum amount

of FHLBB stock, calculated periodically based primarily on its level of borrowings from the FHLBB. The Bank also has access to an unused line of credit with the FHLBB amounting to \$40.0 million at December 31, 2014. In addition, the FHLBB has issued standby letters of credit to depositor customers of the Bank to collateralize public deposits. The Bank's FHLBB borrowings, line of credit and letters of credit are collateralized by a blanket pledge agreement on the Bank's FHLBB stock, certain qualified investment securities and loans, as well as amounts maintained on deposit at the FHLBB. Additional funding sources are available through securities sold under agreements to repurchase and through the Federal Reserve Bank of Boston. See Note 11 to the Consolidated Financial Statements for additional information.

As noted above under the heading "Deposit Activities," the Corporation also utilizes out-of-market brokered time deposits as part of its overall funding program.

Acquisitions

The following summarizes Washington Trust's acquisition history:

On August 31, 2005, the Bancorp completed the acquisition of Weston Financial Group, Inc. ("Weston Financial"), a registered investment adviser and financial planning company located in Wellesley, Massachusetts, with broker-dealer and insurance agency subsidiaries.

On April 16, 2002, the Bancorp completed the acquisition of First Financial Corp., the parent company of First Bank and Trust Company, a Rhode Island chartered community bank.

On June 26, 2000, the Bancorp completed the acquisition of Phoenix Investment Management Company, Inc. ("Phoenix"), an independent investment advisory firm located in Providence, Rhode Island.

On August 25, 1999, the Bancorp completed the acquisition of PierBank, Inc. ("PierBank"), a Rhode Island chartered community bank headquartered in South Kingstown, Rhode Island.

Subsidiaries

The Bancorp's subsidiaries include the Bank and Weston Securities Corporation ("WSC"). In addition, as of December 31, 2014, the Bancorp also owned all of the outstanding common stock of WT Capital Trust I and WT Capital Trust II, special purpose finance entities formed with the sole purpose of issuing trust preferred debt securities and investing the proceeds in junior subordinated debentures of the Bancorp. See Note 11 to the Consolidated Financial Statements for additional information.

The following is a description of Bancorp's primary operating subsidiaries:

The Washington Trust Company, of Westerly

The Bank was originally chartered in 1800 as the Washington Bank and is the oldest banking institution headquartered in its market area and is among the oldest banks in the United States. Its current corporate charter dates to 1902.

The Bank provides a broad range of financial services, including lending, deposit and cash management services and wealth management services. The deposits of the Bank are insured by the Federal Deposit Insurance Corporation ("FDIC"), subject to regulatory limits.

The Bank's subsidiary, Weston Financial, is a registered investment adviser and financial planning company located in Wellesley, Massachusetts, with an insurance agency subsidiary. In addition, the Bank has other passive investment subsidiaries whose primary functions are to provide servicing on passive investments, such as loans acquired from the Bank and investment securities. The Bank also has a limited liability company subsidiary that serves as a special limited partner responsible for certain administrative functions associated with the Bank's investment in two real estate

limited partnerships. In addition, the Bank has a mortgage banking subsidiary, Washington Trust Mortgage Company LLC (“WTMC”) that is licensed to do business in Rhode Island, Massachusetts, Connecticut and New Hampshire. See “-Supervision and Regulation-Consumer Protection Regulation-Mortgage Reform” for a discussion of certain regulations that apply to WTMC. Our mortgage origination business conducted in most of our residential mortgage lending offices located outside of Rhode Island is performed by this Bank subsidiary.

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Weston Securities Corporation

WSC is a licensed broker-dealer that markets several investment programs, including mutual funds and variable annuities, primarily to Weston Financial clients. WSC acts as the principal distributor to a group of mutual funds for which Weston Financial is the investment advisor.

Market Area

Washington Trust is headquartered in Westerly, Rhode Island, in Washington County. Washington Trust's primary deposit gathering area consists of the communities that are served by its branch network. As of December 31, 2014, the Bank had ten branch offices located in southern Rhode Island (Washington County), eight branch offices located in the greater Providence area in Rhode Island and a branch office located in southeastern Connecticut. In 2015, we plan to open two new full-service branches; one in Rumford, Rhode Island, and the other in Providence, Rhode Island. These plans are a continuation of our expansion into the greater Providence area. Both the population and number of businesses in Providence County far exceed those in southern Rhode Island.

Washington Trust's lending activities are conducted primarily in southern New England and, to a lesser extent, other states. In addition to branch offices, the Bank has a commercial lending office at its main office and in the financial district of Providence, Rhode Island. As of December 31, 2014, Washington Trust has six residential mortgage lending offices: three located in eastern Massachusetts (Sharon, Burlington and Braintree), two Connecticut offices (Glastonbury and Darien) and a Warwick, Rhode Island office.

Washington Trust provides wealth management services from its offices located in Westerly, Narragansett and Providence, Rhode Island, and Wellesley, Massachusetts.

Competition

Washington Trust faces considerable competition in its market area for all aspects of banking and related financial service activities. Competition from both bank and non-bank organizations is expected to continue.

Washington Trust contends with strong competition both in generating loans and attracting deposits. The primary factors in competing are interest rates, financing terms, fees charged, products offered, personalized customer service, online access to accounts and convenience of branch locations, ATMs and branch hours. Competition comes from commercial banks, credit unions, and savings institutions, as well as other non-bank institutions. Washington Trust faces strong competition from larger institutions with greater resources, broader product lines and larger delivery systems than the Bank.

Washington Trust operates in a highly competitive wealth management services marketplace. Key competitive factors include investment performance, quality and level of service, and personal relationships. Principal competitors in the wealth management services business are commercial banks and trust companies, investment advisory firms, mutual fund companies, stock brokerage firms, and other financial companies. Many of these companies have greater resources than Washington Trust.

Employees

At December 31, 2014, Washington Trust had 590 employees consisting of 561 full-time and 29 part-time and other employees. Washington Trust maintains a comprehensive employee benefit program providing, among other benefits, group medical and dental insurance, life insurance, disability insurance and a 401(k) plan. 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 described in these plans. In September 2013, the Corporation amended its defined benefit pension plan primarily to freeze benefit accruals after a ten-year transition period ending in December 2023. Management considers relations with its employees to be good. See Note 15 to the Consolidated Financial Statements

for additional information on certain employee benefit programs.

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Statistical Disclosures

The information required by Securities Act Guide 3 “Statistical Disclosure by Bank Holding Companies” is located on the pages noted below.

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Supervision and Regulation

The Corporation is subject to extensive supervision, regulation, and examination by various bank regulatory authorities and other governmental agencies. Federal and state banking laws have as their principal objective the maintenance of the safety and soundness of financial institutions and the federal deposit insurance system or the protection of consumers or depositors, rather than the protection of shareholders of a bank holding company, such as the Bancorp.

Set forth below is a brief description of certain laws and regulations that relate to the regulation of Washington Trust. The following discussion is qualified in its entirety by reference to the full text of the statutes, regulations, policies and guidelines described below.

Regulation of the Bancorp

As a bank holding company, the Bancorp is subject to regulation, supervision and examination by the Federal Reserve under the Bank Holding Company Act of 1956, as amended (the “BHCA”) and the Rhode Island Department of Business Regulation, Division of Banking (the “RI Division of Banking”).

The Federal Reserve has the authority to issue orders to bank holding companies to cease and desist from unsafe or unsound banking practices and violations of laws, regulations, or conditions imposed by, agreements with, or commitments to, the Federal Reserve. The Federal Reserve is also empowered to assess civil money penalties against companies or individuals who violate the BHCA or orders or regulations thereunder, to order termination of non-banking activities of non-banking subsidiaries of bank holding companies, and to order termination of ownership and control of a non-banking subsidiary by a bank holding company.

Source of Strength. Under the BHCA, as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), the Bancorp is required to serve as a source of financial strength for the Bank. This support may be required at times when the Bancorp may not have the resources to provide support to the Bank. In the event of a bank holding company’s bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a bank subsidiary will be assumed by the bankruptcy trustee and entitled to a priority of payment.

Acquisitions and Activities. The BHCA prohibits a bank holding company, without prior approval of the Federal Reserve, from acquiring all or substantially all the assets of a bank, acquiring control of a bank, merging or consolidating with another bank holding company, or acquiring direct or indirect ownership or control of any voting shares of another bank or bank holding company if, after such acquisition, the acquiring bank holding company would control more than 5% of the voting shares of such other bank or bank holding company.

The BHCA also prohibits a bank holding company from engaging directly or indirectly in activities other than those of banking, managing or controlling banks or furnishing services to its subsidiary banks. In 2005, the Bancorp elected

financial holding company status pursuant to the provisions of the Gramm-Leach-Bliley Act of 1999 (“GLBA”). As a financial holding company, the Bancorp is authorized to engage in certain financial activities in which a bank holding company that has not elected to be a financial holding company may not engage. “Financial activities” is broadly defined

to include not only banking, insurance and securities activities, but also merchant banking and additional activities that the Federal Reserve, in consultation with the Secretary of the Treasury, determines to be financial in nature, incidental to such financial activities, or complementary activities that do not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally. Currently, as a financial holding company, the Bancorp engages, through WSC, in broker-dealer activities pursuant to this authority.

If a financial holding company or any depository institution subsidiary of a financial holding company fails to remain well capitalized and well managed, the Federal Reserve may impose such limitations on the activities of the financial holding company as the Federal Reserve determines to be appropriate, including limitations that preclude the company and its affiliates from commencing any new activity or acquiring control of or shares of any company engaged in any activity that is authorized particularly for financial holding companies. The company must also enter into an agreement with the Federal Reserve to comply with all applicable requirements to qualify as a financial holding company. If any insured depository institution subsidiary of a financial holding company remains out of compliance for 180 days or such longer period as the Federal Reserve permits, the Federal Reserve may require the financial holding company to divest either its insured depository institution or all of its non-banking subsidiaries engaged in activities not permissible for a bank holding company. If a financial holding company fails to maintain a “satisfactory” or better record of performance under the Community Reinvestment Act (the “CRA”), the financial holding company will be prohibited, until the rating is raised to satisfactory or better, from engaging in new activities, or acquiring companies other than bank holding companies, banks or savings associations, except that the Bancorp could engage in new activities, or acquire companies engaged in activities that are closely related to banking under the BHCA.

Limitations on Acquisitions of Bancorp Common Stock. The Change in Bank Control Act prohibits a person or group of persons acting in concert from acquiring “control” of a bank holding company unless the Federal Reserve has been notified and has not objected to the transaction. Under a rebuttable presumption established by the Federal Reserve, the acquisition of 10% or more of a class of voting securities of a bank holding company, such as the Bancorp, with a class of securities registered under Section 12 of the Exchange Act, would, under the circumstances set forth in the presumption, constitute the acquisition of control of a bank holding company. In addition, the BHCA prohibits any company from acquiring control of a bank or bank holding company without first having obtained the approval of the Federal Reserve. Among other circumstances, under the BHCA, a company has control of a bank or bank holding company if the company owns, controls or holds with power to vote 25% or more of a class of voting securities of the bank or bank holding company, controls in any manner the election of a majority of directors or trustees of the bank or bank holding company, or the Federal Reserve has determined, after notice and opportunity for hearing, that the company has the power to exercise a controlling influence over the management or policies of the bank or bank holding company.

Regulation of the Bank

The Bank is subject to the regulation, supervision and examination by the FDIC, the RI Division of Banking and the Connecticut Department of Banking. The Bank is also subject to various Rhode Island and Connecticut business and banking regulations and the regulations issued by the Bureau of Consumer Financial Protection (the “CFPB”) (as examined and enforced by the FDIC). Additionally, under the Dodd-Frank Act, the Federal Reserve may directly examine the subsidiaries of the Bancorp, including the Bank.

Deposit Insurance. Substantially all of the deposits of the Bank are insured up to applicable limits by the FDIC’s Deposit Insurance Fund (“DIF”) and are subject to deposit insurance assessments to maintain the DIF. The Dodd-Frank Act permanently increased the FDIC deposit insurance limit to \$250,000 per depositor for deposits maintained in the same right and capacity at a particular insured depository institution. The Federal Deposit Insurance Act (the “FDIA”), as amended by the Federal Deposit Insurance Reform Act and the Dodd-Frank Act, requires the FDIC to take steps as may be necessary to cause the ratio of deposit insurance reserves to estimated insured deposits the designated reserve ratio to reach 1.35% by September 30, 2020, and it mandates that the reserve ratio designated by the FDIC for any

year may not be less than 1.35%. The FDIC utilizes a risk-based assessment system that imposes insurance premiums based upon a risk matrix that takes into account a bank's capital level and supervisory rating. Assessment rates may also vary for certain institutions based on long-term debt issuer ratings, secured or brokered deposits. Deposit premiums are based on assets. To determine its deposit insurance premium, the Bank computes the base amount of its average consolidated assets less its average tangible equity (defined as the amount of Tier 1 capital) and the applicable assessment rate. The FDIC has the power to adjust deposit insurance assessment rates at any time. In addition, under the FDIA, the FDIC may

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terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. The Bank's FDIC insurance expense in 2014 was \$1.8 million.

Acquisitions and Branching. Prior approval from the RI Division of Banking and the FDIC is required in order for the Bank to acquire another bank or establish a new branch office. Well capitalized and well managed banks may acquire other banks in any state, subject to certain deposit concentration limits and other conditions, pursuant to the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, as amended by the Dodd-Frank Act. In addition, the Dodd-Frank Act authorizes a state-chartered bank, such as the Bank, to establish new branches on an interstate basis to the same extent a bank chartered by the host state may establish branches.

