

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

FORM 10-Q

(Mark One)

- ☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended
June 30, 2021 or
Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from
☐ _____ to _____.

Commission file number: **001-32991**

WASHINGTON TRUST BANCORP, INC.

(Exact name of registrant as specified in its charter)

Rhode Island

(State or other jurisdiction of incorporation or organization)

05-0404671

(IRS Employer Identification No.)

23 Broad Street

Westerly, Rhode Island

(Address of principal executive offices)

02891

(Zip Code)

(401) 348-1200

(Registrant's telephone number, including area code)

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

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

Large accelerated filer ☐
Non-accelerated filer ☐

Accelerated filer ☒
Smaller reporting company ☐
Emerging growth company ☐

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

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

The number of shares of common stock of the registrant outstanding as of July 31, 2021 was 17,320,449.

FORM 10-Q
WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
For the Quarter Ended June 30, 2021

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PART I. Financial Information**Item 1. Financial Statements****Washington Trust Bancorp, Inc. and Subsidiaries****Consolidated Balance Sheets (unaudited)****(Dollars in thousands, except par value)**

	June 30, 2021	December 31, 2020
Assets:		
Cash and due from banks	\$127,743	\$194,143
Short-term investments	4,463	8,125
Mortgage loans held for sale, at fair value	31,492	61,614
Available for sale debt securities, at fair value (amortized cost of \$1,051,661, net of allowance for credit losses on securities of \$0 at June 30, 2021; and amortized cost of \$881,570; net of allowance for credit losses on securities of \$0 at December 31, 2020)	1,052,577	894,571
Federal Home Loan Bank stock, at cost	22,757	30,285
Loans:		
Total loans	4,299,800	4,195,990
Less: allowance for credit losses on loans	41,879	44,106
Net loans	4,257,921	4,151,884
Premises and equipment, net	29,031	28,870
Operating lease right-of-use assets	28,329	29,521
Investment in bank-owned life insurance	92,355	84,193
Goodwill	63,909	63,909
Identifiable intangible assets, net	5,853	6,305
Other assets	135,550	159,749
Total assets	\$5,851,980	\$5,713,169
Liabilities:		
Deposits:		
Noninterest-bearing deposits	\$901,801	\$832,287
Interest-bearing deposits	3,823,858	3,546,066
Total deposits	4,725,659	4,378,353
Federal Home Loan Bank advances	408,592	593,859
Junior subordinated debentures	22,681	22,681
Operating lease liabilities	30,558	31,717
Other liabilities	116,634	152,364
Total liabilities	5,304,124	5,178,974
Commitments and contingencies (Note 18)		
Shareholders' Equity:		
Common stock of \$.0625 par value; authorized 60,000,000 shares; 17,363,457 shares issued and 17,320,446 shares outstanding at June 30, 2021 and 17,363,457 shares issued and 17,265,337 shares outstanding at December 31, 2020	1,085	1,085
Paid-in capital	125,442	125,610
Retained earnings	437,927	418,246
Accumulated other comprehensive loss	(15,128)	(7,391)
Treasury stock, at cost; 43,011 shares at June 30, 2021 and 98,120 shares at December 31, 2020	(1,470)	(3,355)
Total shareholders' equity	547,856	534,195
Total liabilities and shareholders' equity	\$5,851,980	\$5,713,169

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

Washington Trust Bancorp, Inc. and Subsidiaries
Consolidated Statements of Income (unaudited)

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

Periods ended June 30,	Three Months		Six Months	
	2021	2020	2021	2020
Interest income:				
Interest and fees on loans	\$34,820	\$36,005	\$68,979	\$76,013
Interest on mortgage loans held for sale	405	440	846	725
Taxable interest on debt securities	3,441	5,477	6,683	11,311
Dividends on Federal Home Loan Bank stock	110	654	243	1,294
Other interest income	32	36	65	385
Total interest and dividend income	38,808	42,612	76,816	89,728
Interest expense:				
Deposits	2,961	7,112	6,624	15,648
Federal Home Loan Bank advances	1,001	4,382	2,381	10,147
Junior subordinated debentures	92	171	186	384
Other interest expense	—	2	—	2
Total interest expense	4,054	11,667	9,191	26,181
Net interest income	34,754	30,945	67,625	63,547
Provision for credit losses	—	2,200	(2,000)	9,236
Net interest income after provision for credit losses	34,754	28,745	69,625	54,311
Noninterest income:				
Wealth management revenues	10,428	8,605	20,323	17,294
Mortgage banking revenues	5,994	14,851	17,921	20,947
Card interchange fees	1,316	1,031	2,449	1,978
Service charges on deposit accounts	635	517	1,244	1,377
Loan related derivative income	1,175	99	1,642	2,554
Income from bank-owned life insurance	607	791	1,163	1,355
Other income	438	426	1,825	742
Total noninterest income	20,593	26,320	46,567	46,247
Noninterest expense:				
Salaries and employee benefits	22,082	19,464	43,609	38,932
Outsourced services	3,217	2,784	6,417	5,784
Net occupancy	2,042	1,909	4,170	3,928
Equipment	975	895	1,969	1,872
Legal, audit and professional fees	678	659	1,275	1,481
FDIC deposit insurance costs	374	674	719	1,096
Advertising and promotion	560	186	782	445
Amortization of intangibles	225	230	451	460
Debt prepayment penalties	895	—	4,230	—
Other expenses	1,964	1,677	4,103	4,933
Total noninterest expense	33,012	28,478	67,725	58,931
Income before income taxes	22,335	26,587	48,467	41,627
Income tax expense	4,875	5,547	10,536	8,686
Net income	\$17,460	\$21,040	\$37,931	\$32,941
Net income available to common shareholders				
Weighted average common shares outstanding - basic	17,314	17,257	17,295	17,301
Weighted average common shares outstanding - diluted	17,436	17,292	17,445	17,377
Per share information:				
Basic earnings per common share	\$1.01	\$1.22	\$2.19	\$1.90
Diluted earnings per common share	\$1.00	\$1.21	\$2.17	\$1.89

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

Washington Trust Bancorp, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income (unaudited)

(Dollars in thousands)

Periods ended June 30,	Three Months		Six Months	
	2021	2020	2021	2020
Net income	\$17,460	\$21,040	\$37,931	\$32,941
Other comprehensive income (loss), net of tax:				
Net change in fair value of available for sale debt securities	4,134	(1,808)	(9,185)	10,998
Net change in fair value of cash flow hedges	70	8	367	(1,042)
Net change in defined benefit plan obligations	674	409	1,081	819
Total other comprehensive income (loss), net of tax	4,878	(1,391)	(7,737)	10,775
Total comprehensive income	\$22,338	\$19,649	\$30,194	\$43,716

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

Washington Trust Bancorp, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity (unaudited)
(Dollars and shares in thousands)

For the three months ended June 30, 2021	Common Shares Outstanding	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total
Balance at March 31, 2021	17,306	\$1,085	\$124,882	\$429,598	(\$20,006)	(\$1,960)	\$533,599
Net income	—	—	—	17,460	—	—	17,460
Total other comprehensive income, net of tax	—	—	—	—	4,878	—	4,878
Cash dividends declared (\$0.52 per share)	—	—	—	(9,131)	—	—	(9,131)
Share-based compensation	—	—	964	—	—	—	964
Exercise of stock options, issuance of other compensation-related equity awards, net of awards surrendered	14	—	(404)	—	—	490	86
Balance at June 30, 2021	17,320	\$1,085	\$125,442	\$437,927	(\$15,128)	(\$1,470)	\$547,856

For the six months ended June 30, 2021	Common Shares Outstanding	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance at December 31, 2020	17,265	\$1,085	\$125,610	\$418,246	(\$7,391)	(\$3,355)	\$534,195
Net income	—	—	—	37,931	—	—	37,931
Total other comprehensive loss, net of tax	—	—	—	—	(7,737)	—	(7,737)
Cash dividends declared (\$1.04 per share)	—	—	—	(18,250)	—	—	(18,250)
Share-based compensation	—	—	1,882	—	—	—	1,882
Exercise of stock options, issuance of other compensation-related equity awards, net of awards surrendered	55	—	(2,050)	—	—	1,885	(165)
Balance at June 30, 2021	17,320	\$1,085	\$125,442	\$437,927	(\$15,128)	(\$1,470)	\$547,856

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

Washington Trust Bancorp, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity (unaudited)
(Dollars and shares in thousands)

For the three months ended June 30, 2020	Common Shares Outstanding	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at March 31, 2020	17,252	\$1,085	\$123,167	\$387,243	\$929	(\$3,827)	\$508,597
Net income	—	—	—	21,040	—	—	21,040
Total other comprehensive loss, net of tax	—	—	—	—	(1,391)	—	(1,391)
Cash dividends declared (\$0.51 per share)	—	—	—	(8,897)	—	—	(8,897)
Share-based compensation	—	—	855	—	—	—	855
Exercise of stock options, issuance of other compensation-related equity awards, net of awards surrendered	8	—	(338)	—	—	297	(41)
Balance at June 30, 2020	17,260	\$1,085	\$123,684	\$399,386	(\$462)	(\$3,530)	\$520,163

For the six months ended June 30, 2020	Common Shares Outstanding	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total
Balance at December 31, 2019	17,363	\$1,085	\$123,281	\$390,363	(\$11,237)	\$—	\$503,492
Cumulative effect of change in accounting principle - Topic 326	—	—	—	(6,108)	—	—	(6,108)
Net income	—	—	—	32,941	—	—	32,941
Total other comprehensive income, net of tax	—	—	—	—	10,775	—	10,775
Cash dividends declared (\$1.02 per share)	—	—	—	(17,810)	—	—	(17,810)
Share-based compensation	—	—	1,613	—	—	—	1,613
Exercise of stock options, issuance of other compensation-related equity awards, net of awards surrendered	22	—	(1,210)	—	—	792	(418)
Treasury stock purchased under the 2019 Stock Repurchase Program	(125)	—	—	—	—	(4,322)	(4,322)
Balance at June 30, 2020	17,260	\$1,085	\$123,684	\$399,386	(\$462)	(\$3,530)	\$520,163

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

Washington Trust Bancorp, Inc. and Subsidiaries
Consolidated Statement of Cash Flows (unaudited)

(Dollars in thousands)

Six months ended June 30,	2021	2020
Cash flows from operating activities:		
Net income	\$37,931	\$32,941
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	(2,000)	9,236
Depreciation of premises and equipment	1,667	1,557
Net amortization of premiums and discounts on debt securities and loans	2,356	2,716
Amortization of intangibles	451	460
Share-based compensation	1,882	1,613
Tax benefit (expense) from stock option exercises and other equity awards	127	(77)
Income from bank-owned life insurance	(1,163)	(1,355)
Net gains on loan sales, including fair value adjustments	(17,876)	(21,074)
Proceeds from sales of loans, net	535,722	447,859
Loans originated for sale	(492,461)	(451,539)
Decrease (increase) in operating lease right-of-use assets	1,192	(230)
(Decrease) increase in operating lease liabilities	(1,159)	264
Decrease (increase) in other assets	26,859	(67,028)
(Decrease) increase in other liabilities	(34,102)	59,577
Net cash provided by operating activities	59,426	14,920
Cash flows from investing activities:		
Purchases of:		
Available for sale debt securities: Mortgage-backed	(227,131)	(149,481)
Available for sale debt securities: Other	(174,669)	(98,500)
Maturities, calls and principal payments of:		
Available for sale debt securities: Mortgage-backed	206,479	120,745
Available for sale debt securities: Other	20,500	100,500
Net redemption of Federal Home Loan Bank stock	7,528	836
Net increase in loans	(56,094)	(336,489)
Purchases of loans	(40,881)	(51,081)
Proceeds from the sale of property acquired through foreclosure or repossession	—	1,107
Purchases of premises and equipment	(1,828)	(925)
Purchases of bank-owned life insurance	(7,000)	—
Proceeds from surrender of bank-owned life insurance	—	787
Net cash used in investing activities	(273,096)	(412,501)
Cash flows from financing activities:		
Net increase in deposits	347,306	602,554
Proceeds from Federal Home Loan Bank advances	1,009,000	1,346,999
Repayment of Federal Home Loan Bank advances	(1,194,267)	(1,483,412)
Proceeds from Payment Protection Program Lending Facility	—	38,900
Treasury stock purchased	—	(4,322)
Net proceeds from stock option exercises and issuance of other equity awards, net of awards surrendered	(165)	(418)
Cash dividends paid	(18,266)	(17,835)
Net cash provided by financing activities	143,608	482,466
Net (decrease) increase in cash and cash equivalents	(70,062)	84,885
Cash and cash equivalents at beginning of period	202,268	138,455
Cash and cash equivalents at end of period	\$132,206	\$223,340
Noncash Activities:		
Loans charged off	\$381	\$961
Loans transferred to property acquired through foreclosure or repossession	—	28
Supplemental Disclosures:		
Interest payments	\$10,798	\$27,257
Income tax payments	9,966	8,234

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

Condensed Notes to Unaudited Consolidated Financial Statements

Note 1 - Basis of Presentation

Washington Trust Bancorp, Inc. (the “Bancorp”) is a publicly-owned registered bank holding company that has elected to be a financial holding company. The Bancorp’s subsidiaries include The Washington Trust Company, of Westerly (the “Bank”), a Rhode Island chartered financial institution founded in 1800, and Weston Securities Corporation (“WSC”). Through its subsidiaries, the Bancorp offers a complete product line of financial services, including commercial, residential and consumer lending, retail and commercial deposit products, and wealth management services through its offices in Rhode Island, eastern Massachusetts and Connecticut.

The Unaudited Consolidated Financial Statements include the accounts of the Bancorp and its subsidiaries (collectively the “Corporation” or “Washington Trust”). All intercompany balances and transactions have been eliminated in consolidation.

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

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

The Unaudited Consolidated Financial Statements of the Corporation presented herein have been prepared pursuant to the rules of the Securities and Exchange Commission (“SEC”) for quarterly reports on Form 10-Q and do not include all of the information and note disclosures required by GAAP. In the opinion of management, all adjustments (consisting of normal recurring adjustments) and disclosures considered necessary for the fair presentation of the accompanying Unaudited Consolidated Financial Statements have been included. Interim results are not necessarily indicative of the results of the entire year. The accompanying Unaudited Consolidated Financial Statements should be read in conjunction with the Audited Consolidated Financial Statements and notes thereto included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

Note 2 - Recently Issued Accounting Pronouncements

Accounting Standards Adopted in 2021

Income Taxes - ASC 745

Accounting Standards Update No. 2019-12, “Income Taxes - Simplifying the Accounting for Income Taxes” (“ASU 2019-12”), was issued in December 2019 to simplify the accounting for income taxes. ASU 2019-12 is effective for fiscal years beginning after December 15, 2020, with early adoption permitted. Certain provisions under ASU 2019-12 require prospective application, some require modified retrospective application through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption, while other provisions require retrospective application to all periods presented in the consolidated financial statements upon adoption. The Corporation adopted the provisions of ASU 2019-12 effective January 1, 2021 and the adoption did not have a material impact on the Corporation’s consolidated financial statements.

Receivables - ASC 310

Accounting Standards Update No. 2020-08, “Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs” (“ASU 2020-08”), was issued in October 2020 to provide further clarification and update the previously issued guidance in ASU 2017-08, “Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20: Premium Amortization on Purchased Callable Debt Securities)” (“ASU 2017-08”). ASU 2017-08 shortened the amortization period for certain callable debt securities purchased at a premium by requiring that the premium be amortized to the earliest call date. The Corporation early adopted the provisions of ASU 2017-08, effective January 1, 2017. ASU 2020-08 requires that at each reporting period, to the extent that the amortized cost of an individual callable debt security exceeds the amount

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

repayable by the issuer at the next call date, the excess premium shall be amortized to the next call date. ASU 2020-08 is effective for fiscal years ending after December 15, 2020 and early adoption is not permitted. The provisions under ASU 2020-08 are required to be applied prospectively. The Corporation adopted the provisions of ASU 2020-08 effective January 1, 2020 and the adoption did not have an impact on the Corporation's consolidated financial statements.

Accounting Standards Pending Adoption

There were no recently issued accounting pronouncements, applicable to the Corporation, that are pending adoption as of June 30, 2021.

Note 3 - Cash and Due from Banks

The Bank maintains certain average reserve balances to meet the requirements of the Federal Reserve Bank of Boston ("FRB"). Some or all of these reserve requirements may be satisfied with vault cash. Effective March 26, 2020, the FRB reduced the reserve requirement ratios to zero percent to eliminate the need for depository institutions, such as the Bank, to maintain balances in accounts at the FRB to satisfy reserve requirements. As a result, there were no reserve balances included in cash and due from banks in the Unaudited Consolidated Balance Sheets at June 30, 2021 and December 31, 2020.

Cash and due from banks included interest-bearing deposits in other banks of \$93.9 million and \$138.4 million, respectively, at June 30, 2021 and December 31, 2020.

See Note 10 for additional disclosure regarding cash collateral pledged to derivative counterparties.

Note 4 - Securities

Available for Sale Debt Securities

The following tables present the amortized cost, gross unrealized holding gains, gross unrealized holding losses, allowance for credit losses ("ACL") on securities and fair value of securities by major security type and class of security:

(Dollars in thousands)

June 30, 2021	Amortized Cost	Unrealized Gains	Unrealized Losses	Allowance for Credit Losses	Fair Value
Available for Sale Debt Securities:					
Obligations of U.S. government-sponsored enterprises	\$186,051	\$248	(\$2,044)	\$—	\$184,255
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	841,102	10,009	(6,075)	—	845,036
Individual name issuer trust preferred debt securities	11,360	—	(294)	—	11,066
Corporate bonds	13,148	—	(928)	—	12,220
Total available for sale debt securities	\$1,051,661	\$10,257	(\$9,341)	\$—	\$1,052,577

(Dollars in thousands)

December 31, 2020	Amortized Cost	Unrealized Gains	Unrealized Losses	Allowance for Credit Losses	Fair Value
Available for Sale Debt Securities:					
Obligations of U.S. government-sponsored enterprises	\$131,186	\$628	(\$145)	\$—	\$131,669
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	725,890	14,942	(527)	—	740,305
Individual name issuer trust preferred debt securities	13,341	—	(672)	—	12,669
Corporate bonds	11,153	—	(1,225)	—	9,928
Total available for sale debt securities	\$881,570	\$15,570	(\$2,569)	\$—	\$894,571

Amortized cost of available for sale debt securities excludes accrued interest receivable of \$2.6 million and \$2.4 million, respectively, as of June 30, 2021 and December 31, 2020. Accrued interest receivable is included in other assets in the Unaudited Consolidated Balance Sheets.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

As of June 30, 2021 and December 31, 2020, debt securities with a fair value of \$333.5 million and \$291.9 million, respectively, were pledged as collateral for Federal Home Loan Bank of Boston (“FHLB”) borrowings, potential borrowings with the FRB’s discount window, certain public deposits and for other purposes. See Note 8 for additional disclosure on FHLB borrowings.

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

(Dollars in thousands)

June 30, 2021	Amortized Cost	Fair Value
Due in one year or less	\$182,321	\$183,170
Due after one year to five years	420,900	422,554
Due after five years to ten years	358,203	356,788
Due after ten years	90,237	90,065
Total debt securities	\$1,051,661	\$1,052,577

Included in the above table are debt securities with an amortized cost balance of \$209.8 million and a fair value of \$206.7 million at June 30, 2021 that are callable at the discretion of the issuers. Final maturities of the callable securities range from 3 years to 16 years, with call features ranging from 1 month to 1 year.

Assessment of Available for Sale Debt Securities for Impairment

Management assesses the decline in fair value of investment securities 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 both qualitative and quantitative factors to assess whether an impairment exists.

A debt security is placed on nonaccrual status at the time any principal or interest payments become more than 90 days delinquent or if full collection of interest or principal becomes uncertain. Accrued interest for a debt security placed on nonaccrual is reversed against interest income. There were no debt securities on nonaccrual status at June 30, 2021 and 2020 and, therefore there was no accrued interest related to debt securities reversed against interest income for the three and six months ended June 30, 2021 and 2020.

The following tables summarize available for sale debt securities in an unrealized loss position, for which an allowance for credit losses on securities has not been recorded, segregated by length of time that the securities have been in a continuous unrealized loss position:

(Dollars in thousands)

June 30, 2021	Less than 12 Months			12 Months or Longer			Total		
	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
Obligations of U.S. government-sponsored enterprises	10	\$102,856	(\$2,044)	—	\$—	\$—	10	\$102,856	(\$2,044)
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	41	441,852	(5,962)	2	6,349	(113)	43	448,201	(6,075)
Individual name issuer trust preferred debt securities	—	—	—	4	11,066	(294)	4	11,066	(294)
Corporate bonds	—	—	—	4	12,220	(928)	4	12,220	(928)
Total	51	\$544,708	(\$8,006)	10	\$29,635	(\$1,335)	61	\$574,343	(\$9,341)

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(Dollars in thousands)

	Less than 12 Months			12 Months or Longer			Total		
	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
December 31, 2020									
Obligations of U.S. government-sponsored enterprises	6	\$63,856	(\$145)	—	\$—	\$—	6	\$63,856	(\$145)
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	16	107,283	(527)	—	—	—	16	107,283	(527)
Individual name issuer trust preferred debt securities	—	—	—	5	12,669	(672)	5	12,669	(672)
Corporate bonds	—	—	—	3	9,928	(1,225)	3	9,928	(1,225)
Total	22	\$171,139	(\$672)	8	\$22,597	(\$1,897)	30	\$193,736	(\$2,569)

Deterioration in credit quality of the underlying issuers of the securities, deterioration in the condition of the financial services industry, worsening of the current economic environment, or 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 credit losses, and the Corporation may incur write-downs.

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

The gross unrealized losses on U.S. government agency and U.S. government-sponsored debt securities, including mortgage-backed securities, were primarily attributable to relative changes in interest rates since the time of purchase. The contractual cash flows for these securities are guaranteed by U.S. government agencies and U.S. government-sponsored enterprises. The issuers of these securities continue to make timely principal and interest payments and none of these securities were past due at June 30, 2021. Management believes that the unrealized losses on these debt securities are a function of changes in investment spreads and interest rate movements and not changes in credit quality. Management expects to recover the entire amortized cost basis of these securities. Furthermore, the Corporation does not intend to sell these securities and it is likely that the Corporation will not be required to sell these securities before recovery of their cost basis, which may be maturity. Therefore, no allowance for credits losses on securities was recorded at June 30, 2021.

Individual Name Issuer Trust Preferred Debt Securities

Included in debt securities in an unrealized loss position at June 30, 2021 were four trust preferred securities issued by four individual companies in the banking sector. Based on the information available through the filing date of this report, all individual name issuer trust preferred debt securities held in our portfolio continue to accrue interest and make payments as expected with no payment deferrals or defaults on the part of the issuers. Management reviewed the collectability 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. As of June 30, 2021, there were two individual name issuer trust preferred debt securities with an amortized cost of \$4.0 million and unrealized losses of \$169 thousand that were rated below investment grade by Standard & Poors, Inc. ("S&P"). We noted no additional downgrades to below investment grade between June 30, 2021 and the filing date of this report. Management believes the unrealized losses on these debt securities are primarily attributable to changes in the investment spreads and interest rates and not changes in the credit quality of the issuers of the debt securities. Management expects to recover the entire amortized cost basis of these securities. Furthermore, the Corporation does not intend to sell these securities and it is likely that the Corporation will not be required to sell these securities before recovery of their cost basis, which may be maturity. Therefore, no allowance for credit losses on securities was recorded at June 30, 2021.

