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 **September 30, 2022** or

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

Commission file number: 001-32991

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

Rhode Island	**05-0404671**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
23 Broad Street **Westerly, Rhode Island**	**02891**
(Address of principal executive offices)	(Zip Code)

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

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 ☒	Accelerated filer ☐
Non-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 October 31, 2022 was 17,180,903.

FORM 10-Q
WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
For the Quarter Ended September 30, 2022

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Glossary of Acronyms and Terms

The following is a list of acronyms and terms that are used throughout this Quarterly Report on Form 10-Q:

2013 Plan	Washington Trust Bancorp, Inc.'s 2013 Stock Option and Incentive Plan
2021 Repurchase Program	Washington Trust Bancorp, Inc.'s Stock Repurchase Program adopted on November 10, 2021
2022 Long Term Incentive Plan	Washington Trust Bancorp, Inc. 2022 Long Term Incentive Plan
ACL	Allowance for credit losses
ALCO	Asset/Liability Committee
AOCL	Accumulated other comprehensive loss
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
ATM	Automated teller machine
AUA	Assets under administration
Bancorp	Washington Trust Bancorp, Inc.
Bank	The Washington Trust Company, of Westerly
BOLI	Bank-owned life insurance
C&I	Commercial and industrial
CARES Act	Coronavirus Aid, Relief and Economic Security Act
CDARS	Certificate of Deposit Account Registry Service
Corporation	The Bancorp and its subsidiaries
CRE	Commercial real estate
CRRSA Act	Coronavirus Response and Relief Supplemental Appropriations Act
DCF	Discounted cash flow
DDM	Demand Deposit Marketplace
EPS	Earnings per common share
ERM	Enterprise risk management
Exchange Act	Securities Exchange Act of 1934, as amended
FDIC	Federal Deposit Insurance Corporation
FHLB	Federal Home Loan Bank of Boston
FICO	Fair Isaac Corporation
FRBB	Federal Reserve Bank of Boston
FTE	Fully taxable equivalent
GAAP	Accounting principles generally accepted in the United States of America
GDP	Gross domestic product
HPI	National home price index
ICS	Insured Cash Sweep
LTV	Loan to value
NIM	Net interest margin
NUR	National unemployment rate
OREO	Property acquired through foreclosure or repossession
PPP	Paycheck Protection Program
ROU	Right-of-use
S&P	Standard and Poors, Inc.
SBA	Small Business Administration
SEC	U.S. Securities and Exchange Commission
TDR	Troubled debt restructuring
Washington Trust	The Bancorp and its subsidiaries

PART I. Financial Information

Item 1. Financial Statements

Washington Trust Bancorp, Inc. and Subsidiaries
Consolidated Balance Sheets (unaudited)
(Dollars in thousands, except par value)

	September 30, 2022	December 31, 2021
Assets:		
Cash and due from banks	$130,066	$175,259
Short-term investments	2,773	3,234
Mortgage loans held for sale, at fair value	24,054	40,196
Available for sale debt securities, at fair value (amortized cost of $1,165,816, net of allowance for credit losses on securities of $0 at September 30, 2022; and amortized cost of $1,051,800; net of allowance for credit losses on securities of $0 at December 31, 2021)	982,573	1,042,859
Federal Home Loan Bank stock, at cost	32,940	13,031
Loans:		
Total loans	4,848,873	4,272,925
Less: allowance for credit losses on loans	36,863	39,088
Net loans	4,812,010	4,233,837
Premises and equipment, net	30,152	28,908
Operating lease right-of-use assets	27,788	26,692
Investment in bank-owned life insurance	101,491	92,592
Goodwill	63,909	63,909
Identifiable intangible assets, net	4,766	5,414
Other assets	195,529	125,196
Total assets	$6,408,051	$5,851,127
Liabilities:		
Deposits:		
Noninterest-bearing deposits	$938,572	$945,229
Interest-bearing deposits	4,131,285	4,034,822
Total deposits	5,069,857	4,980,051
Federal Home Loan Bank advances	700,000	145,000
Junior subordinated debentures	22,681	22,681
Operating lease liabilities	30,189	29,010
Other liabilities	153,050	109,577
Total liabilities	5,975,777	5,286,319
Commitments and contingencies (Note 17)		
Shareholders' Equity:		
Common stock of $.0625 par value; authorized 60,000,000 shares; 17,363,457 shares issued and 17,171,147 shares outstanding at September 30, 2022 and 17,363,457 shares issued and 17,330,818 shares outstanding at December 31, 2021	1,085	1,085
Paid-in capital	127,055	126,511
Retained earnings	485,163	458,310
Accumulated other comprehensive loss	(171,755)	(19,981)
Treasury stock, at cost; 192,310 shares at September 30, 2022 and 32,639 shares at December 31, 2021	(9,274)	(1,117)
Total shareholders' equity	432,274	564,808
Total liabilities and shareholders' equity	$6,408,051	$5,851,127

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)

	Three Months		Nine Months	
Periods ended September 30,	2022	2021	2022	2021
Interest income:				
Interest and fees on loans	$45,125	$35,691	$115,657	$104,670
Interest on mortgage loans held for sale	361	298	851	1,144
Taxable interest on debt securities	6,061	3,683	15,209	10,366
Dividends on Federal Home Loan Bank stock	88	95	218	338
Other interest income	503	56	769	121
Total interest and dividend income	52,138	39,823	132,704	116,639
Interest expense:				
Deposits	6,656	2,789	13,722	9,413
Federal Home Loan Bank advances	3,234	872	3,891	3,253
Junior subordinated debentures	206	92	443	278
Total interest expense	10,096	3,753	18,056	12,944
Net interest income	42,042	36,070	114,648	103,695
Provision for credit losses	800	—	(2,100)	(2,000)
Net interest income after provision for credit losses	41,242	36,070	116,748	105,695
Noninterest income:				
Wealth management revenues	9,525	10,455	30,122	30,778
Mortgage banking revenues	2,047	6,373	7,630	24,294
Card interchange fees	1,287	1,265	3,754	3,714
Service charges on deposit accounts	819	673	2,250	1,917
Loan related derivative income	1,041	728	2,011	2,370
Income from bank-owned life insurance	684	618	1,900	1,781
Other income	400	408	1,147	2,233
Total noninterest income	15,803	20,520	48,814	67,087
Noninterest expense:				
Salaries and employee benefits	21,609	22,162	62,992	65,771
Outsourced services	3,552	3,294	10,169	9,711
Net occupancy	2,234	2,134	6,708	6,304
Equipment	939	977	2,795	2,946
Legal, audit and professional fees	693	767	2,140	2,042
FDIC deposit insurance costs	430	482	1,198	1,201
Advertising and promotion	799	559	1,874	1,341
Amortization of intangibles	215	223	648	674
Debt prepayment penalties	—	—	—	4,230
Other expenses	2,596	1,922	6,839	6,025
Total noninterest expense	33,067	32,520	95,363	100,245
Income before income taxes	23,978	24,070	70,199	72,537
Income tax expense	5,310	5,319	15,091	15,855
Net income	$18,668	$18,751	$55,108	$56,682
Net income available to common shareholders	$18,615	$18,697	$54,944	$56,520
Weighted average common shares outstanding - basic	17,174	17,320	17,269	17,303
Weighted average common shares outstanding - diluted	17,298	17,444	17,389	17,451
Per share information: Basic earnings per common share	$1.08	$1.08	$3.18	$3.27
Diluted earnings per common share	$1.08	$1.07	$3.16	$3.24

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

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

	Three Months		Nine Months	
Periods ended September 30,	2022	2021	2022	2021
Net income	$18,668	$18,751	$55,108	$56,682
Other comprehensive (loss) income, net of tax:				
Net change in fair value of available for sale debt securities	(47,067)	(3,137)	(132,469)	(12,322)
Net change in fair value of cash flow hedges	(6,973)	(403)	(20,281)	(36)
Net change in defined benefit plan obligations	326	540	976	1,621
Total other comprehensive loss, net of tax	(53,714)	(3,000)	(151,774)	(10,737)
Total comprehensive (loss) income	($35,046)	$15,751	($96,666)	$45,945

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, except per share amounts)

For the three months ended September 30, 2022	Common Shares Outstanding	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance at June 30, 2022	17,190	$1,085	$126,079	$475,889	($118,041)	($8,378)	$476,634
Net income	—	—	—	18,668	—	—	18,668
Total other comprehensive loss, net of tax	—	—	—	—	(53,714)	—	(53,714)
Cash dividends declared ($0.54 per share)	—	—	—	(9,394)	—	—	(9,394)
Share-based compensation	—	—	976	—	—	—	976
Treasury stock purchased under 2021 Repurchase Program	(19)	—	—	—	—	(896)	(896)
Balance at September 30, 2022	17,171	$1,085	$127,055	$485,163	($171,755)	($9,274)	$432,274

For the nine months ended September 30, 2022	Common Shares Outstanding	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance at December 31, 2021	17,331	$1,085	$126,511	$458,310	($19,981)	($1,117)	$564,808
Net income	—	—	—	55,108	—	—	55,108
Total other comprehensive loss, net of tax	—	—	—	—	(151,774)	—	(151,774)
Cash dividends declared ($1.62 per share)	—	—	—	(28,255)	—	—	(28,255)
Share-based compensation	—	—	2,589	—	—	—	2,589
Exercise of stock options, issuance of other compensation-related equity awards, net of awards surrendered	34	—	(2,045)	—	—	1,322	(723)
Treasury stock purchased under 2021 Repurchase Program	(194)	—	—	—	—	(9,479)	(9,479)
Balance at September 30, 2022	17,171	$1,085	$127,055	$485,163	($171,755)	($9,274)	$432,274

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, except per share amounts)

For the three months ended September 30, 2021	Common Shares Outstanding	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance at June 30, 2021	17,320	$1,085	$125,442	$437,927	($15,128)	($1,470)	$547,856
Net income	—	—	—	18,751	—	—	18,751
Total other comprehensive loss, net of tax	—	—	—	—	(3,000)	—	(3,000)
Cash dividends declared ($0.52 per share)	—	—	—	(9,112)	—	—	(9,112)
Share-based compensation	—	—	823	—	—	—	823
Balance at September 30, 2021	17,320	$1,085	$126,265	$447,566	($18,128)	($1,470)	$555,318

For the nine months ended September 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	—	—	—	56,682	—	—	56,682
Total other comprehensive loss, net of tax	—	—	—	—	(10,737)	—	(10,737)
Cash dividends declared ($1.56 per share)	—	—	—	(27,362)	—	—	(27,362)
Share-based compensation	—	—	2,705	—	—	—	2,705
Exercise of stock options, issuance of other compensation-related equity awards, net of awards surrendered	55	—	(2,050)	—	—	1,885	(165)
Balance at September 30, 2021	17,320	$1,085	$126,265	$447,566	($18,128)	($1,470)	$555,318

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)

Nine months ended September 30,		2022	2021
Cash flows from operating activities:			
Net income		$55,108	$56,682
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for credit losses		(2,100)	(2,000)
Depreciation of premises and equipment		2,554	2,549
Net amortization of premiums and discounts on debt securities and loans		2,485	2,742
Amortization of intangibles		648	674
Share-based compensation		2,589	2,705
Tax benefit from stock option exercises and other equity awards		71	135
Income from bank-owned life insurance		(1,900)	(1,781)
Net gains on loan sales, including changes in fair value		(6,164)	(24,093)
Proceeds from sales of loans, net		262,907	706,253
Loans originated for sale		(242,153)	(634,451)
(Increase) decrease in operating lease right-of-use assets		(1,096)	2,003
Increase (decrease) in operating lease liabilities		1,179	(1,907)
(Increase) decrease in other assets		(27,734)	34,107
Increase (decrease) in other liabilities		25,451	(36,698)
Net cash provided by operating activities		71,845	106,920
Cash flows from investing activities:			
Purchases of:	Available for sale debt securities: Mortgage-backed	(203,826)	(297,810)
	Available for sale debt securities: Other	(10,747)	(221,166)
Maturities, calls and principal payments of:	Available for sale debt securities: Mortgage-backed	97,495	274,169
	Available for sale debt securities: Other	—	70,500
Net (purchases) redemption of Federal Home Loan Bank stock		(19,909)	15,191
Purchases of other equity investments		(375)	—
Net increase in loans		(571,950)	(80,021)
Purchases of loans		(1,764)	(41,546)
Purchases of premises and equipment		(3,824)	(2,166)
Purchases of bank-owned life insurance		(7,000)	(7,000)
Equity investment in real estate limited partnership		(1,861)	—
Net cash used in investing activities		(723,761)	(289,849)
Cash flows from financing activities:			
Net increase in deposits		89,806	679,789
Proceeds from Federal Home Loan Bank advances		1,946,112	1,173,000
Repayment of Federal Home Loan Bank advances		(1,391,112)	(1,544,267)
Treasury stock purchased		(9,479)	—
Net proceeds from stock option exercises and issuance of other equity awards, net of awards surrendered		(723)	(165)
Cash dividends paid		(28,342)	(27,308)
Net cash provided by financing activities		606,262	281,049
Net (decrease) increase in cash and cash equivalents		(45,654)	98,120
Cash and cash equivalents at beginning of period		178,493	202,268
Cash and cash equivalents at end of period		$132,839	$300,388
Noncash Activities:			
Loans charged off		$122	$630
Commitment for equity investment in real estate limited partnership		8,360	—
Supplemental Disclosures:			
Interest payments		$15,677	$14,675
Income tax payments		13,021	15,551

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

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 Bank, a Rhode Island chartered financial institution founded in 1800, and Weston Securities Corporation. 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. All intercompany balances and transactions have been eliminated in consolidation. Certain previously reported amounts have been reclassified to conform to the current year's presentation.

The accounting and reporting policies of the Corporation conform to 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. Management considers the ACL on loans to be a material estimate that is particularly susceptible to change.

The Unaudited Consolidated Financial Statements of the Corporation presented herein have been prepared pursuant to the rules of the 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, 2021.

Note 2 - Recently Issued Accounting Pronouncements

Accounting Standards Pending Adoption

Business Combinations - ASC 805

ASU No. 2021-08, "Accounting for Contract Assets and Contract Liabilities from Contracts with Customers" ("ASU 2021-08"), was issued in October 2021 to clarify the accounting for contract cost assets and contract liabilities acquired in a business combination. Under current GAAP, an acquirer generally recognizes assets acquired and liabilities assumed in a business combination at fair value on the acquisition date. The provisions of ASU 2021-08 clarify that contract cost assets and contract liabilities acquired in a business combination should be accounted for in accordance with ASC 606 as if the acquirer had originated the contracts. ASU 2021-08 is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, with early adoption permitted. The provisions under ASU 2021-08 are required to be applied prospectively. The adoption of ASU 2021-08 is not expected to have a material impact on the Corporation's consolidated financial statements.

Financial Instruments - Credit Losses - ASC 326

ASU No. 2022-02, "Troubled Debt Restructurings and Vintage Disclosures" ("ASU 2022-02"), was issued in March 2022 to provide updates on the accounting treatment for TDRs and related disclosures requirements, as well as modifying the disclosure requirement associated with the existing credit quality indicators "vintage" disclosure. With respect to TDRs, ASU 2022-02 eliminates the recognition and measurement guidance for TDRs under current GAAP and instead requires that the Corporation evaluate whether the modification represents a new loan or a continuation of existing loan, consistent with the current GAAP treatment for other loan modifications. In addition, ASU 2022-02 eliminates existing disclosure requirements on TDRs and replaces with enhanced disclosure requirements related to loan modifications made to borrowers, including those experiencing financial difficulty. ASU 2022-02 also provides an update to the existing tabular vintage disclosure of credit quality indicators by requiring current period gross write-offs to be disclosed by year of origination for each loan segment. ASU 2022-02 is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, with early adoption permitted. The provisions under ASU 2022-02 should be applied on a prospective basis. However, the Corporation has the option to use a modified retrospective transition method related to the change in accounting treatment for TDRs with a cumulative effect of the change in accounting principle recognized in the opening balance of retained earnings as of the adoption date. The Corporation is currently evaluating this ASU and has not yet determined the impact that the adoption of ASU 2022-02 will have on its consolidated financial statements.