Activities and Investments of Insured State-Chartered Banks. Section 24 of the FDIA generally limits the types of equity investments an FDIC-insured state-chartered bank, such as the Bank, may make and the kinds of activities in which such a bank may engage, as a principal, to those that are permissible for national banks. Further, the GLBA permits national banks and state banks, to the extent permitted under state law, to engage via financial subsidiaries in certain activities that are permissible for subsidiaries of a financial holding company. In order to form a financial subsidiary, a state-chartered bank must be well capitalized, and such banks would be subject to certain capital deduction, risk management and affiliate transaction rules, among other things.

Brokered Deposits. Section 29 of the FDIA and FDIC regulations generally limit the ability of an insured depository institution to accept, renew or roll over any brokered deposit unless the institution's capital category is "well capitalized" or, with the FDIC's approval, "adequately capitalized." Depository institutions, other than those in the lowest risk category, that have brokered deposits in excess of 10% of total deposits will be subject to increased FDIC deposit insurance premium assessments.

Community Reinvestment Act. The CRA requires the FDIC to evaluate the Bank's performance in helping to meet the credit needs of the entire communities it serves, including low- and moderate-income neighborhoods, consistent with its safe and sound banking operations, and to take this record into consideration when evaluating certain applications. The FDIC's CRA regulations are generally based upon objective criteria of the performance of institutions under three key assessment tests: (i) a lending test, to evaluate the institution's record of making loans in its service areas; (ii) an investment test, to evaluate the institution's record of investing in community development projects, affordable housing, and programs benefiting low or moderate income individuals and businesses; and (iii) a service test, to evaluate the institution's delivery of services through its branches, ATMs, and other offices. Failure of an institution to receive at least a "Satisfactory" rating could inhibit the Bank or the Bancorp from undertaking certain activities, including engaging in activities newly permitted as a financial holding company under GLBA and acquisitions of other financial institutions. The Bank has achieved a rating of "Satisfactory" on its most recent examination dated October 3, 2012. Rhode Island and Connecticut also have enacted substantially similar community reinvestment requirements.

Lending Restrictions. Federal law limits a bank's authority to extend credit to its directors, executive officers and 10% shareholders, as well as to entities controlled by such persons. Among other things, extensions of credit to insiders are required to be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons. Also, the terms of such extensions of credit may not involve more than the normal risk of repayment or present other unfavorable features and may not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the bank's capital. The Dodd-Frank Act explicitly provides that an extension of credit to an insider includes credit exposure arising from a derivatives transaction, repurchase agreement, reverse repurchase agreement, securities lending transaction or securities borrowing transaction. Additionally, the Dodd-Frank Act requires that asset sale transactions with insiders must be on market terms, and if the transaction represents more than 10% of the capital and surplus of the Bank, be approved by a

majority of the disinterested directors of the Bank.

Enforcement Powers. The FDIC, the RI Division of Banking and the Connecticut Department of Banking have the authority to issue orders to banks under their supervision to cease and desist from unsafe or unsound banking practices and violations of laws, regulations, or conditions imposed by, agreements with, or commitments to, the FDIC, the RI

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Division of Banking or the Connecticut Department of Banking. The FDIC, the RI Division of Banking or the Connecticut Department of Banking is also empowered to assess civil money penalties against companies or individuals who violate banking laws, orders or regulations.

Capital Adequacy and Safety and Soundness

Regulatory Capital Requirements. The Federal Reserve and the FDIC have issued substantially similar risk-based and leverage capital rules applicable to U.S. banking organizations such as the Bancorp and the Bank. These guidelines are intended to reflect the relationship between a banking organization's capital and the degree of risk associated with its operations based on transactions recorded on-balance sheet as well as off-balance sheet items. The Federal Reserve and the FDIC may from time to time require that a banking organization maintain capital above the minimum levels discussed below, due to the banking organization's financial condition or actual or anticipated growth.

The capital adequacy rules define qualifying capital instruments and specify minimum amounts of capital as a percentage of assets that banking organizations are required to maintain. Tier 1 capital for banks and bank holding companies generally consists of the sum of common shareholders' equity, non-cumulative perpetual preferred stock, and related surplus and, in certain cases and subject to limitations, minority interest in consolidated subsidiaries, less goodwill, other non-qualifying intangible assets and certain other deductions. Tier 2 capital generally consists of hybrid capital instruments, perpetual debt and mandatory convertible debt securities, cumulative perpetual preferred stock, term subordinated debt and intermediate-term preferred stock, and, subject to limitations, allowances for loan losses. The sum of Tier 1 and Tier 2 capital less certain required deductions represents qualifying total risk-based capital. Prior to the effectiveness of certain provisions of the Dodd-Frank Act, bank holding companies were permitted to include trust preferred securities and cumulative perpetual preferred stock in Tier 1 capital, subject to limitations. However, the Federal Reserve's capital rule applicable to bank holding companies permanently grandfathers nonqualifying capital instruments, including trust preferred securities, issued before May 19, 2010 by depository institution holding companies with less than \$15 billion in total assets as of December 31, 2009, subject to a limit of 25% of Tier 1 capital. In addition, under rules that became effective January 1, 2015, accumulated other comprehensive income (positive or negative) must be reflected in Tier 1 capital; however, the Bancorp may make a one-time, permanent election to continue to exclude accumulated other comprehensive income from capital. If the Bancorp does not make this election, unrealized gains and losses, net of taxes, will be included in the calculation of the Bancorp's regulatory capital. The Bancorp intends to make this election.

Under the capital rules, risk-based capital ratios are calculated by dividing Tier 1 and total risk-based capital, respectively, by risk-weighted assets. Assets and off-balance sheet credit equivalents are assigned a risk weight based primarily on relative risk. Under rules in effect through December 31, 2014, the minimum required Tier 1 risk-based capital ratio was 4% and the minimum total risk-based capital ratio was 8%. As of December 31, 2014, the Bancorp's Tier 1 risk-based capital ratio was 11.52% and its total risk-based capital ratio was 12.56%.

In addition to the risk-based capital requirements, under rules in effect through December 31, 2014, the Federal Reserve required top-rated bank holding companies to maintain a minimum leverage capital ratio of Tier 1 capital (defined by reference to the risk-based capital guidelines) to its average total consolidated assets of at least 3.0%. For most other bank holding companies (including the Bancorp), the minimum leverage capital ratio was 4.0%. Bank holding companies with supervisory, financial, operational or managerial weaknesses, as well as bank holding companies that are anticipating or experiencing significant growth, were expected to maintain capital ratios well above the minimum levels. The Bancorp's Tier 1 leverage ratio as of December 31, 2014 was 9.14%.

Prior to the effective date of the Dodd-Frank Act, the FDIC had adopted a statement of policy regarding the capital adequacy of state-chartered banks and promulgated regulations to implement the system of prompt corrective action established by Section 38 of the FDIA. Under the FDIC regulations, which were in effect through December 31, 2014, a bank was considered "well capitalized" if it had: (i) a total risk-based capital ratio of 10.0% or greater; (ii) a Tier 1 risk-based capital ratio of 6.0% or greater; (iii) a leverage capital ratio of 5.0% or greater; and (iv) was not subject to

any written agreement, order, capital directive, or prompt corrective action directive to meet and maintain a specific capital level for any capital measure.

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In 2010, the Basel Committee on Banking Supervision released new capital requirements, known as Basel III, setting forth higher capital requirements, enhanced risk coverage, a global leverage ratio, provisions for counter-cyclical capital, and liquidity standards. In 2013, the Federal Reserve, along with the other federal banking agencies, issued final rules implementing the Basel III capital standards and establishing the minimum capital requirements for banks and bank holding companies required under the Dodd-Frank Act. These rules, which became effective January 1, 2015, establish a minimum common equity Tier 1 capital ratio requirement of 4.5%, a minimum Tier 1 capital ratio requirement of 6%, a minimum total capital requirement of 8% and a minimum leverage ratio requirement of 4%. Additionally, subject to a transition schedule, these rules require an institution to establish a capital conservation buffer of common equity Tier 1 capital in an amount above the minimum risk-based capital requirements for “adequately capitalized” institutions equal to 2.5% of total risk weighted assets, or face restrictions on the ability to pay dividends, pay discretionary bonuses, and to engage in share repurchases.

Under rules effective January 1, 2015, a bank holding company, such as the Bancorp, is considered “well capitalized” if the bank holding company (i) has a total risk-based capital ratio of at least 10%, (ii) has a Tier 1 risk-based capital ratio of at least 6%, and (iii) is not subject to any written agreement order, capital directive or prompt corrective action directive to meet and maintain a specific capital level for any capital measure. In addition, the FDIC has amended its prompt corrective action rules to reflect the revisions made by the Final Capital Rule. Under the FDIC’s revised rules, which became effective January 1, 2015, an FDIC supervised institution is considered “well capitalized” if it (i) has a total risk-based capital ratio of 10.0% or greater; (ii) a Tier 1 risk-based capital ratio of 8.0% or greater; (iii) a common Tier 1 equity ratio of at least 6.5% or greater, (iv) a leverage capital ratio of 5.0% or greater; and (iv) is not subject to any written agreement, order, capital directive, or prompt corrective action directive to meet and maintain a specific capital level for any capital measure.

The Bancorp and the Bank are considered “well capitalized” under all regulatory definitions.

Safety and Soundness Standard. The FDIA requires the federal bank regulatory agencies to prescribe standards, by regulations or guidelines, relating to internal controls, information systems and internal audit systems, risk management, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, stock valuation and compensation, fees and benefits, and such other operational and managerial standards as the agencies deem appropriate. Guidelines adopted by the federal bank regulatory agencies establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, and fees and benefits. In general, these guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal shareholder. In addition, the federal banking agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the “prompt corrective action” provisions of the FDIA. See “-Regulatory Capital Requirements” above. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Dividend Restrictions

The Bancorp is a legal entity separate and distinct from the Bank. Revenues of the Bancorp are derived primarily from dividends paid to it by the Bank. The right of the Bancorp, and consequently the right of shareholders of the Bancorp, to participate in any distribution of the assets or earnings of the Bank, through the payment of such dividends or otherwise, is necessarily subject to the prior claims of creditors of the Bank (including depositors), except

to the extent that certain claims of the Bancorp in a creditor capacity may be recognized.

Restrictions on Bank Holding Company Dividends. The Federal Reserve has the authority to prohibit bank holding companies from paying dividends if such payment is deemed to be an unsafe or unsound practice. The Federal Reserve has indicated generally that it may be an unsafe or unsound practice for bank holding companies to pay dividends unless

the bank holding company's net income over the preceding year is sufficient to fund the dividends and the expected rate of earnings retention is consistent with the organization's capital needs, asset quality and overall financial condition. Further, when the Final Capital Rule comes into effect, the Company's ability to pay dividends would be restricted if it does not maintain capital above the conservation buffer. See "-Capital Adequacy and Safety and Soundness-Regulatory Capital Requirements" above.

Restrictions on Bank Dividends. The FDIC has the authority to use its enforcement powers to prohibit a bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice. Federal law also prohibits the payment of dividends by a bank that will result in the bank failing to meet its applicable capital requirements on a pro forma basis. Payment of dividends by a bank is also restricted pursuant to various state regulatory limitations. Reference is made to Note 12 to the Consolidated Financial Statements for additional discussion of the Bancorp's ability to pay dividends.

Certain Transactions by Bank Holding Companies with their Affiliates

There are various statutory restrictions on the extent to which bank holding companies and their non-bank subsidiaries may borrow, obtain credit from or otherwise engage in "covered transactions" with their insured depository institution subsidiaries. The Dodd-Frank Act amended the definition of affiliate to include an investment fund for which the depository institution or one of its affiliates is an investment adviser. An insured depository institution (and its subsidiaries) may not lend money to, or engage in covered transactions with, its non-depository institution affiliates if the aggregate amount of covered transactions outstanding involving the bank, plus the proposed transaction exceeds the following limits: (i) in the case of any one such affiliate, the aggregate amount of covered transactions of the insured depository institution and its subsidiaries cannot exceed 10% of the capital stock and surplus of the insured depository institution; and (ii) in the case of all affiliates, the aggregate amount of covered transactions of the insured depository institution and its subsidiaries cannot exceed 20% of the capital stock and surplus of the insured depository institution. For this purpose, "covered transactions" are defined by statute to include a loan or extension of credit to an affiliate, a purchase of or investment in securities issued by an affiliate, a purchase of assets from an affiliate unless exempted by the Federal Reserve, the acceptance of securities issued by an affiliate as collateral for a loan or extension of credit to any person or company, the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate, securities borrowing or lending transactions with an affiliate that creates a credit exposure to such affiliate, or a derivatives transaction with an affiliate that creates a credit exposure to such affiliate. Covered transactions are also subject to certain collateral security requirements. Covered transactions as well as other types of transactions between a bank and a bank holding company must be on market terms and not otherwise unduly favorable to the holding company or an affiliate of the holding company. Moreover, Section 106 of the BHCA provides that, to further competition, a bank holding company and its subsidiaries are prohibited from engaging in certain tying arrangements in connection with any extension of credit, lease or sale of property of any kind, or furnishing of any service.