Corporate Bonds

At June 30, 2021, the Corporation had four corporate bond holdings with unrealized losses totaling \$928 thousand. These investment grade corporate bonds were issued by large corporations in the financial services industry. The issuers of these securities continue to make timely principal and interest payments and none of these securities were past due at June 30, 2021. Management reviewed the collectability 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. Management believes the unrealized losses on these debt securities are primarily attributable to changes in

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

the investment spreads and interest rates and not changes in the credit quality of the issuers of the debt securities. Management expects to recover the entire amortized cost basis of these securities. Furthermore, the Corporation does not intend to sell these securities and it is likely that the Corporation will not be required to sell these securities before recovery of their cost basis, which may be maturity. Therefore, no allowance for credit losses was recorded at June 30, 2021.

Note 5 - Loans

The following is a summary of loans:

(Dollars in thousands)

	June 30, 2021	December 31, 2020
Commercial:		
Commercial real estate (1)	\$1,669,624	\$1,633,024
Commercial & industrial (2)	764,509	817,408
Total commercial	2,434,133	2,450,432
Residential Real Estate:		
Residential real estate (3)	1,590,389	1,467,312
Consumer:		
Home equity	254,802	259,185
Other (4)	20,476	19,061
Total consumer	275,278	278,246
Total loans (5)	\$4,299,800	\$4,195,990

- (1) Commercial real estate ("CRE") consists of commercial mortgages primarily secured by income-producing property, as well as construction and development loans. Construction and development loans are made to businesses for land development or the on-site construction of industrial, commercial, or residential buildings.
- (2) Commercial and industrial ("C&I") consists of loans to businesses and individuals, a portion of which are fully or partially collateralized by real estate. C&I also includes \$147.0 million and \$199.8 million, respectively, of PPP loans as of June 30, 2021 and December 31, 2020.
- (3) Residential real estate consists of mortgage and homeowner construction loans secured by one- to four-family residential properties.
- (4) Other consists of loans to individuals secured by general aviation aircraft and other personal installment loans.
- (5) Includes net unamortized loan origination costs of \$2.1 million and \$1.5 million, respectively, at June 30, 2021 and December 31, 2020 and net unamortized premiums on purchased loans of \$558 thousand and \$787 thousand, respectively, at June 30, 2021 and December 31, 2020.

Loan balances exclude accrued interest receivable of \$11.5 million and \$11.3 million, respectively, as of June 30, 2021 and December 31, 2020. Accrued interest receivable is included in other assets in the Unaudited Consolidated Balance Sheets.

As of June 30, 2021 and December 31, 2020, loans amounting to \$2.0 billion and \$2.1 billion, respectively, were pledged as collateral to the FHLB under a blanket pledge agreement and to the FRB. See Note 8 for additional disclosure regarding borrowings.

Loan Modifications Under the CARES Act

The Corporation has elected to account for eligible loan modifications under Section 4013 of the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"), as amended by the Coronavirus Response and Relief Supplemental Appropriations Act (the "CRRSA Act"). To be eligible, a loan modification must be (1) related to the COVID-19 pandemic; (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020, and the earlier of (A) 60 days after the date of termination of the national emergency declared by the President on March 13, 2020 concerning the COVID-19 outbreak (the "national emergency") or (B) January 1, 2022. Eligible loan modifications are not required to be classified as troubled debt restructurings ("TDRs") and are not reported as past due provided that they are performing in accordance with the modified terms. Interest income will continue to be recognized unless the loan is placed on nonaccrual status in accordance with the nonaccrual loans accounting policy described below.

Washington Trust has processed loan payment deferral modifications, or "deferments", on 654 loans totaling \$728 million since the beginning of the second quarter of 2020, in response to the COVID-19 pandemic. The majority of these deferments qualified as eligible loan modifications under Section 4013 of the CARES Act, as amended. As of June 30, 2021, we had active deferments on 22 loans totaling \$93.4 million, or 2% of total loans excluding Paycheck Protection Program ("PPP") loans.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Concentrations of Credit Risk

A significant portion of our loan portfolio is concentrated among borrowers in southern New England and a substantial portion of the portfolio is collateralized by real estate in this area. The ability of single family residential and consumer borrowers to honor their repayment commitments is generally dependent on the level of overall economic activity within the market area and real estate values. The ability of commercial borrowers to honor their repayment commitments is dependent on the general economy as well as the health of the real estate economic sector in the Corporation's market area.

Past Due Loans

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

(Dollars in thousands)	Days Past Due			Total Past Due	Current	Total Loans
June 30, 2021	30-59	60-89	Over 90			
Commercial:						
Commercial real estate	\$—	\$—	\$—	\$—	\$1,669,624	\$1,669,624
Commercial & industrial	1	—	539	540	763,969	764,509
Total commercial	1	—	539	540	2,433,593	2,434,133
Residential Real Estate:						
Residential real estate	3,055	—	3,601	6,656	1,583,733	1,590,389
Consumer:						
Home equity	595	212	424	1,231	253,571	254,802
Other	24	4	—	28	20,448	20,476
Total consumer	619	216	424	1,259	274,019	275,278
Total loans	\$3,675	\$216	\$4,564	\$8,455	\$4,291,345	\$4,299,800

(Dollars in thousands)	Days Past Due			Total Past Due	Current	Total Loans
December 31, 2020	30-59	60-89	Over 90			
Commercial:						
Commercial real estate	\$265	\$—	\$—	\$265	\$1,632,759	\$1,633,024
Commercial & industrial	1	2	—	3	817,405	817,408
Total commercial	266	2	—	268	2,450,164	2,450,432
Residential Real Estate:						
Residential real estate	4,466	701	5,172	10,339	1,456,973	1,467,312
Consumer:						
Home equity	894	129	644	1,667	257,518	259,185
Other	23	7	88	118	18,943	19,061
Total consumer	917	136	732	1,785	276,461	278,246
Total loans	\$5,649	\$839	\$5,904	\$12,392	\$4,183,598	\$4,195,990

Included in past due loans as of June 30, 2021 and December 31, 2020, were nonaccrual loans of \$5.8 million and \$8.5 million, respectively.

All loans 90 days or more past due at June 30, 2021 and December 31, 2020 were classified as nonaccrual.

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

nonaccrual status when, in the opinion of management, full collection of principal and interest is doubtful. When loans are placed on nonaccrual status, interest previously accrued but not collected is reversed against current period income. Subsequent interest payments received on nonaccrual loans are applied to the outstanding principal balance of the loan or recognized as interest income depending on management's assessment of the ultimate collectability of the loan. Loans are removed from nonaccrual status when they have been current as to principal and interest for a period of time, the borrower has demonstrated an ability to comply with repayment terms, and when, in management's opinion, the loans are considered to be fully collectible.

The following table presents the carrying value of nonaccrual loans:

(Dollars in thousands)	Jun 30, 2021	Dec 31, 2020
Commercial:		
Commercial real estate	\$—	\$—
Commercial & industrial	539	—
Total commercial	539	—
Residential Real Estate:		
Residential real estate	8,926	11,981
Consumer:		
Home equity	1,016	1,128
Other	—	88
Total consumer	1,016	1,216
Total nonaccrual loans	\$10,481	\$13,197
Accruing loans 90 days or more past due	\$—	\$—

Nonaccrual loans of \$4.7 million at both June 30, 2021 and December 31, 2020 were current as to the payment of principal and interest.

No ACL was deemed necessary on nonaccrual loans with a carrying value of \$3.7 million and \$3.0 million, respectively, as of June 30, 2021 and December 31, 2020.

As of June 30, 2021 and December 31, 2020, nonaccrual loans secured by one- to four-family residential property amounting to \$2.5 million and \$3.4 million, respectively, were in process of foreclosure.

There were no significant commitments to lend additional funds to borrowers whose loans were on nonaccrual status at June 30, 2021.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

The following table presents interest income recognized on nonaccrual loans:

(Dollars in thousands) Periods ended June 30,	Three Months		Six Months	
	2021	2020	2021	2020
Commercial:				
Commercial real estate	\$—	\$—	\$—	\$—
Commercial & industrial	—	—	5	—
Total commercial	—	—	5	—
Residential Real Estate:				
Residential real estate	72	103	129	271
Consumer:				
Home equity	13	17	36	40
Other	—	—	—	—
Total consumer	13	17	36	40
Total	\$85	\$120	\$170	\$311

Troubled Debt Restructurings

A loan that has been modified or renewed is considered to be a TDR when two conditions are met: (1) the borrower is experiencing financial difficulty and (2) concessions are made for the borrower's benefit that would not otherwise be considered for a borrower or a transaction with similar credit risk characteristics. These concessions may include modifications of the terms of the debt such as deferral of payments, extension of maturity, reduction of principal balance, reduction of the stated interest rate other than normal market rate adjustments, or a combination of these concessions. Debt may be bifurcated with separate terms for each tranche of the restructured debt. Restructuring of a loan in lieu of aggressively enforcing the collection of the loan may benefit the Corporation by increasing the ultimate probability of collection.

The Corporation's ACL reflects the effects of a TDR when management reasonably expects at the reporting date that a TDR will be executed with an individual borrower. A TDR is considered reasonably expected no later than the point when management concludes that modification is the best course of action and it is at least reasonably possible that the troubled borrower will accept some form of concession to avoid a default. Reasonably expected TDRs and executed TDRs are evaluated individually to determine the required ACL. TDRs that did not involve a below-market rate concession and perform in accordance with their modified contractual terms for a reasonable period of time may be included in the Corporation's existing pools based on the underlying risk characteristics of the loan to measure the ACL.

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

TDRs are reported as such for at least one year from the date of the restructuring. In years after the restructuring, TDRs are removed from this classification if the restructuring did not involve a below-market rate concession and the loan is performing in accordance with their modified contractual terms for a reasonable period of time.

The recorded investment in TDRs consists of unpaid principal balance, net of charge-offs and unamortized deferred loan origination fees and costs. For accruing TDRs, the recorded investment also includes accrued interest.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

The following table presents the recorded investment in TDRs and other pertinent information:

(Dollars in thousands)	Jun 30, 2021	Dec 31, 2020
Accruing TDRs	\$8,619	\$13,418
Nonaccrual TDRs	2,278	2,345
Total TDRs	\$10,897	\$15,763
Specific reserves on TDRs included in the ACL on loans	\$233	\$159
Additional commitments to lend to borrowers with TDRs	\$—	\$—

The following tables present TDRs occurring during the period indicated and the recorded investment pre- and post- modification:

(Dollars in thousands)	# of Loans		Outstanding Recorded Investment			
			Pre-Modifications		Post-Modifications	
Three months ended June 30,	2021	2020	2021	2020	2021	2020
Commercial:						
Commercial real estate	—	1	\$—	\$841	\$—	\$841
Commercial & industrial	—	2	—	460	—	460
Total commercial	—	3	—	1,301	—	1,301
Residential Real Estate:						
Residential real estate	—	6	—	3,512	—	3,512
Consumer:						
Home equity	—	3	—	802	—	802
Other	—	—	—	—	—	—
Total consumer	—	3	\$—	\$802	\$—	\$802
Total	—	12	\$—	\$5,615	\$—	\$5,615

(Dollars in thousands)	# of Loans		Outstanding Recorded Investment			
			Pre-Modifications		Post-Modifications	
Six months ended June 30,	2021	2020	2021	2020	2021	2020
Commercial:						
Commercial real estate	—	1	\$—	\$841	\$—	\$841
Commercial & industrial	—	2	—	460	—	460
Total commercial	—	3	—	1,301	—	1,301
Residential Real Estate:						
Residential real estate	—	6	—	3,512	—	3,512
Consumer:						
Home equity	—	3	—	802	—	802
Other	—	—	—	—	—	—
Total consumer	—	3	\$—	\$802	\$—	\$802
Total	—	12	\$—	\$5,615	\$—	\$5,615

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

The following table presents TDRs occurring during the period indicated by type of modification:

(Dollars in thousands) Periods ended June 30,	Three Months		Six Months	
	2021	2020	2021	2020
Below-market interest rate concession	\$—	\$—	\$—	\$—
Payment deferral	—	5,202	—	5,202
Maturity / amortization concession	—	—	—	—
Interest only payments	—	—	—	—
Combination (1)	—	413	—	413
Total	\$—	\$5,615	\$—	\$5,615

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

The following tables present information on TDRs modified within the previous 12 months for which there was a payment default:

(Dollars in thousands) Three months ended June 30,	# of Loans		Recorded Investment	
	2021	2020	2021	2020
TDRs with a Payment Default:				
Home equity	—	1	\$—	\$47

(Dollars in thousands) Six months ended June 30,	# of Loans		Recorded Investment	
	2021	2020	2021	2020
TDRs with a Payment Default:				
Residential real estate	1	—	\$396	\$—
Home equity	—	1	—	47

Individually Analyzed Loans

Individually analyzed loans include nonaccrual commercial loans, reasonably expected TDRs and executed TDRs, as well as certain other loans based on the underlying risk characteristics and the discretion of management to individually analyze such loans. As of June 30, 2021, the carrying value of individually analyzed loans amounted to \$13.4 million, of which \$4.3 million were considered collateral dependent. As of December 31, 2020, the carrying value of individually analyzed loans amounted to \$18.3 million, of which \$8.4 million were considered collateral dependent.

For collateral dependent loans where management has determined that foreclosure of the collateral is probable, or where the borrower is experiencing financial difficulty and repayment of the loan is to be provided substantially through the operation or sale of the collateral, the ACL is measured based on the difference between the fair value of the collateral and the amortized cost basis of the loan as of the measurement date. See Note 11 for additional disclosure regarding fair value of individually analyzed collateral dependent loans.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

The following table presents the carrying value of collateral dependent individually analyzed loans:

(Dollars in thousands)

	June 30, 2021		December 31, 2020	
	Carrying Value	Related Allowance	Carrying Value	Related Allowance
Commercial:				
Commercial real estate (1)	\$—	\$—	\$1,792	\$—
Commercial & industrial (2)	537	—	451	—
Total commercial	537	—	2,243	—
Residential Real Estate:				
Residential real estate (3)	3,325	57	5,947	38
Consumer:				
Home equity (3)	394	183	254	183
Other	—	—	—	—
Total consumer	394	183	254	183
Total	\$4,256	\$240	\$8,444	\$221

(1) Secured by income-producing property.

(2) Secured by business assets.

(3) Secured by one- to four-family residential properties.

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 risk rating system takes into consideration parameters including the borrower’s financial condition, the borrower’s performance with respect to loan terms, the adequacy of collateral, the adequacy of guarantees and other credit quality characteristics. The Corporation takes the risk rating into consideration along with other credit attributes in the establishment of an appropriate allowance for credit losses on loans. See Note 6 for additional information.

A description of the commercial loan categories is as follows:

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

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

Classified - Loans identified as “substandard,” “doubtful” or “loss” based on criteria consistent with guidelines provided by banking regulators. A “substandard” loan has defined weaknesses which make payment default or principal exposure likely, but not yet certain. Such loans are apt to be dependent upon collateral liquidation, a secondary source of repayment or an event outside of the normal course of business. The loans are closely watched and are either already on nonaccrual status or may be placed on nonaccrual status when management determines there is uncertainty of collectability. A “doubtful” loan is placed on nonaccrual status and has a high probability of loss, but the extent of the loss is difficult to quantify due to dependency upon collateral having a value that is difficult to determine or upon some near-term event which lacks certainty. A loan in the “loss” category is considered generally uncollectible or the timing or amount of payments cannot be

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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 risk ratings and classifications to be revised whenever information becomes available that indicates a change is warranted. On a quarterly basis, management reviews a watched asset list, which generally consists of commercial loans that are risk-rated 6 or worse, highly leveraged transaction loans, high-volatility commercial real estate, loans with active deferrals resulting from the COVID-19 pandemic, and other selected loans. Management’s review focuses on the current status of the loans, the appropriateness of risk ratings and strategies to improve the credit.

An annual credit 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.

Residential and Consumer

Management monitors the relatively homogeneous residential real estate and consumer loan portfolios on an ongoing basis using delinquency information by loan type.

In addition, other techniques are utilized to monitor indicators of credit deterioration in the residential real estate loans and home equity consumer loans. Among these techniques is the periodic tracking of loans with an updated Fair Isaac Corporation (“FICO”) score and an updated estimated loan to value (“LTV”) ratio. LTV is estimated based on such factors as geographic location, the original appraised value and changes in median home prices, and takes into consideration the age of the loan. The results of these analyses and other credit review procedures, including selected targeted internal reviews, are taken into consideration in the determination of qualitative loss factors for residential real estate and home equity consumer credits.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

The following table summarizes the Corporation's loan portfolio by credit quality indicator and loan portfolio segment as of June 30, 2021:

(Dollars in thousands)

	Term Loans Amortized Cost by Origination Year								
	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost	Revolving Loans Converted to Term Loans	Total
Commercial:									
CRE:									
Pass	\$186,095	\$256,609	\$330,127	\$214,239	\$208,316	\$348,282	\$7,173	\$2,334	\$1,553,175
Special Mention	6,013	880	29,727	39,019	16,133	23,311	408	—	115,491
Classified	—	958	—	—	—	—	—	—	958
Total CRE	192,108	258,447	359,854	253,258	224,449	371,593	7,581	2,334	1,669,624
C&I:									
Pass	137,678	133,756	108,668	92,357	53,552	104,976	102,733	1,127	734,847
Special Mention	—	—	678	4,682	6,528	13,257	1,186	—	26,331
Classified	—	537	—	—	—	2,792	—	2	3,331
Total C&I	137,678	134,293	109,346	97,039	60,080	121,025	103,919	1,129	764,509
Residential Real Estate:									
Residential real estate:									
Current	386,456	412,948	196,129	117,079	112,458	358,663	—	—	1,583,733
Past Due	—	237	1,673	1,206	793	2,747	—	—	6,656
Total residential real estate	386,456	413,185	197,802	118,285	113,251	361,410	—	—	1,590,389
Consumer:									
Home equity:									
Current	6,059	7,919	5,261	3,041	1,260	4,258	216,565	9,208	253,571
Past Due	—	—	—	29	—	133	205	864	1,231
Total home equity	6,059	7,919	5,261	3,070	1,260	4,391	216,770	10,072	254,802
Other:									
Current	4,865	4,887	1,508	1,069	871	6,987	261	—	20,448
Past Due	13	10	5	—	—	—	—	—	28
Total other	4,878	4,897	1,513	1,069	871	6,987	261	—	20,476
Total Loans	\$727,179	\$818,741	\$673,776	\$472,721	\$399,911	\$865,406	\$328,531	\$13,535	\$4,299,800

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

The following table summarizes the Corporation's loan portfolio by credit quality indicator and loan portfolio segment as of December 31, 2020: (Dollars in thousands)

	Term Loans Amortized Cost by Origination Year								
	2020	2019	2018	2017	2016	Prior	Revolving Loans Amortized Cost	Revolving Loans Converted to Term Loans	Total
Commercial:									
CRE:									
Pass	\$283,341	\$353,875	\$260,917	\$236,310	\$136,490	\$249,359	\$10,333	\$2,386	\$1,533,011
Special Mention	756	20,235	39,387	16,222	11,318	10,367	771	—	99,056
Classified	957	—	—	—	—	—	—	—	957
Total CRE	285,054	374,110	300,304	252,532	147,808	259,726	11,104	2,386	1,633,024
C&I:									
Pass	293,493	95,775	98,146	56,792	44,445	91,128	95,817	1,296	776,892
Special Mention	1,123	722	3,210	6,839	3,141	14,853	3,806	56	33,750
Classified	403	—	—	—	—	6,363	—	—	6,766
Total C&I	295,019	96,497	101,356	63,631	47,586	112,344	99,623	1,352	817,408
Residential Real Estate:									
Residential real estate:									
Current	463,477	253,228	146,839	155,976	128,139	309,314	—	—	1,456,973
Past Due	238	1,698	1,310	886	110	6,097	—	—	10,339
Total residential real estate	463,715	254,926	148,149	156,862	128,249	315,411	—	—	1,467,312
Consumer:									
Home equity:									
Current	9,838	6,771	3,898	1,474	1,217	3,955	219,085	11,280	257,518
Past Due	—	35	24	—	—	186	310	1,112	1,667
Total home equity	9,838	6,806	3,922	1,474	1,217	4,141	219,395	12,392	259,185
Other:									
Current	5,214	2,241	1,237	1,544	548	7,850	308	1	18,943
Past Due	19	1	—	—	88	7	3	—	118
Total other	5,233	2,242	1,237	1,544	636	7,857	311	1	19,061
Total Loans	\$1,058,859	\$734,581	\$554,968	\$476,043	\$325,496	\$699,479	\$330,433	\$16,131	\$4,195,990

Consistent with industry practice, Washington Trust may renew commercial loans at or immediately prior to their maturity. In the tables above, renewals subject to full credit evaluation before being granted are reported as originations in the period renewed.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Note 6 - Allowance for Credit Losses on Loans

The ACL on loans is management's estimate of expected credit losses over the expected life of the loans at the reporting date. The level of the ACL on loans is based on management's ongoing review of all relevant information, from internal and external sources, relating to past events, current conditions and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the calculation of loss given default and the estimation of expected credit losses. Qualitative adjustments are made for differences in specific risk characteristics, such as differences in underwriting standards, portfolio mix, delinquency level, or term, as well as for changes in environmental conditions, that may not be reflected in historical loss rates.

In accordance with the ACL policy, the methodology is reviewed no less than annually. In the first quarter of 2021, management updated its ACL methodology for pooled loans to incorporate additional econometric factors in the determination of the probability of default for each loan portfolio segment. Econometric factors are selected based on the correlation of the factor to credit losses for each loan portfolio segment. Effective January 1, 2021, the following econometric factors are utilized in the determination of the probability of default for each loan portfolio segment: the national unemployment rate ("NUR") and gross domestic product ("GDP") econometric factors are utilized for the commercial real estate and other consumer loan portfolio segments; the NUR and national home price index ("HPI") econometric factors are utilized for the residential real estate and home equity portfolio segments; and the NUR econometric factor is utilized for the commercial & industrial loan portfolio segment. Prior to January 1, 2021, solely the NUR was used in the determination of the probability of default for each loan portfolio segment.

