WASHINGTON TRUST BANCORP INC
Form 10-Q
May 08, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x	Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended MARCH 31, 2015 or
o	Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ______ to ______.

Commission file number: 001-32991

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

RHODE ISLAND	05-0404671
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
23 BROAD STREET	
WESTERLY, RHODE ISLAND	02891
(Address of principal executive offices)	(Zip Code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, 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. (Mark one)

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

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

The number of shares of common stock of the registrant outstanding as of April 30, 2015 was 16,811,770.

FORM 10-Q
WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
For the Quarter Ended March 31, 2015

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PART I. Financial Information
Item 1. Financial Statements
Consolidated Balance Sheets (unaudited)

(Dollars in thousands, except par value)

	March 31, 2015	December 31, 2014
Assets:		
Cash and due from banks	$84,842	$76,386
Short-term investments	4,191	3,964
Mortgage loans held for sale (including $36,672 at March 31, 2015 and $30,321 at December 31, 2014 measured at fair value)	47,117	45,693
Securities:		
Available for sale, at fair value	340,942	357,662
Held to maturity, at amortized cost (fair value $24,834 at March 31, 2015 and $26,008 at December 31, 2014)	24,025	25,222
Total securities	364,967	382,884
Federal Home Loan Bank stock, at cost	37,730	37,730
Loans:		
Commercial	1,559,523	1,535,488
Residential real estate	987,564	985,415
Consumer	333,505	338,373
Total loans	2,880,592	2,859,276
Less allowance for loan losses	27,810	28,023
Net loans	2,852,782	2,831,253
Premises and equipment, net	27,839	27,495
Investment in bank-owned life insurance	64,009	63,519
Goodwill	58,114	58,114
Identifiable intangible assets, net	4,694	4,849
Other assets	56,229	54,987
Total assets	$3,602,514	$3,586,874
Liabilities:		
Deposits:		
Demand deposits	$477,046	$459,852
NOW accounts	333,321	326,375
Money market accounts	821,353	802,764
Savings accounts	298,802	291,725
Time deposits	852,621	874,102
Total deposits	2,783,143	2,754,818
Federal Home Loan Bank advances	385,992	406,297
Junior subordinated debentures	22,681	22,681
Other liabilities	56,819	56,799
Total liabilities	3,248,635	3,240,595
Commitments and contingencies		
Shareholders' Equity:		
Common stock of $.0625 par value; authorized 30,000,000 shares; issued and outstanding 16,772,956 shares at March 31, 2015 and 16,746,363 shares at December 31, 2014	1,048	1,047
Paid-in capital	102,587	101,204
Retained earnings	258,069	252,837
Accumulated other comprehensive loss	(7,825)	(8,809)
Total shareholders' equity	353,879	346,279

Total liabilities and shareholders’ equity	$3,602,514	$3,586,874

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

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

Three months ended March 31,	2015	2014
Interest income:		
Interest and fees on loans	$28,353	$25,589
Interest on securities: Taxable	2,259	2,942
Nontaxable	435	582
Dividends on Federal Home Loan Bank stock	165	142
Other interest income	25	35
Total interest and dividend income	31,237	29,290
Interest expense:		
Deposits	3,389	2,969
Federal Home Loan Bank advances	1,902	2,241
Junior subordinated debentures	241	241
Other interest expense	3	3
Total interest expense	5,535	5,454
Net interest income	25,702	23,836
Provision for loan losses	—	300
Net interest income after provision for loan losses	25,702	23,536
Noninterest income:		
Wealth management revenues	8,435	8,065
Merchant processing fees	—	1,291
Net gains on loan sales and commissions on loans originated for others	2,585	1,239
Service charges on deposit accounts	935	754
Card interchange fees	714	681
Income from bank-owned life insurance	490	445
Net gains on interest rate swap contracts	645	260
Equity in earnings (losses) of unconsolidated subsidiaries	(86)	(43)
Net gain on sale of business line	—	6,265
Other income	302	413
Total noninterest income	14,020	19,370
Noninterest expense:		
Salaries and employee benefits	15,494	14,558
Net occupancy	1,886	1,640
Equipment	1,340	1,236
Merchant processing costs	—	1,050
Outsourced services	1,247	1,044
Legal, audit and professional fees	676	618
FDIC deposit insurance costs	473	440
Advertising and promotion	267	232
Amortization of intangibles	155	164
Debt prepayment penalties	—	6,294
Other expenses	1,993	2,016
Total noninterest expense	23,531	29,292
Income before income taxes	16,191	13,614
Income tax expense	5,181	4,316
Net income	$11,010	$9,298

Weighted average common shares outstanding - basic		16,759	16,626
Weighted average common shares outstanding - diluted		16,939	16,800
Per share information:	Basic earnings per common share	$0.65	$0.56
	Diluted earnings per common share	$0.65	$0.55
	Cash dividends declared per share	$0.34	$0.29

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

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

Three months ended March 31,	2015	2014
Net income	$11,010	$9,298
Other comprehensive income, net of tax:		
Net change in fair value of securities available for sale	664	612
Cash flow hedges:		
Change in fair value of cash flow hedges	(8)	(16)
Net cash flow hedge losses reclassified into earnings	93	92
Net change in fair value of cash flow hedges	85	76
Defined benefit plan obligation adjustment	235	88
Total other comprehensive income, net of tax	984	776
Total comprehensive income	$11,994	$10,074

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

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

	Common Shares Outstanding	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at January 1, 2015	16,746	$1,047	$101,204	$252,837	($8,809)	$346,279
Net income				11,010		11,010
Total other comprehensive income, net of tax					984	984
Cash dividends declared				(5,778)		(5,778)
Share-based compensation			580			580
Exercise of stock options, issuance of other compensation-related equity instruments and related tax benefit	27	1	803			804
Balance at March 31, 2015	16,773	$1,048	$102,587	$258,069	($7,825)	$353,879

	Common Shares Outstanding	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at January 1, 2014	16,614	$1,038	$97,566	$232,595	($1,553)	$329,646
Net income				9,298		9,298
Total other comprehensive income, net of tax					776	776
Cash dividends declared				(4,894)		(4,894)
Share-based compensation			491			491
Exercise of stock options, issuance of other compensation-related equity instruments and related tax benefit	21	2	539			541
Balance at March 31, 2014	16,635	$1,040	$98,596	$236,999	($777)	$335,858

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

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

Three months ended March 31,		2015	2014
Cash flows from operating activities:			
Net income		$11,010	$9,298
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses		—	300
Depreciation of premises and equipment		882	783
Net amortization of premium and discount		358	219
Amortization of intangibles		155	164
Share-based compensation		580	491
Income from bank-owned life insurance		(490)	(445)
Net gain on sale of business line		—	(6,265)
Net gains on loan sales and commissions on loans originated for others		(2,585)	(1,239)
Net gains on interest rate swap contracts		(645)	(260)
Equity in losses of unconsolidated subsidiaries		86	43
Proceeds from sales of loans		117,571	48,296
Loans originated for sale		(116,502)	(46,159)
Decrease (increase) in other assets		814	(81)
Decrease in other liabilities		(1,936)	(3,723)
Net cash provided by operating activities		9,298	1,422
Cash flows from investing activities:			
Proceeds from sale of:	Other investment securities available for sale	—	547
Maturities and principal payments of:	Mortgage-backed securities available for sale	12,533	11,313
	Other investment securities available for sale	4,986	20,844
	Mortgage-backed securities held to maturity	1,137	960
Net proceeds from the sale of business line		—	7,205
Net increase in loans		(20,620)	(13,584)
Purchases of loans, including purchased interest		(856)	(2,934)
Proceeds from the sale of property acquired through foreclosure or repossession		—	659
Purchases of premises and equipment		(1,226)	(1,291)
Net cash (used in) provided by investing activities		(4,046)	23,719
Cash flows from financing activities:			
Net increase in deposits		28,325	86,333
Net decrease in other borrowings		(12)	(11)
Proceeds from Federal Home Loan Bank advances		120,000	54,000
Repayment of Federal Home Loan Bank advances		(140,305)	(138,653)
Proceeds from stock options exercises and issuance of other equity instruments		698	496
Tax benefit from stock option exercises and other equity instruments		106	45
Cash dividends paid		(5,381)	(4,511)
Net cash provided by (used in) financing activities		3,431	(2,301)
Net increase in cash and cash equivalents		8,683	22,840
Cash and cash equivalents at beginning of period		80,350	85,317
Cash and cash equivalents at end of period		$89,033	$108,157
Noncash Investing and Financing Activities:			
Loans charged off		$321	$1,223
Loans transferred to property acquired through foreclosure or repossession		230	421
Supplemental Disclosures:			

Interest payments	$5,459	$5,175
Income tax payments	310	265

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

Condensed Notes to Unaudited Consolidated Financial Statements

(1) General Information

Washington Trust Bancorp, Inc. (the “Bancorp”) is a publicly-owned registered bank holding company and financial holding company. The Bancorp owns all of the outstanding common stock of The Washington Trust Company, of Westerly (the “Bank”), a Rhode Island chartered commercial bank founded in 1800. Through its subsidiaries, the Bancorp offers a complete product line of financial services including commercial, residential and consumer lending, retail and commercial deposit products, and wealth management services through its offices in Rhode Island, eastern Massachusetts and Connecticut.

The consolidated financial statements include the accounts of the Bancorp and its subsidiaries (collectively, the “Corporation” or “Washington Trust”). All significant intercompany transactions have been eliminated.

The accounting and reporting policies of the Corporation conform to accounting principles generally accepted in the United States of America (“GAAP”) and to general practices of the banking industry. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to change are the determination of the allowance for loan losses, the review of goodwill for impairment and the assessment of investment securities for impairment.

The unaudited consolidated financial statements of the Corporation presented herein have been prepared pursuant to the rules of the Securities and Exchange Commission (“SEC”) for quarterly reports on Form 10-Q and do not include all of the information and note disclosures required by GAAP. In the opinion of management, all adjustments (consisting of normal recurring adjustments) and disclosures considered necessary for the fair presentation of the accompanying consolidated financial statements have been included. Interim results are not necessarily reflective of the results of the entire year. The accompanying unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

(2) Recently Issued Accounting Pronouncements

Receivables - Troubled Debt Restructurings by Creditors - Topic 310

Accounting Standards Update No. 2014-04, “Reclassifications of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure” (“ASU 2014-04”), was issued in January 2014 and clarifies when banks and similar institutions (creditors) should reclassify mortgage loans collateralized by residential real estate properties from the loan portfolio to other real estate owned (“OREO”). ASU 2014-04 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The Corporation elected the prospective transition method and the adoption of ASU 2014-04 did not have a material impact on the Corporation’s consolidated financial statements.