Note 3 - Securities

Available for Sale Debt Securities

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

(Dollars in thousands)

September 30, 2022	Amortized Cost	Unrealized Gains	Unrealized Losses	ACL	Fair Value
Available for Sale Debt Securities:					
Obligations of U.S. government-sponsored enterprises	$231,204	$5	($33,354)	$—	$197,855
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	912,063	120	(147,919)	—	764,264
Individual name issuer trust preferred debt securities	9,384	—	(584)	—	8,800
Corporate bonds	13,165	—	(1,511)	—	11,654
Total available for sale debt securities	$1,165,816	$125	($183,368)	$—	$982,573

(Dollars in thousands)

December 31, 2021	Amortized Cost	Unrealized Gains	Unrealized Losses	ACL	Fair Value
Available for Sale Debt Securities:					
Obligations of U.S. government-sponsored enterprises	$200,953	$12	($4,511)	$—	$196,454
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	828,319	6,850	(10,207)	—	824,962
Individual name issuer trust preferred debt securities	9,373	—	(235)	—	9,138
Corporate bonds	13,155	—	(850)	—	12,305
Total available for sale debt securities	$1,051,800	$6,862	($15,803)	$—	$1,042,859

The Corporation excludes accrued interest from the amortized cost basis of debt securities and reports accrued interest in other assets in the Unaudited Consolidated Balance Sheets. Accrued interest receivable on available for sale debt securities totaled $2.7 million and $2.3 million, respectively, as of September 30, 2022 and December 31, 2021.

As of September 30, 2022 and December 31, 2021, securities with a fair value of $302.7 million and $332.0 million, respectively, were pledged as collateral for FHLB borrowings, potential borrowings with the FRBB, certain public deposits and for other purposes. See Note 7 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)

September 30, 2022	Amortized Cost	Fair Value
Due in one year or less	$122,305	$102,490
Due after one year to five years	407,912	343,570
Due after five years to ten years	418,836	354,503
Due after ten years	216,763	182,010
Total debt securities	$1,165,816	$982,573

Included in the above table are debt securities with an amortized cost balance of $253.0 million and a fair value of $217.6 million at September 30, 2022 that are callable at the discretion of the issuers. Final maturities of the callable securities range from 2 years to 14 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 September 30, 2022 and 2021 and, therefore there was no accrued interest related to debt securities reversed against interest income for the three and nine months ended September 30, 2022 and 2021.

The following tables summarize available for sale debt securities in an unrealized loss position, for which an ACL 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)	Less than 12 Months			12 Months or Longer			Total		
September 30, 2022	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
Obligations of U.S. government-sponsored enterprises	7	$45,972	($4,983)	15	$141,878	($28,371)	22	$187,850	($33,354)
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	122	395,493	(52,363)	47	363,645	(95,556)	169	759,138	(147,919)
Individual name issuer trust preferred debt securities	—	—	—	3	8,800	(584)	3	8,800	(584)
Corporate bonds	—	—	—	4	11,654	(1,511)	4	11,654	(1,511)
Total	129	$441,465	($57,346)	69	$525,977	($126,022)	198	$967,442	($183,368)

(Dollars in thousands)	Less than 12 Months			12 Months or Longer			Total		
December 31, 2021	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
Obligations of U.S. government-sponsored enterprises	12	$152,733	($3,313)	6	$43,202	($1,198)	18	$195,935	($4,511)
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	41	514,419	(7,270)	21	108,983	(2,937)	62	623,402	(10,207)
Individual name issuer trust preferred debt securities	—	—	—	3	9,138	(235)	3	9,138	(235)
Corporate bonds	—	—	—	4	12,305	(850)	4	12,305	(850)
Total	53	$667,152	($10,583)	34	$173,628	($5,220)	87	$840,780	($15,803)

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.

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

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 September 30, 2022. 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 September 30, 2022.

Individual Name Issuer Trust Preferred Debt Securities

Included in debt securities in an unrealized loss position at September 30, 2022 were three trust preferred securities issued by three individual companies in the banking sector. 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 September 30, 2022, there was one individual name issuer trust preferred debt security with an amortized cost of $2.0 million and unrealized losses of $132 thousand that was rated below investment grade by S&P. We noted no downgrades to below investment grade between September 30, 2022 and the filing date of this report. 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 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 ACL on securities was recorded at September 30, 2022.

Corporate Bonds

Included in debt securities in an unrealized loss position at September 30, 2022 were four corporate bond holdings issued by three individual companies in the financial services industry. 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 September 30, 2022, there was one corporate bond debt security with an amortized cost of $2.0 million and unrealized losses of $121 thousand that was rated below investment grade by S&P. We noted no downgrades to below investment grade between September 30, 2022 and the filing date of this report. Based on the information available through the filing date of this report, all corporate bond 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 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 ACL was recorded at September 30, 2022.

Note 4 - Loans

The following table presents a summary of loans:

(Dollars in thousands)	September 30, 2022	December 31, 2021
Commercial:		
Commercial real estate (1)	$1,762,687	$1,639,062
Commercial & industrial (2)	652,758	641,555
Total commercial	2,415,445	2,280,617
Residential Real Estate:		
Residential real estate (3)	2,144,098	1,726,975
Consumer:		
Home equity	273,742	247,697
Other (4)	15,588	17,636
Total consumer	289,330	265,333
Total loans (5)	$4,848,873	$4,272,925

(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 $1.4 million and $38.0 million, respectively, of PPP loans as of September 30, 2022 and December 31, 2021.

(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 $10.7 million and $6.7 million, respectively, at September 30, 2022 and December 31, 2021 and net unamortized premiums on purchased loans of $329 thousand and $414 thousand, respectively, at September 30, 2022 and December 31, 2021.

Loan balances exclude accrued interest receivable of $14.6 million and $10.3 million, respectively, as of September 30, 2022 and December 31, 2021.

As of September 30, 2022 and December 31, 2021, loans amounting to $2.3 billion and $2.2 billion, respectively, were pledged as collateral to the FHLB under a blanket pledge agreement and to the FRBB for the discount window. See Note 7 for additional disclosure regarding borrowings.

The Corporation elected to account for eligible loan modifications under Section 4013 of the CARES Act, as amended by the CRRSA Act. Eligible loan modifications from March 1, 2020 through January 1, 2022 made in response to the COVID-19 pandemic were not required to be classified as TDRs. The vast majority of the loan payment deferral modifications, or "deferments," qualified as eligible loan modifications and were not classified as TDRs. All of these loans with qualified deferments exited their payment deferral period prior to March 31, 2022.

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 aging analysis of past due loans, segregated by class of loans:

(Dollars in thousands)	Days Past Due					
September 30, 2022	30-59	60-89	Over 90	Total Past Due	Current	Total Loans
Commercial:						
Commercial real estate	$—	$—	$—	$—	$1,762,687	$1,762,687
Commercial & industrial	4	—	—	4	652,754	652,758
Total commercial	4	—	—	4	2,415,441	2,415,445
Residential Real Estate:						
Residential real estate	1,607	219	5,430	7,256	2,136,842	2,144,098
Consumer:						
Home equity	202	—	50	252	273,490	273,742
Other	17	—	—	17	15,571	15,588
Total consumer	219	—	50	269	289,061	289,330
Total loans	$1,830	$219	$5,480	$7,529	$4,841,344	$4,848,873

(Dollars in thousands)	Days Past Due					
December 31, 2021	30-59	60-89	Over 90	Total Past Due	Current	Total Loans
Commercial:						
Commercial real estate	$—	$—	$—	$—	$1,639,062	$1,639,062
Commercial & industrial	3	—	—	3	641,552	641,555
Total commercial	3	—	—	3	2,280,614	2,280,617
Residential Real Estate:						
Residential real estate	1,784	3,176	4,662	9,622	1,717,353	1,726,975
Consumer:						
Home equity	580	77	108	765	246,932	247,697
Other	21	—	—	21	17,615	17,636
Total consumer	601	77	108	786	264,547	265,333
Total loans	$2,388	$3,253	$4,770	$10,411	$4,262,514	$4,272,925

Included in past due loans as of September 30, 2022 and December 31, 2021, were nonaccrual loans of $7.1 million and $9.4 million, respectively. In addition, all loans 90 days or more past due at September 30, 2022 and December 31, 2021 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 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 is a summary of nonaccrual loans, segregated by class of loans:

(Dollars in thousands)	Sep 30, 2022	Dec 31, 2021
Commercial:		
Commercial real estate	$—	$—
Commercial & industrial	—	—
Total commercial	—	—
Residential Real Estate:		
Residential real estate	11,700	13,576
Consumer:		
Home equity	422	627
Other	—	—
Total consumer	422	627
Total nonaccrual loans	$12,122	$14,203
Accruing loans 90 days or more past due	$—	$—

No ACL was deemed necessary on nonaccrual loans with carrying values of $4.3 million and $4.2 million, respectively, as of September 30, 2022 and December 31, 2021.

Nonaccrual loans of $5.1 million and $4.8 million, respectively, at September 30, 2022 and December 31, 2021 were current as to the payment of principal and interest.

As of September 30, 2022 and December 31, 2021, nonaccrual loans secured by one- to four-family residential property amounting to $4.4 million and $1.5 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 September 30, 2022.

The following table presents interest income recognized on nonaccrual loans:

(Dollars in thousands)	Three Months		Nine Months	
Periods ended September 30,	2022	2021	2022	2021
Commercial:				
Commercial real estate	$—	$—	$—	$—
Commercial & industrial	—	—	—	—
Total commercial	—	—	—	—
Residential Real Estate:				
Residential real estate	77	131	242	288
Consumer:				
Home equity	9	9	21	44
Other	—	—	3	—
Total consumer	9	9	24	44
Total	$86	$140	$266	$332

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.

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

(Dollars in thousands)	Sep 30, 2022	Dec 31, 2021
Accruing TDRs	$7,275	$16,564
Nonaccrual TDRs	2,890	2,819
Total TDRs	$10,165	$19,383
Specific reserves on TDRs included in the ACL on loans	$132	$148
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)			Outstanding Recorded Investment			
	# of Loans		Pre-Modifications		Post-Modifications	
Three months ended September 30,	2022	2021	2022	2021	2022	2021
Commercial:						
Commercial real estate	—	—	$—	$—	$—	$—
Commercial & industrial	2	—	844	—	844	—
Total commercial	2	—	844	—	844	—
Total	2	—	$844	$—	$844	$—

(Dollars in thousands)			Outstanding Recorded Investment			
	# of Loans		Pre-Modifications		Post-Modifications	
Nine months ended September 30,	2022	2021	2022	2021	2022	2021
Commercial:						
Commercial real estate	—	—	$—	$—	$—	$—
Commercial & industrial	2	—	844	—	844	—
Total commercial	2	—	844	—	844	—
Total	2	—	$844	$—	$844	$—

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

(Dollars in thousands)	Three Months		Nine Months	
Periods ended September 30,	2022	2021	2022	2021
Below-market interest rate concession	$—	$—	$—	$—
Payment deferral	—	—	—	—
Maturity / amortization concession	—	—	—	—
Interest only payments	—	—	—	—
Combination (1)	844	—	844	—
Total	$844	$—	$844	$—

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

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

(Dollars in thousands)	Three Months				Nine Months			
	# of Loans		Recorded Investment		# of Loans		Recorded Investment	
Periods ended September 30,	2022	2021	2022	2021	2022	2021	2022	2021
TDRs with a Payment Default:								
Residential real estate	—	1	$—	$330	—	1	$—	$330

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 September 30, 2022, the carrying value of individually analyzed loans amounted to $12.0 million, of which $8.3 million were considered collateral dependent. As of December 31, 2021, the carrying value of individually analyzed loans amounted to $21.1 million, of which $14.4 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 10 for additional disclosure regarding fair value of individually analyzed collateral dependent loans.

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

(Dollars in thousands)	September 30, 2022		December 31, 2021	
	Carrying Value	Related Allowance	Carrying Value	Related Allowance
Commercial:				
Commercial real estate (1)	$3,609	$—	$10,603	$—
Commercial & industrial	—	—	—	—
Total commercial	3,609	—	10,603	—
Residential Real Estate:				
Residential real estate (2)	4,612	520	3,803	534
Consumer:				
Home equity (2)	71	—	—	—
Other	—	—	—	—
Total consumer	71	—	—	—
Total	$8,292	$520	$14,406	$534

(1) Secured by income-producing property.
(2) 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 loan losses. See Note 5 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 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 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 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 FICO score and an updated estimated 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 account in the determination of qualitative loss factors for residential real estate and home equity consumer credits.

The following table summarizes the Corporation's loan portfolio by credit quality indicator and loan portfolio segment as of September 30, 2022:

(Dollars in thousands)	Term Loans Amortized Cost by Origination Year								
	2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost	Revolving Loans Converted to Term Loans	Total
Commercial:									
CRE:									
Pass	$461,435	$354,011	$175,390	$193,425	$175,084	$316,290	$3,579	$1,466	$1,680,680
Special Mention	14,142	22,345	406	13,115	17,567	10,633	190	—	78,398
Classified	—	—	510	—	2,685	414	—	—	3,609
Total CRE	475,577	376,356	176,306	206,540	195,336	327,337	3,769	1,466	1,762,687
C&I:									
Pass	86,981	63,805	76,341	88,235	94,240	121,837	103,130	798	635,367
Special Mention	1,605	—	—	—	1,444	12,123	1,497	—	16,669
Classified	—	—	—	26	—	—	696	—	722
Total C&I	88,586	63,805	76,341	88,261	95,684	133,960	105,323	798	652,758
Residential Real Estate:									
Residential real estate:									
Current	622,899	718,371	283,621	127,157	74,789	310,005	—	—	2,136,842
Past Due	—	—	1,397	1,156	2,107	2,596	—	—	7,256
Total residential real estate	622,899	718,371	285,018	128,313	76,896	312,601	—	—	2,144,098
Consumer:									
Home equity:									
Current	15,354	8,709	3,842	2,643	2,106	3,428	229,083	8,326	273,491
Past Due	—	—	—	—	—	81	95	75	251
Total home equity	15,354	8,709	3,842	2,643	2,106	3,509	229,178	8,401	273,742
Other:									
Current	3,182	4,400	1,742	736	258	4,987	266	—	15,571
Past Due	17	—	—	—	—	—	—	—	17
Total other	3,199	4,400	1,742	736	258	4,987	266	—	15,588
Total Loans	$1,205,615	$1,171,641	$543,249	$426,493	$370,280	$782,394	$338,536	$10,665	$4,848,873

The following table summarizes the Corporation's loan portfolio by credit quality indicator and loan portfolio segment as of December 31, 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	$417,705	$212,649	$260,940	$206,164	$163,132	$266,067	$7,015	$2,202	$1,535,874
Special Mention	9,089	489	33,982	28,432	—	20,273	320	—	92,585
Classified	—	958	—	2,685	6,959	1	—	—	10,603
Total CRE	426,794	214,096	294,922	237,281	170,091	286,341	7,335	2,202	1,639,062
C&I:									
Pass	116,959	78,601	104,827	87,619	51,579	83,182	89,686	911	613,364
Special Mention	—	—	606	4,599	6,195	15,605	1,186	—	28,191
Classified	—	—	—	—	—	—	—	—	—
Total C&I	116,959	78,601	105,433	92,218	57,774	98,787	90,872	911	641,555
Residential Real Estate:									
Residential real estate:									
Current	733,658	353,742	158,140	85,656	88,365	297,792	—	—	1,717,353
Past Due	—	1,402	1,167	2,379	763	3,911	—	—	9,622
Total residential real estate	733,658	355,144	159,307	88,035	89,128	301,703	—	—	1,726,975
Consumer:									
Home equity:									
Current	10,434	5,850	3,703	2,380	1,064	3,592	211,488	8,421	246,932
Past Due	—	—	185	—	—	245	115	220	765
Total home equity	10,434	5,850	3,888	2,380	1,064	3,837	211,603	8,641	247,697
Other:									
Current	5,536	3,264	1,313	407	747	6,090	258	—	17,615
Past Due	21	—	—	—	—	—	—	—	21
Total other	5,557	3,264	1,313	407	747	6,090	258	—	17,636
Total Loans	$1,293,402	$656,955	$564,863	$420,321	$318,804	$696,758	$310,068	$11,754	$4,272,925

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.