Consumer Protection Regulation

The Bancorp and the Bank are subject to federal and state laws designed to protect consumers and prohibit unfair or deceptive business practices including the Equal Credit Opportunity Act, Fair Housing Act, Home Ownership Protection Act, Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act of 2003 ("FACT Act"), the GLBA, the Truth in Lending Act, the CRA, the Home Mortgage Disclosure Act, Real Estate Settlement Procedures Act, National Flood Insurance Act and various state law counterparts. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must interact with customers when taking deposits, making loans, collecting loans and providing other services. Further, the Dodd-Frank Act established the CFPB, which has the responsibility for making rules and regulations under the federal consumer protection laws relating to financial products and services. The CFPB also has a broad mandate to prohibit unfair or deceptive acts and practices and is specifically empowered to require certain disclosures to consumers and draft model disclosure forms. Failure to comply with consumer protection laws and regulations can subject financial institutions to enforcement actions, fines and other penalties. The FDIC examines the Bank for compliance with CFPB rules and enforces CFPB rules with respect to the Bank.

Mortgage Reform. The Dodd-Frank Act prescribes certain standards that mortgage lenders must consider before making a residential mortgage loan, including verifying a borrower's ability to repay such mortgage loan and allows borrowers to assert violations of certain provisions of the Truth in Lending Act as a defense to foreclosure proceedings. Under the

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Dodd-Frank Act, prepayment penalties are prohibited for certain mortgage transactions and creditors are prohibited from financing insurance policies in connection with a residential mortgage loan or home equity line of credit. In addition, the Dodd-Frank Act prohibits mortgage originators from receiving compensation based on the terms of residential mortgage loans and generally limits the ability of a mortgage originator to be compensated by others if compensation is received from a consumer. The Dodd-Frank Act requires mortgage lenders to make additional disclosures prior to the extension of credit, in each billing statement and for negative amortization loans and hybrid adjustable rate mortgages. Additionally, CFPB's new qualified mortgage rule, which was amended and became effective on November 3, 2014 (the "QM Rule"), requires creditors, such as Washington Trust, to make a reasonable good faith determination of a consumer's ability to repay any consumer credit transaction secured by a dwelling.

Privacy and Customer Information Security. The GLBA requires financial institutions to implement policies and procedures regarding the disclosure of nonpublic personal information about consumers to nonaffiliated third parties. In general, the Bank must provide its customers with an annual disclosure that explains its policies and procedures regarding the disclosure of such nonpublic personal information, and, except as otherwise required or permitted by law, the Bank is prohibited from disclosing such information except as provided in such policies and procedures. The GLBA also requires that the Bank develop, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information (as defined under GLBA), to protect against anticipated threats or hazards to the security or integrity of such information; and to protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer. The Bank is also required to send a notice to customers whose sensitive information has been compromised if unauthorized use of the information is reasonably possible. Most states, including the states where the Bank operates, have enacted legislation concerning breaches of data security and the duties of the Bank in response to a data breach. Congress continues to consider federal legislation that would require consumer notice of data security breaches. In addition, Massachusetts has promulgated data security regulations with respect to personal information of Massachusetts residents. Pursuant to the FACT Act, the Bank had to develop and implement a written identity theft prevention program to detect, prevent, and mitigate identity theft in connection with the opening of certain accounts or certain existing accounts. Additionally, the FACT Act amends the Fair Credit Reporting Act to generally prohibit a person from using information received from an affiliate to make a solicitation for marketing purposes to a consumer, unless the consumer is given notice and a reasonable opportunity and a reasonable and simple method to opt out of the making of such solicitations.

Anti-Money Laundering

The Bank Secrecy Act. Under the Bank Secrecy Act ("BSA"), a financial institution is required to have systems in place to detect certain transactions, based on the size and nature of the transaction. Financial institutions are generally required to report to the U.S. Treasury any cash transactions involving more than \$10,000. In addition, financial institutions are required to file suspicious activity reports for transactions that involve more than \$5,000 and which the financial institution knows, suspects or has reason to suspect involves illegal funds, is designed to evade the requirements of the BSA or has no lawful purpose. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act"), which amended the BSA, together with the implementing regulations of various federal regulatory agencies, has caused financial institutions, such as the Bank, to adopt and implement additional policies or amend existing policies and procedures with respect to, among other things, anti-money laundering compliance, suspicious activity, currency transaction reporting, customer identity verification and customer risk analysis. In evaluating an application under Section 3 of the BHCA to acquire a bank or an application under the Bank Merger Act to merge banks or effect a purchase of assets and assumption of deposits and other liabilities, the applicable federal banking regulator must consider the anti-money laundering compliance record of both the applicant and the target. In addition, under the USA PATRIOT Act financial institutions are required to take steps to monitor their correspondent banking and private banking relationships as well as, if applicable, their relationships with "shell banks."

OFAC. The U.S. has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These sanctions, which are administered by the U.S. Treasury's Office of Foreign Assets Control ("OFAC"), take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on "U.S. persons" engaging in financial or other transactions relating to a sanctioned country or with certain designated persons and entities; (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to

U.S. jurisdiction (including property in the possession or control of U.S. persons); and (iii) restrictions on transactions with or involving certain persons or entities. Blocked assets (for example, property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences for the Corporation.

Regulation of Other Activities

Registered Investment Adviser and Broker-Dealer. WSC is a registered broker-dealer and a member of the Financial Industry Regulatory Authority, Inc. (“FINRA”). WSC is subject to extensive regulation, supervision, and examination by the Securities and Exchange Commission (“SEC”), FINRA and the Commonwealth of Massachusetts. Weston Financial is registered as an investment advisor under the Investment Advisers Act of 1940, as amended (the “Investment Advisers Act”), and is subject to extensive regulation, supervision, and examination by the SEC and the Commonwealth of Massachusetts, including those related to sales methods, trading practices, the use and safekeeping of customers’ funds and securities, capital structure, record keeping and the conduct of directors, officers and employees.

As an investment advisor, Weston Financial is subject to the Investment Advisers Act and any regulations promulgated thereunder, including fiduciary, recordkeeping, operational and disclosure obligations. Each of the mutual funds for which Weston Financial acts an advisor or subadvisor is registered with the SEC under the Investment Company Act of 1940, as amended (the “Investment Company Act”), and subject to requirements thereunder. Shares of each mutual fund are registered with the SEC under the Securities Act of 1933, as amended, and are qualified for sale (or exempt from such qualification) under the laws of each state and the District of Columbia to the extent such shares are sold in any of those jurisdictions. In addition, an advisor or subadvisor to a registered investment company generally has obligations with respect to the qualification of the registered investment company under the Internal Revenue Code of 1986, as amended (the “Code”).

The foregoing laws and regulations generally grant supervisory agencies and bodies broad administrative powers, including the power to limit or restrict Weston Financial from conducting its business in the event it fails to comply with such laws and regulations. Possible sanctions that may be imposed in the event of such noncompliance include the suspension of individual employees, limitations on business activities for specified periods of time, revocation of registration as an investment advisor, commodity trading advisor and/or other registrations, and other censures and fines.

Mortgage Lending. WTMC, formed in 2012, is a mortgage lending subsidiary of the Bank and licensed to do business in Rhode Island, Massachusetts, Connecticut and New Hampshire. WTMC is subject to the regulation, supervision and examination by the banking divisions in each of these states. See “-Consumer Protection Regulation” and “-Consumer Protection Regulation-Mortgage Reform” above for a description of certain regulations that apply to WTMC.

Volcker Rule Restrictions on Proprietary Trading and Sponsorship of Hedge Funds and Private Equity Funds. The Dodd-Frank Act bars banking organizations, such as the Bancorp, from engaging in proprietary trading and from sponsoring and investing in hedge funds and private equity funds, except as permitted under certain limited circumstances, in a provision commonly referred to as the “Volcker Rule.” Under the Dodd-Frank Act, proprietary trading generally means trading by a banking entity or its affiliate for its trading account. Hedge funds and private equity funds are described by the Dodd-Frank Act as funds that would be registered under the Investment Company Act but for certain enumerated exemptions. The Volcker Rule restrictions apply to the Bancorp, the Bank and all of their subsidiaries and affiliates.

ERISA. The Bank and Weston Financial are each also subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and related regulations, to the extent it is a “fiduciary” under ERISA with respect to some of its clients. ERISA and related provisions of the Code impose duties on persons who are fiduciaries under ERISA,

and prohibit certain transactions involving the assets of each ERISA plan that is a client of the Bank or Weston Financial, as applicable, as well as certain transactions by the fiduciaries (and several other related parties) to such plans.

Securities and Exchange Commission Availability of Filings

Under Sections 13 and 15(d) of the Exchange Act, periodic and current reports must be filed or furnished with the SEC. You may read and copy any reports, statements or other information filed by Washington Trust with the SEC at its public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Washington Trust's filings are also available to the public from commercial

document retrieval services and at the website maintained by the SEC at <http://www.sec.gov>. In addition, Washington Trust makes available free of charge on the Investor Relations section of its website (www.washtrust.com) its annual report on Form 10-K, its quarterly reports on Form 10-Q, current reports on Form 8-K, and exhibits and amendments to those reports as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the SEC. Information on the Washington Trust website is not incorporated by reference into this Annual Report on Form 10-K.

ITEM 1A. Risk Factors.

Before making any investment decision with respect to our common stock, you should carefully consider the risks described below, in addition to the other information contained in this report and in our other filings with the SEC. The risks and uncertainties described below and in our other filings are not the only ones facing us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business. If any of these known or unknown risks or uncertainties actually occurs, our business, financial condition and results of operations could be impaired. In that event, the market price for our common stock could decline and you may lose your investment. This report is qualified in its entirety by these risk factors.

Risks Related to Our Banking Business - Credit Risk and Market Risk

Our allowance for loan losses may not be adequate to cover actual loan losses.

We are exposed to the risk that our borrowers may default on their obligations. A borrower's default on its obligations under one or more loans may result in lost principal and interest income and increased operating expenses as a result of the allocation of management time and resources to the collection and work-out of the loan. In certain situations, where collection efforts are unsuccessful or acceptable work-out arrangements cannot be reached, we may have to write off the loan in whole or in part. In such situations, we may acquire real estate or other assets, if any, that secure the loan through foreclosure or other similar available remedies, and often the amount owed under the defaulted loan exceeds the value of the assets acquired.

We periodically make a determination of an allowance for loan losses based on available information, including, but not limited to, the quality of the loan portfolio, certain economic conditions, the value of the underlying collateral and the level of nonaccrual and criticized loans. We rely on our loan quality reviews, our experience and our evaluation of economic conditions, among other factors, in determining the amount of provision required for the allowance for loan losses. Provisions to this allowance result in an expense for the period. If, as a result of general economic conditions, changes to previous assumptions, or an increase in defaulted loans, we determine that additional increases in the allowance for loan losses are necessary, we will incur additional expenses.

Determining the allowance for loan losses inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes. At any time, there are likely to be loans in our portfolio that will result in losses but that have not been identified as nonperforming or potential problem credits. We cannot be sure that we will be able to identify deteriorating credits before they become nonperforming assets or that we will be able to limit losses on those loans that are identified. We have in the past been, and in the future may be, required to increase our allowance for loan losses for any of several reasons. Federal and state regulators, in reviewing our loan portfolio as part of a regulatory examination, may request that we increase our allowance for loan losses. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in our allowance for loan losses. In addition, if charge-offs in future periods exceed our allowance for loan losses, we will need additional increases in our allowance for loan losses. Any increases in our allowance for loan losses will result in a decrease in our net income and, possibly, our capital, and could have an adverse effect on our financial condition and results of operations.

For a more detailed discussion on the allowance for loan losses, see additional information disclosed in "Management's Discussion and Analysis of Financial Condition and Results of Operations-Application of Critical Accounting Policies

and Estimates.”

Fluctuations in interest rates may reduce our profitability.

Our consolidated results of operations depend, to a large extent, on net interest income, which is the difference between interest income from interest-earning assets, such as loans and investments, and interest expense on interest-bearing

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liabilities, such as deposits and borrowings. These rates are highly sensitive to many factors beyond our control, including general economic conditions, both domestic and foreign, and the monetary and fiscal policies of various governmental and regulatory authorities. We have adopted asset and liability management policies to minimize the potential adverse effects of changes in interest rates on net interest income, primarily by altering the mix and maturity of loans, investments funding sources, and derivatives. However, even with these policies in place, a change in interest rates can impact our results of operations or financial condition.

The market values of most of our financial assets are sensitive to fluctuations in market interest rates. Fixed-rate investments, mortgage-backed securities and mortgage loans typically decline in value as interest rates rise. Changes in interest rates can also affect the rate of prepayments on mortgage-backed securities, thereby adversely affecting the value of such securities and the interest income generated by them.

Changes in interest rates can also affect the amount of loans that we originate, as well as the value of loans and other interest-earning assets and our ability to realize gains on the sale of such assets and liabilities. Prevailing interest rates also affect the extent to which our borrowers prepay their loans. When interest rates increase, borrowers are less likely to prepay their loans, and when interest rates decrease, borrowers are more likely to prepay loans. Funds generated by prepayments might be reinvested at a less favorable interest rate. Prepayments may adversely affect the value of mortgage loans, the levels of such assets that are retained in our portfolio, net interest income, loan servicing income and capitalized servicing rights.

Increases in interest rates might cause depositors to shift funds from accounts that have a comparatively lower cost, such as regular savings accounts, to accounts with a higher cost, such as certificates of deposit. If the cost of interest-bearing deposits increases at a rate greater than the yields on interest-earning assets increase, our net interest income will be negatively affected. Changes in the asset and liability mix may also affect our net interest income.