Revenue from Contracts with Customers - Topic 606

Accounting Standards Update No. 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”), was issued in May 2014 and provides a revenue recognition framework for any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of non-financial assets unless those contracts are within the scope of other accounting standards. ASU 2014-09 is effective for annual periods beginning after December 15, 2016, including interim periods within that reporting period with early adoption not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Corporation is currently evaluating the impact that ASU 2014-09 will have on the its consolidated financial statements and related disclosures. The Corporation has not yet selected a transition method nor has it determined the effect of ASU 2014-09 on its ongoing financial reporting.

(3) Cash and Due from Banks

The Bank maintains certain average reserve balances to meet the requirements of the Board of Governors of the Federal Reserve System ("FRB"). Some or all of these reserve requirements may be satisfied with vault cash. Reserve balances amounted to $10.1 million at March 31, 2015 and $8.0 million at December 31, 2014 and were included in cash and due from banks in the Consolidated Balance Sheets.

As of March 31, 2015 and December 31, 2014, cash and due from banks included interest-bearing deposits in other banks of $47.0 million and $42.7 million, respectively.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(4) Securities

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

(Dollars in thousands)

March 31, 2015	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities Available for Sale:				
Obligations of U.S. government-sponsored enterprises	$31,203	$98	$—	$31,301
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	222,547	10,498	—	233,045
Obligations of states and political subdivisions	42,664	1,515	—	44,179
Individual name issuer trust preferred debt securities	30,762	—	(4,475)	26,287
Corporate bonds	6,119	36	(25)	6,130
Total securities available for sale	$333,295	$12,147	($4,500)	$340,942
Held to Maturity:				
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	$24,025	$809	$—	$24,834
Total securities held to maturity	$24,025	$809	$—	$24,834
Total securities	$357,320	$12,956	($4,500)	$365,776

(Dollars in thousands)

December 31, 2014	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities Available for Sale:				
Obligations of U.S. government-sponsored enterprises	$31,205	$21	($54)	$31,172
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	235,343	10,023	—	245,366
Obligations of states and political subdivisions	47,647	1,529	—	49,176
Individual name issuer trust preferred debt securities	30,753	—	(4,979)	25,774
Corporate bonds	6,120	57	(3)	6,174
Total securities available for sale	$351,068	$11,630	($5,036)	$357,662
Held to Maturity:				
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	$25,222	$786	$—	$26,008
Total securities held to maturity	$25,222	$786	$—	$26,008
Total securities	$376,290	$12,416	($5,036)	$383,670

At March 31, 2015 and December 31, 2014, securities available for sale and held to maturity with a fair value of $347.6 million and $350.5 million, respectively, were pledged as collateral for Federal Home Loan Bank of Boston ("FHLBB") borrowings and letters of credit, potential borrowings with the FRB, certain public deposits and for other purposes. See Note 8 for additional discussion of FHLBB borrowings.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

The schedule of maturities of debt securities available for sale and held to maturity is presented below. Mortgage-backed securities are included based on weighted average maturities, adjusted for anticipated prepayments. All other debt securities are included based on contractual maturities. Actual maturities may differ from amounts presented because certain issuers have the right to call or prepay obligations with or without call or prepayment penalties. Yields on tax exempt obligations are not computed on a tax equivalent basis.
(Dollars in thousands)

March 31, 2015	Within 1 Year		1-5 Years		5-10 Years		After 10 Years		Totals	
Securities Available for Sale:										
Obligations of U.S. government-sponsored enterprises:										
Amortized cost	$—		$31,003		$200		$—		$31,203	
Weighted average yield	—	%	1.72	%	2.32	%	—	%	1.73	%
Mortgage-backed securities issued by U.S. government-sponsored enterprises:										
Amortized cost	37,723		100,409		57,461		26,954		222,547	
Weighted average yield	3.71		3.30		2.81		1.76		3.06	
Obligations of state and political subdivisions:										
Amortized cost	3,601		24,267		14,796		—		42,664	
Weighted average yield	3.78		3.94		3.99		—		3.95	
Individual name issuer trust preferred debt securities:										
Amortized cost	—		—		—		30,762		30,762	
Weighted average yield	—		—		—		1.11		1.11	
Corporate bonds:										
Amortized cost	5,713		203		203		—		6,119	
Weighted average yield	2.84		1.62		3.21		—		2.81	
Total debt securities available for sale:										
Amortized cost	$47,037		$155,882		$72,660		$57,716		$333,295	
Weighted average yield	3.61	%	3.09	%	3.05	%	1.42	%	2.86	%
Fair value	$48,955		$161,578		$75,897		$54,512		$340,942	
Securities Held to Maturity:										
Mortgage-backed securities issued by U.S. government-sponsored enterprises:										
Amortized cost	$3,007		$9,323		$7,364		$4,331		$24,025	
Weighted average yield	3.11	%	3.03	%	2.78	%	0.89	%	2.58	%
Fair value	$3,108		$9,637		$7,612		$4,477		$24,834	

Included in the above table are debt securities with an amortized cost balance of $98.1 million and a fair value of $95.0 million at March 31, 2015 that are callable at the discretion of the issuers. Final maturities of the callable securities range from 6 months to 22 years, with call features ranging from 1 month to 2 years.

Other-Than-Temporary Impairment Assessment

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

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Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

(Dollars in thousands)	Less than 12 Months			12 Months or Longer			Total		
March 31, 2015	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
Individual name issuer trust preferred debt securities	—	$—	$—	11	$26,287	($4,475)	11	$26,287	($4,475)
Corporate bonds	1	1,975	(25)	—	—	—	1	1,975	(25)
Total temporarily impaired securities	1	$1,975	($25)	11	$26,287	($4,475)	12	$28,262	($4,500)

(Dollars in thousands)	Less than 12 Months			12 Months or Longer			Total		
December 31, 2014	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
Obligations of U.S. government-sponsored enterprises	3	$20,952	($54)	—	$—	$—	3	$20,952	($54)
Individual name issuer trust preferred debt securities	—	—	—	11	25,774	(4,979)	11	25,774	(4,979)
Corporate bonds	—	—	—	1	199	(3)	1	199	(3)
Total temporarily impaired securities	3	$20,952	($54)	12	$25,973	($4,982)	15	$46,925	($5,036)

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

Trust Preferred Debt Securities of Individual Name Issuers

Included in debt securities in an unrealized loss position at March 31, 2015 were 11 trust preferred security holdings issued by 7 individual companies in the banking sector. Management believes the unrealized loss position in these holdings is attributable to the general widening of spreads for this category of debt securities issued by financial services companies since the time these securities were purchased. Based on the information available through the filing date of this report, all individual name issuer trust preferred debt securities held in our portfolio continue to accrue and make payments as expected with no payment deferrals or defaults on the part of the issuers. As of March 31, 2015, individual name issuer trust preferred debt securities with an amortized cost of $11.9 million and unrealized losses of $2.0 million were rated below investment grade by Standard & Poors, Inc. (“S&P”). Management reviewed the collectibility of these securities taking into consideration such factors as the financial condition of the issuers, reported regulatory capital ratios of the issuers, credit ratings, including ratings in effect as of the reporting period date as well as credit rating changes between the reporting period date and the filing date of this report, and other information. We noted no additional downgrades to below investment grade between the reporting period date and the filing date of this report. Based on these analyses, management concluded that it expects to recover the entire amortized cost basis of these securities. Furthermore, Washington Trust does not intend to sell these securities and it is not more likely than not that Washington Trust will be required to sell these securities before recovery of their cost basis, which may be maturity. Therefore, management does not consider these investments to be other-than-temporarily impaired at March 31, 2015.

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Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(5) Loans

The following is a summary of loans:

(Dollars in thousands)	March 31, 2015		December 31, 2014	
	Amount	%	Amount	%
Commercial:				
Mortgages (1)	$865,042	30 %	$843,978	30 %
Construction & development (2)	89,851	3	79,592	3
Commercial & industrial (3)	604,630	21	611,918	21
Total commercial	1,559,523	54	1,535,488	54
Residential real estate:				
Mortgages	954,905	33	948,731	33
Homeowner construction	32,659	1	36,684	1
Total residential real estate	987,564	34	985,415	34
Consumer:				
Home equity lines	239,537	8	242,480	8
Home equity loans	46,727	2	46,967	2
Other (4)	47,241	2	48,926	2
Total consumer	333,505	12	338,373	12
Total loans (5)	$2,880,592	100 %	$2,859,276	100 %

(1) Loans primarily secured by income producing property.

(2) Loans for construction of commercial properties, loans to developers for construction of residential properties and loans for land development.

(3) Loans to businesses and individuals, a substantial portion of which are fully or partially collateralized by real estate.

(4) Consumer installment loans and loans secured by general aviation aircraft and automobiles.

(5) Includes net unamortized loan origination costs of $2.2 million and $2.1 million, respectively, and net unamortized premiums on purchased loans of $92 thousand and $94 thousand, respectively, at March 31, 2015 and December 31, 2014.

At March 31, 2015 and December 31, 2014, there were $1.24 billion and $1.21 billion, respectively, of loans pledged as collateral to the FHLBB under a blanket pledge agreement and to the FRB for the discount window. See Note 8 for additional disclosure regarding borrowings.

Nonaccrual Loans

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

(Dollars in thousands)	Mar 31, 2015	Dec 31, 2014
Commercial:		
Mortgages	$5,115	$5,315
Construction & development	—	—
Commercial & industrial	2,193	1,969
Residential real estate:		
Mortgages	6,956	7,124
Homeowner construction	—	—
Consumer:		
Home equity lines	1,051	1,217
Home equity loans	511	317
Other	39	3
Total nonaccrual loans	$15,865	$15,945
Accruing loans 90 days or more past due	$—	$—

As of March 31, 2015 and December 31, 2014, nonaccrual loans of $3.6 million and $3.2 million, respectively, were current as to the payment of principal and interest.