Note 5 - Allowance for Credit Losses on Loans

The ACL on loans is management's estimate, at the reporting date, of expected credit losses over the expected life of the loans. 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.

In accordance with the Corporation's ACL policy, the methodology is reviewed no less than annually. 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. Econometric factors are selected based on the correlation of the factor to historical credit losses for each portfolio segment.

The following table summarizes the econometric factors utilized for each loan portfolio segment as of the dates indicated:

	Econometric Factors	
Loan portfolio segment	At September 30, 2022	At December 31, 2021
CRE	NUR & GDP	NUR & GDP
C&I	NUR & GDP	NUR
Residential real estate	NUR & HPI	NUR & HPI
Home equity	NUR & HPI	NUR & HPI
Other consumer	GDP	NUR & GDP

The following table presents the activity in the ACL on loans for the three months ended September 30, 2022:

(Dollars in thousands)	Commercial				Consumer			
	CRE	C&I	Total Commercial	Residential Real Estate	Home Equity	Other	Total Consumer	Total
Beginning Balance	$17,197	$10,332	$27,529	$7,308	$1,040	$440	$1,480	$36,317
Charge-offs	—	(10)	(10)	—	—	(53)	(53)	(63)
Recoveries	—	1	1	—	—	8	8	9
Provision	414	24	438	139	31	(8)	23	600
Ending Balance	$17,611	$10,347	$27,958	$7,447	$1,071	$387	$1,458	$36,863

The following table presents the activity in the ACL on loans for the nine months ended September 30, 2022:

(Dollars in thousands)	Commercial				Consumer			
	CRE	C&I	Total Commercial	Residential Real Estate	Home Equity	Other	Total Consumer	Total
Beginning Balance	$18,933	$10,832	$29,765	$7,860	$1,069	$394	$1,463	$39,088
Charge-offs	—	(19)	(19)	—	—	(103)	(103)	(122)
Recoveries	145	22	167	21	4	34	38	226
Provision	(1,467)	(488)	(1,955)	(434)	(2)	62	60	(2,329)
Ending Balance	$17,611	$10,347	$27,958	$7,447	$1,071	$387	$1,458	$36,863

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

(Dollars in thousands)	Commercial				Consumer			
	CRE	C&I	Total Commercial	Residential Real Estate	Home Equity	Other	Total Consumer	Total
Beginning Balance	$21,450	$11,717	$33,167	$6,877	$1,340	$495	$1,835	$41,879
Charge-offs	—	2	2	(57)	(183)	(11)	(194)	(249)
Recoveries	—	—	—	5	73	3	76	81
Provision	(613)	(392)	(1,005)	1,131	(112)	(14)	(126)	—
Ending Balance	$20,837	$11,327	$32,164	$7,956	$1,118	$473	$1,591	$41,711

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

(Dollars in thousands)	Commercial				Consumer			
	CRE	C&I	Total Commercial	Residential Real Estate	Home Equity	Other	Total Consumer	Total
Beginning Balance	$22,065	$12,228	$34,293	$8,042	$1,300	$471	$1,771	$44,106
Charge-offs	—	(304)	(304)	(107)	(183)	(36)	(219)	(630)
Recoveries	—	3	3	85	79	19	98	186
Provision	(1,228)	(600)	(1,828)	(64)	(78)	19	(59)	(1,951)
Ending Balance	$20,837	$11,327	$32,164	$7,956	$1,118	$473	$1,591	$41,711

Note 6 - Deposits

The following table presents a summary of deposits:

(Dollars in thousands)	Sep 30, 2022	Dec 31, 2021
Noninterest-bearing demand deposits	$938,572	$945,229
Interest-bearing demand deposits (1)	304,275	251,032
NOW accounts	869,984	867,138
Money market accounts	1,146,826	1,072,864
Savings accounts	600,568	555,177
Time deposits (2)	1,209,632	1,288,611
Total deposits	$5,069,857	$4,980,051

(1) Includes wholesale brokered demand deposit balances of $31,044 and $0, respectively, as of September 30, 2022 and December 31, 2021.
(2) Includes wholesale brokered time deposit balances of $412,127 and $515,228, respectively, as of September 30, 2022 and December 31, 2021.

Note 7 - Borrowings

Advances payable to the FHLB amounted to $700.0 million and $145.0 million, respectively, at September 30, 2022 and December 31, 2021.

As of September 30, 2022 and December 31, 2021, the Bank had access to a $40.0 million unused line of credit with the FHLB. Additionally, the Bank had a $102.0 million standby letter of credit with the FHLB at September 30, 2022. The Bank had remaining available borrowing capacity of $967.1 million and $1.6 billion, respectively, with the FHLB at September 30, 2022 and December 31, 2021. 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 September 30, 2022:

(Dollars in thousands)	Scheduled Maturity	Weighted Average Rate
October 1, 2022 to December 31, 2022	$625,000	2.96 %
2023	55,000	1.92
2024	20,000	4.48
2025	—	—
2026	—	—
2027 and thereafter	—	—
Balance at September 30, 2022	$700,000	2.92 %

Note 8 - Shareholders' Equity

Stock Repurchase Program

The 2021 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 2021 Repurchase Program expires on December 31, 2022, and may be modified, suspended, or discontinued at any time. In the nine months ended September 30, 2022, the Corporation has repurchased 194,162 shares, at an average price of $48.82 and a total cost of $9.5 million, under its 2021 Repurchase Program.

Regulatory Capital Requirements

Capital levels at September 30, 2022 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
September 30, 2022						
Total Capital (to Risk-Weighted Assets):						
Corporation	$596,341	12.65 %	$377,111	8.00 %	N/A	N/A
Bank	579,854	12.30	376,991	8.00	$471,238	10.00 %
Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	564,194	11.97	282,833	6.00	N/A	N/A
Bank	547,707	11.62	282,743	6.00	376,991	8.00
Common Equity Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	542,197	11.50	212,125	4.50	N/A	N/A
Bank	547,707	11.62	212,057	4.50	306,305	6.50
Tier 1 Capital (to Average Assets): (1)						
Corporation	564,194	8.99	251,121	4.00	N/A	N/A
Bank	547,707	8.73	250,995	4.00	313,743	5.00
December 31, 2021						
Total Capital (to Risk-Weighted Assets):						
Corporation	578,137	14.01	330,105	8.00	N/A	N/A
Bank	565,087	13.70	330,025	8.00	412,532	10.00
Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	546,362	13.24	247,578	6.00	N/A	N/A
Bank	533,312	12.93	247,519	6.00	330,025	8.00
Common Equity Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	524,363	12.71	185,684	4.50	N/A	N/A
Bank	533,312	12.93	185,639	4.50	268,146	6.50
Tier 1 Capital (to Average Assets): (1)						
Corporation	546,362	9.36	233,534	4.00	N/A	N/A
Bank	533,312	9.14	233,434	4.00	291,793	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 September 30, 2022 and December 31, 2021.

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 September 30, 2022 and December 31, 2021, $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 capital adequacy guidelines of the Federal Reserve.

In accordance with regulatory capital rules, the Corporation elected the option to delay the estimated impact of 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 exclude the full impact of the increased ACL on loans and unfunded loan commitments attributed to the adoption of ASC 326, adjusted for an approximation of the after-tax provision for credit losses attributable to ASC 326 relative to the incurred loss methodology during the two-year deferral period. The cumulative difference at the end of the deferral period is being phased-in to regulatory capital over the three-year transition period, which began January 1, 2022.

Note 9 - Derivative Financial Instruments

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

Interest Rate Risk Management Agreements

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

<u>Cash Flow Hedging Instruments</u>

As of September 30, 2022 and December 31, 2021, the Corporation had an interest rate swap contract with a total notional amount of $20.0 million that was designated as a cash flow hedge to hedge the interest rate risk associated with short-term variable rate FHLB advances. The interest rate swap on borrowings matures in December 2023.

As of September 30, 2022 and December 31, 2021, the Corporation had an interest rate swap contract 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 matures in May 2026.

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

Loan Related Derivative Contracts

<u>Interest Rate Derivative Contracts with Customers</u>

The Corporation enters into interest rate swap and interest rate cap contracts to help commercial loan borrowers manage their interest rate risk. These interest rate swap contracts allow borrowers to convert variable-rate loan payments to fixed-rate loan payments, while interest rate cap contracts allow borrowers to limit their interest rate exposure in a rising rate environment. When the Corporation enters into an interest rate derivative contract with a commercial loan borrower, it simultaneously enters into a "mirror" interest rate contract with a third party. For interest rate swaps, 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 September 30, 2022 and December 31, 2021, Washington Trust had interest rate derivative contracts with commercial loan borrowers (predominantly interest rate swap contracts) with notional amounts of $962.4 million and $1.0 billion, respectively, and equal amounts of "mirror" contracts with third party financial institutions. These derivatives are not designated as hedges and therefore, changes in fair value are recognized in earnings.

<u>Risk Participation Agreements</u>

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.

As of September 30, 2022, the notional amounts of risk participation-out agreements and risk participation-in agreements were $66.9 million and $177.0 million, respectively, compared to $74.2 million and $163.2 million, respectively, as of December 31, 2021.

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 September 30, 2022, the notional amounts of interest rate lock commitments and forward sale commitments were $27.4 million and $64.1 million, respectively, compared to $49.8 million and $103.6 million, respectively, as of December 31, 2021.

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

(Dollars in thousands)	Derivative Assets			Derivative Liabilities		
		Fair Value			Fair Value	
	Balance Sheet Location	Sep 30, 2022	Dec 31, 2021	Balance Sheet Location	Sep 30, 2022	Dec 31, 2021
Derivatives Designated as Cash Flow Hedging Instruments:						
Interest rate risk management contracts:						
Interest rate swaps	Other assets	$540	$182	Other liabilities	$32,936	$5,301
Derivatives not Designated as Hedging Instruments:						
Loan related derivative contracts:						
Interest rate contracts with customers	Other assets	122	32,361	Other liabilities	71,028	2,015
Mirror contracts with counterparties	Other assets	70,679	2,001	Other liabilities	122	32,480
Risk participation agreements	Other assets	—	1	Other liabilities	—	2
Mortgage loan commitments:						
Interest rate lock commitments	Other assets	204	1,256	Other liabilities	186	—
Forward sale commitments	Other assets	1,069	54	Other liabilities	211	905
Gross amounts		72,614	35,855		104,483	40,703
Less: amounts offset (1)		24,516	2,167		24,516	2,167
Derivative balances, net of offset		48,098	33,688		79,967	38,536
Less: collateral pledged (2)		—	—		8,542	34,539
Net amounts		$48,098	$33,688		$71,425	$3,997

(1) Interest rate risk management contracts and loan related derivative contracts with counterparties are subject to master netting arrangements.
(2) Collateral pledged to derivative counterparties is in the form of cash. Washington Trust may need to post additional collateral in the future in proportion to potential increases in unrealized loss positions.

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

(Dollars in thousands)	Gain (Loss) Recognized in Other Comprehensive Income (Loss), Net of Tax			
	Three Months		Nine Months	
Periods ended September 30,	2022	2021	2022	2021
Derivatives Designated as Cash Flow Hedging Instruments:				
Interest rate risk management contracts:				
Interest rate swaps	($6,973)	($403)	($20,281)	($36)
Total	($6,973)	($403)	($20,281)	($36)

For derivatives designated as cash flow hedging instruments, see Note 15 for additional disclosure pertaining to the amounts and location of reclassifications from AOCL into earnings.

(Dollars in thousands)		Amount of Gain (Loss) Recognized in Income on Derivatives			
		Three Months		Nine Months	
Periods ended September 30,	Statement of Income Location	2022	2021	2022	2021
Derivatives not Designated as Hedging Instruments:					
Loan related derivative contracts:					
Interest rate contracts with customers	Loan related derivative income	($33,605)	($2,715)	($93,227)	($21,281)
Mirror contracts with counterparties	Loan related derivative income	34,646	3,558	95,189	23,173
Risk participation agreements	Loan related derivative income	—	(115)	49	478
Mortgage loan commitments:					
Interest rate lock commitments	Mortgage banking revenues	(516)	(17)	(1,238)	(4,859)
Forward sale commitments	Mortgage banking revenues	998	(361)	4,729	4,994
Total		$1,523	$350	$5,502	$2,505

Note 10 - Fair Value Measurements

The Corporation uses fair value measurements to record fair value adjustments on certain assets and liabilities and to determine fair value disclosures. Items recorded at fair value on a recurring basis include securities available for sale, mortgage loans held for sale and derivatives. Additionally, from time to time, we may be required to record at fair value other assets on a nonrecurring basis, such as collateral dependent individually analyzed loans, OREO 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, or "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)	September 30, 2022	December 31, 2021
Aggregate fair value	$24,054	$40,196
Aggregate principal balance	24,328	39,201
Difference between fair value and principal balance	($274)	$995

Changes in fair value of mortgage loans held for sale accounted for under the fair value option election are included in mortgage banking revenues in the Unaudited Consolidated Statements of Income. Changes in fair value amounted to decreases to mortgage banking revenues of $521 thousand for the three months ended September 30, 2022 and $1.3 million for the nine months ended September 30, 2022. This compared to an increase to mortgage banking revenues of $372 thousand for the three months ended September 30, 2021 and a decrease of $1.1 million for the nine months ended September 30, 2021.

There were no mortgage loans held for sale 90 days or more past due as of September 30, 2022 and December 31, 2021.

Valuation Techniques

<u>Debt Securities</u>

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 September 30, 2022 and December 31, 2021.

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.

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 September 30, 2022 and December 31, 2021.

<u>Mortgage Loans Held for Sale</u>

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.

<u>Collateral Dependent Individually Analyzed Loans</u>

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.

<u>Derivatives</u>

Interest rate derivative contracts 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 utilizes 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 September 30, 2022 and December 31, 2021, 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. 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.

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)

September 30, 2022	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	$197,855	$—	$197,855	$—
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	764,264	—	764,264	—
Individual name issuer trust preferred debt securities	8,800	—	8,800	—
Corporate bonds	11,654	—	11,654	—
Mortgage loans held for sale	24,054	—	24,054	—
Derivative assets	48,098	—	48,098	—
Total assets at fair value on a recurring basis	$1,054,725	$—	$1,054,725	$—
Liabilities:				
Derivative liabilities	$79,967	$—	$79,967	$—
Total liabilities at fair value on a recurring basis	$79,967	$—	$79,967	$—

(Dollars in thousands)

December 31, 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	$196,454	$—	$196,454	$—
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	824,962	—	824,962	—
Individual name issuer trust preferred debt securities	9,138	—	9,138	—
Corporate bonds	12,305	—	12,305	—
Mortgage loans held for sale	40,196	—	40,196	—
Derivative assets	33,688	—	33,688	—
Total assets at fair value on a recurring basis	$1,116,743	$—	$1,116,743	$—
Liabilities:				
Derivative liabilities	$38,536	$—	$38,536	$—
Total liabilities at fair value on a recurring basis	$38,536	$—	$38,536	$—

Items Recorded at Fair Value on a Nonrecurring Basis

There were no assets written down to fair value during the nine months ended September 30, 2022.

During 2021, two collateral dependent individually analyzed loans were written down to fair value. One loan with a carrying value of $3.1 million was paid in full in the fourth quarter of 2021. The second loan with a carrying value of $533 thousand was fully reserved for as of December 31, 2021.

The following table presents 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)

December 31, 2021	Fair Value	Valuation Technique	Unobservable Input	Inputs Utilized (Weighted Average)
Collateral dependent individually analyzed loans	$—	Appraisals of collateral	Discount for costs to sell	14%
			Appraisal adjustments	100%

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, BOLI, non-maturity deposits and accrued interest payable. The Corporation considers cash and cash equivalents, accrued interest receivable and accrued interest payable as level 1 measurements within the fair value hierarchy. The Corporation considers FHLB stock, BOLI and non-maturity deposits as level 2 measurements.