For additional discussion on interest rate risk, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Asset / Liability Management and Interest Rate Risk.”

Our loan portfolio includes commercial loans, which are generally riskier than other types of loans. At December 31, 2014, commercial loans represented 54% of our loan portfolio. Commercial loans generally carry larger loan balances and involve a higher risk of nonpayment or late payment than residential mortgage loans. These loans may lack standardized terms and may include a balloon payment feature. The ability of a borrower to make or refinance a balloon payment may be affected by a number of factors, including the financial condition of the borrower, prevailing economic conditions and prevailing interest rates. Repayment of these loans is generally more dependent on the economy and the successful operation of a business. Because of the risks associated with commercial loans, we may experience higher rates of default than if the portfolio were more heavily weighted toward residential mortgage loans. Higher rates of default could have an adverse effect on our financial condition and results of operations.

Environmental liability associated with our lending activities could result in losses. In the course of business, we may acquire, through foreclosure, properties securing loans we have originated that are in default. While we believe that our credit granting process incorporates appropriate procedures for the assessment of environmental contamination risk, there is a risk that material environmental violations could be discovered on these properties, particularly in commercial real estate lending. In this event, we might be required to remedy these violations at the affected properties at our sole cost and expense. The cost of this remedial action could substantially exceed the value of affected properties. We may not have adequate remedies against the prior owner or other responsible parties and could find it difficult or impossible to sell the affected properties. These events could have an adverse effect on our financial condition and results of operations.

We have credit and market risk inherent in our securities portfolio.

We maintain a diversified securities portfolio, which includes U.S. government agency and government-sponsored agency debt obligations, including mortgage-backed securities; municipal securities; corporate debt securities; and individual name issuer trust preferred debt securities. We seek to limit credit losses in our securities portfolios by generally purchasing only highly-rated securities. The valuation and liquidity of our securities could be adversely impacted by reduced market liquidity, increased normal bid-asked spreads and increased uncertainty of market participants, which could reduce the

market value of our securities, even those with no apparent credit exposure. The valuation of our securities requires judgment and as market conditions change security values may also change.

Difficult market conditions and economic trends in the real estate market have adversely affected our industry and our business and could continue to have an adverse effect.

We were particularly affected by downturns in the U.S. real estate market following the 2008 financial crisis. Declines in the real estate market over the past several years, including decreased property values and increased delinquencies and foreclosures, may continue to have a negative impact on the credit performance of loans secured by real estate resulting in significant write-downs of assets by many financial institutions as the values of real estate collateral supporting many loans have declined significantly. In addition, a deterioration in the economy or increased levels of unemployment, among other factors, could lead to erosion of customer confidence, a reduction in general business activity and increased market volatility. The resulting economic pressure on consumers and businesses and the lack of confidence in the financial markets could adversely affect our business, financial condition, results of operations and stock price. Our ability to properly assess the creditworthiness of customers and to estimate the losses inherent in our credit exposure would be made more complex by these difficult market and economic conditions. Accordingly, if market conditions worsen, we may experience increases in foreclosures, delinquencies, write-offs and customer bankruptcies, as well as more restricted access to funds.

Weakness or deterioration in the southern New England economy could adversely affect our financial condition and results of operations.

We primarily serve individuals and businesses located in southern New England. As a result, a significant portion of our earnings are closely tied to the economy of that region. Weakening or deterioration in the economy of southern New England could result in the following consequences:

- loan delinquencies may increase;
- problem assets and foreclosures may increase;
- demand for our products and services may decline;
- collateral for our loans may decline in value, in turn reducing a customer's borrowing power and reducing the value of collateral securing a loan; and
- the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us.

We operate in a highly regulated industry, and laws and regulations, or changes in them, could limit or restrict our activities and could have an adverse impact in our operations.

We are subject to regulation and supervision by the Federal Reserve, and the Bank is subject to regulation and supervision by the FDIC, Rhode Island Division of Banking and the Connecticut Department of Banking. Federal and state laws and regulations govern numerous matters affecting us, including changes in the ownership or control of banks and bank holding companies, maintenance of adequate capital and the financial condition of a financial institution, permissible types, amounts and terms of extensions of credit and investments, permissible non-banking activities, the level of reserves against deposits and restrictions on dividend payments. The FDIC, Rhode Island Division of Banking and the Connecticut Division of Banking have the power to issue consent orders to prevent or remedy unsafe or unsound practices or violations of law by banks subject to their regulation, and the Federal Reserve possesses similar powers with respect to bank holding companies.

Our banking business is also affected by the monetary policies of the Federal Reserve. Changes in monetary or legislative policies may affect the interest rates the Bank must offer to attract deposits and the interest rates it must charge on loans, as well as the manner in which it offers deposits and makes loans. These monetary policies have had, and are expected to continue to have, significant effects on the operating results of depository institutions generally, including the Bank.

Because our business is highly regulated, the laws, rules, regulations, and supervisory guidance and policies applicable to us are subject to regular modification and change. It is impossible to predict the competitive impact that

any such changes would have on the banking and financial services industry in general or on our business in particular. Such changes may, among other things, increase the cost of doing business, limit permissible activities, or affect the competitive

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balance between banks and other financial institutions. Changes to statutes, regulations, or regulatory policies, including changes in interpretation or implementation of statutes, regulations, or policies, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer, and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations, or policies could result in sanctions by regulatory agencies, civil money penalties, and/or reputation damage, which could have a material adverse effect on our business, financial condition, and results of operations. See “Business-Supervision and Regulation.”

Additional requirements imposed by the Dodd-Frank Act could adversely affect us.

The Dodd-Frank Act comprehensively reformed the regulation of financial institutions, products and services. In addition, the Dodd-Frank Act established the CFPB as an independent bureau of the Federal Reserve. The CFPB has the authority to prescribe rules for all depository institutions governing the provision of consumer financial products and services, which may result in rules and regulations that reduce the profitability of such products and services or impose greater costs and restrictions on us and our subsidiaries.

On December 10, 2013, pursuant to the Dodd-Frank Act, federal banking and securities regulators issued final rules to implement Section 619 of the Dodd-Frank Act, also known as the “Volcker Rule.” Generally, the Volcker Rule restricts banking organizations and their affiliated companies from engaging in proprietary trading and from sponsoring and investing in hedge funds and private equity funds, except as permitted under certain limited circumstances. After a conformance period, which is currently set to end on July 21, 2015 (except for certain investments and activities existing before December 31, 2013), the Volcker Rule restrictions will apply to the Bancorp, the Bank and all of their subsidiaries and affiliates.

The Dodd-Frank Act also established new minimum mortgage underwriting standards for residential mortgages, and the regulatory agencies have focused on the examination and supervision of mortgage lending and servicing activities. The CFPB’s QM Rule requires creditors, such as Washington Trust, to make a reasonable good faith determination of a consumer’s ability to repay any consumer credit transaction secured by a dwelling. The rule provides creditors with minimum requirements for making such ability-to-repay determinations and could limit the Bank’s ability to make certain types of loans or loans to certain borrowers, or could make it more expensive and time-consuming to make these loans, which could limit the Bank’s growth or profitability. See “-Business-Supervision and Regulation-The Dodd-Frank Act.”

Current and future legal and regulatory requirements, restrictions, and regulations, including those imposed under the Dodd-Frank Act, may adversely impact our profitability and may have a material and adverse effect on our business, financial condition, and results of operations, may require us to invest significant management attention and resources to evaluate and make any changes required by the legislation and related regulations and may make it more difficult for us to attract and retain qualified executive officers and employees.

We will become subject to more stringent capital requirements.

The federal banking agencies issued a joint final rule, or the “Final Capital Rule,” that implemented the Basel III capital standards and established the minimum capital levels required under the Dodd-Frank Act. As of January 1, 2015, we must comply with the Final Capital Rule. The Final Capital Rule established a minimum common equity Tier 1 capital ratio of 6.5% of risk-weighted assets for a “well capitalized” institution and increased the minimum Tier 1 capital ratio for a “well capitalized” institution from 6.0% to 8.0% for FDIC supervised institutions. Additionally, subject to a transition period, the Final Capital Rule requires an institution to maintain a 2.5% common equity Tier 1 capital conservation buffer over the 6.5% minimum risk based capital requirements for “adequately capitalized” institutions to avoid restrictions on the ability to pay dividends, discretionary bonuses, and engage in share repurchases. The Final Capital Rule permanently grandfathered trust preferred securities issued before May 19, 2010 subject to a limit of 25% of Tier 1 capital. The Final Capital Rule increased the required capital for certain categories of assets, including high-volatility construction real estate loans and certain exposures related to securitizations; however, the Final

Capital Rule retained the current capital treatment of residential mortgages. Under the Final Capital Rule, we may make a one-time, permanent election to continue to exclude accumulated other comprehensive income from capital. If we do not make this election, unrealized gains and losses will be included in the calculation of our regulatory capital. We intend to make this election. Implementation of these standards, or any other new regulations, may adversely affect our ability to pay dividends, or require us to reduce business levels or raise capital, including in ways that may adversely affect our results of operations or financial condition.

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty and other relationships. We have exposure to a number of different counterparties, and we routinely execute transactions with counterparties in the financial industry, including brokers and dealers, other commercial banks, investment banks, and other financial institutions. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, could lead to market-wide liquidity problems and losses or defaults by us or by other institutions and organizations. Many of these transactions expose us to credit risk in the event of default of our counterparty or customer. In addition, our credit risk may be exacerbated when the collateral held by us cannot be liquidated or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due to us. There is no assurance that any such losses would not materially and adversely affect our results of operations.

Risks Related to Our Wealth Management Business

Our wealth management business is highly regulated, and the regulators have the ability to limit or restrict our activities and impose fines or suspensions on the conduct of our business.

We offer wealth management services through the Bank and its subsidiary, Weston Financial, a registered investment adviser under the Investment Advisers Act. The Investment Advisers Act imposes numerous obligations on registered investment advisers, including fiduciary, record keeping, operational and disclosure obligations. We are also subject to the provisions and regulations of ERISA to the extent that we act as a “fiduciary” under ERISA with respect to certain of our clients. ERISA and the applicable provisions of the federal tax laws impose a number of duties on persons who are fiduciaries under ERISA and prohibit certain transactions involving the assets of each ERISA plan which is a client, as well as certain transactions by the fiduciaries (and certain other related parties) to such plans. In addition, applicable law provides that all investment contracts with mutual fund clients may be terminated by the clients, without penalty, upon no more than 60 days notice. Investment contracts with institutional and other clients are typically terminable by the client, also without penalty, upon 30 days notice. Changes in these laws or regulations could have a material adverse impact on our profitability and mode of operations.

The market value of wealth management assets under administration may be negatively affected by changes in economic and market conditions.

Revenues from wealth management services represented 22% of our total revenues for 2014. A substantial portion of these fees are dependent on the market value of wealth management assets under administration, which are primarily marketable securities. Changes in domestic and foreign economic conditions, volatility in financial markets, and general trends in business and finance, all of which are beyond our control, could adversely impact the market value of these assets and the fee revenues derived from the management of these assets.

We may not be able to attract and retain wealth management clients at current levels.

Due to strong competition, our wealth management business may not be able to attract and retain clients at current levels. Competition is strong because there are numerous well-established and successful investment management and wealth advisory firms including commercial banks and trust companies, investment advisory firms, mutual fund companies, stock brokerage firms, and other financial companies. Many of our competitors have greater resources than we have.

Our ability to successfully attract and retain wealth management clients is dependent upon our ability to compete with competitors’ investment products, level of investment performance, client services and marketing and distribution capabilities. If we are not successful, our results of operations and financial condition may be negatively impacted.

Wealth management revenues are primarily derived from investment management (including mutual funds), trust fees and financial planning services. Most of our investment management clients may withdraw funds from accounts

under management generally at their sole discretion. Financial planning contracts must typically be renewed on an annual basis and are terminable upon relatively short notice. The financial performance of our wealth management business is a significant factor in our overall results of operations and financial condition.

Risks Related to Our Operations

We may suffer losses as a result of operational risk, cyber security risk, or technical system failures.

We are subject to certain operational risks, including, but not limited to, the risk of electronic fraudulent activity due to cyber criminals targeting bank accounts and other customer information, data processing system failures and errors, inadequate or failed internal processes, customer or employee fraud and catastrophic failures resulting from terrorist acts or natural disasters. We depend upon data processing, software, communication, and information exchange on a variety of computing platforms and networks and over the Internet, and we rely on the services of a variety of vendors to meet our data processing and communication needs. Despite instituted safeguards, we cannot be certain that all of our systems are entirely free from vulnerability to attack or other technological difficulties or failures. Information security risks have increased significantly due to the use of online, telephone, and mobile banking channels by customers and the increased sophistication and activities of organized crime, hackers, terrorists, and other external parties. Our technologies, systems, networks and our customers' devices have been or are likely to continue to be the target of cyber-attacks, computer viruses, malicious code, phishing attacks or attempted information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of our customers' confidential, proprietary, and other information, the theft of customer assets through fraudulent transactions or disruption of our or our customers' or other third parties' business operations. If information security is breached or other technology difficulties or failures occur, information may be lost or misappropriated, services and operations may be interrupted and we could be exposed to claims from customers. While we maintain a system of internal controls and procedures, any of these results could have a material adverse effect on our business, financial condition, results of operations or liquidity.