At March 31, 2015, there were no significant commitments to lend additional funds to borrowers whose loans were on nonaccrual status.

Past Due Loans

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

(Dollars in thousands)	Days Past Due					
March 31, 2015	30-59	60-89	Over 90	Total Past Due	Current	Total Loans
Commercial:						
Mortgages	$497	$61	$5,115	$5,673	$859,369	$865,042
Construction & development	—	—	—	—	89,851	89,851
Commercial & industrial	229	229	721	1,179	603,451	604,630
Residential real estate:						
Mortgages	4,470	1,352	3,607	9,429	945,476	954,905
Homeowner construction	—	—	—	—	32,659	32,659
Consumer:						
Home equity lines	1,244	429	463	2,136	237,401	239,537
Home equity loans	213	111	255	579	46,148	46,727
Other	55	25	5	85	47,156	47,241
Total loans	$6,708	$2,207	$10,166	$19,081	$2,861,511	$2,880,592

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(Dollars in thousands)	Days Past Due					
December 31, 2014	30-59	60-89	Over 90	Total Past Due	Current	Total Loans
Commercial:						
Mortgages	$—	$—	$5,315	$5,315	$838,663	$843,978
Construction & development	—	—	—	—	79,592	79,592
Commercial & industrial	2,136	1,202	181	3,519	608,399	611,918
Residential real estate:						
Mortgages	2,943	821	3,284	7,048	941,683	948,731
Homeowner construction	—	—	—	—	36,684	36,684
Consumer:						
Home equity lines	570	100	841	1,511	240,969	242,480
Home equity loans	349	240	56	645	46,322	46,967
Other	35	5	—	40	48,886	48,926
Total loans	$6,033	$2,368	$9,677	$18,078	$2,841,198	$2,859,276

Included in past due loans as of March 31, 2015 and December 31, 2014, were nonaccrual loans of $12.3 million and $12.7 million, respectively. All loans 90 days or more past due at March 31, 2015 and December 31, 2014 were classified as nonaccrual.

Impaired Loans

Impaired loans consist of nonaccrual commercial loans, troubled debt restructured loans and other loans classified as impaired that are individually evaluated for impairment. Impaired loans are loans for which it is probable that the Corporation will not be able to collect all amounts due according to the contractual terms of the loan agreements and 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.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

The following is a summary of impaired loans:

(Dollars in thousands)	Recorded Investment (1)		Unpaid Principal		Related Allowance	
	Mar 31, 2015	Dec 31, 2014	Mar 31, 2015	Dec 31, 2014	Mar 31, 2015	Dec 31, 2014
No Related Allowance Recorded:						
Commercial:						
Mortgages	$205	$432	$205	$432	$—	$—
Construction & development	—	—	—	—	—	—
Commercial & industrial	1,322	1,047	1,323	1,076	—	—
Residential real estate:						
Mortgages	1,618	1,477	1,912	1,768	—	—
Homeowner construction	—	—	—	—	—	—
Consumer:						
Home equity lines	—	—	—	—	—	—
Home equity loans	—	—	—	—	—	—
Other	—	—	—	—	—	—
Subtotal	3,145	2,956	3,440	3,276	—	—
With Related Allowance Recorded:						
Commercial:						
Mortgages	$14,384	$14,585	$14,564	$14,564	$1,173	$927
Construction & development	—	—	—	—	—	—
Commercial & industrial	1,754	1,878	2,305	2,437	185	177
Residential real estate:						
Mortgages	1,296	2,226	1,423	2,338	222	326
Homeowner construction	—	—	—	—	—	—
Consumer:						
Home equity lines	244	250	250	250	76	141
Home equity loans	72	45	116	62	1	12
Other	151	112	151	114	—	—
Subtotal	17,901	19,096	18,809	19,765	1,657	1,583
Total impaired loans	$21,046	$22,052	$22,249	$23,041	$1,657	$1,583
Total:						
Commercial	$17,665	$17,942	$18,397	$18,509	$1,358	$1,104
Residential real estate	2,914	3,703	3,335	4,106	222	326
Consumer	467	407	517	426	77	153
Total impaired loans	$21,046	$22,052	$22,249	$23,041	$1,657	$1,583

(1) The recorded investment in impaired loans consists of unpaid principal balance net of charge-offs, interest payments received applied to principal and unamortized deferred loan origination fees and costs. For impaired accruing loans (troubled debt restructurings for which management has concluded that the collectibility of the loan is not in doubt), the recorded investment also includes accrued interest.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

The following table presents the average recorded investment balance of impaired loans and interest income recognized on impaired loans segregated by loan class:

(Dollars in thousands)	Average Recorded Investment		Interest Income Recognized	
Three months ended March 31,	2015	2014	2015	2014
Commercial:				
Mortgages	$14,942	$28,340	$79	$165
Construction & development	—	—	—	—
Commercial & industrial	3,036	2,366	19	23
Residential real estate:				
Mortgages	3,457	3,744	16	14
Homeowner construction	—	—	—	—
Consumer:				
Home equity lines	247	134	—	1
Home equity loans	74	95	—	1
Other	146	125	3	2
Totals	$21,902	$34,804	$117	$206

Troubled Debt Restructurings

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

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

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

Troubled debt restructurings are classified as impaired loans. The Corporation identifies loss allocations for impaired loans on an individual loan basis. The recorded investment in troubled debt restructurings was $17.7 million and $18.4 million, respectively, at March 31, 2015 and December 31, 2014. These amounts included accrued interest of $30 thousand and $33 thousand, respectively. The allowance for loan losses included specific reserves for these troubled debt restructurings of $1.5 million and $1.2 million, respectively, at March 31, 2015 and December 31, 2014. As of March 31, 2015, there were no significant commitments to lend additional funds to borrowers whose loans had been restructured.

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Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

The following table presents loans modified as a troubled debt restructuring:

(Dollars in thousands)			Outstanding Recorded Investment (1)			
	# of Loans		Pre-Modifications		Post-Modifications	
Three months ended March 31,	2015	2014	2015	2014	2015	2014
Commercial:						
Mortgages	—	—	$—	$—	$—	$—
Construction & development	—	—	—	—	—	—
Commercial & industrial	1	—	300	—	300	—
Residential real estate:						
Mortgages	1	2	93	479	93	479
Homeowner construction	—	—	—	—	—	—
Consumer:						
Home equity lines	—	—	—	—	—	—
Home equity loans	—	—	—	—	—	—
Other	1	—	35	—	35	—
Totals	3	2	$428	$479	$428	$479

(1) The recorded investment in troubled debt restructurings consists of unpaid principal balance, net of charge-offs and unamortized deferred loan origination fees and costs, at the time of the restructuring. For accruing troubled debt restructured loans, the recorded investment also includes accrued interest.

The following table provides information on how loans were modified as a troubled debt restructuring:

(Dollars in thousands)		
Three months ended March 31,	2015	2014
Below-market interest rate concession	$335	$—
Payment deferral	93	479
Maturity / amortization concession	—	—
Interest only payments	—	—
Combination (1)	—	—
Total	$428	$479

(1) Loans included in this classification were modified with a combination of any two of the concessions listed in this table.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

The following table presents loans modified in a troubled debt restructuring within the previous twelve months for which there was a payment default:

(Dollars in thousands)	# of Loans		Recorded Investment (1)	
Three months ended March 31,	2015	2014	2015	2014
Commercial:				
Mortgages	—	—	$—	$—
Construction & development	—	—	—	—
Commercial & industrial	2	6	11	1,191
Residential real estate:				
Mortgages	2	—	338	—
Homeowner construction	—	—	—	—
Consumer:				
Home equity lines	—	—	—	—
Home equity loans	—	—	—	—
Other	—	—	—	—
Totals	4	6	$349	$1,191

(1) The recorded investment in troubled debt restructurings consists of unpaid principal balance, net of charge-offs and unamortized deferred loan origination fees and costs. For accruing troubled debt restructured loans, the recorded investment also includes accrued interest.

Credit Quality Indicators

Commercial

The Corporation utilizes an internal rating system to assign a risk to each of its commercial loans. Loans are rated on a scale of 1 to 10. This scale can be assigned to three broad categories including “pass” for ratings 1 through 6, “special mention” for 7-rated loans, and “classified” for loans rated 8, 9 or 10. The loan rating system takes into consideration parameters including the borrower’s financial condition, the borrower’s performance with respect to loan terms, the adequacy of collateral, the adequacy of guarantees and other credit quality characteristics. As of March 31, 2015 and December 31, 2014, the weighted average risk rating of the Corporation’s commercial loan portfolio was 4.68 and 4.67, respectively. For non-impaired loans, the Corporation assigns a loss allocation factor to each loan, based on its risk rating for purposes of establishing an appropriate allowance for loan losses. See Note 6 for additional information.

A description of the commercial loan categories are as follows:

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

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

Classified - Loans identified as “substandard”, “doubtful” or “loss” based on criteria consistent with guidelines provided by banking regulators. A “substandard” loan has defined weaknesses which make payment default or principal exposure likely, but not yet certain. Such loans are apt to be dependent upon collateral liquidation, a secondary source of repayment or an event outside of the normal course of business. The loans are closely watched and are either already on nonaccrual status or may be placed on nonaccrual status when management determines there is uncertainty of collectibility. A “doubtful” loan is placed on non-accrual status and has a high probability of loss, but the extent of the loss is difficult to quantify due to dependency upon

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

collateral having a value that is difficult to determine or upon some near-term event which lacks certainty. A loan in the "loss" category is considered generally uncollectible or the timing or amount of payments cannot be determined. "Loss" is not intended to imply that the loan has no recovery value but rather it is not practical or desirable to continue to carry the asset.

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

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

(Dollars in thousands)	Pass		Special Mention		Classified	
	Mar 31, 2015	Dec 31, 2014	Mar 31, 2015	Dec 31, 2014	Mar 31, 2015	Dec 31, 2014
Mortgages	$842,516	$819,857	$17,207	$18,372	$5,319	$5,749
Construction & development	89,851	79,592	—	—	—	—
Commercial & industrial	586,370	592,206	15,536	16,311	2,724	3,401
Total commercial loans	$1,518,737	$1,491,655	$32,743	$34,683	$8,043	$9,150

Residential and Consumer

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

Various other techniques are utilized to monitor indicators of credit deterioration in the portfolios of residential real estate mortgages and home equity lines and loans. 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 results of these analyses and other loan review procedures are taken into consideration in the determination of loss allocation factors for residential mortgage and home equity consumer credits. See Note 6 for additional information.