(Dollars in thousands)

September 30, 2022	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	$4,812,010	$4,778,506	$—	$—	$4,778,506
Financial Liabilities:					
Time deposits	$1,209,632	$1,212,810	$—	$1,212,810	$—
FHLB advances	700,000	699,221	—	699,221	—
Junior subordinated debentures	22,681	18,763	—	18,763	—

(Dollars in thousands)

December 31, 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	$4,233,837	$4,145,516	$—	$—	$4,145,516
Financial Liabilities:					
Time deposits	$1,288,611	$1,294,053	$—	$1,294,053	$—
FHLB advances	145,000	144,862	—	144,862	—
Junior subordinated debentures	22,681	20,181	—	20,181	—

Note 11 - Revenue from Contracts with Customers

The following tables summarize total revenues as presented in the Unaudited Consolidated Statements of Income and the related amounts 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 September 30,	2022		2021	
(Dollars in thousands)	Revenue (1)	ASC 606 Revenue (2)	Revenue (1)	ASC 606 Revenue (2)
Net interest income	$42,042	$—	$36,070	$—
Noninterest income:				
Asset-based wealth management revenues	9,302	9,302	10,224	10,224
Transaction-based wealth management revenues	223	223	231	231
Total wealth management revenues	9,525	9,525	10,455	10,455
Mortgage banking revenues	2,047	—	6,373	—
Card interchange fees	1,287	1,287	1,265	1,265
Service charges on deposit accounts	819	819	673	673
Loan related derivative income	1,041	—	728	—
Income from bank-owned life insurance	684	—	618	—
Other income	400	316	408	310
Total noninterest income	15,803	11,947	20,520	12,703
Total revenues	$57,845	$11,947	$56,590	$12,703

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

For the nine months ended September 30,	2022		2021	
(Dollars in thousands)	Revenue (1)	ASC 606 Revenue (2)	Revenue (1)	ASC 606 Revenue (2)
Net interest income	$114,648	$—	$103,695	$—
Noninterest income:				
Asset-based wealth management revenues	29,154	29,154	29,798	29,798
Transaction-based wealth management revenues	968	968	980	980
Total wealth management revenues	30,122	30,122	30,778	30,778
Mortgage banking revenues	7,630	—	24,294	—
Card interchange fees	3,754	3,754	3,714	3,714
Service charges on deposit accounts	2,250	2,250	1,917	1,917
Loan related derivative income	2,011	—	2,370	—
Income from bank-owned life insurance	1,900	—	1,781	—
Other income	1,147	880	2,233	1,834
Total noninterest income	48,814	37,006	67,087	38,243
Total revenues	$163,462	$37,006	$170,782	$38,243

(1) As reported in the Unaudited 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), 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)	Three Months		Nine Months	
Periods ended September 30,	2022	2021	2022	2021
Revenue recognized at a point in time:				
Card interchange fees	$1,287	$1,265	$3,754	$3,714
Service charges on deposit accounts	628	531	1,782	1,516
Other income	249	247	692	1,678
Revenue recognized over time:				
Wealth management revenues	9,525	10,455	30,122	30,778
Service charges on deposit accounts	191	142	468	401
Other income	67	63	188	156
Total revenues from contracts in scope of Topic 606	$11,947	$12,703	$37,006	$38,243

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 $5.6 million and $6.6 million, respectively, at September 30, 2022 and December 31, 2021 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 September 30, 2022 and December 31, 2021 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 $2.0 million and $1.9 million, respectively, at September 30, 2022 and December 31, 2021 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 12 - Defined Benefit Pension Plans

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

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

(Dollars in thousands)	Qualified Pension Plan				Non-Qualified Retirement Plans			
	Three Months		Nine Months		Three Months		Nine Months	
Periods ended September 30,	2022	2021	2022	2021	2022	2021	2022	2021
Net Periodic Benefit Cost:								
Service cost (1)	$516	$592	$1,547	$1,777	$54	$52	$163	$156
Interest cost (2)	592	500	1,776	1,502	105	84	317	253
Expected return on plan assets (2)	(1,159)	(1,203)	(3,476)	(3,611)	—	—	—	—
Recognized net actuarial loss (2)	255	531	765	1,591	173	180	519	542
Net periodic benefit cost	$204	$420	$612	$1,259	$332	$316	$999	$951

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

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

	Qualified Pension Plan		Non-Qualified Retirement Plans	
For the nine months ended September 30,	2022	2021	2022	2021
Measurement date	Dec 31, 2021	Dec 31, 2020	Dec 31, 2021	Dec 31, 2020
Equivalent single discount rate for benefit obligations	3.00%	2.71%	2.89%	2.51%
Equivalent single discount rate for service cost	3.11	2.86	3.16	2.94
Equivalent single discount rate for interest cost	2.67	2.16	2.48	1.97
Expected long-term return on plan assets	5.25	5.75	N/A	N/A
Rate of compensation increase	3.75	3.75	3.75	3.75

Note 13 - Share-Based Compensation Arrangements

The 2022 Long Term Incentive Plan was approved by the shareholders on April 26, 2022. The maximum number of shares of common stock that may be issued under the 2022 Long Term Incentive Plan is 600,000 and is subject to adjustment. The type of permitted equity awards under the 2022 Long Term Incentive Plan include stock options (both incentive and non-qualified options), stock appreciation rights, restricted stock, restricted stock units, unrestricted stock, cash-based awards, and dividend equivalent rights. On February 18, 2022, the Corporation's Board of Directors voted that no further awards would be granted under the 2013 Plan following shareholder approval of the 2022 Long Term Incentive Plan.

During the nine months ended September 30, 2022, the Corporation granted performance share unit and restricted stock unit awards. Performance share units were granted to certain key employees providing them the opportunity to earn shares of common stock over a 3-year performance period. The weighted average fair value of the performance share units was $59.31. 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 unit award agreements. Based on the most recent performance assumption available, it is estimated that 42,728 shares will be earned.

In addition, the Corporation granted to certain key employees and non-executive directors 10,717 restricted stock units with 3-year cliff vesting. The weighted average grant date fair value of the restricted stock units was $51.57.

Note 14 - Business Segments

The Corporation manages its operations through two reportable business segments, consisting of Commercial Banking and Wealth Management Services.

Management uses an allocation methodology to allocate income and expenses to the business lines. Direct activities are assigned to the appropriate business segment to which the activity relates. Indirect activities, such as corporate, technology and other support functions, are allocated to business segments primarily based upon full-time equivalent employee computations.

Commercial Banking

The Commercial Banking segment includes commercial, residential and consumer lending activities; mortgage banking activities; deposit generation; cash management activities; banking activities, including customer support and the operation of ATMs, telephone banking, internet banking and mobile banking services; as well as investment portfolio and wholesale funding activities.

Wealth Management Services

The Wealth Management Services 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.

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		Consolidated Total	
Three months ended September 30,	2022	2021	2022	2021	2022	2021
Net interest income (expense)	$42,038	$36,085	$4	($15)	$42,042	$36,070
Provision for credit losses	800	—	—	—	800	—
Net interest income (expense) after provision for credit losses	41,238	36,085	4	(15)	41,242	36,070
Noninterest income	6,043	9,962	9,760	10,558	15,803	20,520
Noninterest expenses:						
Depreciation and amortization expense	751	740	348	365	1,099	1,105
Other noninterest expenses	23,995	23,538	7,973	7,877	31,968	31,415
Total noninterest expenses	24,746	24,278	8,321	8,242	33,067	32,520
Income before income taxes	22,535	21,769	1,443	2,301	23,978	24,070
Income tax expense	4,878	4,725	432	594	5,310	5,319
Net income	$17,657	$17,044	$1,011	$1,707	$18,668	$18,751
Total assets at period end	$6,332,986	$5,929,230	$75,065	$73,413	$6,408,051	$6,002,643
Expenditures for long-lived assets	1,206	310	137	28	1,343	338

(Dollars in thousands)	Commercial Banking		Wealth Management Services		Consolidated Total	
Nine months ended September 30,	2022	2021	2022	2021	2022	2021
Net interest income (expense)	$114,709	$103,737	($61)	($42)	$114,648	$103,695
Provision for credit losses	(2,100)	(2,000)	—	—	(2,100)	(2,000)
Net interest income (expense) after provision for credit losses	116,809	105,737	(61)	(42)	116,748	105,695
Noninterest income	18,174	35,032	30,640	32,055	48,814	67,087
Noninterest expenses:						
Depreciation and amortization expense	2,168	2,105	1,034	1,118	3,202	3,223
Other noninterest expenses	69,110	74,425	23,051	22,597	92,161	97,022
Total noninterest expenses	71,278	76,530	24,085	23,715	95,363	100,245
Income before income taxes	63,705	64,239	6,494	8,298	70,199	72,537
Income tax expense	13,423	13,810	1,668	2,045	15,091	15,855
Net income	$50,282	$50,429	$4,826	$6,253	$55,108	$56,682
Total assets at period end	$6,332,986	$5,929,230	$75,065	$73,413	$6,408,051	$6,002,643
Expenditures for long-lived assets	3,494	2,027	330	139	3,824	2,166

Note 15 - Other Comprehensive Income (Loss)

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

Three months ended September 30,	2022			2021		
(Dollars in thousands)	Pre-tax Amounts	Income Taxes	Net of Tax	Pre-tax Amounts	Income Taxes	Net of Tax
Securities available for sale:						
Change in fair value of available for sale debt securities	($61,931)	($14,864)	($47,067)	($4,127)	($990)	($3,137)
Cash flow hedges:						
Change in fair value of cash flow hedges	(10,250)	(2,460)	(7,790)	(288)	(69)	(219)
Net cash flow hedge losses (gains) reclassified into earnings (1)	1,075	258	817	(243)	(59)	(184)
Net change in fair value of cash flow hedges	(9,175)	(2,202)	(6,973)	(531)	(128)	(403)
Defined benefit plan obligations:						
Amortization of net actuarial losses (2)	428	102	326	711	171	540
Total other comprehensive loss	($70,678)	($16,964)	($53,714)	($3,947)	($947)	($3,000)

(1) The pre-tax amounts are included in interest and fees on loans and FHLB interest expense in the Unaudited Consolidated Statements of Income.
(2) The pre-tax amounts are included in other expenses in the Unaudited Consolidated Statements of Income.

Nine months ended September 30,	2022			2021		
(Dollars in thousands)	Pre-tax Amounts	Income Taxes	Net of Tax	Pre-tax Amounts	Income Taxes	Net of Tax
Securities available for sale:						
Change in fair value of available for sale debt securities	($174,302)	($41,833)	($132,469)	($16,212)	($3,890)	($12,322)
Cash flow hedges:						
Change in fair value of cash flow hedges	(27,394)	(6,574)	(20,820)	(21)	(5)	(16)
Net cash flow hedge losses (gains) reclassified into earnings (1)	709	170	539	(27)	(7)	(20)
Net change in fair value of cash flow hedges	(26,685)	(6,404)	(20,281)	(48)	(12)	(36)
Defined benefit plan obligations:						
Amortization of net actuarial losses (2)	1,284	308	976	2,133	512	1,621
Total other comprehensive loss	($199,703)	($47,929)	($151,774)	($14,127)	($3,390)	($10,737)

(1) The pre-tax amounts are included in interest and fees on loans and FHLB interest expense in the Unaudited Consolidated Statements of Income.
(2) 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)

For the three months ended September 30, 2022	Net Unrealized Losses on Available For Sale Debt Securities	Net Unrealized Losses on Cash Flow Hedges	Net Unrealized Losses on Defined Benefit Plan Obligations	Total
Balance at June 30, 2022	($92,197)	($17,321)	($8,523)	($118,041)
Other comprehensive loss before reclassifications	(47,067)	(7,790)	—	(54,857)
Amounts reclassified from accumulated other comprehensive loss	—	817	326	1,143
Net other comprehensive (loss) income	(47,067)	(6,973)	326	(53,714)
Balance at September 30, 2022	($139,264)	($24,294)	($8,197)	($171,755)

(Dollars in thousands)

For the nine months ended September 30, 2022	Net Unrealized Losses on Available For Sale Debt Securities	Net Unrealized Losses on Cash Flow Hedges	Net Unrealized Losses on Defined Benefit Plan Obligations	Total
Balance at December 31, 2021	($6,795)	($4,013)	($9,173)	($19,981)
Other comprehensive loss before reclassifications	(132,469)	(20,820)	—	(153,289)
Amounts reclassified from accumulated other comprehensive loss	—	539	976	1,515
Net other comprehensive (loss) income	(132,469)	(20,281)	976	(151,774)
Balance at September 30, 2022	($139,264)	($24,294)	($8,197)	($171,755)

(Dollars in thousands)

For the three months ended September 30, 2021	Net Unrealized Gains (Losses) on Available For Sale Debt Securities	Net Unrealized Losses on Cash Flow Hedges	Net Unrealized Losses on Defined Benefit Plan Obligations	Total
Balance at June 30, 2021	$696	($1,080)	($14,744)	($15,128)
Other comprehensive income before reclassifications	(3,137)	(219)	—	(3,356)
Amounts reclassified from accumulated other comprehensive income (loss)	—	(184)	540	356
Net other comprehensive income	(3,137)	(403)	540	(3,000)
Balance at September 30, 2021	($2,441)	($1,483)	($14,204)	($18,128)

(Dollars in thousands)

For the nine months ended September 30, 2021	Net Unrealized Gains (Losses) on Available For Sale Debt Securities	Net Unrealized Losses on Cash Flow Hedges	Net Unrealized Losses on Defined Benefit Plan Obligations	Total
Balance at December 31, 2020	$9,881	($1,447)	($15,825)	($7,391)
Other comprehensive income (loss) before reclassifications	(12,322)	(16)	—	(12,338)
Amounts reclassified from accumulated other comprehensive income (loss)	—	(20)	1,621	1,601
Net other comprehensive (loss) income	(12,322)	(36)	1,621	(10,737)
Balance at September 30, 2021	($2,441)	($1,483)	($14,204)	($18,128)

Note 16 - Earnings per Common Share

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

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

	Three Months		Nine Months	
Periods ended September 30,	2022	2021	2022	2021
Earnings for basic and diluted earnings per common share:				
Net income	$18,668	$18,751	$55,108	$56,682
Less: dividends and undistributed earnings allocated to participating securities	(53)	(55)	(164)	(163)
Net income available to common shareholders	$18,615	$18,696	$54,944	$56,519
Shares:				
Weighted average common shares	17,174	17,320	17,269	17,303
Dilutive effect of common stock equivalents	124	124	120	148
Weighted average diluted common shares	17,298	17,444	17,389	17,451
Earnings per common share:				
Basic earnings per common share	$1.08	$1.08	$3.18	$3.27
Diluted earnings per common share	$1.08	$1.07	$3.16	$3.24

Weighted average common stock equivalents, not included in common stock equivalents above because they were anti-dilutive, totaled 137,886 and 140,777, respectively, for the three and nine months ended September 30, 2022, compared to 148,542 and 149,675, respectively, for the same periods in 2021.

Note 17 - Commitments and Contingencies

Financial Instruments with Off-Balance Sheet Risk

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to manage the Corporation's exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby letters of credit, 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 $9.9 million and $11.8 million, respectively, as of September 30, 2022 and December 31, 2021. At September 30, 2022 and December 31, 2021, 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 nine months ended September 30, 2022 and 2021.

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 contracts with commercial borrowers are similar to those used for loans. The interest rate contracts 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)	Sep 30, 2022	Dec 31, 2021
Financial instruments whose contract amounts represent credit risk (unfunded commitments):		
Commitments to extend credit:		
Commercial loans	$678,907	$516,344
Home equity lines	418,413	367,784
Other loans	144,584	122,492
Standby letters of credit	9,898	11,844
Financial instruments whose notional amounts exceed the amounts of credit risk:		
Mortgage loan commitments:		
Interest rate lock commitments	27,370	49,800
Forward sale commitments	64,148	103,626
Loan related derivative contracts:		
Interest rate contracts with customers	962,381	1,022,388
Mirror contracts with counterparties	962,381	1,022,388
Risk participation-in agreements	176,992	163,207
Interest rate risk management contracts:		
Interest rate swaps	320,000	320,000

See Note 9 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.