The following table presents the activity in the ACL on loans for the three months ended June 30, 2021:

(Dollars in thousands)	Commercial			Residential Real Estate	Consumer			Total
	CRE	C&I	Total Commercial		Home Equity	Other	Total Consumer	
Beginning Balance	\$21,297	\$12,389	\$33,686	\$6,469	\$1,431	\$551	\$1,982	\$42,137
Charge-offs	—	(303)	(303)	—	—	(14)	(14)	(317)
Recoveries	—	1	1	47	4	7	11	59
Provision	153	(370)	(217)	361	(95)	(49)	(144)	—
Ending Balance	\$21,450	\$11,717	\$33,167	\$6,877	\$1,340	\$495	\$1,835	\$41,879

The following table presents the activity in the ACL on loans for the six months ended June 30, 2021:

(Dollars in thousands)	Commercial			Residential Real Estate	Consumer			Total
	CRE	C&I	Total Commercial		Home Equity	Other	Total Consumer	
Beginning Balance	\$22,065	\$12,228	\$34,293	\$8,042	\$1,300	\$471	\$1,771	\$44,106
Charge-offs	—	(306)	(306)	(50)	—	(25)	(25)	(381)
Recoveries	—	3	3	80	6	16	22	105
Provision	(615)	(208)	(823)	(1,195)	34	33	67	(1,951)
Ending Balance	\$21,450	\$11,717	\$33,167	\$6,877	\$1,340	\$495	\$1,835	\$41,879

The following table presents the activity in the allowance for loan losses for the three months ended June 30, 2020:

(Dollars in thousands)	Commercial			Residential Real Estate	Consumer			Total
	CRE	C&I	Total Commercial		Home Equity	Other	Total Consumer	
Beginning Balance	\$19,736	\$10,331	\$30,067	\$7,729	\$1,435	\$434	\$1,869	\$39,665
Charge-offs	(19)	(289)	(308)	—	(1)	(17)	(18)	(326)
Recoveries	—	5	5	—	6	7	13	18
Provision	566	1,231	1,797	324	(46)	9	(37)	2,084
Ending Balance	\$20,283	\$11,278	\$31,561	\$8,053	\$1,394	\$433	\$1,827	\$41,441

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

The following table presents the activity in the allowance for loan losses for the six months ended June 30, 2020:

(Dollars in thousands)	Commercial			Residential Real Estate	Consumer			Total
	CRE	C&I	Total Commercial		Home Equity	Other	Total Consumer	
Beginning Balance	\$14,741	\$3,921	\$18,662	\$6,615	\$1,390	\$347	\$1,737	\$27,014
Adoption of ASC 326	3,405	3,029	6,434	221	(106)	(48)	(154)	6,501
Charge-offs	(172)	(583)	(755)	—	(174)	(32)	(206)	(961)
Recoveries	—	9	9	—	7	14	21	30
Provision	2,309	4,902	7,211	1,217	277	152	429	8,857
Ending Balance	\$20,283	\$11,278	\$31,561	\$8,053	\$1,394	\$433	\$1,827	\$41,441

Note 7 - Leases

The Corporation has committed to rent premises used in business operations under non-cancelable operating leases and determines if an arrangement meets the definition of a lease upon inception. Operating lease right-of-use (“ROU”) assets amounted to \$28.3 million and \$29.5 million, respectively, as of June 30, 2021 and December 31, 2020. Operating lease liabilities totaled \$30.6 million and \$31.7 million, respectively, as of June 30, 2021 and December 31, 2020.

As of June 30, 2021, there was one operating lease that had not yet commenced. As of December 31, 2020, there were no operating leases that had not yet commenced.

Rental expense for operating leases is recognized on a straight-line basis over the lease term and amounted to \$1.0 million and \$2.0 million respectively, for the three and six months ended June 30, 2021, compared to \$973 thousand and \$1.9 million, respectively, for the same periods in 2020. Variable lease components, such as consumer price index adjustments, are expensed as incurred and not included in ROU assets and operating lease liabilities.

The following table presents information regarding the Corporation’s operating leases:

	Jun 30, 2021	Dec 31, 2020
Weighted average discount rate	3.34 %	3.34 %
Range of lease expiration dates	1 year - 20 years	7 months - 20 years
Range of lease renewal options	1 year - 5 years	1 year - 5 years
Weighted average remaining lease term	13.1 years	13.4 years

The following table presents the undiscounted annual lease payments under the terms of the Corporation’s operating leases at June 30, 2021, including a reconciliation to the present value of operating lease liabilities recognized in the Unaudited Consolidated Balance Sheets:

(Dollars in thousands)	
July 1, 2021 to December 31, 2021	\$1,972
2022	3,981
2023	3,881
2024	3,670
2025	2,932
2026 and thereafter	22,099
Total operating lease payments (1)	38,535
Less: interest	7,977
Present value of operating lease liabilities (2)	\$30,558

(1) Includes \$1.4 million related to options to extend lease terms that are reasonably certain of being exercised.

(2) Includes short-term operating lease liabilities of \$3.0 million.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

(Dollars in thousands)

Periods ended June 30,	Three Months		Six Months	
	2021	2020	2021	2020
Lease Expense:				
Operating lease expense	\$1,006	\$959	\$2,011	\$1,909
Variable lease expense	15	14	30	28
Total lease expense (1)	\$1,021	\$973	\$2,041	\$1,937
Cash Paid:				
Cash paid reducing operating lease liabilities	\$989	\$942	\$1,978	\$1,875

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

Note 8 - Federal Home Loan Bank Advances

Advances payable to the FHLB amounted to \$408.6 million and \$593.9 million, respectively, at June 30, 2021 and December 31, 2020.

As of June 30, 2021 and December 31, 2020, the Bank had access to a \$40.0 million unused line of credit and also had remaining available borrowing capacity of \$1.2 billion and \$969.7 million, respectively, with the FHLB. The Bank pledges certain qualified investment securities and loans as collateral to the FHLB.

The following table presents maturities and weighted average interest rates on FHLB advances outstanding as of June 30, 2021:

(Dollars in thousands)

	Scheduled Maturity	Weighted Average Rate
July 1, 2021 to December 31, 2021	\$328,450	0.39 %
2022	—	—
2023	35,000	0.45
2024	35,000	2.45
2025	—	—
2026 and thereafter	10,142	3.06
Balance at June 30, 2021	\$408,592	0.64 %

Note 9 - Shareholders' Equity

Stock Repurchase Program

The Corporation's Stock Repurchase Program adopted on December 1, 2020 (the "2020 Repurchase Program") authorizes the repurchase of up to 850,000 shares, or approximately 5%, of the Corporation's outstanding common stock. This authority may be exercised from time to time and in such amounts as market conditions warrant, and subject to regulatory considerations. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, market conditions, and other corporate liquidity requirements and priorities. The 2020 Repurchase Program expires on October 31, 2021 and may be modified, suspended, or discontinued at any time. As of June 30, 2021, no shares have been repurchased under the 2020 Repurchase Program.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Regulatory Capital Requirements

Capital levels at June 30, 2021 exceeded the regulatory minimum levels to be considered “well capitalized.”

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

(Dollars in thousands)

	Actual		For Capital Adequacy Purposes		To Be “Well Capitalized” Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
June 30, 2021						
Total Capital (to Risk-Weighted Assets):						
Corporation	\$558,962	13.65 %	\$327,648	8.00 %	N/A	N/A
Bank	553,127	13.51	327,618	8.00	\$409,523	10.00 %
Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	524,964	12.82	245,736	6.00	N/A	N/A
Bank	519,129	12.68	245,714	6.00	327,618	8.00
Common Equity Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	502,965	12.28	184,302	4.50	N/A	N/A
Bank	519,129	12.68	184,285	4.50	266,190	6.50
Tier 1 Capital (to Average Assets): (1)						
Corporation	524,964	9.07	231,541	4.00	N/A	N/A
Bank	519,129	8.97	231,460	4.00	289,325	5.00
December 31, 2020						
Total Capital (to Risk-Weighted Assets):						
Corporation	539,496	13.51	319,532	8.00	N/A	N/A
Bank	534,288	13.38	319,503	8.00	399,379	10.00
Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	503,791	12.61	239,649	6.00	N/A	N/A
Bank	498,583	12.48	239,627	6.00	319,503	8.00
Common Equity Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	481,792	12.06	179,737	4.50	N/A	N/A
Bank	498,583	12.48	179,721	4.50	259,596	6.50
Tier 1 Capital (to Average Assets): (1)						
Corporation	503,791	8.95	225,209	4.00	N/A	N/A
Bank	498,583	8.86	225,126	4.00	281,407	5.00

(1) Leverage ratio.

In addition to the minimum regulatory capital required for capital adequacy purposes outlined in the table above, the Corporation is required to maintain a minimum capital conservation buffer, in the form of common equity, of 2.50% in order to avoid restrictions on capital distributions and discretionary bonuses. The Corporation’s capital levels exceeded the minimum regulatory capital requirements plus the capital conservation buffer at June 30, 2021 and December 31, 2020.

The Bancorp owns the common stock of two capital trusts, which have issued trust preferred securities. In accordance with GAAP, the capital trusts are treated as unconsolidated subsidiaries. At both June 30, 2021 and December 31, 2020, \$22.0 million in trust preferred securities were included in the Tier 1 Capital of the Corporation for regulatory capital reporting purposes pursuant to the FRB’s capital adequacy guidelines.

In accordance with regulatory capital rules, the Corporation has elected the option to delay the estimated impact of Accounting Standards Codification (“ASC”) 326 on its regulatory capital over a two-year deferral and subsequent three-year transition period ending December 31, 2024. As a result, capital ratios and amounts as of June 30, 2021 and December 31, 2020 exclude the impact of the increased ACL on loans and unfunded loan commitments attributed to the adoption of ASC 326, which was effective January 1, 2020, adjusted for an approximation of the after-tax provision for credit losses

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

attributable to ASC 326 relative to the incurred loss methodology during the deferral period. The cumulative difference at the end of the deferral period will then be phased-in to regulatory capital over a three-year transition period beginning in 2022.

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

Cash Flow Hedging Instruments

As of June 30, 2021 and December 31, 2020, the Corporation had interest rate swap contracts with a total notional amount of \$60.0 million that were designated as cash flow hedges to hedge the interest rate risk associated with short-term variable rate FHLB advances. The interest rate swaps on borrowings mature in December of 2021 and December of 2023.

As of June 30, 2021, the Corporation has an interest rate swap with a total notional amount of \$300.0 million that was designated as a cash flow hedge to hedge the interest rate risk associated with a pool of variable rate commercial loans. The interest rate swap on loans was executed in the second quarter of 2021 and matures in May of 2026.

The changes in fair value of derivatives designated as cash flow hedges are recorded in other comprehensive income and subsequently reclassified to earnings when gains or losses are realized.

Loan Related Derivative Contracts

Interest Rate Swap Contracts with Customers

The Corporation enters into interest rate swap contracts to help commercial loan borrowers manage their interest rate risk. The interest rate swap contracts with commercial loan borrowers allow them to convert variable-rate loan payments to fixed-rate loan payments. When the Corporation enters into an interest rate swap contract with a commercial loan borrower, it simultaneously enters into a "mirror" swap contract with a third party. The third party exchanges the client's fixed-rate loan payments for variable-rate loan payments. The Corporation retains the risk that is associated with the potential failure of counterparties and the risk inherent in originating loans. As of June 30, 2021 and December 31, 2020, Washington Trust had interest rate swap contracts with commercial loan borrowers with notional amounts of \$993.0 million and \$991.0 million, respectively, and equal amounts of "mirror" swap contracts with third party financial institutions. These derivatives are not designated as hedges and therefore, changes in fair value are recognized in earnings.

Risk Participation Agreements

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

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

As of June 30, 2021, the notional amounts of risk participation-out agreements and risk participation-in agreements were \$67.6 million and \$147.7 million, respectively, compared to \$61.6 million and \$92.7 million, respectively, as of December 31, 2020.

Mortgage Loan Commitments

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

As of June 30, 2021, the notional amounts of interest rate lock commitments and forward sale commitments were \$82.1 million and \$155.9 million, respectively, compared to \$167.7 million and \$279.7 million, respectively, as of December 31, 2020.

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

(Dollars in thousands)

(Dollars in thousands)	Derivative Assets			Derivative Liabilities		
	Balance Sheet Location	Fair Value		Balance Sheet Location	Fair Value	
		Jun 30, 2021	Dec 31, 2020		Jun 30, 2021	Dec 31, 2020
Derivatives Designated as Cash Flow Hedging Instruments:						
Interest rate risk management contracts:						
Interest rate swaps	Other assets	\$178	\$—	Other liabilities	\$1,475	\$1,958
Derivatives not Designated as Hedging Instruments:						
Loan related derivative contracts:						
Interest rate swaps with customers	Other assets	49,644	75,804	Other liabilities	1,269	68
Mirror swaps with counterparties	Other assets	1,262	67	Other liabilities	49,805	76,248
Risk participation agreements	Other assets	2	22	Other liabilities	2	2
Mortgage loan commitments:						
Interest rate lock commitments	Other assets	2,361	7,202	Other liabilities	—	—
Forward sale commitments	Other assets	115	—	Other liabilities	760	2,914
Gross amounts		53,562	83,095		53,311	81,190
Less: amounts offset (1)		1,440	67		1,440	67
Derivative balances, net of offset		52,122	83,028		51,871	81,123
Less: collateral pledged (2)		—	—		47,113	74,698
Net amounts		\$52,122	\$83,028		\$4,758	\$6,425

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

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

The following table presents the effect of derivative instruments in the Unaudited Consolidated Statements of Changes in Shareholders' Equity:

(Dollars in thousands)

Periods ended June 30,	Gain (Loss) Recognized in Other Comprehensive Income, Net of Tax			
	Three Months		Six Months	
	2021	2020	2021	2020
Derivatives Designated as Cash Flow Hedging Instruments:				
Interest rate risk management contracts:				
Interest rate swaps	\$70	\$1	\$367	(\$1,323)
Interest rate caps	—	24	—	46
Interest rate floors	—	(17)	—	235
Total	\$70	\$8	\$367	(\$1,042)

Interest rate cap and interest rate floor contracts designated as cash flow hedges matured in 2020.

For derivatives designated as cash flow hedging instruments, see Note 16 for additional disclosure pertaining to the amounts and location of reclassifications from accumulated other comprehensive income into earnings.

The following table presents the effect of derivative instruments in the Corporation's Unaudited Consolidated Statements of Income:

(Dollars in thousands)

(Dollars in thousands)		Amount of Gain (Loss) Recognized in Income on Derivatives			
Periods ended June 30,	Statement of Income Location	Three Months		Six Months	
		2021	2020	2021	2020
Derivatives not Designated as Hedging Instruments:					
Loan related derivative contracts:					
Interest rate swaps with customers	Loan related derivative income	\$11,665	\$7,960	(\$18,566)	\$66,491
Mirror swaps with counterparties	Loan related derivative income	(11,068)	(7,964)	19,615	(64,154)
Risk participation agreements	Loan related derivative income	578	103	593	217
Mortgage loan commitments:					
Interest rate lock commitments	Mortgage banking revenues	(313)	3,548	(4,842)	7,284
Forward sale commitments	Mortgage banking revenues	(1,930)	(2,356)	5,355	(5,990)
Total		(\$1,068)	\$1,291	\$2,155	\$3,848

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Note 11 - Fair Value Measurements

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

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

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

Fair Value Option Election

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

The following table presents a summary of mortgage loans held for sale accounted for under the fair value option:

(Dollars in thousands)	June 30, 2021	December 31, 2020
Aggregate fair value	\$31,492	\$61,614
Aggregate principal balance	30,623	59,313
Difference between fair value and principal balance	\$869	\$2,301

Changes in fair value of mortgage loans held for sale accounted for under the fair value option election (“fair value option adjustments”) are included in mortgage banking revenues in the Unaudited Consolidated Statements of Income. Fair value option adjustments amounted to an increase of \$38 thousand for the three months ended June 30, 2021 and a decrease of \$1.4 million for the six months ended June 30, 2021, compared to increases of \$149 thousand and \$1.0 million, respectively, in the three and six months ended June 30, 2020.

There were no mortgage loans held for sale 90 days or more past due as of June 30, 2021 and December 31, 2020.

Valuation Techniques

Debt Securities

Available for sale debt securities are recorded at fair value on a recurring basis. When available, the Corporation uses quoted market prices to determine the fair value of debt securities; such items are classified as Level 1. There were no Level 1 debt securities held at June 30, 2021 and December 31, 2020.

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Debt securities not actively traded whose fair value is determined through the use of cash flows utilizing inputs that are unobservable are classified as Level 3. There were no Level 3 debt securities held at June 30, 2021 and December 31, 2020.

Mortgage Loans Held for Sale

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

Collateral Dependent Individually Analyzed Loans

The fair value of collateral dependent individually analyzed loans is determined based upon the appraised 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 that are expected to be repaid substantially through the sale of the collateral, management adjusts the fair value for estimated costs to sell. 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 collateral. Internal valuations may be utilized to determine the fair value of other business assets. Collateral dependent individually analyzed loans are categorized as Level 3.

Loan Servicing Rights

Loans sold with the retention of servicing result in the recognition of loan servicing rights. Loan servicing rights are included in other assets in the Unaudited Consolidated Balance Sheets and are amortized as an offset to mortgage banking revenues over the estimated period of servicing. Loan servicing rights are evaluated quarterly for impairment based on their fair value. Impairment exists if the carrying value exceeds the estimated fair value. Impairment is measured on an aggregated basis by stratifying the loan servicing rights based on homogeneous characteristics such as note rate and loan type. The fair value is estimated using an independent valuation model that estimates the present value of expected cash flows, incorporating assumptions for discount rates and prepayment rates. Any impairment is recognized through a valuation allowance and as a reduction to mortgage banking revenues. Loan servicing rights are categorized as Level 3.

Derivatives

Interest rate swaps, caps and floors are traded in over-the-counter markets where quoted market prices are not readily available. Fair value measurements are determined using independent valuation software, which considers the present value of future cash flows discounted using market observable inputs such as forward rate assumptions. The Corporation evaluates the credit risk of its counterparties, as well as that of the Corporation. Accordingly, factors such as the likelihood of default by the Corporation and its counterparties, its net exposures and remaining contractual life are considered in determining if any fair value adjustments related to credit risk are required. Counterparty exposure is evaluated by netting positions that are subject to master netting agreements, as well as considering the amount of collateral securing the position, if any. The Corporation has determined that the majority of the inputs used to value its derivative positions fall within Level 2 of the fair value hierarchy. However, the credit valuation adjustments utilize Level 3 inputs. As of June 30, 2021 and December 31, 2020, the Corporation has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Corporation has classified its derivative valuations in their entirety as Level 2.

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Items Recorded at Fair Value on a Recurring Basis

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

(Dollars in thousands)

June 30, 2021	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available for sale debt securities:				
Obligations of U.S. government-sponsored enterprises	\$184,255	\$—	\$184,255	\$—
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	845,036	—	845,036	—
Individual name issuer trust preferred debt securities	11,066	—	11,066	—
Corporate bonds	12,220	—	12,220	—
Mortgage loans held for sale	31,492	—	31,492	—
Derivative assets	52,122	—	52,122	—
Total assets at fair value on a recurring basis	\$1,136,191	\$—	\$1,136,191	\$—
Liabilities:				
Derivative liabilities	\$51,871	\$—	\$51,871	\$—
Total liabilities at fair value on a recurring basis	\$51,871	\$—	\$51,871	\$—

(Dollars in thousands)

December 31, 2020	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available for sale debt securities:				
Obligations of U.S. government-sponsored enterprises	\$131,669	\$—	\$131,669	\$—
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	740,305	—	740,305	—
Individual name issuer trust preferred debt securities	12,669	—	12,669	—
Corporate bonds	9,928	—	9,928	—
Mortgage loans held for sale	61,614	—	61,614	—
Derivative assets	83,028	—	83,028	—
Total assets at fair value on a recurring basis	\$1,039,213	\$—	\$1,039,213	\$—
Liabilities:				
Derivative liabilities	\$81,123	\$—	\$81,123	\$—
Total liabilities at fair value on a recurring basis	\$81,123	\$—	\$81,123	\$—

Items Recorded at Fair Value on a Nonrecurring Basis

The following table presents the carrying value of assets held at June 30, 2021, which were written down to fair value during the six months ended June 30, 2021:

(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 individually analyzed loans	\$887	\$—	\$—	\$887
Total assets at fair value on a nonrecurring basis	\$887	\$—	\$—	\$887

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

The following table presents the carrying value of assets held at December 31, 2020, which were written down to fair value during the year ended December 31, 2020:

(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 individually analyzed loans	\$1,720	\$—	\$—	\$1,720
Loan servicing rights	7,434	—	—	7,434
Total assets at fair value on a nonrecurring basis	\$9,154	\$—	\$—	\$9,154

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

(Dollars in thousands)

June 30, 2021	Fair Value	Valuation Technique	Unobservable Input	Range of Inputs Utilized (Weighted Average)
Collateral dependent individually analyzed loans	\$887	Appraisals of collateral	Discount for costs to sell	10%
			Appraisal adjustments	0%

(Dollars in thousands)

December 31, 2020	Fair Value	Valuation Technique	Unobservable Input	Range of Inputs Utilized (Weighted Average)
Collateral dependent individually analyzed loans	\$1,720	Appraisals of collateral	Discount for costs to sell	0% - 25% (11%)
			Appraisal adjustments	0% - 100% (15%)
Loan servicing rights	7,434	Discounted cash flow	Discount rates	10% - 14% (10%)
			Prepayment rates	18% - 42% (21%)

Valuation of Financial Instruments

The estimated fair values and related carrying amounts for financial instruments for which fair value is only disclosed are presented below as of the periods indicated. The tables exclude financial instruments for which the carrying value approximates fair value such as cash and cash equivalents, FHLB stock, accrued interest receivable, bank-owned life insurance, non-maturity deposits and accrued interest payable.

(Dollars in thousands)

June 30, 2021	Carrying Amount	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:					
Loans, net of allowance for credit losses on loans	\$4,257,921	\$4,208,113	\$—	\$—	\$4,208,113
Financial Liabilities:					
Time deposits	\$1,409,334	\$1,413,017	\$—	\$1,413,017	\$—
FHLB advances	408,592	411,303	—	411,303	—
Junior subordinated debentures	22,681	20,116	—	20,116	—

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(Dollars in thousands)

December 31, 2020	Carrying Amount	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:					
Loans, net of allowance for credit losses on loans	\$4,151,884	\$4,114,628	\$—	\$—	\$4,114,628
Financial Liabilities:					
Time deposits	\$1,296,396	\$1,302,128	\$—	\$1,302,128	\$—
FHLB advances	593,859	602,000	—	602,000	—
Junior subordinated debentures	22,681	19,422	—	19,422	—

Note 12 - Revenue from Contracts with Customers

The following tables summarize total revenues as presented in the Unaudited Consolidated Statements of Income and the related amounts that are from contracts with customers within the scope of ASC 606. As shown below, a substantial portion of our revenues are specifically excluded from the scope of ASC 606.

For the three months ended June 30,

(Dollars in thousands)	2021		2020	
	Revenue (1)	ASC 606 Revenue (2)	Revenue (1)	ASC 606 Revenue (2)
Net interest income	\$34,754	\$—	\$30,945	\$—
Noninterest income:				
Asset-based wealth management revenues	9,991	9,991	8,156	8,156
Transaction-based wealth management revenues	437	437	449	449
Total wealth management revenues	10,428	10,428	8,605	8,605
Mortgage banking revenues	5,994	—	14,851	—
Card interchange fees	1,316	1,316	1,031	1,031
Service charges on deposit accounts	635	635	517	517
Loan related derivative income	1,175	—	99	—
Income from bank-owned life insurance	607	—	791	—
Other income	438	279	426	288
Total noninterest income	20,593	12,658	26,320	10,441
Total revenues	\$55,347	\$12,658	\$57,265	\$10,441

- (1) As reported in the Consolidated Statements of Income.
(2) Revenue from contracts with customers in scope of ASC 606.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

For the six months ended June 30,

(Dollars in thousands)	2021		2020	
	Revenue (1)	ASC 606 Revenue (2)	Revenue (1)	ASC 606 Revenue (2)
Net interest income	\$67,625	\$—	\$63,547	\$—
Noninterest income:				
Asset-based wealth management revenues	19,574	19,574	16,511	16,511
Transaction-based wealth management revenues	749	749	783	783
Total wealth management revenues	20,323	20,323	17,294	17,294
Mortgage banking revenues	17,921	—	20,947	—
Card interchange fees	2,449	2,449	1,978	1,978
Service charges on deposit accounts	1,244	1,244	1,377	1,377
Loan related derivative income	1,642	—	2,554	—
Income from bank-owned life insurance	1,163	—	1,355	—
Other income	1,825	1,524	742	535
Total noninterest income	46,567	25,540	46,247	21,184
Total revenues	\$114,192	\$25,540	\$109,794	\$21,184

(1) As reported in the Consolidated Statements of Income.