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

(Dollars in thousands)	Current and Under 90 Days Past Due		Over 90 Days Past Due	
	Mar 31, 2015	Dec 31, 2014	Mar 31, 2015	Dec 31, 2014
Residential real estate:				
Accruing mortgages	$947,949	$941,607	$—	$—
Nonaccrual mortgages	3,349	3,840	3,607	3,284
Homeowner construction	32,659	36,684	—	—
Total residential loans	$983,957	$982,131	$3,607	$3,284

Consumer:				
Home equity lines	$239,074	$241,639	$463	$841
Home equity loans	46,472	46,911	255	56
Other	47,236	48,926	5	—
Total consumer loans	$332,782	$337,476	$723	$897

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(6) Allowance for Loan Losses

The allowance for loan losses is management’s best estimate of the inherent risk of loss in the loan portfolio as of the balance sheet date. The allowance is increased by provisions charged to earnings and by recoveries of amounts previously charged off, and is reduced by charge-offs on loans. The 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: (1) identification of loss allocations for individual loans deemed to be impaired, (2) application of loss allocation factors for non-impaired loans based on credit grade, historical loss experience, estimated loss emergence period and delinquency status, with adjustments for various exposures not adequately presented in historical loss experience, and (3) an unallocated allowance maintained for measurement imprecision associated with impaired and nonaccrual loans.

Loss allocations for loans deemed to be impaired are measured on a discounted cash flow method based upon the loan’s contractual effective interest rate, or at the loan’s observable market price, 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.

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. 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 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.

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 loan losses. Such agencies may require additions to the allowance based on their judgments about information available to them at the time of their examination.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

The following table presents the activity in the allowance for loan losses for three months ended March 31, 2015:

(Dollars in thousands)	Commercial							
	Mortgages	Construction	C&I (1)	Total Commercial	Residential	Consumer	Un-allocated	Total
Beginning Balance	$8,202	$1,300	$7,987	$17,489	$5,430	$2,713	$2,391	$28,023
Charge-offs	(200)	—	(7)	(207)	(48)	(66)	—	(321)
Recoveries	80	—	14	94	2	12	—	108
Provision	249	(71)	(191)	(13)	(29)	72	(30)	—
Ending Balance	$8,331	$1,229	$7,803	$17,363	$5,355	$2,731	$2,361	$27,810

(1) Commercial & industrial loans.

The following table presents the activity in the allowance for loan losses for three months ended March 31, 2014. Prior to December 31, 2014, the unallocated allowance included amounts for management's qualitative and quantitative assessment of certain other loan portfolio risks not captured in other components of the allowance. The 2014 presentation of the allowance for loan losses by portfolio segment, set forth below, has been revised to conform to the December 31, 2014 presentation format. The reclassification resulted in a reduction of $5.3 million in the unallocated allowance previously reported as of March 31, 2014, with a corresponding increase to the allowance by portfolio segment. The reclassification resulted in no change in the total allowance.

(Dollars in thousands)	Commercial							
	Mortgages	Construction	C&I (1)	Total Commercial	Residential	Consumer	Un-allocated	Total
Beginning Balance	$8,022	$383	$7,835	$16,240	$6,450	$2,511	$2,685	$27,886
Charge-offs	(945)	—	(196)	(1,141)	(42)	(40)	—	(1,223)
Recoveries	6	—	26	32	35	13	—	80
Provision	(536)	(114)	805	155	705	93	(653)	300
Ending Balance	$6,547	$269	$8,470	$15,286	$7,148	$2,577	$2,032	$27,043

(1) Commercial & industrial loans.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

(Dollars in thousands)	March 31, 2015		December 31, 2014	
	Loans	Related Allowance	Loans	Related Allowance
Loans Individually Evaluated for Impairment:				
Commercial:				
Mortgages	$14,563	$1,173	$14,991	$927
Construction & development	—	—	—	—
Commercial & industrial	3,074	185	2,921	177
Residential real estate	2,912	222	3,698	326
Consumer	467	77	409	153
Subtotal	$21,016	$1,657	$22,019	$1,583
Loans Collectively Evaluated for Impairment:				
Commercial:				
Mortgages	$850,479	$7,158	$828,987	$7,275
Construction & development	89,851	1,229	79,592	1,300
Commercial & industrial	601,556	7,618	608,997	7,810
Residential real estate	984,652	5,133	981,717	5,104
Consumer	333,038	2,654	337,964	2,560
Subtotal	$2,859,576	$23,792	$2,837,257	$24,049
Unallocated	—	2,361	—	2,391
Total	$2,880,592	$27,810	$2,859,276	$28,023

(7) Time Certificates of Deposit

The following table presents scheduled maturities of time certificates of deposit:

(Dollars in thousands)	Scheduled Maturity	Weighted Average Rate	
April 1, 2015 to December 31, 2015	$296,731	0.67	%
2016	177,667	1.02	
2017	152,730	1.11	
2018	77,579	1.35	
2019	122,693	1.76	
2020 and thereafter	25,221	1.52	
Balance at March 31, 2015	$852,621	1.07	%

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(8) Borrowings

Federal Home Loan Bank Advances

Advances payable to the FHLBB amounted to $386.0 million and $406.3 million, respectively, at March 31, 2015 and December 31, 2014.

The following table presents maturities and weighted average interest rates on FHLBB advances outstanding as of March 31, 2015:

(Dollars in thousands)	Total Outstanding	Weighted Average Rate	
April 1, 2015 to December 31, 2015	$160,520	0.49	%
2016	31,792	0.60	%
2017	30,075	5.44	%
2018	58,634	1.56	%
2019	42,661	4.40	%
2020 and thereafter	62,310	3.17	%
Balance at March 31, 2015	$385,992	1.91	%

As of March 31, 2015 and December 31, 2014, the Bank also has access to an unused line of credit with the FHLBB amounting to $40.0 million. 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. The Bank’s unused remaining available borrowing capacity at the FHLBB was approximately $613.7 million and $569.4 million, respectively, at March 31, 2015 and December 31, 2014.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(9) Shareholders' Equity

Regulatory Capital Requirements

The following table presents the Corporation's and the Bank's actual capital amounts and ratios, as well as the corresponding minimum required capital ratios and minimum capital ratios required for the Bank to be "well capitalized" for purposes of the Federal Deposit Insurance Corporation's ("FDIC") prompt corrective action provisions:

(Dollars in thousands)	Actual			For Capital Adequacy Purposes			To Be "Well Capitalized" Under Prompt Corrective Action Provisions	
	Amount	Ratio		Amount	Ratio		Amount	Ratio
March 31, 2015								
Total Capital (to Risk-Weighted Assets):								
Corporation	$352,521	12.80	%	$220,262	8.00	%	N/A	N/A
Bank	347,674	12.63		220,187	8.00		275,234	10.00
Tier 1 Capital (to Risk-Weighted Assets):								
Corporation	324,375	11.78		165,196	6.00		N/A	N/A
Bank	319,528	11.61		165,140	6.00		220,187	8.00
Common Equity Tier 1 Capital (to Risk-Weighted Assets): (1)								
Corporation	302,376	10.98		123,897	4.50		N/A	N/A
Bank	319,528	11.61		123,855	4.50		178,902	6.50
Tier 1 Capital (to Average Assets): (2)								
Corporation	324,375	9.21		140,864	4.00		N/A	N/A
Bank	319,528	9.08		140,738	4.00		175,922	5.00
December 31, 2014								
Total Capital (to Risk-Weighted Assets):								
Corporation	343,934	12.56		219,149	8.00		273,936	N/A
Bank	339,268	12.39		219,075	8.00		273,844	10.00
Tier 1 Capital (to Risk-Weighted Assets):								
Corporation	315,575	11.52		109,574	4.00		164,361	N/A
Bank	310,909	11.35		109,537	4.00		164,306	6.00
Tier 1 Capital (to Average Assets): (2)								
Corporation	315,575	9.14		138,090	4.00		172,612	N/A
Bank	310,909	9.01		137,964	4.00		172,454	5.00

(1) New capital ratio effective January 1, 2015 under the Basel III capital requirements. See additional discussion of Basel III and the new regulatory capital requirements in the "Supervision and Regulation" section in the Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

(2) Leverage ratio.

(10) Derivative Financial Instruments

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

Interest Rate Risk Management Agreements

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Cash Flow Hedging Instruments

As of March 31, 2015 and December 31, 2014, the Bancorp had two interest rate swap contracts designated as cash flow hedges to hedge the interest rate associated with $22.7 million of variable rate junior subordinated debentures. The effective portion of the changes in fair value of derivatives designated as cash flow hedges is recorded in other comprehensive income and subsequently reclassified to earnings when gains or losses are realized. The ineffective portion of changes in fair value of the derivatives is recognized directly in earnings as interest expense. As of March 31, 2015 and December 31, 2014, the Bancorp has pledged collateral to derivative counterparties in the form of cash totaling $800 thousand and $939 thousand, respectively. The Bancorp may need to post additional collateral in the future in proportion to potential increases in unrealized loss positions.

Customer Related Derivative Contracts

The Corporation has entered into interest rate swap contracts to help commercial loan borrowers manage their interest rate risk. The interest rate swap contracts with commercial loan borrowers allow them to convert floating-rate loan payments to fixed-rate loan payments. When we enter into an interest rate swap contract with a commercial loan borrower, we simultaneously enter into a “mirror” swap contract with a third party. The third party exchanges the client’s fixed rate loan payments for floating-rate loan payments. We retain the risk that is associated with the potential failure of counterparties and the risk inherent in originating loans. As of March 31, 2015 and December 31, 2014, Washington Trust had interest rate swap contracts with commercial loan borrowers with notional amounts of $209.4 million and $165.8 million, respectively, and equal amounts of “mirror” swap contracts with third-party financial institutions. These derivatives are not designated as hedges and therefore, changes in fair value are recognized in earnings.