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 September 30, 2022 is presented below:

(Dollars in thousands)	Commercial				Consumer			
	CRE	C&I	Total Commercial	Residential Real Estate	Home Equity	Other	Total Consumer	Total
Beginning Balance	$1,279	$834	$2,113	$58	$—	$19	$19	$2,190
Provision	185	25	210	(8)	—	(2)	(2)	200
Ending Balance	$1,464	$859	$2,323	$50	$—	$17	$17	$2,390

The activity in the ACL on unfunded commitments for the nine months ended September 30, 2022 is presented below:

(Dollars in thousands)	Commercial				Consumer			
	CRE	C&I	Total Commercial	Residential Real Estate	Home Equity	Other	Total Consumer	Total
Beginning Balance	$1,267	$816	$2,083	$62	$—	$16	$16	$2,161
Provision	197	43	240	(12)	—	1	1	229
Ending Balance	$1,464	$859	$2,323	$50	$—	$17	$17	$2,390

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

(Dollars in thousands)	Commercial				Consumer			
	CRE	C&I	Total Commercial	Residential Real Estate	Home Equity	Other	Total Consumer	Total
Beginning Balance	$1,214	$1,045	$2,259	$56	$—	$18	$18	$2,333
Provision	4	(8)	(4)	4	—	—	—	—
Ending Balance	$1,218	$1,037	$2,255	$60	$—	$18	$18	$2,333

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

(Dollars in thousands)	Commercial				Consumer			
	CRE	C&I	Total Commercial	Residential Real Estate	Home Equity	Other	Total Consumer	Total
Beginning Balance	$907	$1,402	$2,309	$54	$—	$19	$19	$2,382
Provision	311	(365)	(54)	6	—	(1)	(1)	(49)
Ending Balance	$1,218	$1,037	$2,255	$60	$—	$18	$18	$2,333

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.

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, 2021, 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 nine months ended September 30, 2022 are not necessarily indicative of the results for the full-year ended December 31, 2022 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:

- changes in political, business and economic conditions, including inflation;
- interest rate changes or volatility, as well as changes in the balance and mix of loans and deposits;
- changes in loan demand and collectability;
- the possibility that future credits losses are higher than currently expected due to changes in economic assumptions or adverse economic developments;
- ongoing volatility in national and international financial markets;
- reductions in the market value or outflows of wealth management AUA;
- decreases in the value of securities and other assets;
- increases in defaults and charge-off rates;
- changes in the size and nature of our competition;
- changes in legislation or regulation and accounting principles, policies and guidelines;
- operational risks including, but not limited to, changes in information technology, cybersecurity incidents, fraud, natural disasters, war, terrorism, civil unrest, the ongoing COVID-19 pandemic, and future pandemics;
- reputational risks; 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, 2021, 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.

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.washtrust.com).

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

We continue to leverage our strong regional brand to build market share and remain steadfast in our commitment to provide superior service. We believe the key to future growth is providing customers with convenient in-person service and digital banking solutions. In July 2022, we opened a new commercial lending office in New Haven, Connecticut. In August 2022, we opened a new full-service branch in Cumberland, Rhode Island. In addition, we recently announced that we submitted applications to establish a branch office in three northern Rhode Island locations in 2023 to further expand our branch footprint and serve the broader Rhode Island community. The three branch offices will be located in Barrington, Providence and Smithfield, Rhode Island and are subject to federal, state, local, and regulatory approvals.

Risk Management

The Corporation has a comprehensive ERM program through which the Corporation identifies, measures, monitors and controls current and emerging material risks.

The Board of Directors is responsible for oversight of the ERM program. The ERM program enables the aggregation of risk across the Corporation and ensures the Corporation has the tools, programs and processes in place to support informed decision making, to anticipate risks before they materialize and to 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 4 and Note 5 to the Unaudited Consolidated Financial Statements. For further discussion regarding credit risk associated with unfunded commitments, see Note 17 to the Unaudited Consolidated Financial Statements. For further discussion regarding the Corporation’s securities portfolio, see Note 3 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. See the “Asset/Liability Management and Interest Rate Risk” section below for additional disclosure.

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, see the “Liquidity and Capital Resources” section 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 report on and escalate their concerns. Corporate functions such as Credit Risk Management, Financial Administration, Information Assurance and Compliance, represent 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 and third party credit review represent 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, 2021, as updated by our Quarterly Reports on Form 10-Q and other filings submitted to the SEC.

Results of Operations

The following table presents a summarized consolidated statement of operations:

(Dollars in thousands)	Three Months				Nine Months			
			Change				Change	
Periods ended September 30,	2022	2021	$	%	2022	2021	$	%
Net interest income	$42,042	$36,070	$5,972	17 %	$114,648	$103,695	$10,953	11 %
Noninterest income	15,803	20,520	(4,717)	(23)	48,814	67,087	(18,273)	(27)
Total revenues	57,845	56,590	1,255	2	163,462	170,782	(7,320)	(4)
Provision for credit losses	800	—	800	100	(2,100)	(2,000)	(100)	(5)
Noninterest expense	33,067	32,520	547	2	95,363	100,245	(4,882)	(5)
Income before income taxes	23,978	24,070	(92)	—	70,199	72,537	(2,338)	(3)
Income tax expense	5,310	5,319	(9)	—	15,091	15,855	(764)	(5)
Net income	$18,668	$18,751	($83)	— %	$55,108	$56,682	($1,574)	(3 %)

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

	Three Months		Nine Months	
Periods ended September 30,	2022	2021	2022	2021
Diluted earnings per common share	$1.08	$1.07	$3.16	$3.24
Return on average assets (net income divided by average assets)	1.19 %	1.26 %	1.23 %	1.30 %
Return on average equity (net income available for common shareholders divided by average equity)	15.16 %	13.37 %	14.35 %	13.93 %
Net interest income as a percentage of total revenues	73 %	64 %	70 %	61 %
Noninterest income as a percentage of total revenues	27 %	36 %	30 %	39 %

Net income totaled $18.7 million and $55.1 million, respectively, for the three and nine months ended September 30, 2022, compared to $18.8 million and $56.7 million, respectively, for the same periods in 2021.

In 2022, growth in net interest income was driven by higher yields on, and growth in, average interest-earning assets, partially offset by a higher cost of funds. The decline in noninterest income reflected lower mortgage banking revenues resulting from an overall reduction in mortgage origination and sales activity, and lower wealth management asset-based revenues attributable to recent declines in the financial markets. The provision for credit losses recognized in 2022 provided for loan growth and was also reflective of low loss rates, strong asset and credit quality metrics and our current estimate of forecasted economic conditions. We experienced modest increases across a variety of noninterest expense categories, however declines in debt prepayment penalties and volume-related mortgage originator compensation expense resulted in an overall decline in year-to-date noninterest expenses in 2022.

Average Balances / Net Interest Margin - Fully Taxable Equivalent Basis

The following table presents average balance and interest rate information. Tax-exempt income is converted to a FTE basis using the statutory federal income tax rate adjusted for applicable state income taxes net of the related federal tax benefit. Unrealized gains (losses) on available for sale securities and changes in fair value 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 September 30,	2022			2021			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	$92,708	$503	2.15	$179,574	$56	0.12	($86,866)	$447	2.03
Mortgage loans held for sale	34,503	361	4.15	41,261	298	2.87	(6,758)	63	1.28
Taxable debt securities	1,150,674	6,061	2.09	1,045,997	3,683	1.40	104,677	2,378	0.69
FHLB stock	25,377	88	1.38	18,909	95	1.99	6,468	(7)	(0.61)
Commercial real estate	1,692,374	17,974	4.21	1,648,972	12,209	2.94	43,402	5,765	1.27
Commercial & industrial	630,360	7,114	4.48	736,073	7,886	4.25	(105,713)	(772)	0.23
Total commercial	2,322,734	25,088	4.29	2,385,045	20,095	3.34	(62,311)	4,993	0.95
Residential real estate	2,045,833	17,379	3.37	1,623,913	13,511	3.30	421,920	3,868	0.07
Home equity	269,654	2,804	4.13	252,938	2,043	3.20	16,716	761	0.93
Other	15,299	171	4.43	19,822	247	4.94	(4,523)	(76)	(0.51)
Total consumer	284,953	2,975	4.14	272,760	2,290	3.33	12,193	685	0.81
Total loans	4,653,520	45,442	3.87	4,281,718	35,896	3.33	371,802	9,546	0.54
Total interest-earning assets	5,956,782	52,455	3.49	5,567,459	40,028	2.85	389,323	12,427	0.64
Noninterest-earning assets	259,347			351,678			(92,331)		
Total assets	$6,216,129			$5,919,137			$296,992		
Liabilities and Shareholders' Equity:									
Interest-bearing demand deposits (in-market)	$267,670	$822	1.22	$206,237	$51	0.10	$61,433	$771	1.12
NOW accounts	871,038	212	0.10	782,963	129	0.07	88,075	83	0.03
Money market accounts	1,137,875	2,231	0.78	1,014,204	586	0.23	123,671	1,645	0.55
Savings accounts	582,513	100	0.07	530,956	70	0.05	51,557	30	0.02
Time deposits (in-market)	797,199	1,983	0.99	672,012	1,695	1.00	125,187	288	(0.01)
Interest-bearing in-market deposits	3,656,295	5,348	0.58	3,206,372	2,531	0.31	449,923	2,817	0.27
Wholesale brokered demand deposits	31,014	166	2.12	—	—	—	31,014	166	2.12
Wholesale brokered time deposits	381,984	1,142	1.19	722,233	258	0.14	(340,249)	884	1.05
Wholesale brokered deposits	412,998	1,308	1.26	722,233	258	0.14	(309,235)	1,050	1.12
Total interest-bearing deposits	4,069,293	6,656	0.65	3,928,605	2,789	0.28	140,688	3,867	0.37
FHLB advances	549,729	3,234	2.33	317,766	872	1.09	231,963	2,362	1.24
Junior subordinated debentures	22,681	206	3.60	22,681	92	1.61	—	114	1.99
Total interest-bearing liabilities	4,641,703	10,096	0.86	4,269,052	3,753	0.35	372,651	6,343	0.51
Noninterest-bearing demand deposits	944,153			952,676			(8,523)		
Other liabilities	143,043			142,562			481		
Shareholders' equity	487,230			554,847			(67,617)		
Total liabilities and shareholders' equity	$6,216,129			$5,919,137			$296,992		
Net interest income (FTE)		$42,359			$36,275			$6,084	
Interest rate spread			2.63			2.50			0.13
Net interest margin			2.82			2.58			0.24

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

(Dollars in thousands) Three months ended September 30,	2022	2021	Change
Commercial loans	$317	$205	$112

Nine months ended September 30,	2022			2021			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	$128,606	$769	0.80	$160,350	$121	0.10	($31,744)	$648	0.70
Mortgage loans held for sale	29,985	851	3.79	53,307	1,144	2.87	(23,322)	(293)	0.92
Taxable debt securities	1,106,632	15,209	1.84	997,741	10,366	1.39	108,891	4,843	0.45
FHLB stock	15,745	218	1.85	24,265	338	1.86	(8,520)	(120)	(0.01)
Commercial real estate	1,648,061	43,360	3.52	1,638,200	35,269	2.88	9,861	8,091	0.64
Commercial & industrial	628,574	19,456	4.14	794,091	23,865	4.02	(165,517)	(4,409)	0.12
Total commercial	2,276,635	62,816	3.69	2,432,291	59,134	3.25	(155,656)	3,682	0.44
Residential real estate	1,875,175	46,376	3.31	1,531,529	39,248	3.43	343,646	7,128	(0.12)
Home equity	257,814	6,753	3.50	255,959	6,220	3.25	1,855	533	0.25
Other	15,995	550	4.60	20,301	742	4.89	(4,306)	(192)	(0.29)
Total consumer	273,809	7,303	3.57	276,260	6,962	3.37	(2,451)	341	0.20
Total loans	4,425,619	116,495	3.52	4,240,080	105,344	3.32	185,539	11,151	0.20
Total interest-earning assets	5,706,587	133,542	3.13	5,475,743	117,313	2.86	230,844	16,229	0.27
Noninterest-earning assets	268,744			346,514			(77,770)		
Total assets	$5,975,331			$5,822,257			$153,074		
Liabilities and Shareholders' Equity:									
Interest-bearing demand deposits (in-market)	$255,014	$1,114	0.58	$190,979	$196	0.14	$64,035	$918	0.44
NOW accounts	867,464	492	0.08	747,385	350	0.06	120,079	142	0.02
Money market accounts	1,193,599	3,984	0.45	958,812	1,852	0.26	234,787	2,132	0.19
Savings accounts	570,129	246	0.06	513,110	211	0.05	57,019	35	0.01
Time deposits (in-market)	800,037	5,997	1.00	687,278	5,822	1.13	112,759	175	(0.13)
Interest-bearing in-market deposits	3,686,243	11,833	0.43	3,097,564	8,431	0.36	588,679	3,402	0.07
Wholesale brokered demand deposits	17,197	212	1.65	—	—	—	17,197	212	1.65
Wholesale brokered time deposits	396,465	1,677	0.57	655,165	982	0.20	(258,700)	695	0.37
Wholesale brokered deposits	413,662	1,889	0.61	655,165	982	0.20	(241,503)	907	0.41
Total interest-bearing deposits	4,099,905	13,722	0.45	3,752,729	9,413	0.34	347,176	4,309	0.11
FHLB advances	285,590	3,891	1.82	438,213	3,253	0.99	(152,623)	638	0.83
Junior subordinated debentures	22,681	443	2.61	22,681	278	1.64	—	165	0.97
Total interest-bearing liabilities	4,408,176	18,056	0.55	4,213,623	12,944	0.41	194,553	5,112	0.14
Noninterest-bearing demand deposits	925,433			918,760			6,673		
Other liabilities	129,967			147,244			(17,277)		
Shareholders' equity	511,755			542,630			(30,875)		
Total liabilities and shareholders' equity	$5,975,331			$5,822,257			$153,074		
Net interest income (FTE)		$115,486			$104,369			$11,117	
Interest rate spread			2.58			2.45			0.13
Net interest margin			2.71			2.55			0.16

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

(Dollars in thousands) Nine months ended September 30,	2022	2021	Change
Commercial loans	$838	$674	$164

Net Interest Income

Net interest income, the primary source of our operating income, totaled $42.0 million and $114.6 million, respectively, for the three and nine months ended September 30, 2022, compared to $36.1 million and $103.7 million, respectively, for the same periods in 2021. 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 an 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, NIM and the yield on loans may be impacted by the periodic recognition of prepayment penalty fee income associated with commercial loan payoffs. Prepayment penalty fee income amounted to $30 thousand (or 0 basis point benefit to NIM) and $168 thousand (or 1 basis point benefit to NIM), respectively, for the three and nine months ended September 30, 2022. There was no prepayment penalty fee income recognized in the third quarter of 2021 and $934 thousand (or 2 basis points benefit to NIM) recognized in the nine months ended September 30, 2021.

The analysis of net interest income, NIM 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. Changes in market interest rates affect the level of loan prepayments and the receipt of payments on mortgage-backed securities. Prepayment speeds generally increase as market interest rates decline and decrease as market interest rates rise. Changes in prepayment speeds could increase or decrease the level of net amortization of premiums and discounts, thereby affecting interest income. Additionally, as PPP loans were forgiven by the SBA, related unamortized net fee balances were accelerated and amortized, increasing net interest income. 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 $2.5 million for the nine months ended September 30, 2022, compared $2.7 million for the same period in 2021.

Accelerated amortization of net deferred fee balances on PPP loans forgiven by the SBA amounted to $21 thousand (or 0 basis point benefit to NIM) and $1.2 million (or 3 basis points benefit to NIM), respectively, for the three and nine months ended September 30, 2022. This compared to $2.0 million (or 13 basis points benefit to NIM) and $4.3 million (or 11 basis points benefit to NIM), respectively, for the same periods in 2021.

FTE net interest income for the three and nine months ended September 30, 2022 amounted to $42.4 million and $115.5 million, respectively, up by $6.1 million and $11.1 million, respectively, from the same periods in 2021. Increases in asset yields outpaced increases in funding costs, contributing $4.3 million and $6.9 million, respectively, of net interest income for the three and nine months ended September 30, 2022. In the three months ended September 30, 2022, growth in average interest-earning assets, net of increased average interest-bearing liability balances, contributed approximately $1.8 million of net interest income. In the nine months ended September 30, 2022, growth in average interest-earning assets and declines in average interest-bearing liability balances contributed approximately $4.2 million of net interest income.