(2) Revenue from contracts with customers in scope of ASC 606.

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

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

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

(Dollars in thousands) Periods ended June 30,	Three Months		Six Months	
	2021	2020	2021	2020
Revenue recognized at a point in time:				
Card interchange fees	\$1,316	\$1,031	\$2,449	\$1,978
Service charges on deposit accounts	504	374	985	1,041
Other income	228	254	1,431	454
Revenue recognized over time:				
Wealth management revenues	10,428	8,605	20,323	17,294
Service charges on deposit accounts	131	143	259	336
Other income	51	34	93	81
Total revenues from contracts in scope of Topic 606	\$12,658	\$10,441	\$25,540	\$21,184

Receivables for revenue from contracts with customers primarily consist of amounts due for wealth management services performed for which the Corporation’s performance obligations have been fully satisfied. Receivables amounted to

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

\$5.2 million at June 30, 2021, compared to \$4.8 million at December 31, 2020 and were included in other assets in the Unaudited Consolidated Balance Sheets.

Deferred revenues, which are considered contract liabilities under ASC 606, represent advance consideration received from customers for which the Corporation has a remaining performance obligation to fulfill. Contract liabilities are recognized as revenue over the life of the contract as the performance obligations are satisfied. The balances of contract liabilities were insignificant at both June 30, 2021 and June 30, 2020 and were included in other liabilities in the Unaudited Consolidated Balance Sheets.

For commissions and incentives that are in scope of ASC 606, such as those paid to employees in our wealth management services and commercial banking segments in order to obtain customer contracts, contract cost assets are established. The contract cost assets are capitalized and amortized over the estimated useful life that the asset is expected to generate benefits. The carrying value of contract cost assets amounted to \$1.5 million at both June 30, 2021 and December 31, 2020 and were included in other assets in the Unaudited Consolidated Balance Sheets. The amortization of contract cost assets is recorded within salaries and employee benefits expense in the Unaudited Consolidated Statements of Income.

Note 13 - Defined Benefit Pension Plans

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

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

(Dollars in thousands)

Periods ended June 30,	Qualified Pension Plan				Non-Qualified Retirement Plans			
	Three Months		Six Months		Three Months		Six Months	
	2021	2020	2021	2020	2021	2020	2021	2020
Net Periodic Benefit Cost:								
Service cost (1)	\$593	\$541	\$1,185	\$1,082	\$52	\$42	\$104	\$85
Interest cost (2)	357	627	1,002	1,253	85	117	169	233
Expected return on plan assets (2)	(1,204)	(1,134)	(2,408)	(2,269)	—	—	—	—
Recognized net actuarial loss (2)	673	395	1,060	791	204	140	362	280
Net periodic benefit cost	\$419	\$429	\$839	\$857	\$341	\$299	\$635	\$598

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

(2) Included in other expenses in the Unaudited Consolidated Statements of Income.

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

For the six months ended June 30,	Qualified Pension Plan		Non-Qualified Retirement Plans	
	2021	2020	2021	2020
Measurement date	Dec 31, 2020	Dec 31, 2019	Dec 31, 2020	Dec 31, 2019
Equivalent single discount rate for benefit obligations	2.71%	3.42%	2.51%	3.30%
Equivalent single discount rate for service cost	2.86	3.54	2.94	3.62
Equivalent single discount rate for interest cost	2.16	3.07	1.97	2.93
Expected long-term return on plan assets	5.75	5.75	N/A	N/A
Rate of compensation increase	3.75	3.75	3.75	3.75

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Note 14 - Share-Based Compensation Arrangements

During the six months ended June 30, 2021, the Corporation granted performance share unit awards and nonvested share unit awards.

The Corporation granted performance share unit awards to certain key employees providing the opportunity to earn shares of common stock over a 3-year performance period. The weighted average fair value of the performance share unit awards was \$46.15. The number of shares to be vested will be contingent upon the Corporation's attainment of certain performance measures as detailed in the performance share award agreements. Based on the most recent performance assumption available, it is estimated that 51,156 shares will be earned.

The Corporation granted to certain key employees and non-executive directors 8,360 nonvested share units with 3-year cliff vesting. The weighted average grant date fair value of the nonvested share units was \$50.81.

Note 15 - Business Segments

Washington Trust segregates financial information in assessing its results among its Commercial Banking and Wealth Management Services operating segments. The Corporate unit includes activity not allocated to the operating segments.

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

Commercial Banking

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

Wealth Management Services

The Wealth Management Services operating segment includes investment management; holistic financial planning services; personal trust and estate services, including services as trustee, personal representative, custodian and guardian; settlement of decedents' estates; and institutional trust services, including custody and fiduciary services.

Corporate

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

(Dollars in thousands)	Commercial Banking		Wealth Management Services		Corporate		Consolidated Total	
	2021	2020	2021	2020	2021	2020	2021	2020
Three months ended June 30,								
Net interest income (expense)	\$35,326	\$32,580	(\$24)	(\$26)	(\$548)	(\$1,609)	\$34,754	\$30,945
Provision for credit losses	—	2,200	—	—	—	—	—	2,200
Net interest income (expense) after provision for credit losses	35,326	30,380	(24)	(26)	(548)	(1,609)	34,754	28,745
Noninterest income	9,555	16,910	10,428	8,605	610	805	20,593	26,320
Noninterest expenses:								
Depreciation and amortization expense	665	611	352	354	47	39	1,064	1,004
Other noninterest expenses	19,984	17,615	7,018	6,225	4,946	3,634	31,948	27,474
Total noninterest expenses	20,649	18,226	7,370	6,579	4,993	3,673	33,012	28,478
Income (loss) before income taxes	24,232	29,064	3,034	2,000	(4,931)	(4,477)	22,335	26,587
Income tax expense (benefit)	5,289	6,177	748	457	(1,162)	(1,087)	4,875	5,547
Net income (loss)	\$18,943	\$22,887	\$2,286	\$1,543	(\$3,769)	(\$3,390)	\$17,460	\$21,040
Total assets at period end	\$4,520,417	\$4,579,720	\$75,232	\$74,803	\$1,256,331	\$1,222,437	\$5,851,980	\$5,876,960
Expenditures for long-lived assets	882	261	16	13	19	23	917	297

(Dollars in thousands)	Commercial Banking		Wealth Management Services		Corporate		Consolidated Total	
	2021	2020	2021	2020	2021	2020	2021	2020
Six months ended June 30,								
Net interest income (expense)	\$69,847	\$61,590	(\$47)	(\$93)	(\$2,175)	\$2,050	\$67,625	\$63,547
Provision for credit losses	(2,000)	9,236	—	—	—	—	(2,000)	9,236
Net interest income (expense) after provision for loan losses	71,847	52,354	(47)	(93)	(2,175)	2,050	69,625	54,311
Noninterest income	24,070	27,575	21,323	17,294	1,174	1,378	46,567	46,247
Noninterest expenses:								
Depreciation and amortization expense	1,322	1,231	703	708	93	78	2,118	2,017
Other noninterest expenses	39,985	36,298	13,404	13,230	12,218	7,386	65,607	56,914
Total noninterest expenses	41,307	37,529	14,107	13,938	12,311	7,464	67,725	58,931
Income (loss) before income taxes	54,610	42,400	7,169	3,263	(13,312)	(4,036)	48,467	41,627
Income tax expense (benefit)	11,881	8,941	1,702	813	(3,047)	(1,068)	10,536	8,686
Net income (loss)	\$42,729	\$33,459	\$5,467	\$2,450	(\$10,265)	(\$2,968)	\$37,931	\$32,941
Total assets at period end	\$4,520,417	\$4,579,720	\$75,232	\$74,803	\$1,256,331	\$1,222,437	\$5,851,980	\$5,876,960
Expenditures for long-lived assets	1,717	787	74	66	37	72	1,828	925

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Note 16 - Other Comprehensive Income (Loss)

The following tables present the activity in other comprehensive income (loss):

Three months ended June 30,

	2021			2020		
(Dollars in thousands)	Pre-tax Amounts	Income Taxes	Net of Tax	Pre-tax Amounts	Income Taxes	Net of Tax
Securities available for sale:						
Changes in fair value of available for sale debt securities	\$5,440	\$1,306	\$4,134	(\$2,364)	(\$556)	(\$1,808)
Cash flow hedges:						
Change in fair value of cash flow hedges	158	38	120	(293)	(69)	(224)
Net cash flow hedge (losses) gains reclassified into earnings (1) (2)	(65)	(15)	(50)	305	73	232
Net change in fair value of cash flow hedges	93	23	70	12	4	8
Defined benefit plan obligations:						
Amortization of net actuarial losses (3)	877	203	674	535	126	409
Total other comprehensive income (loss)	\$6,410	\$1,532	\$4,878	(\$1,817)	(\$426)	(\$1,391)

- (1) The pre-tax amounts for the three months ended June 30, 2021 are included in interest expense on FHLB advances and interest and fees on loans in the Unaudited Consolidated Statements of Income.
- (2) The pre-tax amounts for the three months ended June 30, 2020 are included in interest expense on FHLB advances, interest expense on junior subordinated debentures and interest and fees on loans in the Unaudited Consolidated Statements of Income.
- (3) The pre-tax amounts are included in other expenses in the Unaudited Consolidated Statements of Income.

Six months ended June 30,

	2021			2020		
(Dollars in thousands)	Pre-tax Amounts	Income Taxes	Net of Tax	Pre-tax Amounts	Income Taxes	Net of Tax
Securities available for sale:						
Changes in fair value of available for sale debt securities	(\$12,085)	(\$2,900)	(\$9,185)	\$14,376	\$3,378	\$10,998
Cash flow hedges:						
Change in fair value of cash flow hedges	267	64	203	(1,848)	(434)	(1,414)
Net cash flow hedge gains reclassified into earnings (1) (2)	216	52	164	485	113	372
Net change in fair value of cash flow hedges	483	116	367	(1,363)	(321)	(1,042)
Defined benefit plan obligations:						
Amortization of net actuarial losses (3)	1,422	341	1,081	1,071	252	819
Total other comprehensive (loss) income	(\$10,180)	(\$2,443)	(\$7,737)	\$14,084	\$3,309	\$10,775

- (1) The pre-tax amounts for the six months ended June 30, 2021 are included in interest expense on FHLB advances and interest and fees on loans in the Unaudited Consolidated Statements of Income.
- (2) The pre-tax amounts for the six months ended June 30, 2020 are included in interest expense on FHLB advances, interest expense on junior subordinated debentures and interest and fees on loans in the Unaudited Consolidated Statements of Income.
- (3) The pre-tax amounts are included in other expenses in the Unaudited Consolidated Statements of Income.

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

(Dollars in thousands)

	Net Unrealized (Losses) Gains on Available For Sale Debt Securities	Net Unrealized (Losses) Gains on Cash Flow Hedges	Defined Benefit Pension Plan Adjustment	Total
For the three months ended June 30, 2021				
Balance at March 31, 2021	(\$3,438)	(\$1,150)	(\$15,418)	(\$20,006)
Other comprehensive income before reclassifications	4,134	120	—	4,254
Amounts reclassified from accumulated other comprehensive income	—	(50)	674	624
Net other comprehensive income	4,134	70	674	4,878
Balance at June 30, 2021	\$696	(\$1,080)	(\$14,744)	(\$15,128)

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(Dollars in thousands)

For the six months ended June 30, 2021	Net Unrealized Gains (Losses) on Available For Sale Debt Securities	Net Unrealized (Losses) Gains on Cash Flow Hedges	Defined Benefit Pension Plan Adjustment	Total
Balance at December 31, 2020	\$9,881	(\$1,447)	(\$15,825)	(\$7,391)
Other comprehensive (loss) income before reclassifications	(9,185)	203	—	(8,982)
Amounts reclassified from accumulated other comprehensive income	—	164	1,081	1,245
Net other comprehensive (loss) income	(9,185)	367	1,081	(7,737)
Balance at June 30, 2021	\$696	(\$1,080)	(\$14,744)	(\$15,128)

(Dollars in thousands)

For the three months ended June 30, 2020	Net Unrealized Gains (Losses) on Available For Sale Debt Securities	Net Unrealized (Losses) Gains on Cash Flow Hedges	Defined Benefit Pension Plan Adjustment	Total
Balance at March 31, 2020	\$16,032	(\$1,843)	(\$13,260)	\$929
Other comprehensive loss before reclassifications	(1,808)	(224)	—	(2,032)
Amounts reclassified from accumulated other comprehensive income	—	232	409	641
Net other comprehensive (loss) income	(1,808)	8	409	(1,391)
Balance at June 30, 2020	\$14,224	(\$1,835)	(\$12,851)	(\$462)

(Dollars in thousands)

For the six months ended June 30, 2020	Net Unrealized Gains on Available For Sale Debt Securities	Net Unrealized (Losses) Gains on Cash Flow Hedges	Defined Benefit Pension Plan Adjustment	Total
Balance at December 31, 2019	\$3,226	(\$793)	(\$13,670)	(\$11,237)
Other comprehensive income (loss) before reclassifications	10,998	(1,414)	—	9,584
Amounts reclassified from accumulated other comprehensive income	—	372	819	1,191
Net other comprehensive income (loss)	10,998	(1,042)	819	10,775
Balance at June 30, 2020	\$14,224	(\$1,835)	(\$12,851)	(\$462)

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Note 17 - Earnings per Common Share

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

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

Periods ended June 30,	Three Months		Six Months	
	2021	2020	2021	2020
Earnings per common share - basic:				
Net income	\$17,460	\$21,040	\$37,931	\$32,941
Less: dividends and undistributed earnings allocated to participating securities	(52)	(40)	(108)	(72)
Net income available to common shareholders	\$17,408	\$21,000	\$37,823	\$32,869
Weighted average common shares	17,314	17,257	17,295	17,301
Earnings per common share - basic	\$1.01	\$1.22	\$2.19	\$1.90
Earnings per common share - diluted:				
Net income	\$17,460	\$21,040	\$37,931	\$32,941
Less: dividends and undistributed earnings allocated to participating securities	(52)	(40)	(108)	(72)
Net income available to common shareholders	\$17,408	\$21,000	\$37,823	\$32,869
Weighted average common shares	17,314	17,257	17,295	17,301
Dilutive effect of common stock equivalents	122	35	150	76
Weighted average diluted common shares	17,436	17,292	17,445	17,377
Earnings per common share - diluted	\$1.00	\$1.21	\$2.17	\$1.89

Weighted average common stock equivalents, not included in common stock equivalents above because they were anti-dilutive, totaled 87,924 and 149,650, respectively, for the three and six months ended June 30, 2021, compared to 256,721 and 220,305, respectively, for the same periods in 2020.

Note 18 - Commitments and Contingencies

Financial Instruments with Off-Balance Sheet Risk

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to manage the Corporation's exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby letters of credit, forward loan commitments, loan related derivative contracts and interest rate risk management contracts. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the Unaudited Consolidated Balance Sheets. The contract or notional amounts of these instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments.

Financial Instruments Whose Contract Amounts Represent Credit Risk (Unfunded Commitments)

Commitments to Extend Credit

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

Standby Letters of Credit

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These standby letters of credit are primarily issued to support the financing needs of the Bank's commercial customers. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loan facilities to customers. The collateral supporting those commitments is essentially the same as for other commitments. Most standby letters of credit extend for one year. The maximum potential amount of undiscounted future payments, not reduced by amounts that may be recovered, totaled \$11.9 million and \$11.7 million, respectively, as of June 30, 2021 and December 31, 2020. At June 30, 2021 and December 31, 2020, there were no liabilities to beneficiaries resulting from standby letters of credit. Fee income on standby letters of credit was insignificant for the three and six months ended June 30, 2021 and 2020.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

A substantial portion of the standby letters of credit were supported by pledged collateral. The collateral obtained is determined based on management's credit evaluation of the customer. Should the Corporation be required to make payments to the beneficiary, repayment from the customer to the Corporation is required.

Financial Instruments Whose Notional Amounts Exceed the Amount of Credit Risk

Mortgage Loan Commitments

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

Loan Related Derivative Contracts

The Corporation's credit policies with respect to interest rate swap agreements with commercial borrowers are similar to those used for loans. The interest rate swaps with other counterparties are generally subject to bilateral collateralization terms.

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

(Dollars in thousands)	Jun 30, 2021	Dec 31, 2020
Financial instruments whose contract amounts represent credit risk (unfunded commitments):		
Commitments to extend credit:		
Commercial loans	\$450,576	\$453,493
Home equity lines	345,381	319,744
Other loans	150,123	89,078
Standby letters of credit	11,904	11,709
Financial instruments whose notional amounts exceed the amounts of credit risk:		
Mortgage loan commitments:		
Interest rate lock commitments	82,082	167,671
Forward sale commitments	155,905	279,653
Loan related derivative contracts:		
Interest rate swaps with customers	993,031	991,002
Mirror swaps with counterparties	993,031	991,002
Risk participation-in agreements	147,732	92,717
Interest rate risk management contracts:		
Interest rate swaps	360,000	60,000

See Note 10 for additional disclosure pertaining to derivative financial instruments.

ACL on Unfunded Commitments

The ACL on unfunded commitments is management's estimate of expected credit losses over the expected contractual term (or life) in which the Corporation is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Corporation. Unfunded commitments for home equity lines of credit and commercial demand loans are considered unconditionally cancellable for regulatory capital purposes and, therefore, are excluded from the calculation to estimate the ACL on unfunded commitments. For each portfolio, estimated loss rates and funding factors are applied to the corresponding balance of unfunded commitments. For each portfolio, the estimated loss rates applied to unfunded commitments are the same quantitative and qualitative loss rates applied to the corresponding on-balance sheet amounts in determining the ACL on loans. The estimated funding factor applied to unfunded commitments represents the likelihood that the funding will occur and is based upon the Corporation's average historical utilization rate for each portfolio.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

The ACL on unfunded commitments is included in other liabilities in the Unaudited Consolidated Balance Sheets. The ACL on unfunded commitments is adjusted through a provision for credit losses recognized in the Unaudited Consolidated Statements of Income.

The activity in the ACL on unfunded commitments for the three months ended June 30, 2021 is presented below:

(Dollars in thousands)	Commercial			Residential Real Estate	Consumer			Total
	CRE	C&I	Total Commercial		Home Equity	Other	Total Consumer	
Beginning Balance	\$953	\$1,314	\$2,267	\$46	\$—	\$20	\$20	\$2,333
Provision	261	(269)	(8)	10	—	(2)	(2)	—
Ending Balance	\$1,214	\$1,045	\$2,259	\$56	\$—	\$18	\$18	\$2,333

The activity in the ACL on unfunded commitments for the six months ended June 30, 2021 is presented below:

(Dollars in thousands)	Commercial			Residential Real Estate	Consumer			Total
	CRE	C&I	Total Commercial		Home Equity	Other	Total Consumer	
Beginning Balance	\$907	\$1,402	\$2,309	\$54	\$—	\$19	\$19	\$2,382
Provision	307	(357)	(50)	2	—	(1)	(1)	(49)
Ending Balance	\$1,214	\$1,045	\$2,259	\$56	\$—	\$18	\$18	\$2,333

The activity in the ACL on unfunded commitments for the three months ended June 30, 2020 is presented below:

(Dollars in thousands)	Commercial			Residential Real Estate	Consumer			Total
	CRE	C&I	Total Commercial		Home Equity	Other	Total Consumer	
Beginning Balance	\$1,132	\$847	\$1,979	\$42	\$—	\$18	\$18	\$2,039
Provision	(245)	360	115	—	—	1	1	116
Ending Balance	\$887	\$1,207	\$2,094	\$42	\$—	\$19	\$19	\$2,155

The activity in the ACL on unfunded commitments for the six months ended June 30, 2020 is presented below:

(Dollars in thousands)	Commercial			Residential Real Estate	Consumer			Total
	CRE	C&I	Total Commercial		Home Equity	Other	Total Consumer	
Beginning Balance	\$136	\$144	\$280	\$6	\$—	\$7	\$7	\$293
Adoption of Topic 326	817	626	1,443	34	—	6	6	1,483
Provision	(66)	437	371	2	—	6	6	379
Ending Balance	\$887	\$1,207	\$2,094	\$42	\$—	\$19	\$19	\$2,155

Other Contingencies

Litigation

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

Management's Discussion and Analysis

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

The following discussion should be read in conjunction with the Corporation's Audited Consolidated Financial Statements and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2020, and in conjunction with the condensed Unaudited Consolidated Financial Statements and notes thereto included in Item 1 of this report. Operating results for the three and six months ended June 30, 2021 are not necessarily indicative of the results for the full-year ended December 31, 2021 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," and other expressions that predict or indicate future events and trends and which do not relate to historical matters. You should not rely on forward-looking statements, because they involve known and unknown risks, uncertainties and other factors, some of which are beyond our control. These risks, uncertainties and other factors may cause our actual results, performance or achievements to be materially different than the anticipated future results, performance or achievements expressed or implied by the forward-looking statements.

Some of the factors that might cause these differences include the following: the negative impacts and disruptions of the COVID-19 pandemic and measures taken to contain its spread on our employees, customers, business operations, credit quality, financial position, liquidity and results of operations; changes in consumer behavior due to changing political, business and economic conditions, or legislative or regulatory initiatives; the possibility that future credits losses are higher than currently expected due to changes in economic assumptions or adverse economic developments; volatility in national and international financial markets; reductions in net interest income resulting from interest rate changes or volatility as well as changes in the balance and mix of loans and deposits; reductions in the market value or outflows of wealth management assets under administration; decreases in the value of securities and other assets; reductions in loan demand; changes in loan collectability, increases in defaults and charge-off rates; changes related to the discontinuation and replacement of LIBOR; changes in the size and nature of our competition; changes in legislation or regulation and accounting principles, policies and guidelines; operational risks including, but not limited to, cybersecurity incidents, fraud, natural disasters and future pandemics; reputational risk relating to our participation in the Paycheck Protection Program and other pandemic-related legislative and regulatory initiatives and programs; 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, 2020, as updated by our Quarterly Reports on Form 10-Q and other filings submitted to the SEC, may result in these differences. You should carefully review all of these factors and you should be aware that there may be other factors that could cause these differences. These forward-looking statements were based on information, plans and estimates at the date of this report, and we assume no obligation to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events or other changes.

Critical Accounting Policies and Estimates

Accounting policies involving significant judgments, estimates and assumptions by management, which have, or could have, a material impact on the Corporation's consolidated financial statements are considered critical accounting policies. Management considers the following to be its critical accounting policies: the determination of the allowance for credit losses on loans, the valuation of goodwill and identifiable intangible assets, and accounting for defined benefit pension plans.

See our Annual Report on Form 10-K for the fiscal year ended December 31, 2020 for a description of the Corporation's critical accounting policies for the valuation of goodwill and identifiable intangible assets and accounting for defined benefit pension plans. Management updated its critical accounting policy for the allowance for credit losses on loans in the first quarter of 2021 as the result of incorporating additional econometric factors in the determination of the probability of default for each loan portfolio segment. The updated policy is presented below.

Allowance for Credit Losses on Loans

The allowance for credit losses ("ACL") on loans is management's estimate of expected credit losses over the expected life of the loans at the reporting date. In accordance with the ACL policy, the methodology is reviewed no less than annually. The ACL on loans is established through a provision for credit losses recognized in the Unaudited Consolidated Statements of Income and by recoveries of amounts previously charged-off. The ACL on loans is reduced by charge-offs on loans. Loan charge-offs are recognized when management believes the collectability of the principal balance outstanding is unlikely. Full

Management's Discussion and Analysis

or partial charge-offs on collateral dependent individually analyzed loans are generally recognized when the collateral is deemed to be insufficient to support the carrying value of the loan.