Risk Participation Agreements

In 2015, the Corporation entered into a risk participation agreement (“RPA”) with another bank participating in a commercial loan arrangement. The participating bank guarantees the performance on a borrower-related interest rate swap contract. The RPA represents a purchased guarantee that is recorded as an asset and under the RPA the Corporation participates out the risk associated with the interest rate swap position executed with the commercial borrower, for a net fee paid to the participating bank, classified in net gains on interest rate swap contracts. The RPA derivative asset is recorded at fair value and changes in the fair value of the derivative asset are recognized in earnings in the period of change. As of March 31, 2015, the notional amount of the RPA was $12.5 million.

Loan Commitments

Interest rate lock commitments are extended to borrowers and relate to the origination of residential real estate mortgage loans held for sale. To mitigate the interest rate risk inherent in these rate locks, as well as closed residential real estate mortgage loans held for sale, forward commitments are established to sell individual residential real estate mortgage loans. Both interest rate lock commitments and commitments to sell residential real estate mortgage loans are derivative financial instruments, but do not meet criteria for hedge accounting and, as such are treated as derivatives not designated as hedging instruments. These derivative financial instruments are recorded at fair value and changes in fair value of these commitments are reflected in earnings in the period of change. The Corporation has elected to carry certain closed residential real estate mortgage loans held for sale at fair value, as changes in fair value in these loans held for sale generally offset changes in interest rate lock and forward sale commitments.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

(Dollars in thousands)	Asset Derivatives			Liability Derivatives		
		Fair Value			Fair Value	
	Balance Sheet Location	Mar 31, 2015	Dec 31, 2014	Balance Sheet Location	Mar 31, 2015	Dec 31, 2014
Derivatives Designated as Cash Flow Hedging Instruments:						
Interest rate risk management contracts:						
Interest rate swap contracts	Other assets	$—	$—	Other liabilities	$367	$497
Derivatives not Designated as Hedging Instruments:						
Forward loan commitments:						
Interest rate lock commitments	Other assets	1,769	1,212	Other liabilities	5	20
Commitments to sell mortgage loans	Other assets	14	13	Other liabilities	2,970	2,028
Customer related derivative contracts:						
Interest rate swaps with customers	Other assets	7,415	4,554	Other liabilities	—	23
Mirror swaps with counterparties	Other assets	—	28	Other liabilities	7,699	4,748
Risk participation agreement	Other assets	47	—	Other liabilities	—	—
Total		$9,245	$5,807		$11,041	$7,316

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

(Dollars in thousands)	Gain (Loss) Recognized in Other Comprehensive Income (Effective Portion)		Location of Gain (Loss) Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Recognized in Income (Ineffective Portion)	
Three months ended March 31,	2015	2014		2015	2014
Derivatives Designated as Cash Flow Hedging Instruments:					
Interest rate risk management contracts:					
Interest rate swap contracts	$85	$76	Interest Expense	$—	$—
Total	$85	$76		$—	$—

(Dollars in thousands)		Amount of Gain (Loss) Recognized in Income on Derivative	
Three months ended March 31,	Statement of Income Location	2015	2014
Derivatives not Designated as Hedging Instruments:			

Forward loan commitments:			
Interest rate lock commitments	Net gains on loan sales & commissions on loans originated for others	$572	$277
Commitments to sell mortgage loans	Net gains on loan sales & commissions on loans originated for others	(941)	(313)
Customer related derivative contracts:			
Interest rate swaps with customers	Net gains on interest rate swap contracts	3,633	1,030
Mirror swaps with counterparties	Net gains on interest rate swap contracts	(2,836)	(770)
Risk participation agreement	Net gains on interest rate swap contracts	(152)	—
Total		$276	$224

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(11) Fair Value Measurements

The Corporation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. As of March 31, 2015 and December 31, 2014, securities available for sale, certain residential real estate mortgage loans held for sale and derivatives are recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record at fair value other assets on a nonrecurring basis, such as collateral dependent impaired loans, property acquired through foreclosure or repossession, certain residential real estate mortgage loans held for sale and mortgage servicing rights. These nonrecurring fair value adjustments typically involve the application of lower of cost or market accounting or write-downs of individual assets.

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

- Level 1 – Quoted prices for identical assets or liabilities in active markets.
- Level 2 – Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable in the markets and which reflect the Corporation's market assumptions.

Fair Value Option Election

GAAP allows for the irrevocable option to elect fair value accounting for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. The Corporation elected the fair value option for certain residential real estate mortgage loans held for sale to better match changes in fair value of the loans with changes in the fair value of the derivative loan sale contracts used to economically hedge them.

The aggregate principal amount of the residential real estate mortgage loans held for sale recorded at fair value was $35.6 million and $29.5 million, respectively, at March 31, 2015 and December 31, 2014. The aggregate fair value of these loans as of the same dates was $36.7 million and $30.3 million, respectively. As of March 31, 2015 and December 31, 2014, the aggregate fair value of residential real estate mortgage loans held for sale exceeded the aggregate principal amount by $1.1 million and $779 thousand, respectively.

There were no residential real estate mortgage loans held for sale 90 days or more past due as of March 31, 2015 and December 31, 2014.

The following table presents the changes in fair value related to mortgage loans held for sale, interest rate lock commitments and commitments to sell residential real estate mortgage loans, for which the fair value option was elected. Changes in fair values are reported as a component of net gains on loan sales and commissions on loans originated for others in the Consolidated Statements of Income.

(Dollars in thousands)

Three months ended March 31,	2015	2014
Mortgage loans held for sale	$341	$76
Interest rate lock commitments	572	277
Commitments to sell mortgage loans	(941)	(313)

Total changes in fair value	($28)	$40

Items Measured at Fair Value on a Recurring Basis

Securities

Securities available for sale are recorded at fair value on a recurring basis. When available, the Corporation uses quoted market prices to determine the fair value of securities; such items are classified as Level 1. There were no Level 1 securities held at March 31, 2015 and December 31, 2014.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

Securities not actively traded whose fair value is determined through the use of cash flows utilizing inputs that are unobservable are classified as Level 3. There were no Level 3 securities held at March 31, 2015 and December 31, 2014.

Mortgage Loans Held for Sale
The fair values of mortgage loans held for sale are generally estimated based on secondary market rates offered for loans with similar characteristics. When secondary market information exists, these loans are classified as Level 2. In certain cases when quoted market prices are not available, fair value is determined by utilizing a discounted cash flow analysis and these assets are classified as Level 3. Any changes in the valuation of mortgage loans held for sale is based upon the change in market interest rates between the loan closing date and the measurement date and an immaterial portion attributable to changes in instrument-specific credit risk. There were no Level 3 mortgage loans held for sale at March 31, 2015 and December 31, 2014.

Derivatives
Interest rate swap contracts are traded in over-the-counter markets where quoted market prices are not readily available. Fair value measurements are determined using independent pricing models that utilize primarily market observable inputs, such as swap rates of different maturities and LIBOR rates and, accordingly, are classified as Level 2. For purposes of potential valuation adjustments to its interest rate swap contracts and risk participation agreements, the Corporation evaluates the credit risk of its counterparties as well as that of the Corporation. Accordingly, Washington Trust considers factors such as the likelihood of default by the Corporation and its counterparties, its net exposures and remaining contractual life, among other factors, in determining if any fair value adjustments related to credit risk are required. Counterparty exposure is evaluated by netting positions that are subject to master netting agreements, as well as considering the amount of collateral securing the position.

Level 2 fair value measurements of forward loan commitments (interest rate lock commitments and commitments to sell residential real estate mortgages) are estimated using the anticipated market price based on pricing indications provided by other financial institutions. In certain cases when quoted market prices are not available, fair value is determined by utilizing a discounted cash flow analysis and these assets are classified as Level 3. There were no Level 3 forward loan commitments held at March 31, 2015 and December 31, 2014.

Items Measured at Fair Value on a Nonrecurring Basis
Collateral Dependent Impaired Loans
Collateral dependent loans that are deemed to be impaired are valued based upon the fair value of the underlying collateral. Such collateral primarily consists of real estate and, to a lesser extent, other business assets. For collateral dependent loans for which repayment is dependent on the sale of the collateral, management adjusts the fair value for estimated costs to sell. For collateral dependent loans for which repayment is dependent on the operation of the collateral, such as accruing troubled debt restructured loans, estimated costs to sell are not incorporated into the measurement. Management may also adjust appraised values to reflect estimated market value declines or apply other discounts to appraised values resulting from its knowledge of the property. Internal valuations are utilized to determine the fair value of other business assets. Collateral dependent impaired loans are categorized as Level 3.

Property Acquired Through Foreclosure or Repossession

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Items Recorded at Fair Value on a Recurring Basis

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

(Dollars in thousands) March 31, 2015	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities available for sale:				
Obligations of U.S. government-sponsored enterprises	$31,301	$—	$31,301	$—
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	233,045	—	233,045	—
Obligations of states and political subdivisions	44,179	—	44,179	—
Individual name issuer trust preferred debt securities	26,287	—	26,287	—
Corporate bonds	6,130	—	6,130	—
Mortgage loans held for sale	36,672	—	36,672	—
Derivative assets (1)	9,245	—	9,245	—
Total assets at fair value on a recurring basis	$386,859	$—	$386,859	$—
Liabilities:				
Derivative liabilities (2)	$11,041	$—	$11,041	$—
Total liabilities at fair value on a recurring basis	$11,041	$—	$11,041	$—

(1) Derivative assets include interest rate swaps contracts with customers, a risk participation agreement and forward loan commitments and are included in other assets in the Consolidated Balance Sheets.

(2) Derivative liabilities include mirror swaps with counterparties, interest rate risk management contracts and forward loan commitments and are included in other liabilities in the Consolidated Balance Sheets.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(Dollars in thousands) December 31, 2014	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities available for sale:				
Obligations of U.S. government-sponsored enterprises	$31,172	$—	$31,172	$—
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	245,366	—	245,366	—
Obligations of states and political subdivisions	49,176	—	49,176	—
Individual name issuer trust preferred debt securities	25,774	—	25,774	—
Corporate bonds	6,174	—	6,174	—
Mortgage loans held for sale	30,321	—	30,321	—
Derivative assets (1)	5,807	—	5,807	—
Total assets at fair value on a recurring basis	$393,790	$—	$393,790	$—
Liabilities:				
Derivative liabilities (2)	$7,316	$—	$7,316	$—
Total liabilities at fair value on a recurring basis	$7,316	$—	$7,316	$—

(1) Derivative assets include interest rate swaps contracts with customers and forward loan commitments and are included in other assets in the Consolidated Balance Sheets.