NIM was 2.82% and 2.71%, respectively, for the three and nine months ended September 30, 2022, compared to 2.58% and 2.55%, respectively, for the same periods in 2021 as NIM benefited from higher market interest rates.

Total average securities for the three and nine months ended September 30, 2022 increased by $104.7 million and $108.9 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 nine months ended September 30, 2022 was 2.09% and 1.84%, respectively, compared to 1.40% and 1.39%, respectively, for the same periods in 2021, reflecting the impact of higher market interest rates in 2022.

Total average loan balances for the three and nine months ended September 30, 2022 increased by $371.8 million and $185.5 million, respectively, from the average loan balances for the comparable 2021 periods. The increase reflected growth in average residential real estate loan balances, partially offset by a decline in commercial & industrial loans due to PPP loans that were forgiven by the SBA. The yield on total loans for the three and nine months ended September 30, 2022 was 3.87% and 3.52%, respectively, compared to 3.33% and 3.32%, respectively, in the corresponding periods in 2021. The yield on total loans may be impacted by the periodic recognition of commercial loan prepayment fee income, as well as the accelerated amortization of net deferred fee balances on PPP loans when such loans were forgiven by the SBA. Excluding the impact of these items for both periods, the yield on total loans for the three and nine months ended September 30, 2022 was 3.87% and 3.48%, respectively, up from 3.14% and 3.16%, respectively, for the same periods in 2021, reflecting higher market interest rates.

The average balance of FHLB advances for the three and nine months ended September 30, 2022 increased by $232.0 million and decreased by $152.6 million, respectively, compared to the average balances for the same periods in 2021. The average rate paid on such advances for the three and nine months ended September 30, 2022 was 2.33% and 1.82%, respectively, up from 1.09% and 0.99%, respectively, for the same periods in 2021, reflecting recent increases in market interest rates.

Included in total average interest-bearing deposits were wholesale brokered deposits, which decreased by $309.2 million and $241.5 million, respectively, from the same periods in 2021. The average rate paid on wholesale brokered deposits for the three and nine months ended September 30, 2022 was 1.26% and 0.61%, respectively, compared to 0.14% and 0.20%, respectively, for the same periods in 2021, reflecting recent increases in market interest rates.

Average in-market interest-bearing deposits, which excludes wholesale brokered deposits, for the three and nine months ended September 30, 2022 increased by $449.9 million and $588.7 million, respectively, from the average balances for the same periods in 2021. The increases reflected growth across all deposit categories. The average rate paid on in-market interest-bearing deposits for the three and nine months ended September 30, 2022 increased by 27 basis points and 7 basis points, respectively, from the same periods in 2021, reflecting recent increases in market interest rates.

The average balance of noninterest-bearing demand deposits for the three and nine months ended September 30, 2022 decreased by $8.5 million and increased by $6.7 million, respectively, from the average balance for the same periods in 2021.

Volume / Rate Analysis - Interest Income and Expense (FTE Basis)
The following table presents certain information on an 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 September 30, 2022 vs. 2021			Nine Months Ended September 30, 2022 vs. 2021		
	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	($39)	$486	$447	($28)	$676	$648
Mortgage loans held for sale	(55)	118	63	(592)	299	(293)
Taxable debt securities	401	1,977	2,378	1,221	3,622	4,843
FHLB stock	27	(34)	(7)	(118)	(2)	(120)
Commercial real estate	331	5,434	5,765	213	7,878	8,091
Commercial & industrial	(1,181)	409	(772)	(5,104)	695	(4,409)
Total commercial	(850)	5,843	4,993	(4,891)	8,573	3,682
Residential real estate	3,576	292	3,868	8,545	(1,417)	7,128
Home equity	141	620	761	46	487	533
Other	(52)	(24)	(76)	(150)	(42)	(192)
Total consumer	89	596	685	(104)	445	341
Total loans	2,815	6,731	9,546	3,550	7,601	11,151
Total interest income	3,149	9,278	12,427	4,033	12,196	16,229
Interest on Interest-Bearing Liabilities:						
Interest-bearing demand deposits (in-market)	23	748	771	88	830	918
NOW accounts	17	66	83	46	96	142
Money market accounts	80	1,565	1,645	535	1,597	2,132
Savings accounts	6	24	30	13	22	35
Time deposits (in-market)	305	(17)	288	888	(713)	175
Interest-bearing in-market deposits	431	2,386	2,817	1,570	1,832	3,402
Wholesale brokered demand deposits	166	—	166	212	—	212
Wholesale brokered time deposits	(174)	1,058	884	(516)	1,211	695
Wholesale brokered deposits	(8)	1,058	1,050	(304)	1,211	907
Total interest-bearing deposits	423	3,444	3,867	1,266	3,043	4,309
FHLB advances	923	1,439	2,362	(1,410)	2,048	638
Junior subordinated debentures	—	114	114	—	165	165
Total interest expense	1,346	4,997	6,343	(144)	5,256	5,112
Net interest income (FTE)	$1,803	$4,281	$6,084	$4,177	$6,940	$11,117

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.

The Corporation recorded a positive provision for credit losses (or a charge) of $800 thousand for the three months ended September 30, 2022, compared to no provision for credit losses recognized in the third quarter of 2021. On a year-to-date basis, the Corporation recognized a negative provision for credit losses (or a benefit) of $2.1 million in 2022, compared to a negative provision (or a benefit) of $2.0 million in 2021. The year-to-date negative provision recognized in 2022 was reflective of low loss rates, strong asset and credit quality metrics, our current estimate of forecasted economic conditions, and also provided for loan growth. The year-to-date negative provision recorded in 2021 largely reflected an improvement in forecasted economic conditions following higher credit provisioning in 2020, which was attributable to the emergence of the COVID-19 pandemic.

Net charge-offs totaled $54 thousand for the three months ended September 30, 2022, compared to $168 thousand for the same period in 2021. Net recoveries totaled $104 thousand for the nine months ended September 30, 2022, compared to net charge-offs of $444 thousand for the same period in 2021.

The ACL on loans was $36.9 million, or 0.76% of total loans, at September 30, 2022, compared to an ACL on loans of $39.1 million, or 0.91% of total loans, at December 31, 2021.

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				Nine Months			
			Change				Change	
Periods ended September 30,	2022	2021	$	%	2022	2021	$	%
Noninterest income:								
Wealth management revenues	$9,525	$10,455	($930)	(9 %)	$30,122	$30,778	($656)	(2 %)
Mortgage banking revenues	2,047	6,373	(4,326)	(68)	7,630	24,294	(16,664)	(69)
Card interchange fees	1,287	1,265	22	2	3,754	3,714	40	1
Service charges on deposit accounts	819	673	146	22	2,250	1,917	333	17
Loan related derivative income	1,041	728	313	43	2,011	2,370	(359)	(15)
Income from bank-owned life insurance	684	618	66	11	1,900	1,781	119	7
Other income	400	408	(8)	(2)	1,147	2,233	(1,086)	(49)
Total noninterest income	$15,803	$20,520	($4,717)	(23 %)	$48,814	$67,087	($18,273)	(27 %)

<u>Noninterest Income Analysis</u>

Revenue from wealth management services represented 62% of total noninterest income for the nine months ended September 30, 2022, compared to 46% for the same period in 2021. A substantial portion of wealth management revenues is dependent on the value of wealth management AUA 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				Nine Months			
			Change				Change	
Periods ended September 30,	2022	2021	$	%	2022	2021	$	%
Wealth management revenues:								
Asset-based revenues	$9,302	$10,224	($922)	(9 %)	$29,154	$29,798	($644)	(2 %)
Transaction-based revenues	223	231	(8)	(3)	968	980	(12)	(1)
Total wealth management revenues	$9,525	$10,455	($930)	(9 %)	$30,122	$30,778	($656)	(2 %)

Wealth management revenues for the three and nine months ended September 30, 2022 decreased by $930 thousand and $656 thousand, respectively, from the same periods in 2021, reflecting decreases in asset-based revenues. The change in asset-based revenues correlated with the change in average AUA balances. The average balance of AUA for the three and nine months ended September 30, 2022 decreased by approximately 11% and 2%, respectively, from the average balance for the same periods in 2021.

The following table presents the changes in wealth management AUA balances:

(Dollars in thousands)

	Three Months		Nine Months	
Periods ended September 30,	2022	2021	2022	2021
Wealth management assets under administration:				
Balance at the beginning of period	$6,650,097	$7,441,519	$7,784,211	$6,866,737
Net investment (depreciation) appreciation & income	(239,762)	(4,830)	(1,444,785)	572,506
Net client asset (outflows) inflows	(87,578)	6,707	(16,669)	4,153
Balance at the end of period	$6,322,757	$7,443,396	$6,322,757	$7,443,396

Wealth management AUA amounted to $6.3 billion at September 30, 2022. Wealth management AUA balances declined in 2022, primarily due to net investment depreciation as a result of recent declines in the financial markets.

Recently, four client-facing wealth management advisors in our registered investment adviser subsidiary resigned. These four employees were associated with approximately $1.0 billion of AUA as of September 30, 2022. From October 1, 2022 through November 4, 2022, we have been notified of client AUA withdrawals of approximately $546 million. We estimate a decline in annual revenues of approximately $3.2 million associated with these withdrawals. Washington Trust could experience additional AUA outflows in upcoming months associated with the departure of the former advisors.

Mortgage banking revenues represented 16% of total noninterest income for the nine months ended September 30, 2022, compared to 36% for the same period in 2021. These revenues are dependent on mortgage origination volume and are sensitive to interest rates and the condition of housing markets. The composition of mortgage banking revenues and the volume of loans sold to the secondary market are shown in the following table:

(Dollars in thousands)	Three Months				Nine Months			
			Change				Change	
Periods ended September 30,	2022	2021	$	%	2022	2021	$	%
Mortgage banking revenues:								
Realized gains on loan sales, net (1)	$1,718	$5,750	($4,032)	(70 %)	$6,962	$28,057	($21,095)	(75 %)
Changes in fair value, net (2)	(226)	467	(693)	(148)	(798)	(3,964)	3,166	80
Loan servicing fee income, net (3)	555	156	399	256	1,466	201	1,265	629
Total mortgage banking revenues	$2,047	$6,373	($4,326)	(68 %)	$7,630	$24,294	($16,664)	(69 %)
Loans sold to the secondary market (4)	$75,324	$173,861	($98,537)	(57 %)	$285,193	$756,438	($471,245)	(62 %)

(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 changes 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 nine months ended September 30, 2022, mortgage banking revenues were down by $4.3 million and $16.7 million, respectively, compared to the same periods in 2021. The decline in mortgage banking revenues was mainly attributable to a decline in sales volume and a reduction in the sales yield. Mortgage loans sold to the secondary market totaled $75.3 million and $285.2 million, respectively, for the three and nine months ended September 30, 2022, compared to $173.9 million and $756.4 million, respectively, for the same periods in 2021, reflecting an overall reduction in mortgage origination and sales activity, as well as a shift to a higher proportion of loans originated for retention in portfolio in 2022. Mortgage banking revenues were also impacted by changes in the fair value of mortgage loans held for sale and forward loan commitments, which are primarily based on current market prices in the secondary market and correlate to changes in the size of the mortgage pipeline. In addition, the decline in mortgage banking revenues was partially offset by higher net loan servicing fee income associated with loans sold with servicing retained. The increase in net loan servicing fee income was largely due to lower amortization of servicing rights, reflecting lower prepayment speeds on the serviced mortgage portfolio.

Other income for the nine months ended September 30, 2022 decreased by $1.1 million from the same period in 2021, due to $1.0 million of income associated with a litigation settlement that was recognized in the first quarter of 2021.

Noninterest Expense
The following table presents noninterest expense comparisons:

(Dollars in thousands)	Three Months				Nine Months			
			Change				Change	
Periods ended September 30,	2022	2021	$	%	2022	2021	$	%
Noninterest expense:								
Salaries and employee benefits	$21,609	$22,162	($553)	(2 %)	$62,992	$65,771	($2,779)	(4 %)
Outsourced services	3,552	3,294	258	8	10,169	9,711	458	5
Net occupancy	2,234	2,134	100	5	6,708	6,304	404	6
Equipment	939	977	(38)	(4)	2,795	2,946	(151)	(5)
Legal, audit and professional fees	693	767	(74)	(10)	2,140	2,042	98	5
FDIC deposit insurance costs	430	482	(52)	(11)	1,198	1,201	(3)	—
Advertising and promotion	799	559	240	43	1,874	1,341	533	40
Amortization of intangibles	215	223	(8)	(4)	648	674	(26)	(4)
Debt prepayment penalties	—	—	—	—	—	4,230	(4,230)	(100)
Other	2,596	1,922	674	35	6,839	6,025	814	14
Total noninterest expense	$33,067	$32,520	$547	2 %	$95,363	$100,245	($4,882)	(5 %)

Noninterest Expense Analysis
Salaries and employee benefits expense, the largest component of noninterest expense, for the three and nine months ended September 30, 2022 decreased by $553 thousand and $2.8 million, respectively, compared to the same periods in 2021. This included volume-related decreases in mortgage originator compensation expense, annual merit increases and higher staffing levels.

Debt prepayment penalty expense for the nine months ended September 30, 2021 totaled $4.2 million, due to the prepayment of higher-yielding FHLB advances. There were no such debt prepayments in the comparable period in 2022.

Other expense for the three and nine months ended September 30, 2022 increased by $674 thousand and $814 thousand, respectively, compared to the same periods in 2021, reflecting modest increases across a variety of other noninterest expense categories.

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

(Dollars in thousands)	Three Months		Nine Months	
Periods ended September 30,	2022	2021	2022	2021
Income tax expense	$5,310	$5,319	$15,091	$15,855
Effective income tax rate	22.1 %	22.1 %	21.5 %	21.9 %

The effective income tax rates for the three and nine months ended September 30, 2022 and 2021 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, federal tax credits and the recognition of excess tax expense or benefits associated with the settlement of share-based awards.

Management's Discussion and Analysis

The decrease in the effective tax rate for the nine months ended September 30, 2022 compared to the same period in 2021 largely reflected an increase in benefits from federal tax credits and a decrease in state tax expense, partially offset by a decrease in benefits from tax-exempt income.

The Corporation’s net deferred tax assets amounted to $62.1 million at September 30, 2022, compared to $14.0 million at December 31, 2021. The Corporation has determined that a valuation allowance is not required for any of the deferred tax assets since it is more-likely-than-not that these assets will be realized primarily through future reversals of existing taxable temporary differences or by offsetting projected future taxable income. Net deferred tax assets increased in 2022, largely reflecting increases in deferred tax assets associated with the declines in fair value of securities available for sale and cash flow hedges that were primarily attributable to relative changes in market interest rates.

Segment Reporting

The Corporation manages its operations through two reportable business segments, consisting of Commercial Banking and Wealth Management Services. See Note 14 to the Unaudited Consolidated Financial Statements for additional disclosure related to business segments.

Commercial Banking

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

(Dollars in thousands)	Three Months				Nine Months			
			Change				Change	
Periods ended September 30,	2022	2021	$	%	2022	2021	$	%
Net interest income	$42,038	$36,085	$5,953	16 %	$114,709	$103,737	$10,972	11 %
Provision for credit losses	800	—	800	100	(2,100)	(2,000)	(100)	5
Net interest income after provision for credit losses	41,238	36,085	5,153	14	116,809	105,737	11,072	10
Noninterest income	6,043	9,962	(3,919)	(39)	18,174	35,032	(16,858)	(48)
Noninterest expense	24,746	24,278	468	2	71,278	76,530	(5,252)	(7)
Income before income taxes	22,535	21,769	766	4	63,705	64,239	(534)	(1)
Income tax expense	4,878	4,725	153	3	13,423	13,810	(387)	(3)
Net income	$17,657	$17,044	$613	4 %	$50,282	$50,429	($147)	— %

Net interest income for the Commercial Banking segment for the three and nine months ended September 30, 2022, increased by $6.0 million and $11.0 million, respectively, from the same periods in 2021. Net interest income largely benefited from higher yields on and growth in average interest-earning assets, partially offset by a higher cost of funds.