The level of the ACL on loans is based on management's ongoing review of all relevant information, from internal and external sources, relating to past events, current conditions and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the calculation of loss given default and the estimation of expected credit losses. As discussed further below, adjustments to historical information are made for differences in specific risk characteristics, such as differences in underwriting standards, portfolio mix, delinquency level, or term, as well as for changes in environmental conditions, that may not be reflected in historical loss rates.

Management employs a process and methodology to estimate the ACL on loans that evaluates both quantitative and qualitative factors. The methodology for evaluating quantitative factors consists of two basic components. The first component involves pooling loans into portfolio segments for loans that share similar risk characteristics. Pooled loan portfolio segments include commercial real estate (including commercial construction loans), commercial and industrial (including Paycheck Protection Program ("PPP") loans), residential real estate (including homeowner construction), home equity and other consumer loans. The second component involves identifying individually analyzed loans that do not share similar risk characteristics with loans that are pooled into portfolio segments. Individually analyzed loans include nonaccrual commercial loans, reasonably expected troubled debt restructurings ("TDRs") and executed TDRs, as well as certain other loans based on the underlying risk characteristics and the discretion of management to individually analyze such loans.

For loans that are individually analyzed, the ACL is measured using a discounted cash flow ("DCF") 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. Factors management considers when measuring the extent of expected credit loss include payment status, collateral value, borrower financial condition, guarantor support and the probability of collecting scheduled principal and interest payments when due. For collateral dependent loans for which repayment is to be provided substantially through the sale of the collateral, management adjusts the fair value for estimated costs to sell. For collateral dependent loans for which repayment is to be provided substantially through the operation of the collateral, such as accruing TDRs, 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 collateral.

For pooled loans, the Corporation utilizes a DCF methodology to estimate credit losses over the expected life of the loan. The life of the loan excludes expected extensions, renewals and modifications, unless the extension or renewal options are included in the original or modified contract terms and not unconditionally cancellable by the Corporation. The methodology incorporates a probability of default and loss given default framework. Default triggers include the loan has become past due by 90 or more days, a charge-off has occurred, the loan has been placed on nonaccrual status, the loan has been modified in a TDR or the loan is risk-rated as special mention or classified. Loss given default is estimated based on historical credit loss experience. Probability of default is estimated utilizing a regression model that incorporates econometric factors. These factors are selected based on the correlation of the factor to historical credit losses for each portfolio segment. The national unemployment rate ("NUR") and gross domestic product ("GDP") econometric factors are utilized for the commercial real estate and other consumer loan portfolio segments; the NUR and national home price index ("HPI") econometric factors are utilized for the residential real estate and home equity portfolio segments; and the NUR econometric factor is utilized for the commercial & industrial loan portfolio segment. To estimate the probability of default, the model utilizes forecasted econometric factors over a one-year reasonable and supportable forecast period. After the forecast period, the model reverts to the historical mean of the respective econometric factor and the associated probability of default on a straight-line basis over a one-year reversion period. The DCF methodology combines the probability of default, the loss given default, prepayment speeds and the remaining life of the loan to estimate a reserve for each loan. The sum of all the loan level reserves are aggregated for each portfolio segment and a loss rate factor is derived.

Quantitative loss factors are also supplemented by certain qualitative risk factors reflecting management's view of how losses may vary from those represented by quantitative loss rates. These qualitative risk factors include: (1) changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses; (2) changes in international, national, regional, and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments; (3) changes in the nature and volume of the portfolio and in the terms of loans; (4) changes in the experience, ability, and depth of lending management and other relevant staff; (5) changes in the volume and severity of past due loans,

Management's Discussion and Analysis

the volume of nonaccrual loans, and the volume and severity of adversely classified or rated loans; (6) changes in the quality of the institution's credit review system; (7) changes in the value of underlying collateral for collateral dependent loans; (8) the existence and effect of any concentrations of credit, and changes in the level of such concentrations; and (9) the effect of other external factors such as legal and regulatory requirements on the level of estimated credit losses in the institution's existing portfolio. Qualitative loss factors are applied to each portfolio segment with the amounts determined by historical loan charge-offs of a peer group of similar-sized regional banks.

Because the methodology is based upon historical experience and trends, current economic data, reasonable and supportable forecasts, as well as management's judgment, factors may arise that result in different estimations. Deteriorating conditions or assumptions could lead to future increases in the ACL on loans. In addition, various regulatory agencies periodically review the ACL on loans. Such agencies may require additions to the allowance based on their judgments about information available to them at the time of their examination. The ACL on loans is an estimate, and ultimate losses may vary from management's estimate.

Recently Issued Accounting Pronouncements

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

Overview

The Corporation offers a comprehensive product line of banking and financial services to individuals and businesses, including commercial, residential and consumer lending, retail and commercial deposit products, and wealth management services through its offices in Rhode Island, eastern Massachusetts and Connecticut; its ATMs; telephone banking; mobile banking and its internet website (www.washttrust.com).

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

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

COVID-19 Pandemic Related

On March 11, 2021, the American Rescue Plan Act ("ARP") was signed into law providing an additional \$1.9 trillion in COVID-19 economic relief. The ARP included provisions on aid to state and local governments, hard-hit industries and communities, additional direct stimulus payments to qualifying individuals, additional funding for the Small Business Administration's ("SBA's") PPP and other provisions.

PPP loans are 100% guaranteed by the SBA. On May 4, 2021, the SBA announced that PPP funding has been exhausted and that it has stopped accepting applications from most lenders. In the second quarter of 2021, we originated approximately 100 PPP loans with principal balances totaling approximately \$4 million and we processed SBA forgiveness on approximately 650 PPP loans with principal balances totaling \$85 million. As of June 30, 2021, the carrying value of PPP loans amounted to \$147.0 million and included net unamortized loan origination fee balances of \$4.9 million. As of July 31, 2021, the carrying value of PPP loans has declined to \$135.3 million and included net unamortized loan origination fee balances of \$4.6 million. Management expects a significant portion of PPP loans to be ultimately forgiven by the SBA in accordance with the terms of the program. See additional disclosure regarding PPP loans under the heading "Commercial & Industrial Loans" in the Financial Condition section.

Risk Management

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

The Board of Directors is responsible for oversight of the ERM program. The ERM program enables the aggregation of risk across the Corporation and ensures the Corporation has the tools, programs and processes in place to support informed

Management's Discussion and Analysis

decision making, to anticipate risks before they materialize and to maintain the Corporation's risk profile consistent with its risk strategy.

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

Credit risk represents the possibility that borrowers or other counterparties may not repay loans or other contractual obligations according to their terms due to changes in the financial capacity, ability and willingness of such borrowers or counterparties to meet their obligations. In some cases, the collateral securing payment of the loans may be sufficient to assure repayment, but in other cases the Corporation may experience significant credit losses which could have an adverse effect on its operating results. The Corporation makes various assumptions and judgments about the collectability of its loan portfolio, including the creditworthiness of its borrowers and counterparties and the value of the real estate and other assets serving as collateral for the repayment of loans. Credit risk also exists with respect to investment securities. For further discussion regarding the credit risk and the credit quality of the Corporation's loan portfolio, see Note 5 and Note 6 to the Unaudited Consolidated Financial Statements. For further discussion regarding credit risk associated with unfunded commitments, see Note 18 to the Unaudited Consolidated Financial Statements. For further discussion regarding the Corporation's securities portfolio, see Note 4 to the Unaudited Consolidated Financial Statements.

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

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

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

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

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

ERM is an overarching program that includes all areas of the Corporation. A framework approach is utilized to assign responsibility and to ensure that the various business units and activities involved in the risk management life-cycle are effectively integrated. The Corporation has adopted the "three lines of defense" strategy that is an industry best practice for ERM. Business units are the first line of defense in managing risk. They are responsible for identifying, measuring, monitoring, and controlling current and emerging risks. They must report on and escalate their concerns. Corporate functions such as Credit Risk Management, Financial Administration, Information Assurance and Compliance, comprise the second line of defense. They are responsible for policy setting and for reviewing and challenging the risk management activities of the business units. They collaborate closely with business units on planning and resource allocation with respect to risk management. Internal Audit is the third line of defense. They provide independent assurance to the Board of Directors of the effectiveness of the first and second lines in fulfilling their risk management responsibilities.

For additional factors that could adversely impact Washington Trust's future results of operations and financial condition, see the section labeled "Risk Factors" in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2020, as updated by our Quarterly Reports on Form 10-Q and other filings submitted to the SEC.

Management's Discussion and Analysis

Results of Operations

The following table presents a summarized consolidated statement of operations:

(Dollars in thousands)	Three Months				Six Months			
	2021	2020	Change		2021	2020	Change	
			\$	%			\$	%
Periods ended June 30,								
Net interest income	\$34,754	\$30,945	\$3,809	12 %	\$67,625	\$63,547	\$4,078	6 %
Noninterest income	20,593	26,320	(5,727)	(22)	46,567	46,247	320	1
Total revenues	55,347	57,265	(1,918)	(3)	114,192	109,794	4,398	4
Provision for credit losses	—	2,200	(2,200)	(100)	(2,000)	9,236	(11,236)	(122)
Noninterest expense	33,012	28,478	4,534	16	67,725	58,931	8,794	15
Income before income taxes	22,335	26,587	(4,252)	(16)	48,467	41,627	6,840	16
Income tax expense	4,875	5,547	(672)	(12)	10,536	8,686	1,850	21
Net income	\$17,460	\$21,040	(\$3,580)	(17 %)	\$37,931	\$32,941	\$4,990	15 %

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

Periods ended June 30,	Three Months		Six Months	
	2021	2020	2021	2020
Diluted earnings per common share	\$1.00	\$1.21	\$2.17	\$1.89
Return on average assets (net income divided by average assets)	1.20 %	1.46 %	1.32 %	1.18 %
Return on average equity (net income available for common shareholders divided by average equity)	12.92 %	16.51 %	14.22 %	13.03 %
Net interest income as a percentage of total revenues	63 %	54 %	59 %	58 %
Noninterest income as a percentage of total revenues	37 %	46 %	41 %	42 %

Net income totaled \$17.5 million and \$37.9 million, respectively, for the three and six months ended June 30, 2021, compared to \$21.0 million and \$32.9 million, respectively, for the same periods in 2020.

Net interest income in 2021 largely benefited from lower funding costs and a reduction in wholesale funding balances, as well as accelerated amortization of net deferred fee balances on PPP loans that were forgiven by the SBA. Noninterest income changes reflected lower mortgage banking revenues and higher wealth management revenues. The year-over-year reduction in credit loss provisioning reflected improvement in forecasted economic conditions and continued stable asset quality metrics. Noninterest expenses in 2021 included debt prepayment penalty expense associated with paying off higher yielding FHLB advances, as well as an increase in salaries and benefits expense.

Management's Discussion and Analysis

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

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

Three months ended June 30, (Dollars in thousands)	2021			2020			Change		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets:									
Cash, federal funds sold and short-term investments	\$146,313	\$32	0.09	\$187,306	\$36	0.08	(\$40,993)	(\$4)	0.01
Mortgage loans held for sale	57,473	405	2.83	53,443	440	3.31	4,030	(35)	(0.48)
Taxable debt securities	1,029,933	3,441	1.34	904,792	5,477	2.43	125,141	(2,036)	(1.09)
FHLB stock	25,128	110	1.76	51,967	654	5.06	(26,839)	(544)	(3.30)
Commercial real estate	1,639,515	11,701	2.86	1,635,431	12,580	3.09	4,084	(879)	(0.23)
Commercial & industrial	807,598	8,113	4.03	791,672	6,739	3.42	15,926	1,374	0.61
Total commercial	2,447,113	19,814	3.25	2,427,103	19,319	3.20	20,010	495	0.05
Residential real estate	1,514,487	12,920	3.42	1,497,665	14,330	3.85	16,822	(1,410)	(0.43)
Home equity	257,257	2,056	3.21	282,470	2,382	3.39	(25,213)	(326)	(0.18)
Other	20,979	253	4.84	18,956	229	4.86	2,023	24	(0.02)
Total consumer	278,236	2,309	3.33	301,426	2,611	3.48	(23,190)	(302)	(0.15)
Total loans	4,239,836	35,043	3.32	4,226,194	36,260	3.45	13,642	(1,217)	(0.13)
Total interest-earning assets	5,498,683	39,031	2.85	5,423,702	42,867	3.18	74,981	(3,836)	(0.33)
Noninterest-earning assets	334,742			365,990			(31,248)		
Total assets	\$5,833,425			\$5,789,692			\$43,733		
Liabilities and Shareholders' Equity:									
Interest-bearing demand deposits	\$182,465	\$49	0.11	\$162,388	\$142	0.35	\$20,077	(\$93)	(0.24)
NOW accounts	760,294	119	0.06	570,739	84	0.06	189,555	35	—
Money market accounts	951,194	552	0.23	821,063	1,370	0.67	130,131	(818)	(0.44)
Savings accounts	518,072	72	0.06	403,286	67	0.07	114,786	5	(0.01)
Time deposits (in-market)	686,590	1,889	1.10	746,750	3,507	1.89	(60,160)	(1,618)	(0.79)
Total interest-bearing in-market deposits	3,098,615	2,681	0.35	2,704,226	5,170	0.77	394,389	(2,489)	(0.42)
Wholesale brokered time deposits	662,541	280	0.17	559,822	1,942	1.40	102,719	(1,662)	(1.23)
Total interest-bearing deposits	3,761,156	2,961	0.32	3,264,048	7,112	0.88	497,108	(4,151)	(0.56)
FHLB advances	456,661	1,001	0.88	1,068,034	4,382	1.65	(611,373)	(3,381)	(0.77)
Junior subordinated debentures	22,681	92	1.63	22,681	171	3.03	—	(79)	(1.40)
PPPLF borrowings	—	—	—	2,565	2	0.31	(2,565)	(2)	(0.31)
Total interest-bearing liabilities	4,240,498	4,054	0.38	4,357,328	11,667	1.08	(116,830)	(7,613)	(0.70)
Noninterest-bearing demand deposits	912,295			745,050			167,245		
Other liabilities	140,108			175,563			(35,455)		
Shareholders' equity	540,524			511,751			28,773		
Total liabilities and shareholders' equity	\$5,833,425			\$5,789,692			\$43,733		
Net interest income (FTE)		\$34,977			\$31,200			\$3,777	
Interest rate spread			2.47			2.10			0.37
Net interest margin			2.55			2.31			0.24

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

(Dollars in thousands)

Three months ended June 30,	2021	2020	Change
Commercial loans	\$223	\$254	(\$31)

Six months ended June 30,

	2021			2020			Change		
(Dollars in thousands)	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets:									
Cash, federal funds sold and short-term investments	\$150,580	\$65	0.09	\$150,325	\$385	0.52	\$255	(\$320)	(0.43)
Mortgage loans held for sale	59,429	846	2.87	42,265	725	3.45	17,164	121	(0.58)
Taxable debt securities	973,214	6,683	1.38	905,043	11,311	2.51	68,171	(4,628)	(1.13)
FHLB stock	26,987	243	1.82	51,964	1,294	5.01	(24,977)	(1,051)	(3.19)
Commercial real estate	1,632,725	23,060	2.85	1,609,193	28,677	3.58	23,532	(5,617)	(0.73)
Commercial & industrial	823,580	15,979	3.91	699,586	13,294	3.82	123,994	2,685	0.09
Total commercial	2,456,305	39,039	3.21	2,308,779	41,971	3.66	147,526	(2,932)	(0.45)
Residential real estate	1,484,571	25,737	3.50	1,483,473	28,613	3.88	1,098	(2,876)	(0.38)
Home equity	257,494	4,177	3.27	284,151	5,483	3.88	(26,657)	(1,306)	(0.61)
Other	20,545	495	4.86	19,406	478	4.95	1,139	17	(0.09)
Total consumer	278,039	4,672	3.39	303,557	5,961	3.95	(25,518)	(1,289)	(0.56)
Total loans	4,218,915	69,448	3.32	4,095,809	76,545	3.76	123,106	(7,097)	(0.44)
Total interest-earning assets	5,429,125	77,285	2.87	5,245,406	90,260	3.46	183,719	(12,975)	(0.59)
Noninterest-earning assets	343,889			346,914			(3,025)		
Total assets	\$5,773,014			\$5,592,320			\$180,694		
Liabilities and Shareholders' Equity:									
Interest-bearing demand deposits	\$183,223	\$145	0.16	\$158,902	\$642	0.81	\$24,321	(\$497)	(0.65)
NOW accounts	729,301	221	0.06	538,010	154	0.06	191,291	67	—
Money market accounts	930,656	1,266	0.27	808,166	3,462	0.86	122,490	(2,196)	(0.59)
Savings accounts	504,040	141	0.06	388,831	128	0.07	115,209	13	(0.01)
Time deposits (in-market)	695,038	4,127	1.20	763,552	7,556	1.99	(68,514)	(3,429)	(0.79)
Total interest-bearing in-market deposits	3,042,258	5,900	0.39	2,657,461	11,942	0.90	384,797	(6,042)	(0.51)
Wholesale brokered time deposits	621,075	724	0.24	475,822	3,706	1.57	145,253	(2,982)	(1.33)
Total interest-bearing deposits	3,663,333	6,624	0.36	3,133,283	15,648	1.00	530,050	(9,024)	(0.64)
FHLB advances	499,435	2,381	0.96	1,095,894	10,147	1.86	(596,459)	(7,766)	(0.90)
Junior subordinated debentures	22,681	186	1.65	22,681	384	3.40	—	(198)	(1.75)
PPPLF borrowings	—	—	—	1,282	2	0.31	(1,282)	(2)	(0.31)
Total interest-bearing liabilities	4,185,449	9,191	0.44	4,253,140	26,181	1.24	(67,691)	(16,990)	(0.80)
Noninterest-bearing demand deposits	901,522			677,961			223,561		
Other liabilities	149,622			153,781			(4,159)		
Shareholders' equity	536,421			507,438			28,983		
Total liabilities and shareholders' equity	\$5,773,014			\$5,592,320			\$180,694		
Net interest income (FTE)	\$68,094			\$64,079			\$4,015		
Interest rate spread	2.43			2.22			0.21		
Net interest margin	2.53			2.46			0.07		

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

(Dollars in thousands)

Six months ended June 30,	2021	2020	Change
Commercial loans	\$469	\$532	(\$63)

Management's Discussion and Analysis

Net Interest Income

Net interest income continues to be the primary source of our operating income. Net interest income for the three and six months ended June 30, 2021 totaled \$34.8 million and \$67.6 million, respectively, compared to \$30.9 million and \$63.5 million, respectively, for the same periods in 2020. Net interest income is affected by the level of and changes in interest rates, and changes in the amount and composition of interest-earning assets and interest-bearing liabilities. Prepayment penalty income associated with loan payoffs is included in net interest income.

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

The analysis of net interest income, net interest margin and the yield on loans may be impacted by the periodic recognition of prepayment penalty fee income associated with loan payoffs. Prepayment penalty fee income associated with loan payoffs was \$717 thousand and \$934 thousand, respectively, for the three and six months ended June 30, 2021. Prepayment penalty fee income associated with loan payoffs amounted to \$21 thousand and \$146 thousand, respectively, for the three and six months ended June 30, 2020.

The analysis of net interest income, net interest margin and the yield on loans is also impacted by changes in the level of net amortization of premiums and discounts on securities and loans, which is included in interest income. As market interest rates decline, payments on mortgage-backed securities and loan prepayments generally increase. This results in accelerated levels of amortization reducing net interest income and may also result in the proceeds having to be reinvested at a lower rate than the mortgage-backed security or loan being prepaid. As noted in the Unaudited Consolidated Statements of Cash Flows, net amortization of premiums and discounts on securities and loans (a net reduction to interest income) amounted to \$2.4 million for the six months ended June 30, 2021. This compares to net amortization or a net reduction to interest income of \$2.7 million for the same period in 2020. The year-over-year change in net amortization reflected accelerated amortization of net deferred fee balances on PPP loans, partially offset by an increase in amortization of net premiums on securities.

As PPP loans are forgiven by the SBA, related unamortized net fee balances are accelerated and amortized into net interest income. Such accelerated amortization amounted to \$1.0 million and \$2.2 million, respectively, for the three and six months ended June 30, 2021. There was no PPP forgiveness in the corresponding periods in 2020.

FTE net interest income for the three and six months ended June 30, 2021 amounted to \$35.0 million and \$68.1 million, respectively, up by \$3.8 million and \$4.0 million, respectively, from the same periods in 2020. A decline in average interest-bearing liability balances and growth in average interest-earnings assets contributed approximately \$2.2 million and \$6.2 million, respectively, of net interest income for the three and six months ended June 30, 2021. For the three months ended June 30, 2021 compared to the same period a year ago, declines in funding costs out-paced lower asset yields and contributed \$1.6 million to net interest income. For the six months ended June 30, 2021 compared to the same period a year ago, lower asset yields out-paced declines in funding costs and reduced net interest income by \$2.2 million.

The net interest margin was 2.55% and 2.53%, respectively, for the three and six months ended June 30, 2021, compared to 2.31% and 2.46%, respectively, for the same periods a year ago. The net interest margin benefited in 2021 from lower funding costs and a reduction in wholesale funding balances. It also benefited from accelerated amortization of net deferred fee balances on PPP loans that were forgiven by the SBA and loan prepayment fees. Accelerated PPP amortization added 7 basis points and 9 basis points, respectively, to the net interest margin for the three and six months ended June 30, 2021, compared to zero in 2020. Loan prepayment fees added 5 basis points and 4 basis points, respectively, to the net interest margin for the three and six months ended June 30, 2021, as compared to zero and 1 basis point, respectively, for the same periods in 2020.

Total average securities for the three and six months ended June 30, 2021 increased by \$125.1 million and \$68.2 million, respectively, from the average balances for the same periods a year earlier. The FTE rate of return on the securities portfolio for the three and six months ended June 30, 2021 was 1.34% and 1.38%, respectively, compared to 2.43% and 2.51%, respectively, for the same periods in 2020, reflecting purchases of relatively lower yielding debt securities and the impact of lower market interest rates.

Total average loan balances for the three and six months ended June 30, 2021 increased by \$13.6 million and \$123.1 million, respectively, from the average loan balances for the comparable 2020 periods. The year-to-date increase reflected growth in

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average commercial loan balances concentrated in lower yielding PPP loans. The yield on total loans for the both the three and six months ended June 30, 2021 was 3.32%, compared to 3.45% and 3.76%, respectively, for the same periods in 2020. Yields on LIBOR-based and prime-based loans reflected lower market interest rates.

The average balance of FHLB advances for the three and six months ended June 30, 2021 decreased by \$611.4 million and \$596.5 million, respectively, compared to the average balances for the same periods in 2020. The average rate paid on such advances for the three and six months ended June 30, 2021 was 0.88% and 0.96%, respectively, down from 1.65% and 1.86%, respectively, for the same periods in 2020, reflecting maturities and payoffs of higher-yielding FHLB advances and lower market interest rates.

Included in total average interest-bearing deposits were of out-of-market wholesale brokered time deposits, which increased by \$102.7 million and \$145.3 million, respectively, from the same periods in 2020. The average rate paid on wholesale brokered time deposits for the three and six months ended June 30, 2021 was 0.17% and 0.24%, respectively, compared to 1.40% and 1.57%, respectively, for the same periods in 2020, reflecting lower market interest rates.