We rely on other companies to provide key components of our business infrastructure.

Third party vendors provide key components of our business infrastructure such as Internet connections, network access and core application processing. While we have selected these third party vendors carefully, we do not control their actions. Any problems caused by these third parties, including as a result of their not providing us their services for any reason or their performing their services poorly, could adversely affect our ability to deliver products and services to our customers or otherwise conduct our business efficiently and effectively. Replacing these third party vendors could also entail significant delay and expense.

We may not be able to compete effectively against larger financial institutions in our increasingly competitive industry.

We compete with larger bank and non-bank financial institutions for loans and deposits in the communities we serve, and we may face even greater competition in the future due to legislative, regulatory and technological changes and continued consolidation. Many of our competitors have significantly greater resources and lending limits than we have. Banks and other financial services firms can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service. In addition, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automated transfer and automatic payment systems. Many competitors have fewer regulatory constraints and may have lower cost structures than we do. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than we can. Our long-term success depends on the ability of Washington Trust to compete successfully with other financial institutions in Washington Trust's service areas.

We may be unable to attract and retain key personnel.

Our success depends, in large part, on our ability to attract and retain key personnel. Competition for qualified personnel in the financial services industry can be intense and we may not be able to hire or retain the key personnel that we depend upon for success. The unexpected loss of services of one or more of our key personnel could have a material adverse impact on our business because of their skills, knowledge of the markets in which we operate, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

Damage to our reputation could significantly harm our business, including our competitive position and business prospects.

We are dependent on our reputation within our market area, as a trusted and responsible financial company, for all aspects of our business with customers, employees, vendors, third-party service providers, and others, with whom we conduct business or potential future businesses. Our ability to attract and retain customers and employees could be adversely affected if our reputation is damaged. Our actual or perceived failure to address various issues could give rise to reputational risk that could cause harm to us and our business prospects. These issues also include, but are not limited to, legal and

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regulatory requirements; properly maintaining customer and employee personal information; record keeping; money-laundering; sales and trading practices; ethical issues; appropriately addressing potential conflicts of interest; and the proper identification of the legal, reputational, credit, liquidity and market risks inherent in our products. Failure to appropriately address any of these issues could also give rise to additional regulatory restrictions and legal risks, which could, among other consequences, increase the size and number of litigation claims and damages asserted or subject us to enforcement actions, fines and penalties and cause us to incur related costs and expenses. Furthermore, any damage to our reputation could affect our ability to retain and develop the business relationships necessary to conduct business, which in turn could negatively impact our financial condition, results of operations, and the market price of our common stock.

We face significant legal risks, both from regulatory investigations and proceedings and from private actions brought against us.

From time to time we are named as a defendant or are otherwise involved in various legal proceedings, including class actions and other litigation or disputes with third parties. There is no assurance that litigation with private parties will not increase in the future. Actions currently pending against us may result in judgments, settlements, fines, penalties or other results adverse to us, which could materially adversely affect our business, financial condition or results of operations, or cause serious reputational harm to us. As a participant in the financial services industry, it is likely that we will continue to experience litigation related to our businesses and operations.

Our businesses and operations are also subject to increasing regulatory oversight and scrutiny, which may lead to additional regulatory investigations or enforcement actions. These and other initiatives from federal and state officials may subject us to further judgments, settlements, fines or penalties, or cause us to be required to restructure our operations and activities, all of which could lead to reputational issues, or higher operational costs, thereby reducing our revenue.

We may incur fines, penalties and other negative consequences from regulatory violations, possibly even inadvertent or unintentional violations.

We maintain systems and procedures designed to ensure that we comply with applicable laws and regulations. However, some legal/regulatory frameworks provide for the imposition of fines or penalties for noncompliance even though the noncompliance was inadvertent or unintentional and even though there was in place at the time systems and procedures designed to ensure compliance. For example, we are subject to regulations issued by OFAC that prohibit financial institutions from participating in the transfer of property belonging to the governments of certain foreign countries, designated nationals of those countries and certain other persons or entities whose interest in property is blocked by OFAC-administered sanctions. OFAC may impose penalties for inadvertent or unintentional violations even if reasonable processes are in place to prevent the violations. There may be other negative consequences resulting from a finding of noncompliance, including restrictions on certain activities. Such a finding may also damage our reputation as described above and could restrict the ability of institutional investment managers to invest in our securities.

Risks Related to Liquidity

We are subject to liquidity risk.

Liquidity is the ability to meet cash flow needs on a timely basis at a reasonable cost. Our liquidity is used principally to originate or purchase loans, to repay deposit liabilities and other liabilities when they come due, and to fund operating costs. Customer demand for non-maturity deposits can be difficult to predict. Changes in market interest rates, increased competition within our markets, and other factors may make deposit gathering more difficult. Disruptions in the capital markets or interest rate changes may make the terms of wholesale funding sources, which include FHLBB advances, brokered time certificates of deposit, federal funds purchased and securities sold under repurchase agreements, less favorable and may make it difficult to sell securities when needed to provide additional liquidity. As a result, there is a risk that the cost of funding will increase or that we will not have sufficient funds to meet our obligations when they come due.

We are a holding company and depend on the Bank for dividends, distributions and other payments. The Bancorp is a legal entity separate and distinct from the Bank. Revenues of the Bancorp are derived primarily from dividends paid to it by the Bank. The right of the Bancorp, and consequently the right of shareholders of the Bancorp, to participate in any distribution of the assets or earnings of the Bank, through the payment of such dividends or otherwise,

is necessarily subject to the prior claims of creditors of the Bank (including depositors), except to the extent that certain claims of the Bancorp in a creditor capacity may be recognized.

Holders of our common stock are entitled to receive dividends only when, as and if declared by our Board of Directors. Although we have historically declared cash dividends on our common stock, we are not required to do so and our Board of Directors may reduce or eliminate our common stock dividend in the future. The Federal Reserve has authority to prohibit bank holding companies from paying dividends if such payment is deemed to be an unsafe or unsound practice. Additionally, the FDIC has the authority to use its enforcement powers to prohibit a bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice. Further, when the Final Capital Rule comes into effect our ability to pay dividends would be restricted if we do not maintain a capital conservation buffer. A reduction or elimination of dividends could adversely affect the market price of our common stock. See Item, “Business-Supervision and Regulation-Dividend Restrictions” and “Business-Supervision and Regulation-Regulatory Capital Requirements.”

Risks Related to Accounting and Accounting Standards

If we are required to write-down goodwill recorded in connection with our acquisitions, our profitability would be negatively impacted.

Applicable accounting standards require us to use the purchase method of accounting for all business combinations. Under purchase accounting, if the purchase price of an acquired company exceeds the fair value of the company’s net assets, the excess is carried on the acquirer’s balance sheet as goodwill. At December 31, 2014, we had \$58.1 million of goodwill on our balance sheet. Goodwill must be evaluated for impairment at least annually. A significant and sustained decline in our stock price and market capitalization, a significant decline in our expected future cash flows, a significant adverse change in the business climate, slower growth rates or other factors could result in impairment of goodwill. Write-downs of the amount of any impairment, if necessary, would be charged to the results of operations in the period in which the impairment occurs. There can be no assurance that future evaluations of goodwill will not result in findings of impairment and related write-downs, which would have an adverse effect on our financial condition and results of operations.

The performance of our securities portfolio in difficult market conditions could have adverse effects on our results of operations.

Under applicable accounting standards, we are required to review our securities portfolio periodically for the presence of other-than-temporary impairment, taking into consideration current market conditions, the extent and nature of changes in fair value, issuer rating changes and trends, volatility of earnings, current analysts’ evaluations, our ability and intent to hold securities until a recovery of fair value, as well as other factors. Adverse developments with respect to one or more of the foregoing factors may require us to deem particular securities to be other-than-temporarily impaired, with the credit related portion of the reduction in the value recognized as a charge to the results of operations in the period in which the impairment occurs. Market volatility may make it difficult to value certain securities. Subsequent valuations, in light of factors prevailing at that time, may result in significant changes in the values of these securities in future periods. Any of these factors could require us to recognize further impairments in the value of our securities portfolio, which may have an adverse effect on our results of operations in future periods.

Changes in accounting standards are difficult to predict and can materially impact our financial statements.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time, the Financial Accounting Standards Board or regulatory authorities change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in our restating prior period financial statements.

Risks Related to Our Common Stock

Our common stock is not insured by any governmental entity.

Our common stock is not a deposit account or other obligation of any bank and is not insured by the FDIC or any other governmental entity.

The market price and trading volume of our stock can be volatile.

The price of our common stock can fluctuate widely in response to a variety of factors. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. We cannot assure you that the market price of our common stock will not fluctuate or decline significantly. Some of the factors that could cause fluctuations or declines in the price of our common stock include, but are not limited to, actual or anticipated variations in reported operating results, recommendations by securities analysts, the level of trading activity in our common stock, new services or delivery systems offered by competitors, business combinations involving our competitors, operating and stock price performance of companies that investors deem to be comparable to Washington Trust, news reports relating to trends or developments in the credit, mortgage and housing markets as well as the financial services industry, and changes in government regulations.

We may need to raise additional capital in the future and such capital may not be available when needed.

As a bank holding company, we are required by regulatory authorities to maintain adequate levels of capital to support our operations. We may need to raise additional capital in the future to provide us with sufficient capital resources and liquidity to meet our commitments and business needs. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of our control, and our financial performance. We cannot assure you that such capital will be available to us on acceptable terms or at all. Our inability to raise sufficient additional capital on acceptable terms when needed could subject us to certain activity restrictions or to a variety of enforcement remedies available to the regulatory authorities, including limitations on our ability to pay dividends or pursue acquisitions, the issuance by regulatory authorities of a capital directive to increase capital and the termination of deposit insurance by the FDIC.

Certain provisions of our articles of incorporation may have an anti-takeover effect.

Provisions of our articles of incorporation and regulations and federal banking laws, including regulatory approval requirements, could make it more difficult for a third party to acquire us, even if doing so would be perceived to be beneficial to our shareholders. The combination of these provisions may inhibit a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of our common stock.

ITEM 1B. Unresolved Staff Comments.

None.

ITEM 2. Properties.

Washington Trust is headquartered at 23 Broad Street, Westerly, Rhode Island. As of December 31, 2014, the Bank has ten branch offices located in southern Rhode Island (Washington County), eight branch offices located in the greater Providence area in Rhode Island and one branch office located in southeastern Connecticut. Washington Trust plans to open two new full-service branches in the greater Providence area in 2015. In addition, Washington Trust has also identified and submitted applications for future branch locations in North Providence and Coventry, Rhode Island, which are pending regulatory approval.

As of December 31, 2014, Washington Trust also has a commercial lending office located in the financial district of Providence, Rhode Island and six residential mortgage lending offices that are located in eastern Massachusetts (Sharon, Burlington and Braintree), in Glastonbury and Darien, Connecticut and in Warwick, Rhode Island. Washington Trust provides wealth management services from its offices located in Westerly, Narragansett and Providence, Rhode Island, and Wellesley, Massachusetts. Washington Trust has two operations facilities and a corporate office located in Westerly, Rhode Island, as well as an additional corporate office located in East Greenwich, Rhode Island.

At December 31, 2014, nine of the Corporation's facilities were owned, twenty-one were leased and one branch office was owned on leased land. Lease expiration dates range from two months to twenty-six years with renewal options on certain leases of three months to twenty-five years. All of the Corporation's properties are considered to be in good condition and adequate for the purpose for which they are used.

In addition to the locations mentioned above, the Bank has two owned offsite-ATMs in leased spaces. The terms of one of these leases are negotiated annually. The term for the second offsite-ATM leased space expires in five years with no renewal option.

The Bank also operates ATMs that are branded with the Bank's logo under contracts with a third party vendor located in retail stores and other locations primarily in Rhode Island and to a lesser extent in southeastern Connecticut.

For additional information regarding premises and equipment and lease obligations see Notes 7 and 20 to the Consolidated Financial Statements.

ITEM 3. Legal Proceedings.

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

ITEM 4. Mine Safety Disclosures.

Not applicable.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Bancorp's common stock trades on NASDAQ OMX® under the symbol WASH.

The following table summarizes quarterly high and low stock price ranges, the end of quarter closing price and dividends paid per share for the years ended December 31, 2014 and 2013:

	Quarters			
	1	2	3	4
2014				
Stock Prices:				
High	\$38.40	\$38.45	\$38.10	\$41.10
Low	31.46	32.77	32.99	32.20
Close	37.47	36.77	32.99	40.18
Cash dividend declared per share	\$0.29	\$0.29	\$0.32	\$0.32
	Quarters			
	1	2	3	4
2013				
Stock Prices:				
High	\$28.00	\$29.08	\$33.09	\$38.05
Low	25.53	25.71	28.33	30.49
Close	27.38	28.52	31.43	37.22
Cash dividend declared per share	\$0.25	\$0.25	\$0.26	\$0.27

At February 27, 2015, there were 1,742 holders of record of the Bancorp's common stock.

The Bancorp will continue to review future common stock dividends based on profitability, financial resources and economic conditions. The Bancorp (including the Bank prior to 1984) has recorded consecutive quarterly dividends for over 100 years.

The Bancorp's primary source of funds for dividends paid to shareholders is the receipt of dividends from the Bank. A discussion of the restrictions on the advance of funds or payment of dividends by the Bank to the Bancorp is included in Note 12 to the Consolidated Financial Statements.