(2) Derivative liabilities include mirror swaps with counterparties, interest rate risk management contracts and forward loan commitments and are included in other liabilities in the Consolidated Balance Sheets.

It is the Corporation’s policy to review and reflect transfers between Levels as of the financial statement reporting date. During the three months ended March 31, 2015 and 2014, there were no transfers in and/or out of Level 1, 2 or 3.

Items Recorded at Fair Value on a Nonrecurring Basis

Certain assets are measured at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from the application of lower of cost or market accounting or write-downs of individual assets. The valuation methodologies used to measure these fair value adjustments are described above.

The following table summarizes the carrying value of such assets held at March 31, 2015, which were written down to fair value during the three months ended March 31, 2015:

(Dollars in thousands)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Collateral dependent impaired loans	$3,962	$—	$—	$3,962
Property acquired through foreclosure or repossession	318	—	—	318
Total assets at fair value on a nonrecurring basis	$4,280	$—	$—	$4,280

The allowance for loan losses on collateral dependent impaired loans amounted to $1.2 million at March 31, 2015.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

The following table summarizes the carrying value of such assets held at December 31, 2014, which were written down to fair value during the year ended December 31, 2014:

(Dollars in thousands)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Collateral dependent impaired loans	$5,728	$—	$—	$5,728
Property acquired through foreclosure or repossession	348	—	—	348
Total assets at fair value on a nonrecurring basis	$6,076	$—	$—	$6,076

The allowance for loan losses on collateral dependent impaired loans amounted to $1.3 million at December 31, 2014.

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

(Dollars in thousands) March 31, 2015	Fair Value	Valuation Technique	Unobservable Input	Range of Inputs Utilized (Weighted Average)
Collateral dependent impaired loans	$3,962	Appraisals of collateral	Discount for costs to sell	0% - 25% (10%)
			Appraisal adjustments (1)	0% - 15% (1%)
Property acquired through foreclosure or repossession	$318	Appraisals of collateral	Discount for costs to sell	0% - 10% (6%)
			Appraisal adjustments (1)	7% - 13% (10%)

(Dollars in thousands) December 31, 2014	Fair Value	Valuation Technique	Unobservable Input	Range of Inputs Utilized (Weighted Average)
Collateral dependent impaired loans	$5,728	Appraisals of collateral	Discount for costs to sell	0% - 10% (2%)
			Appraisal adjustments (1)	0% - 40% (3%)
Property acquired through foreclosure or repossession	$348	Appraisals of collateral	Discount for costs to sell	6% - 10% (8%)
			Appraisal adjustments (1)	5% - 23% (14%)

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

Valuation of Other Financial Instruments

The methodologies for estimating the fair value of financial instruments that are measured at fair value on a recurring or nonrecurring basis are discussed above. The methodologies for other financial instruments are discussed below.

Loans

Fair values are estimated for categories of loans with similar financial characteristics. Loans are segregated by type and are then further segmented into fixed-rate and adjustable-rate interest terms to determine their fair value. The fair value of fixed-rate commercial and consumer loans is calculated by discounting scheduled cash flows through the estimated maturity of the loan using interest rates offered at the measurement date that reflect the credit and interest rate risk inherent in the loan. The estimate of maturity is based on the Corporation's historical repayment experience. For residential mortgages, fair value is estimated by using market prices for sales of similar loans on the secondary market. The fair value of floating rate commercial and consumer loans approximates carrying value. Fair value for impaired loans is estimated using a discounted cash flow method based upon the loan's contractual effective interest rate, or at the loan's observable market price, or if the loan is collateral dependent, at the fair value of the collateral. Loans are classified within Level 3 of the fair value hierarchy.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Time Deposits
The discounted values of cash flows using the rates currently offered for deposits of similar remaining maturities were used to estimate the fair value of time deposits. Time deposits are classified within Level 2 of the fair value hierarchy.

Federal Home Loan Bank Advances
Rates currently available to the Corporation for advances with similar terms and remaining maturities are used to estimate fair value of existing advances. FHLBB advances are categorized as Level 2.

Junior Subordinated Debentures
The fair value of the junior subordinated debentures is estimated using rates currently available to the Corporation for debentures with similar terms and maturities. Junior subordinated debentures are categorized as Level 2.

The following tables present the carrying amount, estimated fair value and placement in the fair value hierarchy of the Corporation's financial instruments. The tables exclude financial instruments for which the carrying value approximates fair value. Financial assets for which the fair value approximates carrying value include cash and cash equivalents, FHLBB stock, accrued interest receivable and bank-owned life insurance. Financial liabilities for which the fair value approximates carrying value include non-maturity deposits and accrued interest payable.
(Dollars in thousands)

March 31, 2015	Carrying Amount	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:					
Securities held to maturity	$24,025	$24,834	$—	$24,834	$—
Loans, net of allowance for loan losses	2,852,782	2,898,369	—	—	2,898,369
Financial Liabilities:					
Time deposits	$852,621	$854,780	$—	$854,780	$—
FHLBB advances	385,992	400,770	—	400,770	—
Junior subordinated debentures	22,681	16,974	—	16,974	—

(Dollars in thousands)

December 31, 2014	Carrying Amount	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:					
Securities held to maturity	$25,222	$26,008	$—	$26,008	$—
Loans, net of allowance for loan losses	2,831,253	2,866,907	—	—	2,866,907
Financial Liabilities:					
Time deposits	$874,102	$872,570	$—	$872,570	$—
FHLBB advances	406,297	418,005	—	418,005	—

Junior subordinated debentures	22,681	17,201	—	17,201	—

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(12) Defined Benefit Pension Plans

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

The composition of net periodic benefit cost was as follows:

(Dollars in thousands)	Qualified Pension Plan		Non-Qualified Retirement Plans	
Three months ended March 31,	2015	2014	2015	2014
Net Periodic Benefit Cost:				
Service cost	$615	$538	$20	$12
Interest cost	732	723	122	120
Expected return on plan assets	(1,129)	(1,016)	—	—
Amortization of prior service (credit) cost	(6)	(6)	—	—
Recognized net actuarial loss	312	115	61	16
Net periodic benefit cost	$524	$354	$203	$148

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

(13) Share-Based Compensation Arrangements

During the three months ended March 31, 2015, performance share awards were granted to certain executive officers providing the opportunity to earn shares of common stock of the Corporation. The performance shares awarded were valued at the fair market value as of the award date, or $38.02, and will be earned over a 3-year performance period. The number of shares earned will range from zero to 200% of the target number of shares dependent upon the Corporation's core return on equity and core earnings per share growth ranking compared to an industry peer group. The current assumption based on the most recent peer group information available results in shares earned at 150% of the target, or 46,950 shares.

(14) Business Segments

Washington Trust segregates financial information in assessing its results among its Commercial Banking and Wealth Management Services operating segments. The amounts in the Corporate unit include activity not related to the segments. The methodologies and organizational hierarchies that define the business segments are periodically reviewed and revised. Results may be restated, when necessary, to reflect changes in organizational structure or allocation methodology. Any changes in estimates and allocations that may affect the reported results of any business segment will not affect the consolidated financial position or results of operations of Washington Trust as a whole.

Management uses certain methodologies to allocate income and expenses to the business lines. A funds transfer pricing methodology is used to assign interest income and interest expense to each interest-earning asset and interest-bearing liability on a matched maturity funding basis. Certain indirect expenses are allocated to segments. These include support unit expenses such as technology and processing operations and other support functions.

Commercial Banking

The Commercial Banking segment includes commercial, residential and consumer lending activities; equity in losses of unconsolidated investments in real estate limited partnerships; mortgage banking, secondary market and loan servicing activities; deposit generation; merchant credit card services; cash management activities; and direct banking activities, which include the operation of ATMs, telephone and Internet banking services and customer support and sales.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Wealth Management Services
Wealth Management Services includes 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 fiduciary services.

Corporate
Corporate includes the Treasury Unit, which is responsible for managing the wholesale investment portfolio and wholesale funding needs. It also includes income from bank-owned life insurance, net gain on sale of business line as well as administrative and executive expenses not allocated to the operating segments and the residual impact of methodology allocations such as funds transfer pricing offsets.

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

(Dollars in thousands)	Commercial Banking		Wealth Management Services		Corporate		Consolidated Total	
Three months ended March 31,	2015	2014	2015	2014	2015	2014	2015	2014
Net interest income (expense)	$20,625	$19,739	($14)	($4)	$5,091	$4,101	$25,702	$23,836
Provision for loan losses	—	300	—	—	—	—	—	300
Net interest income (expense) after provision for loan losses	20,625	19,439	(14)	(4)	5,091	4,101	25,702	23,536
Noninterest income	5,078	4,541	8,435	8,065	507	6,764	14,020	19,370
Noninterest expenses:								
Depreciation and amortization expense	671	585	306	311	60	51	1,037	947
Other noninterest expenses	13,587	13,553	5,915	5,387	2,992	9,405	22,494	28,345
Total noninterest expenses	14,258	14,138	6,221	5,698	3,052	9,456	23,531	29,292
Income before income taxes	11,445	9,842	2,200	2,363	2,546	1,409	16,191	13,614
Income tax expense	3,730	3,261	844	876	607	179	5,181	4,316
Net income	$7,715	$6,581	$1,356	$1,487	$1,939	$1,230	$11,010	$9,298
Total assets at period end	$3,015,691	$2,577,350	$52,568	$52,475	$534,255	$564,321	$3,602,514	$3,194,146
Expenditures for long-lived assets	1,067	1,075	114	171	45	45	1,226	1,291

(15) Other Comprehensive Income
The following table presents the activity in other comprehensive income:

Three months ended March 31,	2015			2014		
(Dollars in thousands)	Pre-tax Amounts	Income Taxes	Net of Tax	Pre-tax Amounts	Income Taxes	Net of Tax
Securities available for sale:						
Net change in fair value of securities available for sale	1,053	389	664	964	352	612
Cash flow hedges:						
Change in fair value of cash flow hedges	(32)	(24)	(8)	(43)	(27)	(16)
Net cash flow hedge losses reclassified into earnings (1)	145	52	93	145	53	92
Net change in fair value of cash flow hedges	113	28	85	102	26	76
Defined benefit plan obligation adjustment (2)	367	132	235	88	—	88
Total other comprehensive income	$1,533	$549	$984	$1,154	$378	$776