Average in-market interest-bearing deposits, which excludes wholesale brokered time deposits, for the three and six months ended June 30, 2021 increased by \$394.4 million and \$384.8 million, respectively, from the average balances for the same periods in 2020. The increases largely reflected growth in lower-cost deposit categories, partially offset by maturities of higher-cost promotional time deposits. The average rate paid on in-market interest-bearing deposits for the three and six months ended June 30, 2021 decreased by 42 basis points and 51 basis points, respectively, from the same periods in 2020, reflecting downward repricing of interest-bearing in-market deposits due to lower market interest rates.

The average balance of noninterest-bearing demand deposits for the three and six months ended June 30, 2021 increased by \$167.2 million and \$223.6 million, respectively, from the average balance for the same periods in 2020. See additional disclosure under the caption "Sources of Funds."

Management's Discussion and Analysis

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

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

(Dollars in thousands)

	Three Months Ended June 30, 2021 vs. 2020			Six Months Ended June 30, 2021 vs. 2020		
	Change Due to			Change Due to		
	Volume	Rate	Net Change	Volume	Rate	Net Change
Interest on Interest-Earning Assets:						
Cash, federal funds sold and other short-term investments	(\$9)	\$5	(\$4)	\$1	(\$321)	(\$320)
Mortgage loans held for sale	31	(66)	(35)	259	(138)	121
Taxable debt securities	674	(2,710)	(2,036)	797	(5,425)	(4,628)
FHLB stock	(241)	(303)	(544)	(452)	(599)	(1,051)
Commercial real estate	31	(910)	(879)	410	(6,027)	(5,617)
Commercial & industrial	137	1,237	1,374	2,404	281	2,685
Total commercial	168	327	495	2,814	(5,746)	(2,932)
Residential real estate	161	(1,571)	(1,410)	21	(2,897)	(2,876)
Home equity	(208)	(118)	(326)	(484)	(822)	(1,306)
Other	24	—	24	27	(10)	17
Total consumer	(184)	(118)	(302)	(457)	(832)	(1,289)
Total loans	145	(1,362)	(1,217)	2,378	(9,475)	(7,097)
Total interest income	600	(4,436)	(3,836)	2,983	(15,958)	(12,975)
Interest on Interest-Bearing Liabilities:						
Interest-bearing demand deposits	15	(108)	(93)	85	(582)	(497)
NOW accounts	35	—	35	67	—	67
Money market accounts	190	(1,008)	(818)	461	(2,657)	(2,196)
Savings accounts	14	(13)	1	35	(22)	13
Time deposits (in-market)	(262)	(1,356)	(1,618)	(630)	(2,799)	(3,429)
Total interest-bearing in-market deposits	(8)	(2,485)	(2,493)	18	(6,060)	(6,042)
Wholesale brokered time deposits	304	(1,966)	(1,662)	878	(3,860)	(2,982)
Total interest-bearing deposits	296	(4,451)	(4,155)	896	(9,920)	(9,024)
FHLB advances	(1,865)	(1,516)	(3,381)	(4,105)	(3,661)	(7,766)
Junior subordinated debentures	—	(79)	(79)	—	(198)	(198)
PPPLF borrowings	1	1	2	(1)	(1)	(2)
Total interest expense	(1,568)	(6,045)	(7,613)	(3,210)	(13,780)	(16,990)
Net interest income (FTE)	\$2,168	\$1,609	\$3,777	\$6,193	(\$2,178)	\$4,015

Provision for Credit Losses

The provision for credit losses results from management's review of the adequacy of the ACL. The ACL is management's estimate of expected lifetime credit losses as of the reporting date and includes consideration of current forecasted economic conditions. Estimating an appropriate level of ACL necessarily involves a high degree of judgment.

For the three months ended June 30, 2021 there was no provision for credit losses, compared to a positive provision for credit losses (or a charge) of \$2.2 million for the same period in 2020. For the six months ended June 30, 2021, a negative provision for credit losses (or a benefit) of \$2.0 million was recognized in earnings, compared to a positive provision for credit losses (or a charge) of \$9.2 million for the same period in 2020. The year-over-year reduction in credit loss provisioning reflected improvement in forecasted economic conditions and continued stable asset quality metrics.

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Total net charge-offs were \$258 thousand and \$276 thousand, respectively, for the three and six months ended June 30, 2021, compared to \$308 thousand and \$931 thousand, respectively, for the same periods in 2020.

The ACL on loans was \$41.9 million, or 0.97% of total loans, at June 30, 2021, compared to an ACL on loans of \$44.1 million, or 1.05% of total loans, at December 31, 2020.

See additional discussion under the caption “Asset Quality” for further information on the ACL on loans.

Noninterest Income

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

(Dollars in thousands)	Three Months				Six Months			
	2021	2020	Change		2021	2020	Change	
			\$	%			\$	%
Noninterest income:								
Wealth management revenues	\$10,428	\$8,605	\$1,823	21 %	\$20,323	\$17,294	\$3,029	18 %
Mortgage banking revenues	5,994	14,851	(8,857)	(60)	17,921	20,947	(3,026)	(14)
Card interchange fees	1,316	1,031	285	28	2,449	1,978	471	24
Service charges on deposit accounts	635	517	118	23	1,244	1,377	(133)	(10)
Loan related derivative income	1,175	99	1,076	1,087	1,642	2,554	(912)	(36)
Income from bank-owned life insurance	607	791	(184)	(23)	1,163	1,355	(192)	(14)
Other income	438	426	12	3	1,825	742	1,083	146
Total noninterest income	\$20,593	\$26,320	(\$5,727)	(22 %)	\$46,567	\$46,247	\$320	1 %

Noninterest Income Analysis

Revenue from wealth management services represented 44% of total noninterest income for the six months ended June 30, 2021, compared to 37% for the same period in 2020. A substantial portion of wealth management revenues is dependent on the value of wealth management assets under administration and is closely tied to the performance of the financial markets. This portion of wealth management revenues is referred to as “asset-based” and includes trust and investment management fees. Wealth management revenues also include “transaction-based” revenues, such as commissions and other service fees that are not primarily derived from the value of assets.

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

(Dollars in thousands)	Three Months				Six Months			
	2021	2020	Change		2021	2020	Change	
			\$	%			\$	%
Wealth management revenues:								
Asset-based revenues	\$9,991	\$8,156	\$1,835	22 %	\$19,574	\$16,511	\$3,063	19 %
Transaction-based revenues	437	449	(12)	(3)	749	783	(34)	(4)
Total wealth management revenues	\$10,428	\$8,605	\$1,823	21 %	\$20,323	\$17,294	\$3,029	18 %

Wealth management revenues for the three and six months ended June 30, 2021 increased by \$1.8 million and \$3.0 million, respectively, from the comparable periods in 2020, reflecting growth in asset-based revenues. The increase in asset-based revenues correlated with the increase in the average balances of assets under administration (“AUA”).

Management's Discussion and Analysis

The following table presents the changes in wealth management AUA:

(Dollars in thousands)

Periods ended June 30,	Three Months		Six Months	
	2021	2020	2021	2020
Wealth management assets under administration:				
Balance at the beginning of period	\$7,049,226	\$5,337,733	\$6,866,737	\$6,235,801
Net investment appreciation (depreciation) & income	368,383	671,602	577,336	(101,133)
Net client asset inflows (outflows)	23,910	129,510	(2,554)	4,177
Balance at the end of period	\$7,441,519	\$6,138,845	\$7,441,519	\$6,138,845

Wealth management AUA amounted to \$7.4 billion at June 30, 2021, up by \$1.3 billion, or 21%, from the balance at June 30, 2020, primarily due to net investment appreciation. The average balance of AUA for the three and six months ended June 30, 2021 increased by approximately 26% and 20%, respectively, from the average balance for the same periods in 2020.

Mortgage banking revenues represented 38% of total noninterest income for the six months ended June 30, 2021, compared to 45% for the same period in 2020. The composition of mortgage banking revenues and the volume of loans sold to the secondary market are shown in the following table:

(Dollars in thousands)

(Dollars in thousands)	Three Months				Six Months			
	2021	2020	Change		2021	2020	Change	
			\$	%			\$	%
Periods ended June 30,								
Mortgage banking revenues:								
Realized gains on loan sales, net (1)	\$8,562	\$10,646	(\$2,084)	(20 %)	\$22,307	\$14,334	\$7,973	56 %
Unrealized (losses) gains, net (2)	(2,543)	4,415	(6,958)	(158)	(4,431)	6,740	(11,171)	(166)
Loan servicing fee income, net (3)	(25)	(210)	185	(88)	45	(127)	172	(135)
Total mortgage banking revenues	\$5,994	\$14,851	(\$8,857)	(60 %)	\$17,921	\$20,947	(\$3,026)	(14 %)
Loans sold to the secondary market (4)	\$290,558	\$305,224	(\$14,666)	(5 %)	\$582,577	\$467,415	\$115,162	25 %

(1) Includes gains on loan sales, commission income on loans originated for others, servicing right gains, and gains (losses) on forward loan commitments.

(2) Represents fair value adjustments on mortgage loans held for sale and forward loan commitments.

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

(4) Includes brokered loans (loans originated for others).

For the three and six months ended June 30, 2021, mortgage banking revenues were down by \$8.9 million and \$3.0 million, respectively, compared to the same periods in 2020. These revenues are dependent on mortgage origination volume and are sensitive to interest rates and the condition of housing markets. Included in mortgage banking revenues are changes in the fair value of mortgage loans held for sale and mortgage loan commitments, which are primarily based on current market prices in the secondary market and correlate to changes in the mortgage pipeline. The year-over-year decline in second quarter mortgage banking revenues reflected both a decline from previously elevated sales yield levels in the secondary market, as well as a decline in the quarterly volume of loans sold. On a year-to-date basis, higher sales volume mitigated the impact of the decline in current market pricing.

For the three and six months ended June 30, 2021, loan related derivative income increased by \$1.1 million and decreased by \$912 thousand, respectively, from the comparable periods in 2020, reflecting changes in the volume of commercial borrower transactions relative to each period.

Income from BOLI for the three and six months ended June 30, 2021 was down by \$184 thousand and \$192 thousand, respectively, from the same periods in 2020. Included in income from BOLI for the three and six months ended June 30, 2020 was a \$229 thousand non-taxable gain due to the receipt of life insurance proceeds. Excluding this non-taxable gain, income from BOLI was up year-over-year, resulting from a \$7.0 million purchase of BOLI in the second quarter of 2021.

Other income for the six months ended June 30, 2021 increased by \$1.1 million from the same period in 2020 due to \$1.0 million of income associated with a litigation settlement that was recognized in the first quarter of 2021.

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Noninterest Expense

The following table presents noninterest expense comparisons:

(Dollars in thousands)

Periods ended June 30,	Three Months				Six Months			
	2021	2020	Change		2021	2020	Change	
			\$	%			\$	%
Noninterest expense:								
Salaries and employee benefits	\$22,082	\$19,464	\$2,618	13 %	\$43,609	\$38,932	\$4,677	12 %
Outsourced services	3,217	2,784	433	16	6,417	5,784	633	11
Net occupancy	2,042	1,909	133	7	4,170	3,928	242	6
Equipment	975	895	80	9	1,969	1,872	97	5
Legal, audit and professional fees	678	659	19	3	1,275	1,481	(206)	(14)
FDIC deposit insurance costs	374	674	(300)	(45)	719	1,096	(377)	(34)
Advertising and promotion	560	186	374	201	782	445	337	76
Amortization of intangibles	225	230	(5)	(2)	451	460	(9)	(2)
Debt prepayment penalties	895	—	895	100	4,230	—	4,230	—
Other	1,964	1,677	287	17	4,103	4,933	(830)	(17)
Total noninterest expense	\$33,012	\$28,478	\$4,534	16 %	\$67,725	\$58,931	\$8,794	15 %

Noninterest Expense Analysis

Salaries and employee benefits expense for the three and six months ended June 30, 2021 increased by \$2.6 million and \$4.7 million, respectively, compared to the same periods in 2020, reflecting volume-related increases in mortgage banking commissions expense, annual merit increases, increased staffing levels and increases in performance-based compensation accruals. These increases were partially offset by a net increase in deferred labor costs (a contra expense) associated with loan originations for portfolio. A higher proportion of residential real estate loans were originated for portfolio in 2021 and was partially offset by the decline in PPP loan originations in 2021.

Outsourced services expense for the three and six months ended June 30, 2021 increased by \$433 thousand and \$633 thousand, respectively, compared to the same periods in 2020, reflecting volume-related increases in third party processing costs and the expansion of services provided by third party vendors.

Debt prepayment penalty expense for the three and six months ended June 30, 2021 totaled \$895 thousand and \$4.2 million, respectively, and resulted from the prepayment of \$5.3 million and \$32.1 million of higher-yielding FHLB advances. There were no debt prepayments in the comparable periods in 2020.

Other expenses for the three and six months ended June 30, 2021 increased by \$287 thousand and decreased by \$830 thousand, respectively, from the same periods in 2020. Included in other expenses in the first quarter of 2020 was a charge for \$800 thousand representing the establishment of contingency loss reserve associated with counterfeit checks drawn on a commercial customer's account. This contingency matter was resolved in the second quarter of 2020 and resulted in a partial reversal, or a benefit, of \$170 thousand being recognized as a reduction to other expenses in the second quarter of 2020.

Income Taxes

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

(Dollars in thousands)

Periods ended June 30,	Three Months		Six Months	
	2021	2020	2021	2020
Income tax expense	\$4,875	\$5,547	\$10,536	\$8,686
Effective income tax rate	21.8 %	20.9 %	21.7 %	20.9 %

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The effective income tax rates for the three and six months ended June 30, 2021 and 2020 differed from the federal rate of 21%, primarily due to state income tax expense, partially offset by the benefits of tax-exempt income, income from BOLI and federal tax credits.

The increase in the effective tax rate for the three and six months ended June 30, 2021 compared to the same periods in 2020 largely reflected higher state income tax expense and a decrease in the proportion of tax-exempt income to pre-tax income.

Segment Reporting

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

Commercial Banking

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

(Dollars in thousands)	Three Months				Six Months			
	2021	2020	Change		2021	2020	Change	
			\$	%			\$	%
Periods ended June 30,								
Net interest income	\$35,326	\$32,580	\$2,746	8 %	\$69,847	\$61,590	\$8,257	13 %
Provision for credit losses	—	2,200	(2,200)	(100)	(2,000)	9,236	(11,236)	(122)
Net interest income after provision for credit losses	35,326	30,380	4,946	16	71,847	52,354	19,493	37
Noninterest income	9,555	16,910	(7,355)	(43)	24,070	27,575	(3,505)	(13)
Noninterest expense	20,649	18,226	2,423	13	41,307	37,529	3,778	10
Income before income taxes	24,232	29,064	(4,832)	(17)	54,610	42,400	12,210	29
Income tax expense	5,289	6,177	(888)	(14)	11,881	8,941	2,940	33
Net income	\$18,943	\$22,887	(\$3,944)	(17 %)	\$42,729	\$33,459	\$9,270	28 %

Net interest income for the Commercial Banking segment for the three and six months ended June 30, 2021, increased by \$2.7 million and \$8.3 million, respectively, from the same periods in 2020. This was attributable to lower cost of funds due to declines in market interest rates. Net interest income for the Commercial Banking segment also reflected lower yields on loans due to lower market interest rates, partially offset by growth in loans and accelerated amortization of net deferred fee balances on PPP loans that were forgiven by the SBA.

For the three months ended June 30, 2021 there was no provision for credit losses, compared to a positive provision for credit losses (or a charge) of \$2.2 million for the same period in 2020. For the six months ended June 30, 2021, a negative provision for credit losses (or a benefit) of \$2.0 million was recognized in earnings, compared to a positive provision for credit losses (or a charge) of \$9.2 million, for the same period in 2020. The year-over-year reduction in credit loss provisioning reflected improvement in forecasted economic conditions and continued stable asset quality metrics.

Noninterest income derived from the Commercial Banking segment for the three and six months ended June 30, 2021 was down by \$7.4 million and \$3.5 million, respectively, from the comparable periods in 2020, largely due to lower mortgage banking revenues and changes in loan related derivative income. See additional discussion regarding mortgage banking revenues and loan related derivative income under the caption "Noninterest Income" above.

Commercial Banking noninterest expenses for the three and six months ended June 30, 2021 were up by \$2.4 million and \$3.8 million, respectively, from the same periods in 2020, reflecting increases in salaries and employee benefits and outsourced services expense. See additional discussion under the caption "Noninterest Expense" above.

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Wealth Management Services

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

(Dollars in thousands)	Three Months				Six Months			
	2021	2020	Change		2021	2020	Change	
			\$	%			\$	%
Periods ended June 30,								
Net interest expense	(\$24)	(\$26)	\$2	8 %	(\$47)	(\$93)	\$46	49 %
Noninterest income	10,428	8,605	1,823	21	21,323	17,294	4,029	23
Noninterest expense	7,370	6,579	791	12	14,107	13,938	169	1
Income before income taxes	3,034	2,000	1,034	52	7,169	3,263	3,906	120
Income tax expense	748	457	291	64	1,702	813	889	109
Net income	\$2,286	\$1,543	\$743	48 %	\$5,467	\$2,450	\$3,017	123 %

For the three and six months ended June 30, 2021, noninterest income derived from the Wealth Management Services segment increased by \$1.8 million and \$4.0 million, respectively, compared to the same periods in 2020, reflecting growth in asset-based revenues and income of \$1.0 million associated with a settlement recognized in the first quarter of 2021. See further discussion under the caption “Noninterest Income” above.

For the three and six months ended June 30, 2021, noninterest expenses for the Wealth Management Services segment increased by \$791 thousand and \$169 thousand, respectively, from the same periods in 2020, largely reflecting annual merit compensation increases, as well as increases in performance-based compensation accruals. The year-to-date increase was partially offset by decreases in legal and other expenses.

Corporate

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

(Dollars in thousands)	Three Months				Six Months			
	2021	2020	Change		2021	2020	Change	
			\$	%			\$	%
Periods ended June 30,								
Net interest (expense) income	(\$548)	(\$1,609)	\$1,061	(66 %)	(\$2,175)	\$2,050	(\$4,225)	(206 %)
Noninterest income	610	805	(195)	(24)	1,174	1,378	(204)	(15)
Noninterest expense	4,993	3,673	1,320	36	12,311	7,464	4,847	65
(Loss) income before income taxes	(4,931)	(4,477)	(454)	10	(13,312)	(4,036)	(9,276)	230
Income tax (benefit) expense	(1,162)	(1,087)	(75)	7	(3,047)	(1,068)	(1,979)	185
Net (loss) income	(\$3,769)	(\$3,390)	(\$379)	11 %	(\$10,265)	(\$2,968)	(\$7,297)	246 %

Net interest income for the Corporate unit for the three and six months ended June 30, 2021 was up by \$1.1 million and down by \$4.2 million, respectively, compared to the same periods in 2020. The year-over-year increase in second quarter net interest income reflected lower funding costs and lower wholesale funding balances, partially offset by lower interest income on securities resulting from lower yields. On a year-to-date basis, the decline in net interest income reflected lower interest income on securities resulting from lower yields, partially offset by lower funding costs and lower wholesale funding balances. Additionally, the year-to-date decline in Corporate net interest income reflected unfavorable net funds transfer pricing allocations with the Commercial Banking segment resulting from the downward repricing of assets exceeding the downward repricing of liabilities.

For the three and six months ended June 30, 2021, noninterest expenses for the Corporate unit increased by \$1.3 million and \$4.8 million, respectively, from the same periods in 2020, primarily due to debt prepayment penalty expense recognized in the three and six months ended June 30, 2021 of \$895 thousand and \$4.2 million, respectively. See further discussion under the caption “Noninterest Expense” above.

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Financial Condition

Summary

The following table presents selected financial condition data:

(Dollars in thousands)

	June 30, 2021	December 31, 2020	Change	
			\$	%
Cash and due from banks	\$127,743	\$194,143	(\$66,400)	(34 %)
Total securities	1,052,577	894,571	158,006	18
Total loans	4,299,800	4,195,990	103,810	2
Allowance for credit losses on loans	41,879	44,106	(2,227)	(5)
Total assets	5,851,980	5,713,169	138,811	2
Total deposits	4,725,659	4,378,353	347,306	8
FHLB advances	408,592	593,859	(185,267)	(31)
Total shareholders' equity	547,856	534,195	13,661	3

Total assets amounted to \$5.9 billion at June 30, 2021, up by \$138.8 million from the end of 2020.

The balance of cash and due from banks declined by \$66.4 million, including a reduction of cash collateral pledged to derivative counterparties. See Note 10 to the Unaudited Consolidated Financial Statements for additional disclosure regarding derivative financial instruments.

The securities portfolio increased by \$158.0 million, reflecting purchases of \$401.8 million, partially offset by pay-downs, called securities and a temporary decline in fair value.

Total loans increased by \$103.8 million, as loan originations and purchases were partially offset by payoffs, pay-downs and PPP loans that were forgiven by the SBA. The ACL on loans decreased by \$2.2 million from the end of 2020, reflecting improvement in forecasted economic conditions and continued stable asset quality metrics.

Total deposits increased by \$347.3 million, or 8%, with increases in in-market deposits and wholesale brokered time deposits. FHLB advances decreased by \$185.3 million, or 31%, from December 31, 2020.

Shareholders' equity increased by \$13.7 million, reflecting earnings net of dividend declarations and a decline in the accumulated other comprehensive income component of shareholders' equity largely due to a temporary decline in the fair value of available for sale debt securities.

Securities

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

The Corporation's securities portfolio is managed to generate interest income, to implement interest rate risk management strategies, and to provide a readily available source of liquidity for balance sheet management. Securities are designated as either available for sale, held to maturity or trading at the time of purchase. The Corporation does not have securities designated as held to maturity and does not maintain a portfolio of trading securities. Securities available for sale may be sold in response to changes in market conditions, prepayment risk, rate fluctuations, liquidity, or capital requirements. Debt securities available for sale are reported at fair value, with any unrealized gains and losses excluded from earnings and reported as a separate component of shareholders' equity, net of tax, until realized.

Management's Discussion and Analysis

Determination of Fair Value

The Corporation uses an independent pricing service to obtain quoted prices. The prices provided by the independent pricing service are generally based on observable market data in active markets. The determination of whether markets are active or inactive is based upon the level of trading activity for a particular security class. Management reviews the independent pricing service's documentation to gain an understanding of the appropriateness of the pricing methodologies. Management also reviews the prices provided by the independent pricing service for reasonableness based upon current trading levels for similar securities. If the prices appear unusual, they are re-examined and the value is either confirmed or revised. In addition, management periodically performs independent price tests of securities to ensure proper valuation and to verify our understanding of how securities are priced. As of June 30, 2021 and December 31, 2020, management did not make any adjustments to the prices provided by the pricing service.

Our fair value measurements generally utilize Level 2 inputs, representing quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, and model-derived valuations in which all significant input assumptions are observable in active markets.

See Notes 4 and 11 to the Unaudited Consolidated Financial Statements for additional information regarding the determination of fair value of investment securities.

Securities Portfolio

The carrying amounts of securities held are as follows:

(Dollars in thousands)

	June 30, 2021		December 31, 2020	
	Amount	%	Amount	%
Available for Sale Debt Securities:				
Obligations of U.S. government-sponsored enterprises	\$184,255	18 %	\$131,669	15 %
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	845,036	80	740,305	83
Individual name issuer trust preferred debt securities	11,066	1	12,669	1
Corporate bonds	12,220	1	9,928	1
Total available for sale debt securities	\$1,052,577	100 %	\$894,571	100 %

The securities portfolio stood at \$1.1 billion as of June 30, 2021, or 18% of total assets, compared to \$894.6 million as of December 31, 2020, or 16% of total assets. The largest component of the securities portfolio is mortgage-backed securities, all of which are issued by U.S. government agencies or U.S. government-sponsored enterprises.