See additional disclosures on Equity Compensation Plan Information in Part III, Item 12 "Security Ownership of Certain Beneficial Owners and Management." The Bancorp did not repurchase any shares during the fourth quarter of 2014.

Stock Performance Graph

Set forth below is a line graph comparing the cumulative total shareholder return on the Corporation's common stock against the cumulative total return of the NASDAQ Bank Stocks index and the NASDAQ Stock Market (U.S.) for the five years ended December 31. The historical information set forth below is not necessarily indicative of future performance.

The results presented assume that the value of the Corporation's common stock and each index was \$100.00 on December 31, 2009. The total return assumes reinvestment of dividends.

For the period ending December 31,	2009	2010	2011	2012	2013	2014
Washington Trust Bancorp, Inc.	\$100.00	\$146.57	\$166.23	\$190.26	\$278.26	\$310.49
NASDAQ Bank Stocks	100.00	114.16	102.17	121.26	171.86	180.31
NASDAQ Stock Market (U.S.)	100.00	118.15	117.22	138.02	193.47	222.16

ITEM 6. Selected Financial Data.

The selected consolidated financial data set forth below does not purport to be complete and should be read in conjunction with, and is qualified in its entirety by, the more detailed information including the Consolidated Financial Statements and related Notes, and the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” appearing elsewhere in this Annual Report on Form 10-K.

Selected Financial Data	(Dollars in thousands, except per share amounts)				
At or for the years ended December 31,	2014	2013	2012	2011	2010
Financial Results:					
Interest and dividend income	\$121,117	\$116,348	\$121,061	\$121,346	\$123,254
Interest expense	21,612	24,563	30,365	36,391	46,063
Net interest income	99,505	91,785	90,696	84,955	77,191
Provision for loan losses	1,850	2,400	2,700	4,700	6,000
Net interest income after provision for loan losses	97,655	89,385	87,996	80,255	71,191
Noninterest income:					
Net realized gains on sales of securities	—	—	1,223	698	729
Net other-than-temporary impairment losses on securities	—	(3,489)	(221)	(191)	(417)
Other noninterest income	59,015	65,569	64,212	52,257	48,161
Total noninterest income	59,015	62,080	65,214	52,764	48,473
Noninterest expense	96,847	98,785	102,338	90,373	85,311
Income before income taxes	59,823	52,680	50,872	42,646	34,353
Income tax expense	18,999	16,527	15,798	12,922	10,302
Net income	\$40,824	\$36,153	\$35,074	\$29,724	\$24,051
Per Share Information (\$):					
Earnings per common share:					
Basic	2.44	2.18	2.13	1.82	1.49
Diluted	2.41	2.16	2.13	1.82	1.49
Cash dividends declared (1)	1.22	1.03	0.94	0.88	0.84
Book value	20.68	19.84	18.05	17.27	16.63
Market value - closing stock price	40.18	37.22	26.31	23.86	21.88
Performance Ratios (%):					
Return on average assets	1.23	1.17	1.16	1.02	0.82
Return on average equity	11.87	11.65	11.97	10.61	9.09
Equity to assets	9.65	10.34	9.62	9.18	9.24
Dividend payout ratio (2)	50.62	47.69	44.13	48.35	56.38
Asset Quality Ratios (%):					
Total past due loans to total loans	0.63	0.89	1.22	1.22	1.27
Nonperforming loans to total loans	0.56	0.74	0.98	0.99	0.93
Nonperforming assets to total assets	0.48	0.62	0.83	0.81	0.79
Allowance for loan losses to nonaccrual loans	175.75	152.37	136.95	140.33	154.42
Allowance for loan losses to total loans	0.98	1.13	1.35	1.39	1.43
Net charge-offs to average loans	0.07	0.23	0.07	0.17	0.24
Capital Ratios (%):					
Tier 1 leverage capital ratio	9.14	9.41	9.30	8.70	8.25
Tier 1 risk-based capital ratio	11.52	12.12	12.01	11.61	11.53
Total risk-based capital ratio	12.56	13.29	13.26	12.86	12.79

(1) Represents historical per share dividends declared by the Bancorp.

(2) Represents the ratio of historical per share dividends declared by the Bancorp to diluted earnings per share.

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Selected Financial Data	(Dollars in thousands)				
December 31,	2014	2013	2012	2011	2010
Assets:					
Cash and due from banks	\$80,350	\$85,317	\$92,650	\$87,020	\$92,736
Mortgage loans held for sale	45,693	11,636	50,056	20,340	13,894
Total securities	382,884	422,808	415,879	593,392	594,100
FHLBB stock	37,730	37,730	40,418	42,008	42,008
Loans:					
Commercial	1,535,488	1,363,335	1,252,419	1,124,628	1,027,065
Residential real estate	985,415	772,674	717,681	700,414	645,020
Consumer	338,373	326,875	323,903	322,117	323,553
Total loans	2,859,276	2,462,884	2,294,003	2,147,159	1,995,638
Less allowance for loan losses	28,023	27,886	30,873	29,802	28,583
Net loans	2,831,253	2,434,998	2,263,130	2,117,357	1,967,055
Investment in bank-owned life insurance	63,519	56,673	54,823	53,783	51,844
Goodwill and identifiable intangible assets	62,963	63,607	64,287	65,015	65,966
Other assets	82,482	76,098	90,641	85,183	81,922
Total assets	\$3,586,874	\$3,188,867	\$3,071,884	\$3,064,098	\$2,909,525
Liabilities:					
Deposits:					
Demand deposits	\$459,852	\$440,785	\$379,889	\$339,809	\$228,437
NOW accounts	326,375	309,771	291,174	257,031	241,974
Money market accounts	802,764	666,646	496,402	406,777	396,455
Savings accounts	291,725	297,357	274,934	243,904	220,888
Time deposits	874,102	790,762	870,232	878,794	948,576
Total deposits	2,754,818	2,505,321	2,312,631	2,126,315	2,036,330
FHLBB advances	406,297	288,082	361,172	540,450	498,722
Junior subordinated debentures	22,681	22,681	32,991	32,991	32,991
Other liabilities	56,799	43,137	69,438	82,991	72,618
Total shareholders' equity	346,279	329,646	295,652	281,351	268,864
Total liabilities and shareholders' equity	\$3,586,874	\$3,188,867	\$3,071,884	\$3,064,098	\$2,909,525
Asset Quality:					
Nonaccrual loans	\$15,945	\$18,302	\$22,543	\$21,237	\$18,510
Nonaccrual investment securities	—	547	843	887	806
Property acquired through foreclosure or repossession	1,176	932	2,047	2,647	3,644
Total nonperforming assets	\$17,121	\$19,781	\$25,433	\$24,771	\$22,960
Wealth Management Assets:					
Market value of assets under administration	\$5,069,966	\$4,781,958	\$4,199,640	\$3,900,061	\$3,967,207

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Selected Quarterly Financial Data		(Dollars and shares in thousands, except per share amounts)				
2014		Q1	Q2	Q3	Q4	Year
Interest and dividend income		\$29,290	\$29,591	\$30,331	\$31,905	\$121,117
Interest expense		5,454	5,123	5,393	5,642	21,612
Net interest income		23,836	24,468	24,938	26,263	99,505
Provision for loan losses		300	450	600	500	1,850
Net interest income after provision for loan losses		23,536	24,018	24,338	25,763	97,655
Noninterest income:						
Net realized gains on sales of securities		—	—	—	—	—
Net other-than-temporary impairment losses on securities		—	—	—	—	—
Other noninterest income		19,370	12,814	13,125	13,706	59,015
Total noninterest income		19,370	12,814	13,125	13,706	59,015
Noninterest expense		29,292	22,448	22,047	23,060	96,847
Income before income taxes		13,614	14,384	15,416	16,409	59,823
Income tax expense		4,316	4,587	4,878	5,218	18,999
Net income		\$9,298	\$9,797	\$10,538	\$11,191	\$40,824
Weighted average common shares outstanding - basic		16,626	16,678	16,714	16,735	16,689
Weighted average common shares outstanding - diluted		16,800	16,831	16,855	16,911	16,872
Per share information:						
	Basic earnings per common share	\$0.56	\$0.59	\$0.63	\$0.67	\$2.44
	Diluted earnings per common share	\$0.55	\$0.58	\$0.62	\$0.66	\$2.41
	Cash dividends declared per share	\$0.29	\$0.29	\$0.32	\$0.32	\$1.22

Selected Quarterly Financial Data		(Dollars and shares in thousands, except per share amounts)				
2013		Q1	Q2	Q3	Q4	Year
Interest and dividend income		\$28,793	\$28,799	\$29,390	\$29,366	\$116,348
Interest expense		6,326	6,390	6,002	5,845	24,563
Net interest income		22,467	22,409	23,388	23,521	91,785
Provision for loan losses		600	700	700	400	2,400
Net interest income after provision for loan losses		21,867	21,709	22,688	23,121	89,385
Noninterest income:						
Net realized gains on sales of securities		—	—	—	—	—
Net other-than-temporary impairment losses on securities		(2,772)	—	—	(717)	(3,489)
Other noninterest income		15,938	16,394	17,400	15,837	65,569
Total noninterest income		13,166	16,394	17,400	15,120	62,080
Noninterest expense		24,184	25,005	25,548	24,048	98,785
Income before income taxes		10,849	13,098	14,540	14,193	52,680
Income tax expense		3,428	4,115	4,580	4,404	16,527
Net income		\$7,421	\$8,983	\$9,960	\$9,789	\$36,153
Weighted average common shares outstanding - basic		16,401	16,454	16,563	16,602	16,506
Weighted average common shares outstanding - diluted		16,449	16,581	16,696	16,770	16,664
Per share information:						
	Basic earnings per common share	\$0.45	\$0.54	\$0.60	\$0.59	\$2.18

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Diluted earnings per common share	\$0.45	\$0.54	\$0.59	\$0.58	\$2.16
Cash dividends declared per share	\$0.25	\$0.25	\$0.26	\$0.27	\$1.03

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ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following analysis is intended to provide the reader with a further understanding of the consolidated financial condition and results of operations of the Corporation for the periods shown. For a full understanding of this analysis, it should be read in conjunction with other sections of this Annual Report on Form 10-K, including Part I, "Item 1. Business", Part II, "Item 6. Selected Financial Data" and Part II, "Item 8. Financial Statements and Supplementary Data."

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 carrying value of certain assets and impact income are considered critical accounting policies. The Corporation considers the following to be its critical accounting policies: allowance for loan losses, review of goodwill for impairment and assessment of investment securities for impairment.

Allowance for Loan Losses

Establishing an appropriate level of allowance for loan losses necessarily involves a high degree of judgment. The Corporation uses a methodology to systematically measure the amount of estimated loan loss exposure inherent in the loan portfolio for purposes of establishing a sufficient allowance for loan losses. The methodology includes three elements:

Loss allocations are identified for individual loans deemed to be impaired in accordance with GAAP. Impaired loans are loans for which it is probable that the Bank will not be able to collect all amounts due according to the contractual terms of the loan agreements and all loans restructured in a troubled debt restructuring. Impaired loans do not include large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment, which consist of most residential mortgage loans and consumer loans. Impairment is measured on a discounted cash flow method based upon the loan's contractual effective interest rate, or at the loan's observable market price, (1) or if the loan is collateral dependent, at the fair value of the collateral. 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 for unobservable factors resulting from its knowledge of circumstances associated with the property.

Loss allocation factors are used for non-impaired loans based on credit grade, historical loss experience, estimated (2) loss emergence period (the period of time from the event of loss to loss realization), delinquency status and other similar credit quality indicators.

Individual commercial loans not deemed to be impaired are evaluated using an internal rating system and the application of loss allocation factors. The loan rating system is described under the caption "Credit Quality Indicators" in Note 5 to the Consolidated Financial Statements. The loan rating system and the related loss allocation factors take into consideration parameters including the borrower's financial condition, the borrower's performance with respect to loan terms, the adequacy of collateral and the adequacy of guarantees. We periodically reassess and revise the loss allocation factors used in the assignment of loss exposure to appropriately reflect our analysis of migrational loss experience. Revisions to loss allocation factors are not retroactively applied. We analyze historical loss experience over periods deemed to be relevant to the inherent risk of loss in the commercial loan portfolio and the related estimate of the loss emergence period as of the balance sheet date. We also adjust loss factor allocations for various exposures we believe are not adequately presented in historical loss experience, including our assessments of credit risk associated with certain industries, an ongoing trend toward larger credit relationships, recent changes in portfolio composition, conditions that may affect the ability of borrowers to meet debt service requirements, trends in rental rates on commercial real estate and conditions that may affect the collateral position, such as environmental matters.

Portfolios of more homogeneous populations of loans, including the various categories of residential mortgages and consumer loans are analyzed as groups, with loss allocation factors assigned to each group based on account delinquency status. We periodically reassess and revise the loss allocation factors. Revisions to loss allocation factors are not retroactively applied. We analyze historical loss experience over periods deemed to be relevant

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to the inherent risk of loss in residential mortgage and consumer loan portfolios and the related estimate of the loss emergence period as of the balance sheet date. We also adjust loss factor allocations for various exposures we believe are not adequately presented in historical loss experience including trends in real estate values, consideration of general economic conditions, increases in delinquency levels and regulatory changes affecting the foreclosure process. These matters are also evaluated taking into account the geographic location of the underlying loans.