(1) Included in interest expense on junior subordinated debentures in the Consolidated Statements of Income.
(2) Included in salaries and employee benefits expense in the Consolidated Statements of Income.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

(Dollars in thousands)	Net Unrealized Gains on Available For Sale Securities	Noncredit -related Impairment	Net Unrealized Losses on Cash Flow Hedges	Pension Benefit Adjustment	Total
Balance at December 31, 2014	$4,110	$112	($287)	($12,744)	($8,809)
Other comprehensive income (loss) before reclassifications	664	—	(8)	—	656
Amounts reclassified from accumulated other comprehensive income	—	—	93	235	328
Net other comprehensive income	664	—	85	235	984
Balance at March 31, 2015	$4,774	$112	($202)	($12,509)	($7,825)

(Dollars in thousands)	Net Unrealized Gains on Available For Sale Securities	Noncredit -related Impairment	Net Unrealized Losses on Cash Flow Hedges	Pension Benefit Adjustment	Total
Balance at December 31, 2013	$3,089	$112	($618)	($4,136)	($1,553)
Other comprehensive income (loss) before reclassifications	612	—	(16)	—	596
Amounts reclassified from accumulated other comprehensive income	—	—	92	88	180
Net other comprehensive income	612	—	76	88	776
Balance at March 31, 2014	$3,701	$112	($542)	($4,048)	($777)

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(16) Earnings Per Common Share

Washington Trust utilizes the two-class method earnings allocation formula to determine earnings per share of each class of stock according to dividends and participation rights in undistributed earnings. Share-based payments that entitle holders to receive non-forfeitable dividends before vesting are considered participating securities and included in earnings allocation for computing basic earnings per share under this method. Undistributed income is allocated to common shareholders and participating securities under the two-class method based upon the proportion of each to the total weighted average shares available.

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

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

Three months ended March 31,	2015	2014
Earnings per common share - basic:		
Net income	$11,010	$9,298
Less dividends and undistributed earnings allocated to participating securities	(39)	(41)
Net income applicable to common shareholders	$10,971	$9,257
Weighted average common shares	16,759	16,626
Earnings per common share - basic	$0.65	$0.56
Earnings per common share - diluted:		
Net income	$11,010	$9,298
Less dividends and undistributed earnings allocated to participating securities	(39)	(41)
Net income applicable to common shareholders	$10,971	$9,257
Weighted average common shares	16,759	16,626
Dilutive effect of common stock equivalents	180	174
Weighted average diluted common shares	16,939	16,800
Earnings per common share - diluted	$0.65	$0.55

Weighted average common stock equivalents, not included in common stock equivalents above because they were anti-dilutive, totaled 77,450 and 54,600, respectively, for the three months ended March 31, 2015 and 2014.

(17) Commitments and Contingencies

Financial Instruments with Off-Balance Sheet Risk

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

(Dollars in thousands)	Mar 31, 2015	Dec 31, 2014
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit:		
Commercial loans	$303,443	$325,402
Home equity lines	206,515	200,932
Other loans	47,998	48,551
Standby letters of credit	5,248	5,102
Financial instruments whose notional amounts exceed the amount of credit risk:		
Forward loan commitments:		
Interest rate lock commitments	60,546	40,015
Commitments to sell mortgage loans	106,457	84,808
Customer related derivative contracts:		
Interest rate swaps with customers	209,416	165,795
Mirror swaps with counterparties	209,416	165,795
Interest rate risk management contracts:		
Interest rate swaps	22,681	22,681

Commitments to Extend Credit

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

Standby Letters of Credit

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These standby letters of credit are primarily issued to support the financing needs of the Bank’s commercial customers. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loan facilities to customers. The collateral supporting those commitments is essentially the same as for other commitments. Most standby letters of credit extend for one year. As of March 31, 2015 and December 31, 2014, the maximum potential amount of undiscounted future payments, not reduced by amounts that may be recovered, totaled $5.2 million and $5.1 million, respectively. At March 31, 2015 and December 31, 2014, there were no liabilities to beneficiaries resulting from standby letters of credit. Fee income on standby letters of credit was insignificant for the three months ended March 31, 2015 and 2014.

Forward Loan Commitments

Interest rate lock commitments are extended to borrowers and relate to the origination of residential real estate mortgage loans held for sale. To mitigate the interest rate risk inherent in these rate locks, as well as closed residential real estate mortgage loans held for sale, forward commitments are established to sell individual residential real estate mortgage loans. Both interest rate lock commitments and commitments to sell residential real estate mortgage loans are derivative financial instruments.

Leases

As of March 31, 2015 and December 31, 2014, the Corporation was obligated under various non-cancellable operating leases for properties used as banking offices and other office facilities. Lease expiration dates range from 4 months to 26 years, with renewal options on certain leases of 1 month to 25 years. Rental expense under the operating leases amounted to $790 thousand for the three months ended March 31, 2015, compared to $737 thousand for the same period in 2014. Rental expense is recorded as a component of net occupancy expense in the accompanying Consolidated Statements of Income. There have been no significant changes in the future minimum lease payments payable from those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

(18) Sale of Business Line

On March 1, 2014, the Corporation sold its merchant processing service business line to a third party. The sale resulted in a net gain of $6.3 million; after-tax $4.0 million, or 24 cents per diluted share. In connection with the sale, Washington Trust incurred divestiture related costs of $355 thousand; after-tax $227 thousand, or 1 cent per diluted share, in the first quarter of 2014. The net proceeds received from the sale totaled $7.2 million, including $900 thousand of deferred revenue that can be earned over a 5-year period by providing business referrals to the buyer. As of March 31, 2015, $720 thousand of deferred revenue remained to be earned under this arrangement.

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

The following discussion should be read in conjunction with the Corporation's consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2014, and in conjunction with the condensed unaudited consolidated financial statements and notes thereto included in Item 1 of this report. Operating results for the three months ended March 31, 2015 are not necessarily indicative of the results for the full-year ended December 31, 2015 or any future period.

Forward-Looking Statements

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

Some of the factors that might cause these differences include the following: weakness in national, regional or international economic conditions or conditions affecting the banking or financial services industries or financial capital markets; volatility in national and international financial markets; 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 the 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 our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, as updated by our Quarterly Reports on Form 10-Q and other filings submitted to the SEC, may result in these differences. You should carefully review all of these factors and you should be aware that there may be other factors that could cause these differences. These forward-looking statements were based on information, plans and estimates at the date of this report, and we assume no obligation to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events or other changes.

Critical Accounting Policies and Estimates

Accounting policies involving significant judgments, estimates and assumptions by management, which have, or could have, a material impact on the 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 the assessment of investment securities for impairment. There have been no significant changes in the Corporation's critical accounting policies and estimates from those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Recently Issued Accounting Pronouncements

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

Overview

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

and its Internet website at www.washtrust.com.

Our largest source of operating income is net interest income, the difference between interest earned on loans and securities and interest paid on deposits and borrowings. In addition, we generate noninterest income from a number of sources, including wealth management services, 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 fluctuations, 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 has been stable to improving, generally in line with the pace of recovery in regional economic conditions.

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 the first quarter of 2015, we opened a new full-service branch in Rumford, Rhode Island, and we plan to open another new full-service branch in Providence, Rhode Island, later in 2015 or early 2016.

Composition of Earnings

Net income for the first quarter of 2015 amounted to $11.0 million, or $0.65 per diluted share, up from $9.3 million, or $0.55 per diluted share, for the first quarter of 2014. The returns on average equity and average assets for the first quarter of 2015 were 12.54% and 1.23%, respectively, compared to 11.10% and 1.17%, respectively, for the same quarter in 2014.

First quarter 2014 results included the following transactions, which reduced net income for the three months ended March 31, 2014 by $245 thousand, or 1 cent per diluted share:

- On March 1, 2014, the Corporation sold its merchant processing service 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.
- 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 $6.3 million, after-tax $4.0 million, or 24 cents per diluted share.

Excluding the above mentioned transactions, as well as the merchant processing fee revenue and expenses recognized prior to the consummation of the business line sale, increased profitability in 2015 as compared to 2014 reflected growth in net interest income, a decrease in the provision for loan losses, higher wealth management revenues and increased mortgage banking revenues, which were partially offset by higher salaries and employee benefit costs.

Net interest income for the three months ended March 31, 2015 amounted to $25.7 million, up by 8% from the comparable period in 2014, reflecting growth in average loan balances. The net interest margin (fully taxable equivalent net interest income as a percentage of average interest-earnings assets) was 3.18% for the three months ended March 31, 2015, compared to 3.34% for the comparable period in 2014.

Based on the assessment of the stable asset quality metrics, the relatively modest loan growth in the first quarter of 2015 and other favorable changes in loss exposure, management concluded that no provision for loan losses was necessary for the three months ended March 31, 2015. A $300 thousand loan loss provision was recognized in earnings for the comparable period in 2014.

Wealth management revenues for the three months ended March 31, 2015 totaled $8.4 million, up by 5% from the same period in 2014, due to an increase in asset-based wealth management revenues.

Net gains on loan sales and commissions on loans originated for others (“mortgage banking revenues”) for the three months ended March 31, 2015 amounted to $2.6 million, up by 109% from the same period in 2014, due to an increase in residential mortgage loan sales activity.

Salaries and employee benefit costs, the largest component of noninterest expenses, totaled $15.5 million, up by 6% from the same period in 2014, largely due to increases in our mortgage banking area and wealth management business line.

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

The Commercial Banking segment reported net income of $7.7 million for the three months ended March 31, 2015, compared to $6.6 million for the same period in 2014. Net interest income for this operating segment for the three months ended March 31, 2015, increased by $886 thousand, or 4%, from the same period in 2014, primarily due to growth in interest-earning assets. However, the increase was impacted by lower yields on loans as well as narrower spreads in the funds transfer pricing allocation with the Corporate unit. Due to stable and favorable trends in asset quality and credit quality indicators and relatively modest loan growth in the first quarter of 2015, no loan loss provision was recognized for the three months ended March 31, 2015, compared to a $300 thousand loan loss provision charged to earnings in the same quarter in 2014. Noninterest income derived from the Commercial Banking segment totaled $5.1 million for the three months ended March 31, 2015, up by $537 thousand, or 12%, from the comparable 2014 period. The increase in noninterest income was largely due to higher mortgage banking revenues and customer-related interest rate swap fee income, partially offset by 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 the three months ended March 31, 2015 were up modestly from the same period in 2014, reflecting increases in salaries and employee benefit costs and net occupancy costs, which were partially offset by a decline in merchant processing costs.