The securities portfolio increased by \$158.0 million, or 18%, from the end of 2020, reflecting purchases of U.S. government agency and U.S. government sponsored debt securities, including mortgage-backed securities, totaling \$401.8 million, with a weighted average yield of 1.67%. These purchases were partially offset by routine pay-downs on mortgage-backed securities and called securities, as well as a temporary decline in the fair value of available for sale securities.

As of June 30, 2021, the carrying amount of available for sale debt securities included net unrealized gains of \$916 thousand, compared to a net unrealized gains of \$13.0 million as of December 31, 2020. The decline in fair value of available for sale debt securities from the end of 2020 was primarily concentrated in obligations of U.S. government agencies and U.S. government-sponsored enterprises, including mortgage-backed securities, and attributable to relative changes in interest rates since the time of purchase. See Note 4 to the Unaudited Consolidated Financial Statements for additional information.

Loans

Total loans amounted to \$4.3 billion at June 30, 2021, up by \$103.8 million from the end of 2020, reflecting growth in the residential real estate portfolio partially offset by a decline in the commercial loan portfolio.

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The following is a summary of loans:

(Dollars in thousands)

	June 30, 2021		December 31, 2020	
	Amount	%	Amount	%
Commercial:				
Commercial real estate (1)	\$1,669,624	39 %	\$1,633,024	39 %
Commercial & industrial (2)	764,509	18	817,408	19
Total commercial	2,434,133	57	2,450,432	58
Residential Real Estate:				
Residential real estate (3)	1,590,389	37	1,467,312	35
Consumer:				
Home equity	254,802	6	259,185	6
Other (4)	20,476	—	19,061	1
Total consumer	275,278	6	278,246	7
Total loans	\$4,299,800	100 %	\$4,195,990	100 %

- (1) CRE consists of commercial mortgages primarily secured by income-producing property, as well as construction and development loans. Construction and development loans are made to businesses for land development or the on-site construction of industrial, commercial, or residential buildings.
- (2) C&I consists of loans to businesses and individuals, a portion of which are fully or partially collateralized by real estate. C&I also includes PPP loans.
- (3) Residential real estate consists of mortgage and homeowner construction loans secured by one- to four-family residential properties.
- (4) Other consists of loans to individuals secured by general aviation aircraft and other personal installment loans.

Washington Trust has processed loan payment deferral modifications, or "deferments", on 654 loans totaling \$728 million since the beginning of the second quarter of 2020, in response to the COVID-19 pandemic. The majority of these deferments qualified as eligible loan modifications under Section 4013 of the CARES Act, as amended, and therefore were not required to be classified as TDRs and were not reported as past due.

Deferment extensions have been prudently underwritten and have resulted in loan risk rating downgrades when warranted. Management considers deferments when estimating the allowance for credit losses. Loss exposure within these industries is mitigated by a number of factors such as collateral values, LTV ratios, and other key indicators; however, some degree of credit loss has been incorporated into the ACL on loans.

Management continues to monitor active deferments through its quarterly watched asset list review. At June 30, 2021, we had active deferments on 22 loans totaling \$93.4 million, or 2% of the outstanding balance of total loans, excluding PPP loan balances as of June 30, 2021. At July 31, 2021, active deferments remain on 13 loans totaling \$54.0 million, or 1% of the outstanding balance of total loans, excluding PPP loans balances as of June 30, 2021.

Commercial Loans

The commercial loan portfolio represented 57% of total loans at June 30, 2021.

In making commercial loans, we may occasionally solicit the participation of other banks. The Bank also participates in commercial loans originated by other banks. In such cases, these loans are individually underwritten by us using standards similar to those employed for our self-originated loans. Our participation in commercial loans originated by other banks amounted to \$450.8 million and \$408.8 million, respectively, at June 30, 2021 and December 31, 2020. Our participation in commercial loans originated by other banks also includes shared national credits. Shared national credits are defined as participation in loans or loan commitments of at least \$100.0 million that are shared by three or more banks.

Commercial loans fall into two major categories, commercial real estate and commercial and industrial loans. Commercial real estate loans consist of commercial mortgages secured by real property where the primary source of repayment is derived from rental income associated with the property or the proceeds of the sale, refinancing or permanent financing of the property. Commercial real estate loans also include construction loans made to businesses for land development or the on-site construction of industrial, commercial, or residential buildings. Commercial and industrial loans primarily provide working capital, equipment financing and financing for other business-related purposes. Commercial and industrial loans are frequently collateralized by equipment, inventory, accounts receivable, and/or general business assets. A portion of the

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Bank's commercial and industrial loans is also collateralized by real estate. Commercial and industrial loans also include PPP loans that are fully guaranteed by the U.S. government, tax-exempt loans made to states and political subdivisions, as well as industrial development or revenue bonds issued through quasi-public corporations for the benefit of a private or non-profit entity where that entity rather than the governmental entity is obligated to pay the debt service.

Commercial Real Estate Loans ("CRE")

CRE loans totaled \$1.7 billion at June 30, 2021, up by \$36.6 million, or 2%, from the balance at December 31, 2020. Included in CRE loans were construction and development loans of \$135.6 million and \$111.2 million, respectively, as of June 30, 2021 and December 31, 2020. For the six months ended June 30, 2021, CRE loan originations and construction advances were offset by payoffs and pay-downs of approximately \$112 million.

The following table presents a geographic summary of CRE loans by property location:

(Dollars in thousands)

	June 30, 2021		December 31, 2020	
	Outstanding Balance	% of Total	Outstanding Balance	% of Total
Connecticut	\$635,974	38 %	\$649,919	40 %
Massachusetts	471,426	28	468,947	29
Rhode Island	470,341	28	431,133	26
Subtotal	1,577,741	94	1,549,999	95
All other states	91,883	6	83,025	5
Total	\$1,669,624	100 %	\$1,633,024	100 %

The following table presents a summary of CRE loans by property type segmentation:

(Dollars in thousands)

	June 30, 2021			December 31, 2020		
	Count	Outstanding Balance	% of Total	Count	Outstanding Balance	% of Total
CRE Portfolio Segmentation:						
Multi-family dwelling	133	\$536,928	32 %	137	\$524,874	32 %
Retail	127	342,983	21	136	339,569	21
Office	66	256,030	15	73	290,756	18
Hospitality	38	173,715	10	40	157,720	10
Healthcare	15	134,689	8	15	109,321	7
Industrial and warehouse	33	108,842	7	28	97,055	6
Commercial mixed use	21	40,980	2	22	42,405	3
Other	39	75,457	5	38	71,324	3
Total CRE loans	472	\$1,669,624	100 %	489	\$1,633,024	100 %
Average CRE loan size		\$3,537			\$3,340	
Largest individual CRE loan outstanding		\$32,200			\$32,200	

The following table presents a summary of CRE loan deferments:

(Dollars in thousands)

	July 31, 2021			June 30, 2021			December 31, 2020		
	Count	Balance	% of Outstanding Balance (1)	Count	Balance	% of Outstanding Balance (1)	Count	Balance	% of Outstanding Balance (2)
Total CRE deferments	7	\$49,198	3 %	14	\$87,363	5 %	38	\$176,132	11 %

(1) CRE deferments as a percent of the outstanding CRE portfolio balance as of June 30, 2021.

(2) CRE deferment as a percent of the outstanding CRE portfolio balance as of December 31, 2020.

CRE loans with active deferrals remaining as of July 31, 2021 are principal only deferrals and continue to pay interest. These

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deferrals are primarily in the hospitality, retail and healthcare industry segments, which are segments management previously identified as “at risk” of significant impact of the COVID-19 pandemic.

Commercial and Industrial Loans (“C&I”)

C&I loans amounted to \$764.5 million at June 30, 2021, down by \$52.9 million, or 6%, from the balance at December 31, 2020. In the six months ended June 30, 2021, approximately \$102 million of PPP loans were originated and approximately \$151 million of PPP loans were forgiven by the SBA. Excluding the net reduction in PPP loans of \$49 million, C&I loans decreased by approximately \$3.9 million. This decrease reflected payoffs and pay-downs of approximately \$76 million, which were partially offset by new loan originations.

Shared national credit balances outstanding included in the C&I loan portfolio totaled \$48.2 million at June 30, 2021. All of these loans were included in the pass-rated category of commercial loan credit quality and were current with respect to contractual payment terms at June 30, 2021.

The following table presents a summary of C&I loan by industry segmentation:

(Dollars in thousands)

	June 30, 2021			December 31, 2020		
	Count	Outstanding Balance	% of Total	Count	Outstanding Balance	% of Total
C&I Portfolio Segmentation:						
Healthcare and social assistance	224	\$198,099	26 %	253	\$200,217	24 %
Manufacturing	123	68,908	9	146	88,802	11
Owner occupied and other real estate	230	68,480	9	268	74,309	9
Accommodation and food services	284	74,272	10	271	47,020	6
Educational services	46	50,872	7	53	64,969	8
Retail	162	56,969	7	192	63,895	8
Professional, scientific and technical	207	18,595	2	265	39,295	5
Finance and insurance	81	31,071	4	106	26,244	3
Entertainment and recreation	95	35,823	5	91	29,415	4
Information	26	26,542	3	32	28,394	3
Transportation and warehousing	45	22,967	3	42	24,061	3
Public administration	25	18,984	2	26	23,319	3
Other	724	92,927	13	772	107,468	13
Total C&I loans	2,272	\$764,509	100 %	2,517	\$817,408	100 %
Average C&I loan size		\$336			\$325	
Largest individual C&I loan outstanding		\$19,111			\$19,500	

At June 30, 2021, we had no active deferrals on C&I loans.

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PPP loans are included in the C&I portfolio. The following table presents a summary of PPP loans by industry segmentation:

	June 30, 2021			December 31, 2020		
	Count	Outstanding Balance	% of Total	Count	Outstanding Balance	% of Total
PPP Loans By Industry:						
Accommodation and food services	230	\$37,089	25 %	209	\$23,678	12 %
Healthcare and social assistance	155	28,902	20	173	47,354	24
Manufacturing	70	9,844	7	89	23,321	12
Professional, scientific and technical	170	11,409	8	220	20,031	10
Retail	103	10,117	7	134	12,107	6
Educational services	28	3,352	2	32	9,681	5
Owner occupied and other real estate	80	3,349	2	115	9,241	5
Entertainment and recreation	65	3,839	3	61	3,386	2
Information	15	2,912	2	20	2,478	1
Transportation and warehousing	20	1,937	1	21	2,059	1
Finance and insurance	27	759	1	55	2,000	1
Public administration	6	445	—	4	483	—
Other	544	33,016	22	573	43,961	21
Total PPP loans (included in the C&I loan portfolio)	1,513	\$146,970	100 %	1,706	\$199,780	100 %
Average PPP loan size		\$97			\$117	
Net unamortized fees on PPP loans		\$4,874			\$3,893	

Residential Real Estate Loans

The residential real estate loan portfolio represented 37% of total loans at June 30, 2021.

Residential real estate loans are originated both for sale to the secondary market as well as for retention in the Bank's loan portfolio. We also originate residential real estate loans for various investors in a broker capacity, including conventional mortgages and reverse mortgages.

The table below presents residential real estate loan origination activity:

(Dollars in thousands)

Periods ended June 30,

	Three Months				Six Months			
	2021		2020		2021		2020	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Originations for retention in portfolio (1)	\$244,821	50 %	\$126,894	30 %	\$376,612	40 %	\$235,392	33 %
Originations for sale to the secondary market (2)	244,562	50	299,321	70	553,887	60	482,543	67
Total	\$489,383	100 %	\$426,215	100 %	\$930,499	100 %	\$717,935	100 %

(1) Includes the full commitment amount of homeowner construction loans.

(2) Includes brokered loans (loans originated for others).

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The table below presents residential real estate loan sales activity:

(Dollars in thousands)

Periods ended June 30,	Three Months				Six Months			
	2021		2020		2021		2020	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Loans sold with servicing rights retained	\$235,280	81 %	\$246,945	81 %	\$461,925	79 %	\$291,443	62 %
Loans sold with servicing rights released (1)	55,278	19	58,279	19	120,652	21	175,972	38
Total	\$290,558	100 %	\$305,224	100 %	\$582,577	100 %	\$467,415	100 %

(1) Includes brokered loans (loans originated for others).

Residential real estate loan origination, refinancing and sales activity increased year-over-year in response to declines in market interest rates.

Loans are sold with servicing retained or released. Loans sold with servicing rights retained result in the capitalization of servicing rights. Loan servicing rights are included in other assets and are subsequently amortized as an offset to mortgage banking revenues over the estimated period of servicing. The net balance of capitalized servicing rights amounted to \$10.5 million and \$7.4 million, respectively, as of June 30, 2021 and December 31, 2020. The balance of residential mortgage loans serviced for others, which are not included in the Unaudited Consolidated Balance Sheets, amounted to \$1.5 billion and \$1.2 billion, respectively, as of June 30, 2021 and December 31, 2020.

Residential real estate loans held in portfolio amounted to \$1.6 billion at June 30, 2021, up by \$123.1 million, or 8%, from the balance at December 31, 2020, reflecting a higher proportion of loans originated for portfolio, as well as purchases of \$39.3 million of loans with a weighted average rate of 2.74%. The purchased loans were individually evaluated to our underwriting standards and are predominantly secured by properties in Massachusetts.

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

(Dollars in thousands)

	June 30, 2021		December 31, 2020	
	Amount	% of Total	Amount	% of Total
Massachusetts	\$1,097,453	69 %	\$994,800	68 %
Rhode Island	343,035	22	331,713	23
Connecticut	129,142	8	122,102	8
Subtotal	1,569,630	99	1,448,615	99
All other states	20,759	1	18,697	1
Total (1)	\$1,590,389	100 %	\$1,467,312	100 %

(1) Includes residential mortgage loans purchased from and serviced by other financial institutions totaling \$100.4 million and \$131.8 million, respectively, as of June 30, 2021 and December 31, 2020.

At June 30, 2021, we had active deferrals on 8 residential real estate loans totaling \$6.0 million, which represented 0.4% of the total residential real estate portfolio balance as of June 30, 2021. The average size of residential real estate loans with active deferrals as of June 30, 2021 was approximately \$753 thousand and these loans have an estimated LTV ratio of 46%.

At July 31, 2021, active deferrals remain on 6 residential real estate loans totaling \$4.8 million.

Consumer Loans

Consumer loans include home equity loans and lines of credit and personal installment loans.

The consumer loan portfolio totaled \$275.3 million at June 30, 2021, down by \$3.0 million from December 31, 2020. Home equity lines of credit and home equity loans represented 93% of the total consumer portfolio at June 30, 2021. The Bank estimates that approximately 60% of the combined home equity lines of credit and home equity loan balances are first lien

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positions or subordinate to other Washington Trust mortgages. Purchased consumer loans, consisting of loans to individuals secured by general aviation aircraft, amounted to \$10.0 million at both June 30, 2021 and December 31, 2020.

At June 30, 2021, we had no active deferrals on consumer loans.

Asset Quality

Nonperforming Assets

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

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

(Dollars in thousands)	Jun 30, 2021	Dec 31, 2020
Commercial:		
Commercial real estate	\$—	\$—
Commercial & industrial	539	—
Total commercial	539	—
Residential Real Estate:		
Residential real estate	8,926	11,981
Consumer:		
Home equity	1,016	1,128
Other	—	88
Total consumer	1,016	1,216
Total nonaccrual loans	10,481	13,197
Property acquired through foreclosure or repossession, net	—	—
Total nonperforming assets	\$10,481	\$13,197
Nonperforming assets to total assets	0.18 %	0.23 %
Nonperforming loans to total loans	0.24 %	0.31 %
Total past due loans to total loans	0.20 %	0.30 %
Accruing loans 90 days or more past due	\$—	\$—

Nonaccrual Loans

During the six months ended June 30, 2021, the Corporation made no changes in its practices or policies concerning the placement of loans into nonaccrual status.

The following table presents the activity in nonaccrual loans:

(Dollars in thousands)	Three Months		Six Months	
For the periods ended June 30,	2021	2020	2021	2020
Balance at beginning of period	\$12,983	\$17,918	\$13,197	\$17,408
Additions to nonaccrual status	537	237	1,271	1,966
Loans returned to accruing status	(874)	(154)	(877)	(547)
Loans charged-off	(317)	(325)	(381)	(960)
Loans transferred to other real estate owned	—	—	—	(28)
Payments, payoffs and other changes	(1,848)	(1,659)	(2,729)	(1,822)
Balance at end of period	\$10,481	\$16,017	\$10,481	\$16,017

Management's Discussion and Analysis

The following table presents additional detail on nonaccrual loans:

(Dollars in thousands)	June 30, 2021				December 31, 2020			
	Days Past Due		Total	% (1)	Days Past Due		Total	% (1)
	Over 90	Under 90			Over 90	Under 90		
Commercial:								
Commercial real estate	\$—	\$—	\$—	— %	\$—	\$—	\$—	— %
Commercial & industrial	539	—	539	0.07	—	—	—	—
Total commercial	539	—	539	0.02	—	—	—	—
Residential Real Estate:								
Residential real estate	3,601	5,325	8,926	0.56	5,172	6,809	11,981	0.82
Consumer:								
Home equity	424	592	1,016	0.40	644	484	1,128	0.44
Other	—	—	—	—	88	—	88	0.46
Total consumer	424	592	1,016	0.37	732	484	1,216	0.44
Total nonaccrual loans	\$4,564	\$5,917	\$10,481	0.24 %	\$5,904	\$7,293	\$13,197	0.31 %

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

There were no significant commitments to lend additional funds to borrowers whose loans were on nonaccrual status at June 30, 2021.

As of June 30, 2021, the composition of nonaccrual loans was 95% residential and consumer and 5% commercial, compared to 100% and 0%, respectively at December 31, 2020.

Nonaccrual residential real estate mortgage loans amounted to \$8.9 million at June 30, 2021, down by \$3.1 million from the end of 2020, reflecting payoffs and to a lesser extent, loans returning to accruing status. As of June 30, 2021, the balance of nonaccrual residential mortgage loans was predominately secured by properties in Massachusetts, Connecticut and Rhode Island.

Troubled Debt Restructurings

A loan that has been modified or renewed is considered to be a TDR when two conditions are met: (1) the borrower is experiencing financial difficulty and (2) concessions are made for the borrower's benefit that would not otherwise be considered for a borrower or a transaction with similar credit risk characteristics. These concessions include modifications of the terms of the debt such as reduction of the stated interest rate other than normal market rate adjustments, extension of maturity dates, or reduction of principal balance or accrued interest. The decision to restructure a loan, versus aggressively enforcing the collection of the loan, may benefit the Corporation by increasing the ultimate probability of collection.

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

TDRs are reported as such for at least one year from the date of the restructuring. In years after the restructuring, a TDR is removed from this classification if the restructuring did not involve a below-market rate concession and the loan is performing in accordance with its modified contractual terms for a reasonable period of time.

As of June 30, 2021, there were no significant commitments to lend additional funds to borrowers whose loans had been restructured in a TDR.

See Note 5 for disclosure regarding the Corporation's election to account for eligible loan modifications under Section 4013 of the CARES Act, as amended. Loan modifications that did not qualify for the TDR accounting relief provided under the CARES Act were classified as TDRs.

Management's Discussion and Analysis

The following table sets forth information on TDRs as of the dates indicated. The amounts below consist of unpaid principal balance, net of charge-offs and unamortized deferred loan origination fees and costs. Accrued interest is not included in the carrying amounts set forth below.

(Dollars in thousands)

	Jun 30, 2021	Dec 31, 2020
Accruing TDRs		
Commercial:		
Commercial real estate	\$958	\$1,792
Commercial & industrial	2,792	6,814
Total commercial	3,750	8,606
Residential Real Estate:		
Residential real estate	4,002	3,932
Consumer:		
Home equity	777	788
Other	12	14
Total consumer	789	802
Accruing TDRs	8,541	13,340
Nonaccrual TDRs		
Commercial:		
Commercial real estate	—	—
Commercial & industrial	537	—
Total commercial	537	—
Residential Real Estate:		
Residential real estate	1,670	2,273
Consumer:		
Home equity	71	72
Other	—	—
Total consumer	71	72
Nonaccrual TDRs	2,278	2,345
Total TDRs	\$10,819	\$15,685

TDRs amounted to \$10.8 million at June 30, 2021, down by \$4.9 million from the end of 2020, reflecting payoffs. As of June 30, 2021, the composition of TDRs was 40% commercial and 60% residential and consumer, compared to 55% and 45%, respectively, as of December 31, 2020.

The ACL included specific reserves for TDRs of \$233 thousand at June 30, 2021, compared to \$159 thousand at December 31, 2020.

Management's Discussion and Analysis

Past Due Loans

The following table presents past due loans by category:

(Dollars in thousands)

	June 30, 2021		December 31, 2020	
	Amount	% (1)	Amount	% (1)
Commercial:				
Commercial real estate	\$—	— %	\$265	0.02 %
Commercial & industrial	540	0.07	3	—
Total commercial	540	0.02	268	0.01
Residential Real Estate:				
Residential real estate	6,656	0.42	10,339	0.70
Consumer:				
Home equity	1,231	0.48	1,667	0.64
Other	28	0.14	118	0.62
Total consumer	1,259	0.46	1,785	0.64
Total past due loans	\$8,455	0.20 %	\$12,392	0.30 %

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

As of June 30, 2021, the composition of past due loans (loans past due 30 days or more) was 94% residential and consumer and 6% commercial, compared to 98% and 2%, respectively, at December 31, 2020. Total past due loans decreased by \$3.9 million from the end of 2020.

Total past due loans included \$5.8 million of nonaccrual loans as of June 30, 2021, compared to \$8.5 million as of December 31, 2020. All loans 90 days or more past due at June 30, 2021 and December 31, 2020 were classified as nonaccrual.

Potential Problem Loans

The Corporation classifies certain loans as “substandard,” “doubtful,” or “loss” based on criteria consistent with guidelines provided by banking regulators. Potential problem loans include classified accruing commercial loans that were less than 90 days past due at June 30, 2021 and other loans for which known information about possible credit problems of the related borrowers causes management to have doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in disclosure of such loans as nonperforming at some time in the future.

Potential problem loans are not included in the amounts of nonaccrual or TDRs presented above. They are assessed for loss exposure using the methods described in Note 5 to the Unaudited Consolidated Financial Statements under the caption “Credit Quality Indicators.” Management cannot predict the extent to which economic conditions or other factors may impact borrowers and the potential problem loans. Accordingly, there can be no assurance that other loans will not become 90 days or more past due, be placed on nonaccrual, become restructured, or require increased allowance coverage and provision for loan losses.

As of both June 30, 2021 and December 31, 2020, there were no potential problem loans. In addition, management continues to monitor active loan deferments resulting from the COVID-19 pandemic through its quarterly watched asset list review. See additional disclosure under the caption “Commercial Loans” within the Financial Condition section.

Allowance for Credit Losses on Loans

The ACL on loans is management’s estimate of expected credit losses over the expected life of the loans at the reporting date in accordance with GAAP. The ACL on loans is established through a provision charged to earnings. The ACL on loans is reduced by charge-offs on loans and is increased by recoveries of amounts previously charged off.

The Corporation’s general practice is to identify problem credits early and recognize full or partial charge-offs as promptly as practicable when it is determined that the collection of loan principal is unlikely. Full or partial charge-offs on collateral dependent individually analyzed loans are recognized when the collateral is deemed to be insufficient to support the carrying value of the loan. The Corporation does not recognize a recovery when new appraisals indicate a subsequent increase in value.