(3) An unallocated allowance is maintained to allow for measurement imprecision associated with impaired and nonaccrual loans.

Because the methodology is based upon historical experience and trends, current economic data as well as management's judgment, factors may arise that result in different estimations. Significant factors that could give rise to changes in these estimates may include, but are not limited to, changes in economic conditions in our market area, concentration of risk and declines in local property values. Adversely different conditions or assumptions could lead to increases in the allowance. In addition, various regulatory agencies periodically review the allowance for loans losses. Such agencies may require additions to the allowance based on their judgments about information available to them at the time of their examination. As of December 31, 2014, management believes that the allowance is adequate and consistent with asset quality and delinquency indicators.

Review of Goodwill for Impairment

The Corporation allocated the cost of an acquired entity to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition.

The excess of the purchase price for acquisitions over the fair value of the net assets acquired, including other intangible assets, was recorded as goodwill. Goodwill is not amortized but is tested for impairment at the reporting unit level, defined as the segment level, at least annually in the fourth quarter or more frequently whenever events or circumstances occur that indicate that it is more-likely-than-not that an impairment loss has occurred. In assessing impairment, the Corporation has the option to perform a qualitative analysis to determine whether the existence of events or circumstances leads to a determination that it is more-likely-than-not that the fair value of the reporting unit is less than its carrying amount. If, after assessing the totality of such events or circumstances, we determine it is not more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, then we would not be required to perform a two-step impairment test. The Corporation has not opted to perform this qualitative analysis. Goodwill was tested for impairment using the two-step quantitative impairment analysis described below.

The first step ("Step 1") of the quantitative impairment analysis requires a comparison of each reporting unit's fair value to its carrying value to identify potential impairment. The second step ("Step 2") of the analysis is necessary only if a reporting unit's carrying amount exceeds its fair value. Step 2 is a more detailed analysis, which involves measuring the excess of the fair value of the reporting unit, as determined in Step 1, over the aggregate fair value of the individual assets, liabilities, and identifiable intangibles as if the reporting unit was being acquired in a business combination. Goodwill impairment exists when a reporting unit's carrying value of goodwill exceeds its implied fair value. Significant judgment is applied when goodwill is assessed for impairment. This judgment includes, but may not be limited to, the selection of appropriate discount rates, the identification of relevant market comparables and the development of cash flow projections. The selection and weighting of the various fair value techniques may result in a higher or lower fair value. Judgment is applied in determining the weightings that are most representative of fair value.

Washington Trust has two reporting units: the commercial banking segment and the wealth management services segment. For both segments of the Corporation, goodwill was assessed for impairment in 2014 by performing a discounted cash flow analysis ("income approach") and utilizing estimates of selected market information ("market approach"). The income approach measures the fair value of an interest in a business by discounting expected future cash flows to a present value. The market approach takes into consideration fair values of comparable companies

operating in similar lines of business that are potentially subject to similar economic and environmental factors and could be considered reasonable investment alternatives. The results of the income approach and the market approach were weighted equally. Step 1 results of the 2014 impairment analysis indicated that the fair value significantly exceeded the carrying value for both reporting units.

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These assumptions used in the impairment test of goodwill are susceptible to change based on changes in economic conditions and other factors. Any change in the estimates which the Corporation uses to determine the carrying value of the Corporation's goodwill could adversely affect the Corporation's results of operations. See Note 8 to the Consolidated Financial Statements for additional information.

Assessment of Investment Securities for Impairment

Securities that the Corporation has the ability and intent to hold until maturity are classified as held to maturity and are accounted for using historical cost, adjusted for amortization of premiums and accretion of discounts. Securities available for sale are carried at fair value, with any unrealized gains and losses, net of taxes, reported as accumulated other comprehensive income or loss in shareholders' equity. The fair values of securities may be based on either quoted market prices, third party pricing services or third party valuation specialists. When the fair value of an investment security is less than its amortized cost basis, the Corporation assesses whether the decline in value is other-than-temporary. The Corporation considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for impairment, the severity and duration of the impairment, changes in the value subsequent to the reporting date, forecasted performance of the issuer, changes in the dividend or interest payment practices of the issuer, changes in the credit rating of the issuer or the specific security, and the general market condition in the geographic area or industry in which the issuer operates.

Future adverse changes in market conditions, continued poor operating results of the issuer, projected adverse changes in cash flows which might impact the collection of all principal and interest related to the security, or other factors could result in further losses that may not be reflected in an investment's current carrying value, possibly requiring an additional impairment charge in the future.

In determining whether an other-than-temporary impairment has occurred for debt securities, the Corporation compares the present value of cash flows expected to be collected from the security with the amortized cost of the security. If the present value of expected cash flows is less than the amortized cost of the security, then the entire amortized cost of the security will not be recovered; that is, a credit loss exists, and an other-than-temporary impairment shall be considered to have occurred.

When an other-than-temporary impairment has occurred, the amount of the other-than-temporary impairment recognized in earnings for a debt security depends on whether the Corporation intends to sell the security or if it is more-likely-than-not that the Corporation will be required to sell the security before recovery of its amortized cost less any current period credit loss. If the Corporation intends to sell the security or it is more-likely-than-not that it will be required to sell the security before recovery of its amortized cost, the other-than-temporary impairment shall be recognized in earnings equal to the entire difference between the amortized cost and fair value of the security. If the Corporation does not intend to sell or it is more-likely-than-not that it will not be required to sell the security before recovery of its amortized cost, the amount of the other-than-temporary impairment related to credit loss shall be recognized in earnings and the noncredit-related portion of the other-than-temporary impairment shall be recognized in other comprehensive income.

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 other borrowings. In addition, we generate noninterest income from a

number of sources including wealth management services, loan sales and commissions on loans originated for others, deposit services and bank-owned life insurance (“BOLI”). Our principal noninterest expenses include salaries and employee benefits, occupancy and facility-related costs, technology and other administrative expenses.

Our financial results are affected by interest rate volatility, changes in economic and market conditions, competitive conditions within our market area and changes in legislation, regulation and/or accounting principles. While the regional

economic climate has been improving in recent quarters, adverse changes in future economic growth, consumer confidence, credit availability and corporate earnings could impact our financial results. Management believes that overall credit quality continues to be affected by the slow pace of recovery in national and regional economic conditions, including comparatively high unemployment levels in Rhode Island.

We continued to leverage our strong, statewide brand to build market share in Rhode Island whenever possible and bring select business lines to new markets with high-growth potential while remaining steadfast in our commitment to provide superior service. In 2015, we plan to open two new full-service branches; one in Rumford, Rhode Island, and the other in Providence, Rhode Island.

Opportunities and Risks

A significant portion of the Corporation's commercial banking and wealth management business is conducted in the Rhode Island and greater southern New England area. Management recognizes that substantial competition exists in this marketplace and views this as a key business risk. A substantial portion of the banking industry market share in this region is held by much larger financial institutions with greater resources and larger delivery systems than the Bank. Market competition also includes the expanded commercial banking presence of credit unions and savings banks. While these competitive forces will continue to present risk, we have been successful in growing our commercial banking base and wealth management business. Management believes that the breadth of our product line, our size and quality and level of service provide opportunities to compete effectively in our marketplace.

Significant challenges also exist with respect to credit risk, interest rate risk, the condition of the financial markets and related impact on wealth management assets and operational risk.

Credit risk is the risk of loss due to the inability of borrower customers to repay loans or lines of credit. Credit risk on loans is reviewed below under the heading "Asset Quality." Credit risk also exists with respect to debt instrument investment securities, which is reviewed below under the heading "Investment Securities."

Interest rate risk exists because the repricing frequency and magnitude of interest earning assets and interest bearing liabilities are not identical. This risk is reviewed in more detail below under the heading "Asset/Liability Management and Interest Rate Risk."

Wealth management service revenues, which represented approximately 22% of total revenues in 2014, are largely dependent on the market value of wealth management assets under administration. These values may be negatively affected by changes in economic conditions and volatility in the financial markets.

Operational risk includes the risk of loss resulting from electronic fraudulent activity due to cyber criminals targeting bank accounts and other customer information, data processing system failures and errors, inadequate or failed internal processes, customer or employee fraud and catastrophic failures resulting from terrorist acts or natural disasters. Operational risk is discussed above under Item 1A. "Risk Factors."

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

Composition of Earnings

Comparison of 2014 with 2013

Net income for the year ended December 31, 2014, amounted to \$40.8 million, or \$2.41 per diluted share, an increase of 13% and 12%, respectively, when compared to net income of \$36.2 million and \$2.16 per diluted share, in 2013. The returns on average equity and average assets for 2014 were 11.87% and 1.23%, respectively, compared to 11.65% and 1.17%, respectively, for 2013.

2014 results included the following transactions:

- On March 1, 2014, the Corporation sold its merchant processing business line to a third party. The sale resulted in a gain of \$6.3 million, after-tax \$4.0 million, or 24 cents per diluted share.

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In connection with this sale, the Corporation incurred divestiture related costs of \$355 thousand, after-tax \$227 thousand, or 1 cent per diluted share. The majority of the divestiture costs were classified as salaries and employee benefit costs.

Washington Trust also prepaid FHLBB advances totaling \$99.3 million, resulting in debt prepayment penalty expense of approximately \$6.3 million, after-tax \$4.0 million, or 24 cents per diluted share.

2013 results included the following transactions:

Other-than-temporary impairment (“OTTI”) losses of \$3.5 million were recognized on pooled trust preferred debt securities. The net after-tax impact of this was \$2.2 million, or 13 cents per diluted share. See additional disclosure regarding OTTI losses in the section in the section “Financial Condition” under the heading “Securities.”

Certain junior subordinated debentures were redeemed and as a result, unamortized debt issuance costs of \$244 thousand, after-tax \$156 thousand, or 1 cent per diluted share, were expensed.

Executive severance related expenses of \$270 thousand, after-tax \$173 thousand, or 1 cent per diluted share, were recognized.

Residential mortgage portfolio loans totaling \$48.7 million were sold at a gain of \$977 thousand, after-tax \$626 thousand, or 4 cents per diluted share.

Debt prepayment penalty expense of \$1.1 million, after-tax \$721 thousand, or 4 cents per diluted share, was recognized.

The above mentioned transactions reduced 2014 net income by \$245 thousand, or 1 cent per diluted share and reduced 2013 net income by \$2.7 million, or 15 cents per diluted share. Excluding these transactions, as well as the merchant processing fee revenue and expenses recognized prior to the consummation of the business line sale, 2014 results reflected growth in net interest income, higher wealth management revenues, lower salaries and employee benefit costs and a decrease in the provision for loan losses, which were partially offset by declines in mortgage banking revenues (net gains on loan sales and commissions on loans originated for others).

Net interest income for 2014 increased by \$7.7 million, or 8%, from 2013, largely due to growth in average loan balances and a reduction in funding costs. The net interest margin (fully taxable equivalent net interest income as a percentage of average interest-earnings assets) was 3.28% for 2014, unchanged from 2013.

The loan loss provision charged to earnings for 2014 amounted to \$1.9 million, a decrease of \$550 thousand from 2013. Management believes that the level of the provision for loan losses has been consistent with the trends in asset quality and credit quality indicators.

For 2014, wealth management revenues totaled \$33.4 million, up by \$1.6 million, or 5%, from 2013, largely due to an increase in asset-based revenues.

Net gains on loan sales and commissions on loans originated for others (“mortgage banking revenues”) amounted to \$6.8 million in 2014, down by \$6.3 million, or 48%, from 2013 largely due to decline in residential mortgage loan sales activity.

Salaries and employee benefit costs, the largest component of noninterest expenses, totaled \$58.5 million for 2014 down by \$1.5 million, or 3%, from 2013, primarily due to a reduction in defined benefit pension costs.

Income tax expense amounted to \$19.0 million for 2014, up by \$2.5 million from 2013. The effective tax rate for 2014 was 31.8%, compared to 31.4% for 2013.

Comparison of 2013 with 2012

Net income for 2013 amounted to \$36.2 million, or \$2.16 per diluted share, up from \$35.1 million, or \$2.13 per diluted share, reported for 2012. The returns on average equity and average assets for 2013 were 11.65% and 1.17%,

respectively, compared to 11.97% and 1.16%, respectively, for 2012.

The comparison of 2013 earnings to 2012 was impacted by the following:

- There were no net realized gains on securities in 2013, while there were \$1.2 million recognized in 2012.
- Other-than-temporary impairment (“OTTI”) losses of \$3.5 million in 2013, compared to \$221 thousand in 2012.
- Debt prepayment penalty expense of \$1.1 million was recognized in 2013, compared to \$3.9 million in 2012.

Also, in connection with 2013 transactions mentioned above under the caption “Comparison of 2014 with 2013,” unamortized debt issuance costs of \$244 thousand were expensed, a gain on sale of residential mortgage portfolio loans of \$977 thousand was recorded and executive severance related expenses of \$270 thousand were recognized in 2013.

Excluding the above mentioned transactions, the increase in earnings in 2013 reflected higher wealth management revenues and increased net interest income, partially offset by a decline in mortgage banking revenues.

Net interest income for 2013 increased by \$1.1 million, or 1%, over 2012, reflecting growth in average loan balances and a reduction in funding costs. The net interest margin was 3.28% for 2013, down from 3.29% reported for 2012.

The loan loss provision charged to earnings for 2013 amounted to \$2.4 million, a decrease of \$300 thousand from 2012.