The Wealth Management Services segment reported net income of $1.4 million for the three months ended March 31, 2015, compared to $1.5 million for the same period in 2014. Noninterest income derived from the Wealth Management Services segment was $8.4 million for the three months ended March 31, 2015, up by 5% compared to the same period in 2014, due to an increase in asset-based wealth management revenues. Wealth Management assets under administration totaled $5.2 billion at March 31, 2015, up by 2% from December 31, 2014 and up by 7% from March 31, 2014. Noninterest expenses for the Wealth Management Services segment totaled $6.2 million for the three months ended March 31, 2015, up by $523 thousand, or 9%, from the same period in 2014, primarily due to an increase in salaries and benefit costs.

Net income attributed to the Corporate unit amounted to $1.9 million for the three months ended March 31, 2015, compared to $1.2 million for the same period in 2014. The Corporate unit's net interest income for the three months ended March 31, 2015 increased by $1.0 million from the comparable 2014 period, largely due to a favorable change in net funds transfer pricing offsets with the Commercial Banking segment, partially offset by a decrease in interest and dividend income. Noninterest income for the Corporate unit for the three months ended March 31, 2015 decreased by $6.3 million, compared to the same period a year ago, due to the gain on the sale of the merchant processing services business line recognized in the first quarter of 2014. The Corporate unit's noninterest expenses for the three months ended March 31, 2015 decreased by $6.4 million from the same period in 2014, largely due to debt prepayment penalty expense recognized in the first quarter of 2014. 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.

FTE net interest income for the three months ended March 31, 2015 amounted to $26.4 million up by $1.9 million, or 8%, from the $24.5 million reported for the same period in 2014. The net interest margin was 3.18% for the three months ended March 31, 2015, compared to 3.34% for the same period in 2014.

Average interest-earning assets amounted to $3.4 billion for the three months ended March 31, 2015 and were up by $396.1 million, or 13%, from the average balances for the same period in 2014, primarily due to loan growth. The yield on average interest-earning assets for the three months ended March 31, 2015 declined by 24 basis points from the comparable period in 2014, reflecting the impact of a sustained low interest rate environment.

Total average loans for the three months ended March 31, 2015 increased by $444.1 million, or 18%, from the average balances for the comparable 2014 period, with growth in average residential real estate mortgage and commercial loan balances. The yield on total loans for the three months ended March 31, 2015 was 4.01%, down by 25 basis points from the same period in 2014. The contribution of loan prepayment fees and other fees to the yield on total loans was 4 basis points and 5 basis points, respectively, for the three months ended March 31, 2015 and 2014. 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 the three months ended March 31, 2015 decreased by $36.7 million, or 9%, from the average balances for the same period a year earlier, reflecting maturities, calls and pay-downs. The FTE rate of return on securities for the three months ended March 31, 2015 decreased by 61 basis points from the comparable period in 2014, due to runoff of higher yielding securities.

Average interest-bearing liabilities for the three months ended March 31, 2015 increased by $367.5 million, or 15%, from the average balances for the same period in 2014, largely due to increases in wholesale brokered time deposits and FHLBB advances. The cost of funds for the three months ended March 31, 2015 declined by 11 basis points from the comparable 2014 period, largely due to a decline in the rate paid on FHLBB advances. See additional discussion under the caption "Sources of Funds" for additional information regarding funding transactions.

The average balance of FHLBB advances for the three months ended March 31, 2015 was up by $134.8 million compared to the average balances for the same period in 2014. The average rate paid on such advances for the three months ended March 31, 2015 was 1.91% compared to 3.37% for the comparable period in 2014.

Total average interest-bearing deposits for the three months ended March 31, 2015 increased by $232.8 million, or 11%, from the average balances for the same period in 2014. This included an increase of $173.0 million in average out-of-market wholesale brokered time certificates of deposit. The average rate paid on wholesale brokered time deposits for the first three months of 2015 increased by 17 basis points compared to the same period in 2014.

Excluding the increases in wholesale brokered time deposits, average in-market interest-bearing deposits grew by $59.7 million, or 3%, 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 in-market interest-bearing deposits for the three months ended March 31, 2015 decreased by 5 basis points compared to the same period in 2014, 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 the three months ended March 31, 2015 increased by $15.9 million compared to the average balances for the same period in 2014.

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

The following tables present average balance and interest rate information. Tax-exempt income is converted to a 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 gain (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.

Three months ended March 31,	2015			2014		
(Dollars in thousands)	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets:						
Commercial loans	$1,544,720	$15,313	4.02	$1,336,798	$14,601	4.43
Residential real estate loans, including mortgage loans held for sale	1,030,016	10,314	4.06	802,412	8,208	4.15
Consumer loans	336,333	3,168	3.82	327,793	3,097	3.83
Total loans	2,911,069	28,795	4.01	2,467,003	25,906	4.26
Cash, federal funds sold and short-term investments	51,058	25	0.20	62,246	35	0.23
FHLBB stock	37,730	165	1.77	37,730	142	1.53
Taxable debt securities	322,570	2,259	2.84	344,009	2,942	3.47
Nontaxable debt securities	44,659	664	6.03	59,958	884	5.98
Total securities	367,229	2,923	3.23	403,967	3,826	3.84
Total interest-earning assets	3,367,086	31,908	3.84	2,970,946	29,909	4.08
Noninterest-earning assets	221,795			203,335		
Total assets	$3,588,881			$3,174,281		
Liabilities and Shareholders' Equity:						
Interest-bearing demand deposits	$37,851	$8	0.09	$10,767	$—	—
NOW accounts	329,588	48	0.06	304,201	47	0.06
Money market accounts	800,036	883	0.45	685,142	609	0.36
Savings accounts	293,926	46	0.06	292,809	45	0.06
Time deposits (in-market)	567,063	1,469	1.05	675,836	1,931	1.16
Wholesale brokered time deposits	294,664	935	1.29	121,622	337	1.12
FHLBB advances	404,773	1,902	1.91	269,989	2,241	3.37
Junior subordinated debentures	22,681	241	4.31	22,681	241	4.31
Other	128	3	9.51	173	3	7.03
Total interest-bearing liabilities	2,750,710	5,535	0.82	2,383,220	5,454	0.93
Demand deposits	438,904			422,975		
Other liabilities	48,052			33,057		
Shareholders' equity	351,215			335,029		
Total liabilities and shareholders' equity	$3,588,881			$3,174,281		
Net interest income		$26,373			$24,455	
Interest rate spread			3.02			3.15
Net interest margin			3.18			3.34

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

(Dollars in thousands)		
Three months ended March 31,	2015	2014
Commercial loans	$442	$317
Nontaxable debt securities	229	302
Total	$671	$619

Volume / Rate Analysis - Interest Income and Expense (Fully Taxable Equivalent Basis)

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

(Dollars in thousands)	Three months March 31, 2015 vs. 2014 Increase (Decrease) Due to		
	Volume	Rate	Net Change
Interest on Interest-Earning Assets:			
Commercial loans	$2,141	($1,429)	$712
Residential real estate loans, including mortgage loans held for sale	2,287	(181)	2,106
Consumer loans	79	(8)	71
Cash, federal funds sold and other short-term investments	(6)	(4)	(10)
FHLBB stock	—	23	23
Taxable debt securities	(175)	(508)	(683)
Nontaxable debt securities	(227)	7	(220)
Total interest income	4,099	(2,100)	1,999
Interest on Interest-Bearing Liabilities:			
Interest-bearing demand deposits	—	8	8
NOW accounts	1	—	1
Money market accounts	110	164	274
Savings accounts	1	—	1
Time deposits (in-market)	(291)	(171)	(462)
Wholesale brokered time deposits	540	58	598
FHLBB advances	859	(1,198)	(339)
Junior subordinated debentures	—	—	—
Other	(1)	1	—
Total interest expense	1,219	(1,138)	81
Net interest income	$2,880	($962)	$1,918

Provision and Allowance for Loan Losses

The provision for loan losses is based on management's periodic assessment of the adequacy of the allowance for loan losses which, in turn, is based on such interrelated factors as the composition of the loan portfolio and its inherent risk characteristics; the level of nonperforming loans and net charge-offs, both current and historic; local economic and credit conditions; the direction of real estate values; and regulatory guidelines. The provision for loan losses is charged against earnings in order to maintain an allowance for loan losses that reflects management's best estimate of probable losses inherent in the loan portfolio at the balance sheet date.

Based on management's assessment of the stable asset quality metrics, the relatively modest loan growth in the first quarter of 2015 and other favorable changes in loss exposure allocation, there was no provision for loan losses charged to earnings in the first quarter of 2015. A loan loss provision of $300 thousand was recognized in the first quarter of 2014. Net charge-offs for the three months ended March 31, 2015 totaled $213 thousand. Net charge-offs for the three months ended March 31, 2014 totaled $1.1 million and included an $853 thousand charge-off recognized on one commercial mortgage relationship.

The level of nonaccrual loan formation in recent quarters has been relatively low, including $1.6 million in the first quarter of 2015 and $2.1 million in the fourth quarter of 2014. In comparison, the average quarterly amount of nonaccrual loan formation for the 7 quarters ended September 30, 2014 was $3.4 million. In addition, the amount of potential problem loans, as described under the caption "Asset Quality," has decreased to $573 thousand at March 31, 2015. These factors have been and will continue to be taken into consideration in determining the level of future loan loss provisions along with the other factors mentioned above.

The allowance for loan losses was $27.8 million, or 0.97% of total loans, at March 31, 2015, compared to $28.0 million, or 0.98% of total loans, at December 31, 2014. See additional discussion under the caption "Asset Quality" below for further information on the Allowance for Loan Losses.

Noninterest Income

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

(Dollars in thousands)			Change	
Three months ended March 31,	2015	2014	$	%
Noninterest income:				