The Corporation recorded a positive provision for credit losses (or a charge) of $800 thousand for the three months ended September 30, 2022, compared to no provision for the same period in 2021. For the nine months ended September 30, 2022, the Corporation recorded a negative provision for credit losses (or a benefit) of $2.1 million, compared to a negative provision (or a benefit) of $2.0 million for the same period in 2021. See additional discussion under the caption “Provision for Credit Losses.”

Noninterest income derived from the Commercial Banking segment for the three and nine months ended September 30, 2022 was down by $3.9 million and $16.9 million, respectively, from the comparable periods in 2021, primarily due to lower mortgage banking revenues. See additional discussion regarding mortgage banking revenues under the caption “Noninterest Income” above.

Commercial Banking noninterest expenses for the three months ended September 30, 2022 were up by $468 thousand from the same period in 2021. For the nine months ended September 30, 2022, noninterest expenses for the commercial banking segment were down by $5.3 million from the same period in 2021, largely reflecting decreases in debt prepayment penalties and salaries and employee benefits expense. See additional discussion under the caption “Noninterest Expense” above.

Wealth Management Services

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

(Dollars in thousands)	Three Months				Nine Months			
			Change				Change	
Periods ended September 30,	2022	2021	$	%	2022	2021	$	%
Net interest expense	$4	($15)	$19	127 %	($61)	($42)	($19)	45 %
Noninterest income	9,760	10,558	(798)	(8)	30,640	32,055	(1,415)	(4)
Noninterest expense	8,321	8,242	79	1	24,085	23,715	370	2
Income before income taxes	1,443	2,301	(858)	(37)	6,494	8,298	(1,804)	(22)
Income tax expense	432	594	(162)	(27)	1,668	2,045	(377)	(18)
Net income	$1,011	$1,707	($696)	(41 %)	$4,826	$6,253	($1,427)	(23 %)

For the three and nine months ended September 30, 2022, noninterest income derived from the Wealth Management Services segment decreased by $798 thousand and $1.4 million, respectively, from the same periods in 2021, reflecting a decrease in asset-based revenues. The decline in year-to-date revenues also included income of $1.0 million associated with a litigation settlement that was recognized in the first quarter of 2021. See further discussion under the caption "Noninterest Income" above.

For the three and nine months ended September 30, 2022, noninterest expenses for the Wealth Management Services segment increased by $79 thousand and $370 thousand, respectively, from the comparable periods in 2021. These included modest changes across a variety of noninterest expense categories.

Financial Condition

Summary

The following table presents selected financial condition data:

(Dollars in thousands)			Change	
	September 30, 2022	December 31, 2021	$	%
Cash and due from banks	$130,066	$175,259	($45,193)	(26 %)
Total securities	982,573	1,042,859	(60,286)	(6)
Total loans	4,848,873	4,272,925	575,948	13
Allowance for credit losses on loans	36,863	39,088	(2,225)	(6)
Total assets	6,408,051	5,851,127	556,924	10
Total deposits	5,069,857	4,980,051	89,806	2
FHLB advances	700,000	145,000	555,000	383
Total shareholders' equity	432,274	564,808	(132,534)	(23)

Total assets amounted to $6.4 billion at September 30, 2022, up by $556.9 million, or 10%, from the end of 2021, due to loan growth.

Cash and due from banks balances declined by $45.2 million, or 26%, from the end of 2021, including a reduction in cash collateral pledged to derivative counterparties and lower cash balances with correspondent banks. See Note 9 to the Unaudited Consolidated Financial Statements for additional disclosure regarding derivative financial instruments.

The securities portfolio decreased by $60.3 million, or 6%, from the end of 2021, reflecting a temporary decline in fair value and routine pay-downs on mortgage-backed securities, partially offset by purchases of debt securities.

Total loans increased by $575.9 million, or 13%, from the end of 2021, led by growth in the residential real estate portfolio.

Total deposits increased by $89.8 million, or 2%, from the end of 2021, with an increase of $161.9 million, or 4%, in in-market deposits partially offset by a decrease of $72.1 million, or 14%, in wholesale brokered deposits.

FHLB advances increased by $555.0 million, or 383%, from December 31, 2021. Higher levels of wholesale funding were utilized to fund loan growth and purchases of debt securities.

Shareholders' equity decreased by $132.5 million, or 23%, largely reflecting a decline in the AOCL component of shareholders' equity due to decreases in the fair value of available for sale debt securities and cash flow hedges that were primarily attributable to relative changes in market interest rates.

Securities

Investment security activity is monitored by the Investment Committee, the members of which also sit on the 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 the 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.

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 September 30, 2022 and December 31, 2021, 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 3 and 10 to the Unaudited Consolidated Financial Statements for additional information regarding the determination of fair value of investment securities.

Securities Portfolio

The carrying amounts of securities held are as follows:

(Dollars in thousands)	September 30, 2022		December 31, 2021	
	Amount	%	Amount	%
Available for Sale Debt Securities:				
Obligations of U.S. government-sponsored enterprises	$197,855	20 %	$196,454	19 %
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	764,264	78	824,962	79
Individual name issuer trust preferred debt securities	8,800	1	9,138	1
Corporate bonds	11,654	1	12,305	1
Total available for sale debt securities	$982,573	100 %	$1,042,859	100 %

The securities portfolio amounted to $1.0 billion, or 15% of total assets, as of September 30, 2022 compared to $1.0 billion, or 18% of total assets, as of December 31, 2021. 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 decreased by $60.3 million, or 6%, from the end of 2021, reflecting a temporary decline in the fair value of available for sale securities and routine pay-downs on mortgage-backed securities. These decreases were partially offset by purchases of U.S. government agency and U.S. government-sponsored debt securities, including mortgage-backed securities, totaling $214.6 million, with a weighted average yield of 3.45%.

The carrying amount of available for sale debt securities included net unrealized losses of $183.2 million and $8.9 million, respectively, as of September 30, 2022 and December 31, 2021. The decline in fair value of available for sale debt securities from the end of 2021 was primarily concentrated in obligations of U.S. government agencies and U.S. government-sponsored enterprises, including mortgage-backed securities, and primarily attributable to relative changes in interest rates since the time of purchase. See Note 3 to the Unaudited Consolidated Financial Statements for additional information.

Loans

Total loans amounted to $4.8 billion at September 30, 2022, up by $575.9 million, or 13.5%, from the end of 2021, led by growth in the residential real estate portfolio.

The following is a summary of loans:

(Dollars in thousands)	September 30, 2022		December 31, 2021	
	Amount	%	Amount	%
Commercial:				
Commercial real estate (1)	$1,762,687	36 %	$1,639,062	38 %
Commercial & industrial (2)	652,758	14	641,555	15
Total commercial	2,415,445	50	2,280,617	53
Residential Real Estate:				
Residential real estate (3)	2,144,098	44	1,726,975	40
Consumer:				
Home equity	273,742	6	247,697	6
Other (4)	15,588	—	17,636	1
Total consumer	289,330	6	265,333	7
Total loans	$4,848,873	100 %	$4,272,925	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.

COVID-19 Pandemic Related

The Corporation elected to account for eligible loan modifications under Section 4013 of the CARES Act, as amended by the CRRSA Act. Eligible loan modifications from March 1, 2020 through January 1, 2022 made in response to the COVID-19 pandemic were not required to be classified as TDRs. During this period of time, we processed loan payment deferral modifications, or “deferments”, on 654 loans totaling $727.7 million. The vast majority of the deferments qualified as eligible loan modifications and were not classified as TDRs. All of these loans with qualified deferments exited their payment deferral period prior to March 31, 2022.

Commercial Loans

The commercial loan portfolio represented 50% of total loans at September 30, 2022.

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 $431.9 million and $451.6 million, respectively, at September 30, 2022 and December 31, 2021. 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 main categories, CRE and C&I loans. CRE 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. CRE loans also include construction loans made to businesses for land development or the on-site construction of industrial, commercial, or residential buildings. C&I loans primarily provide working capital, equipment financing and financing for other business-related purposes. C&I loans are frequently collateralized by equipment, inventory, accounts receivable, and/or general business assets. A portion of the Bank’s C&I loans is also collateralized by real estate. C&I 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 loans totaled $1.8 billion at September 30, 2022, up by $123.6 million, or 8%, from the balance at December 31, 2021. Loan originations and advances of approximately $420 million were partially offset by payoffs and pay-downs.

Included in CRE loans were construction and development loans with carrying values of $118.3 million and $122.4 million, respectively, as of September 30, 2022 and December 31, 2021.

Shared national credit balances outstanding included in the CRE loan portfolio totaled $8.1 million at September 30, 2022. The balance was included in the pass-rated category of commercial loan credit quality and current with respect to contractual payment terms at September 30, 2022.

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

(Dollars in thousands)	September 30, 2022		December 31, 2021	
	Outstanding Balance	% of Total	Outstanding Balance	% of Total
Connecticut	$674,816	38 %	$643,182	39 %
Massachusetts	529,364	30	464,018	28
Rhode Island	396,869	23	408,496	25
Subtotal	1,601,049	91	1,515,696	92
All other states	161,638	9	123,366	8
Total	$1,762,687	100 %	$1,639,062	100 %

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

(Dollars in thousands)	September 30, 2022			December 31, 2021		
	Count	Outstanding Balance	% of Total	Count	Outstanding Balance	% of Total
CRE Portfolio Segmentation:						
Retail	109	$441,631	25 %	121	$389,487	24 %
Multi-family dwelling	123	429,796	24	127	474,229	29
Office	55	253,816	14	57	216,602	13
Hospitality	32	196,503	11	31	184,990	11
Industrial and warehouse	39	176,081	10	35	137,254	8
Healthcare	15	138,475	8	13	128,189	8
Commercial mixed use	20	43,235	2	20	38,978	2
Other	36	83,150	6	36	69,333	5
Total CRE loans	429	$1,762,687	100 %	440	$1,639,062	100 %
Average CRE loan size		$4,109			$3,725	
Largest individual CRE loan outstanding		$65,424			$39,945	

Commercial and Industrial Loans

C&I loans amounted to $652.8 million at September 30, 2022, up by $11.2 million, or 2%, from the balance at December 31, 2021. This included a net reduction in PPP loans of $36.6 million, reflecting loans forgiven by the SBA. Excluding PPP loans, C&I loans increased by approximately $47.8 million, with loan originations and advances of $99 million, partially offset by payoffs and pay-downs.

As of September 30, 2022, the carrying value of PPP loans was $1.4 million and included net unamortized loan origination fee balances of $58 thousand. The carrying value of PPP loans at December 31, 2021 was $38.0 million.

Shared national credit balances outstanding included in the C&I loan portfolio totaled $40.3 million at September 30, 2022. 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 September 30, 2022.

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

(Dollars in thousands)	September 30, 2022			December 31, 2021		
	Count	Outstanding Balance	% of Total	Count	Outstanding Balance	% of Total
C&I Portfolio Segmentation:						
Healthcare and social assistance	70	$194,128	30 %	101	$174,376	27 %
Owner occupied and other real estate	162	71,431	11	185	72,957	11
Manufacturing	54	55,489	9	65	55,341	9
Transportation and warehousing	20	50,597	8	31	35,064	5
Retail	55	49,365	8	79	47,290	7
Educational services	20	48,208	7	28	52,211	8
Finance and insurance	58	31,579	5	59	31,279	5
Entertainment and recreation	24	26,050	4	37	32,087	5
Information	8	22,258	3	14	25,045	4
Accommodation and food services	49	17,499	3	114	28,320	4
Professional, scientific and technical	37	6,357	1	69	8,912	1
Public administration	12	4,223	1	16	5,441	1
Other	164	75,574	10	281	73,232	13
Total C&I loans	733	$652,758	100 %	1,079	$641,555	100 %
Average C&I loan size		$891			$595	
Largest individual C&I loan outstanding		$27,671			$18,721	

Residential Real Estate Loans

The residential real estate loan portfolio represented 44% of total loans at September 30, 2022.

Residential real estate loans held in portfolio amounted to $2.1 billion at September 30, 2022, up by $417.1 million, or 24%, from the balance at December 31, 2021, reflecting a higher proportion of loans originated for portfolio in 2022.

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

(Dollars in thousands)	September 30, 2022		December 31, 2021	
	Amount	% of Total	Amount	% of Total
Massachusetts	$1,552,728	72 %	$1,207,789	70 %
Rhode Island	423,070	20	365,831	21
Connecticut	143,701	7	132,430	8
Subtotal	2,119,499	99	1,706,050	99
All other states	24,599	1	20,925	1
Total (1)	$2,144,098	100 %	$1,726,975	100 %

(1) Includes residential mortgage loans purchased from and serviced by other financial institutions totaling $62.7 million and $78.7 million, respectively, as of September 30, 2022 and December 31, 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)	Three Months				Nine Months			
Periods ended September 30,	2022		2021		2022		2021	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Originations for retention in portfolio (1)	$225,132	74 %	$205,293	52 %	$653,295	71 %	$581,905	44 %
Originations for sale to the secondary market (2)	77,242	26	190,702	48	270,320	29	744,589	56
Total	$302,374	100 %	$395,995	100 %	$923,615	100 %	$1,326,494	100 %

(1) Includes the full commitment amount of homeowner construction loans.
(2) Includes brokered loans (loans originated for others).

The table below presents residential real estate loan sales activity:

(Dollars in thousands)	Three Months				Nine Months			
Periods ended September 30,	2022		2021		2022		2021	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Loans sold with servicing rights retained	$34,659	46 %	$108,445	62 %	$72,764	26 %	$570,370	75 %
Loans sold with servicing rights released (1)	40,665	54	65,416	38	212,429	74	186,068	25
Total	$75,324	100 %	$173,861	100 %	$285,193	100 %	$756,438	100 %

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

Residential real estate loan origination, refinancing and sales activity decreased year-over-year in response to increases 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 $9.2 million and $9.8 million, respectively, as of September 30, 2022 and December 31, 2021. The balance of residential mortgage loans serviced for others, which are not included in the Unaudited Consolidated Balance Sheets, amounted to $1.5 billion as of both September 30, 2022 and December 31, 2021.

Consumer Loans

Consumer loans include home equity loans and lines of credit and personal installment loans. Home equity lines of credit and home equity loans represented 95% of the total consumer portfolio at September 30, 2022. Our home equity line and home equity loan origination activities are conducted primarily in southern New England. The Bank estimates that approximately 55% of the combined home equity lines of credit and home equity loan balances are first lien positions or subordinate to other Washington Trust mortgages.

The consumer loan portfolio totaled $289.3 million at September 30, 2022, up by $24.0 million, or 9%, from December 31, 2021, reflecting increases in home equity lines and loans. Purchased consumer loans, consisting of loans to individuals secured by general aviation aircraft, amounted to $8.9 million and $9.4 million, respectively, at September 30, 2022 and December 31, 2021.

Asset Quality

Nonperforming Assets

Nonperforming assets include nonaccrual loans and OREO.

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

(Dollars in thousands)	Sep 30, 2022	Dec 31, 2021
Commercial:		
Commercial real estate	$—	$—
Commercial & industrial	—	—
Total commercial	—	—
Residential Real Estate:		
Residential real estate	11,700	13,576
Consumer:		
Home equity	422	627
Other	—	—
Total consumer	422	627
Total nonaccrual loans	12,122	14,203
OREO, net	—	—
Total nonperforming assets	$12,122	$14,203
Nonperforming assets to total assets	0.19 %	0.24 %
Nonperforming loans to total loans	0.25 %	0.33 %
Total past due loans to total loans	0.16 %	0.24 %
Accruing loans 90 days or more past due	$—	$—

Total nonperforming assets decreased by $2.1 million from December 31, 2021, reflecting a decline in nonaccrual loans.