For 2013, wealth management revenues totaled \$31.8 million, up by \$2.2 million, or 7%, over 2012, largely due to an increase of \$2.0 million, or 7%, in asset-based revenues.

Mortgage banking revenues amounted to \$13.1 million in 2013, down by \$1.0 million, or 7%, from 2012 reflecting declines in residential mortgage loan refinancing and sales activity due to relatively higher market interest rates.

Salaries and employee benefit costs totaled \$60.1 million for 2013, up by a modest \$266 thousand from 2012.

Income tax expense amounted to \$16.5 million for 2013, up by \$729 thousand from 2012. The effective tax rate for 2013 was 31.4%, compared to 31.1% for 2012.

Results of Operations

Segment Reporting

Washington Trust manages its operations through two business segments, Commercial Banking and Wealth Management Services. Activity not related to the segments, such as investment securities portfolio, wholesale funding activities, net gain on sale of business line, income from BOLI and administrative expenses are not allocated to the operating segments are considered Corporate. The Corporate unit also includes 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 17 to the Consolidated Financial Statements for additional disclosure related to business segments.

Comparison of 2014 with 2013

The Commercial Banking segment reported net income of \$27.6 million in 2014, a decrease of \$1.3 million, or 5%, from 2013. Net interest income for this operating segment increased by \$867 thousand, or 1%, from 2013 and was impacted by lower yields on loans as well as narrower spreads in the funds transfer pricing allocation with the Corporate unit. The provision for loan losses totaled \$1.9 million, down by \$550 thousand from 2013, due to stable and favorable trends in asset quality and credit quality indicators. Noninterest income derived from the Commercial Banking segment totaled \$17.6 million for 2014, down by \$13.2 million, or 43%, from 2013. The decline in noninterest income was due to lower mortgage banking revenues and a decrease in merchant processing fee revenue, due to the sale of this business line on March 1, 2014. The decrease in merchant processing fee revenue corresponded to a decline in merchant processing costs included in this operating segment’s noninterest expenses. Commercial Banking noninterest expenses for 2014, decreased by \$9.4 million, or 15%, from 2013, largely due to declines in

merchant processing costs and salaries and benefit costs.

The Wealth Management Services segment reported 2014 net income of \$6.1 million, a decrease of \$220 thousand, or 3%, from 2013. Noninterest income derived from the Wealth Management Services segment was \$33.4 million in 2014, up by \$1.6 million, or 5%, compared to 2013. This increase included a decrease of \$834 thousand, or 36%, in

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transaction based revenues, which was offset by an increase of \$2.4 million, or 8%, in asset-based revenues. Wealth Management assets under administration totaled \$5.07 billion at December 31, 2014, up by 6% from December 31, 2013. Noninterest expenses for the Wealth Management Services segment totaled \$23.5 million for 2014, up by \$1.7 million, or 8%, from 2013, largely due to increases in salaries and employee benefit costs and outsourced services.

Net income attributable to the Corporate unit amounted to \$7.1 million in 2014, compared to \$861 thousand in 2013. The Corporate unit's net interest income for 2014 increased by \$6.9 million from 2013, largely due to a favorable change in net funds transfer pricing offsets with the Commercial Banking segment, as well as declining wholesale funding costs in 2014 compared to 2013. Noninterest income for the Corporate unit for 2014 increased by \$8.6 million, compared to a year ago. This increase reflected the \$6.3 million gain recognized on the 2014 sale of the merchant processing services business line and the \$3.5 million other-than-temporary impairment loss recognized in 2013, offset, in part, by the 2013 residential mortgage portfolio loan sale gain of \$977 thousand. The Corporate unit's noninterest expense for 2014 increased by \$5.7 million from 2013, due to an increase in debt prepayment penalty expense. See additional discussion regarding these noninterest income and expense items in the "Overview" section under the caption "Composition of Earnings."

Comparison of 2013 with 2012

The Commercial Banking segment reported net income of \$29.0 million in 2013, an increase of \$440 thousand, or 2%, from 2012. Commercial Banking net interest income for 2013 increased modestly by \$128 thousand from 2012. The 2013 provision for loan losses totaled \$2.4 million, down by \$300 thousand from 2012 and consistent with trends in asset quality and credit quality indicators. Noninterest income derived from the Commercial Banking segment totaled \$30.8 million for 2013, down by \$958 thousand, or 3%, from 2012, largely due to lower mortgage banking revenues. Commercial Banking noninterest expenses for 2013, decreased by \$898 thousand, or 1%, from 2012, reflecting a decline in salaries and employee benefit costs.

The Wealth Management Services segment reported 2013 net income of \$6.3 million, an increase of \$832 thousand, or 15%, from 2012. Noninterest income derived from the Wealth Management Services segment was \$31.8 million in 2013, up by \$2.2 million, or 7%, compared to 2012. This included an increase of \$216 thousand, or 10%, in transaction based revenues and an increase of \$2.0 million, or 7%, in asset-based revenues over 2012. The average balance of wealth management assets for the year 2013 was 9% higher than the average balance for 2012. Noninterest expenses for the Wealth Management Services segment totaled \$21.8 million for 2013, up by \$915 thousand, or 4%, from 2012, largely due to an increase in salaries and employee benefit costs.

Net income attributable to the Corporate unit amounted to \$861 thousand in 2013, compared to \$1.1 million in 2012. The Corporate unit's net interest income for 2013 increased by \$971 thousand from 2012, largely due to a favorable change in net funds transfer pricing offsets with the Commercial Banking segment and declining wholesale funding costs in 2013 compared to 2012. Noninterest income for the Corporate unit for 2013 decreased by \$4.4 million, compared to 2012. This decline was driven by an increase in other than temporary impairment losses and lower net realized gains on securities in 2013. The Corporate unit's noninterest income in 2013 also included a gain of \$977 thousand recognized on a residential mortgage portfolio loan sale. The Corporate unit's noninterest expense for 2013 decreased by \$3.6 million from 2012, due to a decrease in debt prepayment penalty expense. See additional discussion regarding these noninterest income and expense items in the "Overview" section under the caption "Composition of Earnings."

Net Interest Income

Net interest income continues to be the primary source of our operating income. Net interest income is affected by the level of interest rates, 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. For more information see the section entitled “Average Balances / Net Interest Margin - Fully Taxable Equivalent (FTE) Basis” below.

Comparison of 2014 with 2013

FTE net interest income for 2014 increased by \$7.9 million, or 8%, from 2013. The net interest margin was 3.28% in 2014, unchanged from 2013.

Included in these results were the following transactions:

In March 2014, FHLBB advances totaling \$99.3 million that had a weighted average rate of 3.01% and a weighted average remaining term of thirty-six months were prepaid. Brokered time deposits of \$80.0 million and existing on-balance sheet liquidity were utilized for the prepayment of these advances. The brokered time deposits had an initial weighted average cost of 0.93% and weighted average maturity of thirty-five months.

During the second quarter of 2013, \$10.3 million of junior subordinated debentures were redeemed and as a result, unamortized debt issuance costs of \$244 thousand were expensed and classified as interest expense in that quarter.

The rate on this debt was approximately 5.69% at the time of redemption, which included the cost of a related interest rate swap that matured upon the redemption event.

Average interest-earning assets amounted to \$3.11 billion for 2014, up by 8% from the average balance for 2013, primarily due to loan growth. The yield on average interest-earning assets in 2014 declined by 16 basis points from 2013, reflecting the impact of a sustained low interest rate environment.

Total average loans increased by \$243.6 million, or 10%, from 2013, led by growth in average residential real estate mortgage balances. The yield on total loans for 2014 was 4.17%, down by 18 basis points from 2013. The contribution of loan prepayment fees and other fees to the yield on total loans was 5 basis points in both 2014 and 2013. During 2014, yields on new loan originations have been below the average yield of the existing loan portfolio. Due to the combined effect of new loan growth and the runoff of higher yielding loan balances, interest rates on total interest-earning assets may continue to decline.

Total average securities for 2014 increased by \$4.6 million, from the average balances from a year earlier, reflecting purchases of debt securities offset, in part, by maturities, calls and pay-downs. The FTE rate of return on securities for 2014 decreased by 36 basis points from 2013, due to maturities, calls and pay-downs of higher yielding securities combined with purchases of lower yielding securities.

Average interest-bearing liabilities for 2014 increased by \$171.3 million, or 7%, from the average balances in 2013, due to deposit growth offset, in part, by decreases in FHLBB advances. The cost of funds for 2014 declined by 19 basis points from 2013, largely due to declines in the rate paid on FHLBB advances and time deposits.

The average balances of FHLBB advances for in 2014 were down by \$47.2 million compared to the average balances in 2013. The average rate paid on such advances 2014 was 2.80% compared to 3.30% in 2013.

Total average interest-bearing deposits in 2014 increased by \$139.8 million from the average balances in 2013. This included increases of \$83.9 million in average out-of-market wholesale brokered time certificates of deposit. Excluding the increases in wholesale brokered time deposits, growth in average interest-bearing deposits was primarily due to increases in average money market account balances, partially offset by a decrease in average

in-market time deposit balances. The average rate paid on interest-bearing deposits for the year ended December 31, 2014 decreased by 4 basis points compared to 2013, due to lower rates on time deposits, offset, in part, by higher rates on money market deposits.

The average balance of noninterest-bearing demand deposits for 2014 increased by \$48.5 million, or 13%, compared to 2013.

Comparison of 2013 with 2012

FTE net interest income for 2013 increased by \$1.4 million, or 1%, from 2012. The net interest margin decreased by 1 basis point from 3.29% in 2012 to 3.28% in 2013. Included in net interest income were:

In 2013, FHLBB advances totaling \$24.5 million, with a weighted average interest rate of 2.48% and a weighted average remaining maturity of 42 months were prepaid and as a result, debt prepayment penalty expense of \$1.1 million was recognized. The Corporation also modified the terms to extend the maturity dates of \$72.5 million of its FHLBB advances with original maturity dates in 2015. The original weighted average interest rate was 3.68% and was revised to 3.09% with maturities ranging from 2017 to 2019.

Loan prepayment fees and other fee income of \$1.2 million and \$715 thousand, respectively, for 2013 and 2012. Accelerated amortization of \$244 thousand in debt issuance costs, which was classified as interest expense, resulting from the redemption of \$10.3 million of our junior subordinated debentures in 2013. There was no such expense incurred in 2012. See additional disclosure regarding the redemption in the section "Source of Funds."

Average interest-earning assets amounted to \$2.87 billion for 2013, up by 2% from the average balance in 2012. Total average loans increased by \$146.1 million, or 7%, due to growth in both the commercial and residential real estate loan portfolios. The yield on total loans for 2013 decreased by 28 basis points from 2012, reflecting the impact of a sustained low interest rate environment on loan yields. The contribution of loan prepayment fees and other fees to the yield on total loans was 5 basis points and 4 basis points, respectively, in 2013 and 2012. Total average securities for 2013 decreased by \$119.6 million, or 24%, from 2012, due primarily to principal payments received on mortgage-backed securities. The FTE rate of return on securities for 2013 remained relatively flat compared to the prior year.

Average interest-bearing liabilities for 2013 decreased by \$13.2 million, or 1%, from 2012, reflecting decreases in FHLBB advances and time deposits. The average balance of FHLBB advances for 2013 decreased by \$144.3 million, or 31%, compared to 2012. See discussion regarding FHLBB advances under the section "Source of Funds." The weighted average cost of funds for 2013 declined by 24 basis points from 2012, largely due to declines in the rate paid on time deposits. The average balance of noninterest-bearing demand deposits for 2013 increased by \$46.3 million, or 14%, compared to 2012.

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

The following table presents average balance and interest rate information. Tax-exempt income is converted to a FTE basis using the statutory federal income tax rate adjusted for applicable state income taxes net of the related federal tax benefit. For dividends on corporate stocks, the 70% federal dividends received deduction is also used in the calculation of tax equivalency. 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 and renegotiated loans, as well as interest earned on these loans (to the extent recognized in the Consolidated Statements of Income) are included in amounts presented for loans.

Years ended December 31,	2014			2013			2012		
(Dollars in thousands)	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
Assets:									
Commercial loans	\$1,382,036	\$59,421	4.30	\$1,286,029	\$59,387	4.62	\$1,177,268	\$58,823	5.00
Residential real estate loans, including mortgage loans held for sale	904,556	37,033	4.09	767,450	31,752	4.14	733,178	31,974	4.36
Consumer loans	334,368	12,758	3.82	323,847	12,304	3.80	320,828	12,428	3.87
Total loans	2,620,960	109,212	4.17	2,377,326	103,443	4.35	2,231,274	103,225	4.63
Cash, federal funds sold and short-term investments	65,045	128	0.20	72,726	158	0.22	41,359	91	0.22
FHLBB stock	37,730	561	1.49	38,238	148	0.39	40,713	207	0.51
Taxable debt securities	331,514	10,437	3.15	316,440	11,008	3.48	431,024	15,359	3.56
Nontaxable debt securities	55,283	3,267	5.91	65,708	3,889	5.92	69,838	4,115	5.89
Corporate stocks	—	—	—	—	—	—	910	68	7.47
Total securities	386,797	13,704	3.54	382,148	14,897	3.90	501,772	19,542	3.89
Total interest-earning assets	3,110,532	123,605	3.97	2,870,438	118,646	4.13	2,815,118	123,065	4.37
Noninterest-earning assets	210,746			208,463			221,031		
Total assets	\$3,321,278			\$3,078,901					