Management's Discussion and Analysis

Appraisals are generally obtained with values determined on an “as is” basis from independent appraisal firms for real estate collateral dependent commercial loans in the process of collection or when warranted by other deterioration in the borrower’s credit status. New appraisals are generally obtained for TDRs or nonaccrual loans or when management believes it is warranted. The Corporation has continued to maintain appropriate professional standards regarding the professional qualifications of appraisers and has an internal review process to monitor the quality of appraisals.

For residential real estate loans and real estate collateral dependent consumer loans that are in the process of collection, valuations are obtained from independent appraisal firms with values determined on an “as is” basis.

The following table presents additional detail on the Corporation’s loan portfolio and associated allowance:

(Dollars in thousands)	June 30, 2021			December 31, 2020		
	Loans	Related Allowance	Allowance / Loans	Loans	Related Allowance	Allowance / Loans
Individually analyzed loans	\$13,373	\$473	3.54 %	\$18,252	\$379	2.08 %
Pooled (collectively evaluated) loans	4,286,427	41,406	0.97	4,177,738	43,727	1.05
Total	\$4,299,800	\$41,879	0.97 %	\$4,195,990	\$44,106	1.05 %

Management employs a process and methodology to estimate the ACL on loans that evaluates both quantitative and qualitative factors. The methodology for evaluating quantitative factors consists of two basic components. The first component involves pooling loans into portfolio segments for loans that share similar risk characteristics. The second component involves individually analyzed loans that do not share similar risk characteristics with loans that are pooled into portfolio segments.

The ACL for individually analyzed loans is measured using a DCF method based upon the loan’s contractual effective interest rate, or at the loan’s observable market price, or, if the loan was collateral dependent, at the fair value of the collateral.

The ACL for pooled loans is measured utilizing a DCF methodology to estimate credit losses for each pooled portfolio segment. The methodology incorporates a probability of default and loss given default framework. Loss given default is estimated based on historical credit loss experience. Probability of default is estimated using a regression model that incorporates econometric factors. Management utilizes forecasted econometric factors with a one-year reasonable and supportable forecast period and one-year straight-line reversion period in order to estimate the probability of default for each loan portfolio segment. The DCF methodology combines the probability of default, the loss given default, prepayment speeds and remaining life of the loan to estimate a reserve for each loan. The sum of all the loan level reserves are aggregated for each portfolio segment and a loss rate factor is derived. Quantitative loss factors for pooled loans are also supplemented by certain qualitative risk factors reflecting management’s view of how losses may vary from those represented by quantitative loss rates.

The ACL on loans amounted to \$41.9 million at June 30, 2021, down by \$2.2 million from the balance at December 31, 2020. As a result of improvement in forecasted economic conditions and continued stable asset quality metrics, there was no provision for credit losses for the three months ended June 30, 2021 and a negative provision for credit losses (or a benefit) of \$2.0 million for the six months ended June 30, 2021. Net charge-offs amounted to \$258 thousand and \$276 thousand, respectively, for the three and six months ended June 30, 2021.

The ACL on loans as a percentage of total loans, also known as the reserve coverage ratio, was 0.97% at June 30, 2021, compared to 1.05% at December 31, 2020. The ACL on loans is an estimate and ultimate losses may vary from management’s estimate.

Management's Discussion and Analysis

The following table presents the allocation of the ACL on loans by portfolio segment. The total ACL on loans is available to absorb losses from any segment of the loan portfolio.

(Dollars in thousands)

	June 30, 2021			December 31, 2020		
	Allocated ACL	ACL to Loans	Loans to Total Portfolio (1)	Allocated ACL	ACL to Loans	Loans to Total Portfolio (1)
Commercial:						
Commercial real estate	\$21,450	1.28 %	39 %	\$22,065	1.35 %	39 %
Commercial & industrial	11,717	1.53	18	12,228	1.50	19
Total commercial	33,167	1.36	57	34,293	1.40	58
Residential Real Estate:						
Residential real estate	6,877	0.43	37	8,042	0.55	35
Consumer:						
Home equity	1,340	0.53	6	1,300	0.50	6
Other	495	2.42	—	471	2.47	1
Total consumer	1,835	0.67	6	1,771	0.64	7
Total allowance for credit losses on loans at end of period	\$41,879	0.97 %	100 %	\$44,106	1.05 %	100 %

(1) Percentage of loans outstanding in respective category to total loans outstanding.

Sources of Funds

Our sources of funds include deposits, brokered time deposits, FHLB advances, other borrowings and proceeds from the sales, maturities and payments of loans and investment securities. The Corporation uses funds to originate and purchase loans, purchase investment securities, conduct operations, expand the branch network and pay dividends to shareholders.

Deposits

The Corporation offers a wide variety of deposit products to consumer and business customers. Deposits provide an important source of funding for the Bank as well as an ongoing stream of fee revenue.

The Bank is a participant in the Demand Deposit Marketplace program, Insured Cash Sweep program and the Certificate of Deposit Account Registry Service program. The Bank uses these deposit sweep services to place customer and client funds into interest-bearing demand accounts, money market accounts, and/or time deposits issued by other participating banks. Customer and client funds are placed at one or more participating banks to ensure that each deposit customer is eligible for the full amount of FDIC insurance. As a program participant, we receive reciprocal amounts of deposits from other participating banks. We consider these reciprocal deposit balances to be in-market deposits as distinguished from traditional out-of-market wholesale brokered deposits.

The following table presents a summary of deposits:

(Dollars in thousands)

	June 30, 2021	December 31, 2020	Change	
			\$	%
Noninterest-bearing demand deposits	\$901,801	\$832,287	\$69,514	8 %
Interest-bearing demand deposits	174,165	174,290	(125)	—
NOW accounts	774,693	698,706	75,987	11
Money market accounts	941,511	910,167	31,344	3
Savings accounts	524,155	466,507	57,648	12
Time deposits (in-market)	677,061	704,855	(27,794)	(4)
Total in-market deposits	3,993,386	3,786,812	206,574	5
Wholesale brokered time deposits	732,273	591,541	140,732	24
Total deposits	\$4,725,659	\$4,378,353	\$347,306	8 %

Management's Discussion and Analysis

Total deposits amounted to \$4.7 billion at June 30, 2021, up by \$347.3 million, or 8%, from December 31, 2020. This included an increase of \$140.7 million, or 24%, in out-of-market brokered time deposits. Excluding out-of-market brokered time deposits, in-market deposits were up by \$206.6 million, or 5%, from the balance at December 31, 2020. In-market deposit growth reflected a continuation of customer behavior fostering excess liquidity across the banking industry, as well as temporary increases associated with PPP loan origination funds deposited to customer accounts at Washington Trust. These were also partially offset by seasonal outflows of various institutional and governmental depositors based on their underlying business cycles.

Borrowings

Borrowings primarily consist of FHLB advances, which are used as a source of funding for liquidity and interest rate risk management purposes.

FHLB advances totaled \$408.6 million at June 30, 2021, down by \$185.3 million, or 31%, from the balance at the end of 2020. See additional disclosure regarding the prepayment of certain FHLB advances and the recognition of debt prepayment penalties under the caption "Noninterest Expense" within the Results of Operations section.

For additional information regarding FHLB advances see Note 8 to the Unaudited Consolidated Financial Statements.

Liquidity and Capital Resources

Liquidity Management

Liquidity is the ability of a financial institution to meet maturing liability obligations and customer loan demand. The Corporation's primary source of liquidity is in-market deposits, which funded approximately 68% of total average assets in the six months ended June 30, 2021. While the generally preferred funding strategy is to attract and retain low-cost deposits, the ability to do so is affected by competitive interest rates and terms in the marketplace. Other sources of funding include discretionary use of purchased liabilities (e.g., FHLB term advances and brokered time deposits), cash flows from the Corporation's securities portfolios and loan repayments. Securities designated as available for sale may also be sold in response to short-term or long-term liquidity needs, although management has no intention to do so at this time.

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

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

(Dollars in thousands)	June 30, 2021	December 31, 2020
Additional Funding Capacity:		
Federal Home Loan Bank of Boston (1)	\$1,218,197	\$969,735
Federal Reserve Bank of Boston (2)	19,728	20,678
Unencumbered investment securities	711,185	594,998
Total	\$1,949,110	\$1,585,411

(1) As of June 30, 2021 and December 31, 2020, loans with a carrying value of \$2.0 billion and \$2.1 billion, respectively, and securities available for sale with carrying values of \$131.0 million and \$128.6 million, respectively, were pledged to the FHLB resulting in this additional borrowing capacity.

(2) As of June 30, 2021 and December 31, 2020, loans with a carrying value of \$10.1 million and \$12.6 million, respectively, and securities available for sale with a carrying value of \$15.4 million and \$14.9 million, respectively, were pledged to the FRB for the discount window resulting in this additional unused borrowing capacity.

Management's Discussion and Analysis

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

The ALCO establishes and monitors internal liquidity measures to manage liquidity exposure. Liquidity remained within target ranges established by the ALCO during the six months ended June 30, 2021. Based on its assessment of the liquidity considerations described above, management believes the Corporation's sources of funding meet anticipated funding needs.

Net cash provided by operating activities amounted to \$59.4 million for the six months ended June 30, 2021 and largely included net income of \$37.9 million and mortgage banking related adjustments to reconcile net income to net cash provided by operating activities. Net cash used in investing activities totaled \$273.1 million for the six months ended June 30, 2021, reflecting outflows to fund purchases of debt securities, as well as the net increase in and purchases of loans. These outflows were partially offset by net inflows from maturities, calls and principal payments of securities. For the six months ended June 30, 2021, net cash provided by financing activities amounted to \$143.6 million, with increases in deposits, partially offset by a net decrease in FHLB advances and the payment of dividends to shareholders. See the Unaudited Consolidated Statements of Cash Flows for further information about sources and uses of cash.

Capital Resources

Total shareholders' equity amounted to \$547.9 million at June 30, 2021, up by \$13.7 million from December 31, 2020. The increase included net income of \$37.9 million, partially offset by \$18.3 million in dividend declarations and a decline of \$7.7 million in the accumulated other comprehensive income component of shareholders' equity largely due to a temporary decline in the fair value of available for sale debt securities.

The Corporation declared a quarterly dividend of 52 cents per share for the three months ended June 30, 2021, compared to 51 cents per share declared for the same period in 2020. On a year-to-date basis, dividend declarations totaled \$1.04 per share in 2021, compared to \$1.02 per share in 2020.

The ratio of total equity to total assets amounted to 9.36% at June 30, 2021 compared to a ratio of 9.35% at December 31, 2020. Book value per share at June 30, 2021 and December 31, 2020 amounted to \$31.63 and \$30.94, respectively.

The Bancorp and the Bank are subject to various regulatory capital requirements and are considered "well capitalized" with a total risk-based capital ratio of 13.65% at June 30, 2021, compared to 13.51% at December 31, 2020. See Note 9 to the Unaudited Consolidated Financial Statements for additional discussion of regulatory capital requirements and the election of the ASC 326 phase-in option provided by regulatory guidance, which delays the estimated impact of ASC 326 on regulatory capital and phases it in over a three-year period beginning in 2022.

Off-Balance Sheet Arrangements

In the normal course of business, the Corporation engages in a variety of financial transactions that, in accordance with GAAP, are not recorded in the financial statements, or are recorded in amounts that differ from the notional amounts. Such transactions are used to meet the financing needs of its customers and to manage the exposure to fluctuations in interest rates. These financial transactions include commitments to extend credit, standby letters of credit, forward loan commitments, loan related derivative contracts and interest rate risk management contracts. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. The Corporation's credit policies with respect to interest rate swap agreements with commercial borrowers, commitments to extend credit, and standby letters of credit are similar to those used for loans. Interest rate risk management contracts with other counterparties are generally subject to bilateral collateralization terms.

For additional information on derivative financial instruments and financial instruments with off-balance sheet risk see Notes 10 and 18 to the Unaudited Consolidated Financial Statements.

Asset/Liability Management and Interest Rate Risk

Interest rate risk is the risk of loss to future earnings due to changes in interest rates. The ALCO is responsible for establishing policy guidelines on liquidity and acceptable exposure to interest rate risk. Periodically, the ALCO reports on the status of liquidity and interest rate risk matters to the Bank's Board of Directors. The objective of the ALCO is to manage assets and funding sources to produce results that are consistent with the Corporation's liquidity, capital adequacy, growth, risk and profitability goals.

Management's Discussion and Analysis

The Corporation utilizes the size and duration of the investment securities portfolio, the size and duration of the wholesale funding portfolio, off-balance sheet interest rate contracts and the pricing and structure of loans and deposits, to manage interest rate risk. The off-balance sheet interest rate contracts may include interest rate swaps, caps and floors. These interest rate contracts involve, to varying degrees, credit risk and interest rate risk. Credit risk is the possibility that a loss may occur if a counterparty to a transaction fails to perform according to terms of the contract. The notional amount of the interest rate contracts is the amount upon which interest and other payments are based. The notional amount is not exchanged, and therefore, should not be taken as a measure of credit risk. See Notes 10 and 18 to the Unaudited Consolidated Financial Statements for additional information.

The ALCO uses income simulation to measure interest rate risk inherent in the Corporation's on-balance sheet and off-balance sheet financial instruments at a given point in time by showing the effect of interest rate shifts on net interest income over a 12-month horizon, a 13- to 24-month horizon and a 60-month horizon. The simulations assume that the size and general composition of the Corporation's balance sheet remain static over the simulation horizons, with the exception of certain deposit mix shifts from low-cost core savings to higher-cost time deposits in selected interest rate scenarios. Additionally, the simulations take into account the specific repricing, maturity, call options, and prepayment characteristics of differing financial instruments that may vary under different interest rate scenarios. The characteristics of financial instrument classes are reviewed periodically by the ALCO to ensure their accuracy and consistency.

The ALCO reviews simulation results to determine whether the Corporation's exposure to a decline in net interest income remains within established tolerance levels over the simulation horizons and to develop appropriate strategies to manage this exposure. As of June 30, 2021 and December 31, 2020, net interest income simulations indicated that exposure to changing interest rates over the simulation horizons remained within tolerance levels established by the Corporation. All changes are measured in comparison to the projected net interest income that would result from an "unchanged" rate scenario where both interest rates and the composition of the Corporation's balance sheet remain stable for a 60-month period. In addition to measuring the change in net interest income as compared to an unchanged rate scenario, the ALCO also measures the trend of both net interest income and net interest margin over a 60-month horizon to ensure the stability and adequacy of this source of earnings in different interest rate scenarios.

The ALCO regularly reviews a wide variety of interest rate shift scenario results to evaluate interest rate risk exposure, including scenarios showing the effect of steepening or flattening changes in the yield curve of up to 500 basis points, as well as parallel changes in interest rates of up to 400 basis points. Because income simulations assume that the Corporation's balance sheet will remain static over the simulation horizon, the results do not reflect adjustments in strategy that the ALCO could implement in response to rate shifts.

The following table sets forth the estimated change in net interest income from an unchanged rate scenario over the periods indicated for parallel changes in market interest rates using the Corporation's on- and off-balance sheet financial instruments as of June 30, 2021 and December 31, 2020. Interest rates are assumed to shift by a parallel 100, 200 or 300 basis points upward or 100 basis points downward over a 12-month period, except for core savings deposits, which are assumed to shift by lesser amounts due to their relative historical insensitivity to market interest rate movements. Further, deposits are assumed to have certain minimum rate levels below which they will not fall. It should be noted that the rate scenarios shown do not necessarily reflect the ALCO's view of the "most likely" change in interest rates over the periods indicated.

	June 30, 2021		December 31, 2020	
	Months 1 - 12	Months 13 - 24	Months 1 - 12	Months 13 - 24
100 basis point rate decrease	(1.61)%	(5.29)%	(2.05)%	(4.73)%
100 basis point rate increase	4.11	5.31	5.56	7.89
200 basis point rate increase	8.21	9.75	11.00	15.05
300 basis point rate increase	12.21	13.35	16.47	21.15

The ALCO estimates that the negative exposure of net interest income to falling rates as compared to an unchanged rate scenario results from a more rapid decline in earning asset yields compared to rates paid on deposits. If market interest rates were to fall and remain lower for a sustained period, certain core savings and time deposit rates could decline more slowly and by a lesser amount than other market interest rates. Asset yields would likely decline more rapidly than deposit costs as current asset holdings mature or reprice, since cash flow from mortgage-related prepayments and redemption of callable securities would increase as market interest rates fall.

Management's Discussion and Analysis

The overall positive exposure of net interest income to rising rates as compared to an unchanged rate scenario results from a more rapid projected relative rate of increase in asset yields than funding costs over the near term. For simulation purposes, deposit rate changes are anticipated to lag behind other market interest rates in both timing and magnitude. The ALCO's estimate of interest rate risk exposure to rising rate environments, including those involving changes to the shape of the yield curve, incorporates certain assumptions regarding the shift in deposit balances from low-cost core savings categories to higher-cost deposit categories, which has characterized a shift in funding mix during the past rising interest rate cycles.

The relative change in interest rate sensitivity from December 31, 2020 as shown in the above table was largely attributable to an interest rate swap designated as a cash flow hedge that was executed in the second quarter of 2021 to hedge the interest rate risk associated with a pool of variable rate commercial loans. The receive-fixed, pay-floating interest rate swap reduced the positive exposure to rising rates, while it will enhance earnings in the current rate environment and mitigate risk in declining rate scenarios. The interest rate swap effectively fixes a portion of variable rate loan assets.

While the ALCO reviews and updates simulation assumptions and also periodically back-tests the simulation results to ensure that the assumptions are reasonable and current, income simulation may not always prove to be an accurate indicator of interest rate risk or future net interest margin. Over time, the repricing, maturity and prepayment characteristics of financial instruments and the composition of the Corporation's balance sheet may change to a different degree than estimated. Simulation modeling assumes a static balance sheet, with the exception of certain modeled deposit mix shifts from low-cost core savings deposits to higher-cost time deposits in rising rate scenarios as noted above.

As market interest rates have declined, the banking industry has attracted low-cost core savings deposits. The ALCO recognizes that a portion of these increased levels of low-cost balances could shift into higher yielding alternatives in the future, particularly if interest rates rise and as confidence in financial markets strengthens, and has modeled deposit shifts out of these low-cost categories into higher-cost alternatives in the rising rate simulation scenarios presented above. Deposit balances may also be subject to possible outflow to non-bank alternatives in a rising rate environment, which may cause interest rate sensitivity to differ from the results as presented. Another significant simulation assumption is the sensitivity of core savings deposits to fluctuations in interest rates. Income simulation results assume that changes in both core savings deposit rates and balances are related to changes in short-term interest rates. The relationship between short-term interest rate changes and core deposit rate and balance changes may differ from the ALCO's estimates used in income simulation.

It should also be noted that the static balance sheet assumption does not necessarily reflect the Corporation's expectation for future balance sheet growth, which is a function of the business environment and customer behavior.

Mortgage-backed securities and residential real estate loans involve a level of risk that unforeseen changes in prepayment speeds may cause related cash flows to vary significantly in differing rate environments. Such changes could affect the level of reinvestment risk associated with cash flow from these instruments, as well as their market value. Changes in prepayment speeds could also increase or decrease the amortization of premium or accretion of discounts related to such instruments, thereby affecting interest income.

The Corporation also monitors the potential change in market value of its available for sale debt securities in changing interest rate environments. The purpose is to determine market value exposure that may not be captured by income simulation, but which might result in changes to the Corporation's capital position. Results are calculated using industry-standard analytical techniques and securities data.

Management's Discussion and Analysis

The following table summarizes the potential change in market value of the Corporation's available for sale debt securities as of June 30, 2021 and December 31, 2020 resulting from immediate parallel rate shifts:

(Dollars in thousands)

Security Type	Down 100 Basis Points	Up 200 Basis Points
U.S. government-sponsored enterprise securities (callable)	\$3,126	(\$17,606)
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	26,820	(93,759)
Trust preferred debt and other corporate debt securities	(163)	127
Total change in market value as of June 30, 2021	\$29,783	(\$111,238)
Total change in market value as of December 31, 2020	\$13,481	(\$69,538)

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

For factors that could adversely impact Washington Trust's future results of operations and financial condition, see the section labeled "Risk Factors" in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2020, as updated by our Quarterly Reports on Form 10-Q and other filings submitted to the SEC.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As required by Rule 13a-15 under the Exchange Act, as amended (the "Exchange Act"), the Corporation carried out an evaluation under the supervision and with the participation of the Corporation's management, including the Corporation's principal executive officer and principal financial officer, of the Corporation's disclosure controls and procedures as of the period ended June 30, 2021. Based upon that evaluation, the principal executive officer and principal financial officer concluded that the Corporation's disclosure controls and procedures are effective and designed to ensure that information required to be disclosed by the Corporation in the reports it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to the Corporation's management including its Chief Executive Officer and Chief Financial Officer as appropriate to allow timely decisions regarding required disclosures. The Corporation will continue to review and document its disclosure controls and procedures and consider such changes in future evaluations of the effectiveness of such controls and procedures, as it deems appropriate.

Internal Control Over Financial Reporting

There has been no change in the Corporation's internal controls over financial reporting during the quarter ended June 30, 2021 that has materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes in the risk factors described in Item 1A to Part I of Washington Trust's Annual Report on Form 10-K for the year ended December 31, 2020.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 6. Exhibits

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

Exhibit Number	
<u>31.1</u>	<u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Filed herewith.</u>
<u>31.2</u>	<u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Filed herewith.</u>
<u>32.1</u>	<u>Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - Furnished herewith. (1)</u>
101	The following materials from Washington Trust Bancorp, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2021 formatted in Inline XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Shareholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) related Notes to these consolidated financial statements.
104	The cover page from the Corporation's Quarterly Report on Form 10-Q for the period ended June 30, 2021 has been formatted in Inline XBRL and contained in Exhibit 101.

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

Signatures

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

WASHINGTON TRUST BANCORP, INC.

(Registrant)

Date: August 5, 2021

By: /s/ Edward O. Handy III

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

Date: August 5, 2021

By: /s/ Ronald S. Ohsberg

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

Date: August 5, 2021

By: /s/ Maria N. Janes

Maria N. Janes
Executive Vice President, Chief Accounting Officer and Controller
(principal accounting officer)

EXHIBIT 31.1

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

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

1. I have reviewed this Quarterly Report on Form 10-Q, for the period ended June 30, 2021, of Washington Trust Bancorp, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: August 5, 2021

By: /s/ Edward O. Handy III

Edward O. Handy III

Chairman and Chief Executive Officer

(principal executive officer)

EXHIBIT 31.2

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

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

1. I have reviewed this Quarterly Report on Form 10-Q, for the period ended June 30, 2021, of Washington Trust Bancorp, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: August 5, 2021

By: /s/ Ronald S. Ohsberg

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

EXHIBIT 32.1

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

The undersigned officer of Washington Trust Bancorp, Inc. (the “Corporation”), hereby certifies that the Corporation’s Quarterly Report on Form 10-Q for the period ended June 30, 2021 to which this certification is attached (the “Report”), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: August 5, 2021 By: /s/ Edward O. Handy III
Edward O. Handy III
Chairman and Chief Executive Officer
(principal executive officer)

The undersigned officer of Washington Trust Bancorp, Inc. (the “Corporation”), hereby certifies that the Corporation’s Quarterly Report on Form 10-Q for the period ended June 30, 2021 to which this certification is attached (the “Report”), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: August 5, 2021 By: /s/ Ronald S. Ohsberg
Ronald S. Ohsberg
Senior Executive Vice President, Chief Financial Officer and Treasurer
(principal financial officer)