Nonaccrual Loans

During the nine months ended September 30, 2022, 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		Nine Months	
For the periods ended September 30,	2022	2021	2022	2021
Balance at beginning of period	$12,414	$10,481	$14,203	$13,197
Additions to nonaccrual status	521	2,583	1,106	3,854
Loans returned to accruing status	(400)	—	(699)	(877)
Loans charged-off	(63)	(249)	(122)	(630)
Payments, payoffs and other changes	(350)	(1,839)	(2,366)	(4,568)
Balance at end of period	$12,122	$10,976	$12,122	$10,976

The following table presents additional detail on nonaccrual loans:

(Dollars in thousands)	September 30, 2022				December 31, 2021			
	Days Past Due				Days Past Due			
	Over 90	Under 90	Total	% (1)	Over 90	Under 90	Total	% (1)
Commercial:								
Commercial real estate	$—	$—	$—	— %	$—	$—	$—	— %
Commercial & industrial	—	—	—	—	—	—	—	—
Total commercial	—	—	—	—	—	—	—	—
Residential Real Estate:								
Residential real estate	5,430	6,270	11,700	0.55	4,662	8,914	13,576	0.79
Consumer:								
Home equity	50	372	422	0.15	108	519	627	0.25
Other	—	—	—	—	—	—	—	—
Total consumer	50	372	422	0.15	108	519	627	0.24
Total nonaccrual loans	$5,480	$6,642	$12,122	0.25 %	$4,770	$9,433	$14,203	0.33 %

(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 September 30, 2022.

As of both September 30, 2022 and December 31, 2021, the composition of nonaccrual loans was 100% residential and consumer.

Nonaccrual residential real estate mortgage loans amounted to $11.7 million at September 30, 2022, down by $1.9 million from the end of 2021. As of September 30, 2022, the balance of nonaccrual residential mortgage loans was predominately secured by properties in Massachusetts, Connecticut and Rhode Island. Included in total nonaccrual residential real estate loans at September 30, 2022 were four loans purchased for portfolio and serviced by others amounting to $1.1 million. Management monitors the collection efforts of its third party servicers as part of its assessment of the collectability of nonperforming loans.

Troubled Debt Restructurings

In the course of resolving problem loans, the Corporation may choose to restructure the contractual terms of certain loans. 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. 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 September 30, 2022, there were no significant commitments to lend additional funds to borrowers whose loans had been restructured in a TDR.

See Note 2 for discussion on ASU No. 2022-02, a recently issued accounting pronouncement that is pending adoption. ASU

No. 2022-02, which becomes effective on January 1, 2023, updates the accounting treatment and related disclosure requirements for TDRs. As noted above under the caption “Loans,” the Corporation elected to account for eligible loan modifications under Section 4013 of the CARES Act, as amended by the CRRSA Act. Loan modifications that did not qualify for the TDR accounting relief provided under the CARES Act were classified as TDRs.

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)	Sep 30, 2022	Dec 31, 2021
Accruing TDRs		
Commercial:		
Commercial real estate	$3,609	$10,603
Commercial & industrial	844	2,792
Total commercial	4,453	13,395
Residential Real Estate:		
Residential real estate	2,204	2,372
Consumer:		
Home equity	557	561
Other	—	—
Total consumer	557	561
Accruing TDRs	7,214	16,328
Nonaccrual TDRs		
Commercial:		
Commercial real estate	—	—
Commercial & industrial	—	—
Total commercial	—	—
Residential Real Estate:		
Residential real estate	2,819	2,748
Consumer:		
Home equity	71	71
Other	—	—
Total consumer	71	71
Nonaccrual TDRs	2,890	2,819
Total TDRs	$10,104	$19,147

As of September 30, 2022, the composition of TDRs was 44% commercial and 56% residential and consumer, compared to 70% commercial and 30% residential and consumer at December 31, 2021.

TDRs amounted to $10.1 million at September 30, 2022, down by $9.0 million from the end of 2021. The net decline reflected a pay-down of $6.5 million on one accruing CRE TDR loan and the declassification from TDR status of one accruing C&I loan with a carrying value of $2.8 million that was declassified in accordance with policy.

The ACL included specific reserves for TDRs of $132 thousand at September 30, 2022, compared to $148 thousand at December 31, 2021.

Past Due Loans

The following table presents past due loans by category:

(Dollars in thousands)	September 30, 2022		December 31, 2021	
	Amount	% (1)	Amount	% (1)
Commercial:				
Commercial real estate	$—	— %	$—	— %
Commercial & industrial	4	—	3	—
Total commercial	4	—	3	—
Residential Real Estate:				
Residential real estate	7,256	0.34	9,622	0.56
Consumer:				
Home equity	252	0.09	765	0.31
Other	17	0.11	21	0.12
Total consumer	269	0.09	786	0.30
Total past due loans	$7,529	0.16 %	$10,411	0.24 %

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

As of both September 30, 2022 and December 31, 2021, the composition of past due loans (loans past due 30 days or more) was essentially 100% residential and consumer. Total past due loans decreased by $2.9 million from the end of 2021.

Total past due loans included $7.1 million of nonaccrual loans as of September 30, 2022, compared to $9.4 million as of December 31, 2021.

All loans 90 days or more past due at September 30, 2022 and December 31, 2021 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 September 30, 2022 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 4 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 an increased allowance coverage and provision for credit losses on loans.

Management has identified two loans associated with one C&I relationship with carrying values totaling $722 thousand as potential problem loans at September 30, 2022. These two loans were current with respect to payment terms at September 30, 2022. There were no potential problem loans identified at December 31, 2021.

Allowance for Credit Losses on Loans

The ACL on loans is management’s estimate, at the reporting date, of expected credit losses over the expected life of the loans. The ACL on loans is established through a provision for credit losses recognized in 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.

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)	September 30, 2022			December 31, 2021		
	Loans	Related Allowance	Allowance / Loans	Loans	Related Allowance	Allowance / Loans
Individually analyzed loans	$12,024	$652	5.42 %	$21,080	$682	3.24 %
Pooled (collectively evaluated) loans	4,836,849	36,211	0.75	4,251,845	38,406	0.90
Total	$4,848,873	$36,863	0.76 %	$4,272,925	$39,088	0.91 %

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 $36.9 million at September 30, 2022, down by $2.2 million from the balance at December 31, 2021. The ACL on loans as a percentage of total loans, also known as the reserve coverage ratio, was 0.76% at September 30, 2022, compared to 0.91% at December 31, 2021.

The Corporation recorded a positive provision for credit losses (or a charge) of $800 thousand for the three months ended September 30, 2022, compared to no provision for the same period in 2021. On a year-to-date basis, the Corporation recognized a negative provision for credit losses (or a benefit) of $2.1 million, compared to a negative provision (or a benefit) of $2.0 million for the same period in 2021. The provision for credit losses recognized in 2022 provided for loan growth and was also reflective of low loss rates, strong asset and credit quality metrics and our current estimate of forecasted economic conditions.

Net recoveries totaled $54 thousand and $104 thousand, respectively, for the three and nine months ended September 30, 2022.

The ACL on loans is an estimate and ultimate losses may vary from management's estimate. Deteriorating conditions or assumptions could lead to further increases in the ACL on loans; conversely, improving conditions or assumptions could lead to further reductions in the ACL on loans.

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)	September 30, 2022			December 31, 2021		
	Allocated ACL	ACL to Loans	Loans to Total Portfolio (1)	Allocated ACL	ACL to Loans	Loans to Total Portfolio (1)
Commercial:						
Commercial real estate	$17,611	1.00 %	36 %	$18,933	1.16 %	38 %
Commercial & industrial	10,347	1.59	14	10,832	1.69	15
Total commercial	27,958	1.16	50	29,765	1.31	53
Residential Real Estate:						
Residential real estate	7,447	0.35	44	7,860	0.46	40
Consumer:						
Home equity	1,071	0.39	6	1,069	0.43	6
Other	387	2.48	—	394	2.23	1
Total consumer	1,458	0.50	6	1,463	0.55	7
Total allowance for credit losses on loans at end of period	$36,863	0.76 %	100 %	$39,088	0.91 %	100 %

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

Sources of Funds

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

The following table presents a summary of deposits:

(Dollars in thousands)	September 30, 2022	December 31, 2021	Change $	Change %
Noninterest-bearing demand deposits	$938,572	$945,229	($6,657)	(1 %)
Interest-bearing demand deposits (in market)	273,231	251,032	22,199	9
NOW accounts	869,984	867,138	2,846	—
Money market accounts	1,146,826	1,072,864	73,962	7
Savings accounts	600,568	555,177	45,391	8
Time deposits (in-market)	797,505	773,383	24,122	3
In-market deposits	4,626,686	4,464,823	161,863	4
Wholesale brokered demand deposits	31,044	—	31,044	100
Wholesale brokered time deposits	412,127	515,228	(103,101)	(20)
Wholesale brokered deposits	443,171	515,228	(72,057)	(14)
Total deposits	$5,069,857	$4,980,051	$89,806	2 %

In-market deposits were up by $161.9 million, or 4%, from the balance at December 31, 2021, while wholesale brokered deposits declined by $72.1 million, or 14%.

Total deposits amounted to $5.1 billion at September 30, 2022, up by $89.8 million, or 2%, from December 31, 2021.

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 $700.0 million at September 30, 2022, up by $555.0 million, or 383%, from the balance at the end of 2021, as higher levels of wholesale funding were utilized to fund loan growth and purchases of debt securities.

For additional information regarding FHLB advances see Note 7 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 77% of total average assets in the nine months ended September 30, 2022. 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 deposits), cash flows from the investment 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 FRBB 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)	September 30, 2022	December 31, 2021
Additional Funding Capacity:		
Federal Home Loan Bank of Boston (1)	$967,133	$1,642,377
Federal Reserve Bank of Boston (2)	24,392	16,919
Unencumbered investment securities	672,024	702,963
Total	$1,663,549	$2,362,259

(1) As of September 30, 2022 and December 31, 2021, loans with a carrying value of $2.3 billion and $2.2 billion, respectively, and securities available for sale with carrying values of $121.4 million and $163.2 million, respectively, were pledged to the FHLB resulting in this additional borrowing capacity.

(2) As of September 30, 2022 and December 31, 2021, loans with a carrying value of $17.8 million and $8.2 million, respectively, and securities available for sale with a carrying value of $12.8 million and $13.5 million, respectively, were pledged to the FRBB for the discount window resulting in this additional unused borrowing capacity.

In addition to the amounts presented above, the Bank also had access to a $40.0 million unused line of credit with the FHLB, as well as a $102.0 million standby letter 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 nine months ended September 30, 2022. 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 $71.8 million for the nine months ended September 30, 2022, reflecting net income of $55.1 million and mortgage banking related adjustments to reconcile net income to net cash provided by operating activities. Net cash used in investing activities totaled $723.8 million for the nine months ended September 30, 2022, reflecting an increase in loans, outflows to fund purchases of debt securities and a purchase of BOLI. These outflows were partially offset by net inflows from maturities, calls and principal payments of debt securities. For the nine months ended September 30, 2022, net cash provided by financing activities amounted to $606.3 million, with a net increase in FHLB advances and growth in deposits, partially offset by the payment of dividends to shareholders and purchases of treasury stock. See the Unaudited Consolidated Statements of Cash Flows for further information about sources and uses of cash.

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 contracts with commercial borrowers, commitments to extend credit, and standby letters of credit are similar to those used for loans. Interest rate risk management contracts with other counterparties are generally subject to bilateral collateralization terms.

For additional information on derivative financial instruments and financial instruments with off-balance sheet risk see Notes 9 and 17 to the Unaudited Consolidated Financial Statements.

Capital Resources

Total shareholders’ equity amounted to $432.3 million at September 30, 2022, down by $132.5 million from December 31, 2021. The decline reflected a decrease of $151.8 million in the AOCL component of shareholders' equity, due to decreases in the fair value of available for sale debt securities and cash flow hedges primarily attributable to relative changes in market interest rates. In addition, the decline also reflected $28.3 million in dividend declarations and a net increase in treasury stock repurchases of $8.2 million, partially offset by net income of $55.1 million.

The Corporation declared a quarterly dividend of 54 cents per share for the three months ended September 30, 2022, compared to 52 cents per share declared for the same period in 2021. On a year-to-date basis, dividend declarations totaled $1.62 per share in 2022, compared to $1.56 per share in 2021.

The ratio of total equity to total assets was 6.75% at September 30, 2022, compared to a ratio of 9.65% at December 31, 2021. Book value per share at September 30, 2022 and December 31, 2021 was $25.17 and $32.59, 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 12.65% at September 30, 2022, compared to 14.01% at December 31, 2021. See Note 8 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 phases in the impact of ASC 326 on regulatory capital over a three-year period that commenced January 1, 2022.

Asset/Liability Management and Interest Rate Risk

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

The Corporation utilizes the size and duration of the investment securities portfolio, the size and duration of the wholesale funding portfolio, off-balance sheet interest rate contracts and the pricing and structure of loans and deposits, to manage interest rate risk. The off-balance sheet interest rate contracts may include interest rate swaps, caps and floors. These interest rate contracts involve, to varying degrees, credit risk and interest rate risk. Credit risk is the possibility that a loss may occur if a counterparty to a transaction fails to perform according to terms of the contract. The notional amount of the interest rate contracts is the amount upon which interest and other payments are based. The notional amount is not exchanged, and therefore, should not be taken as a measure of credit risk. See Notes 9 and 17 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 September 30, 2022 and December 31, 2021, 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 NIM 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 September 30, 2022 and December 31, 2021. 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.

	September 30, 2022		December 31, 2021	
	Months 1 - 12	Months 13 - 24	Months 1 - 12	Months 13 - 24
100 basis point rate decrease	(1.68)%	(0.01)%	(1.32)%	(5.42)%
100 basis point rate increase	0.58	(2.66)	3.34	3.91
200 basis point rate increase	2.23	(3.69)	6.87	8.18
300 basis point rate increase	3.77	(5.42)	10.32	11.72

The ALCO estimates that 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.

As of September 30, 2022, the ALCO estimates that positive exposure of net interest income to rising rates in Year 1 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.

As of September 30, 2022, the negative exposure of net interest income to rising rates as compared to an unchanged rate scenario is primarily attributable to a projected increase in funding costs. As market rates increase, ALCO modeling assumes that deposits will shift from low cost to higher cost deposits. This assumption reflects historical operating conditions in rising rate cycles. Although asset yields would increase in a rising interest rate environment, the cumulative impact of relative growth in rate-sensitive higher cost deposit categories and wholesale funds suggests that by Year 2 of rising interest rate scenarios, the increase in the Corporation's cost of funds could result in a relative decline in net interest margin compared to an unchanged rate scenario.

The overall decline in interest rate sensitivity to rising rates from December 31, 2021, as shown in the above table, was largely attributable to a higher level of longer-term fixed rate assets, as well as an increase in the proportion of wholesale funds to total sources of funds at September 30, 2022. Fixed rate assets would not reprice upward in a rising rate environment. Wholesale funds would reprice more quickly and by a greater amount than the repricing of core deposits in response to changes in market interest rates.

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 NIM. 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 declined, the banking industry 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 as 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.

The following table summarizes the potential change in market value of the Corporation's available for sale debt securities as of September 30, 2022 and December 31, 2021 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)	$28,038	($3,760)
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	55,880	(104,798)
Trust preferred debt and other corporate debt securities	(18)	7
Total change in market value as of September 30, 2022	$83,900	($108,551)
Total change in market value as of December 31, 2021	$10,166	($119,505)

Critical Accounting Policies and Estimates

Estimates and assumptions are necessary in the application of certain accounting policies and procedures and can be susceptible to significant change. Critical accounting policies are defined as those that involve a significant level of estimation uncertainty and have had or are reasonably likely to have a material impact on the Corporation's financial condition or results of operations.

Management considers its accounting policy relating to the ACL on loans to be a critical accounting policy. There have been no significant changes in the Corporation's critical accounting policies and estimates from those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

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.

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, 2021, 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, 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 September 30, 2022. 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 September 30, 2022 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 IA to Part I of Washington Trust's Annual Report on Form 10-K for the year ended December 31, 2021.

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

The following table summarizes repurchases of the Corporation's shares of common stock in the third quarter of 2022:

	Issuer Purchases of Equity Securities			
Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans	(d) Maximum number of shares that may yet be purchased under plans
July 1 - 31, 2022	18,754	$47.79	18,754	655,838
August 1 - 31, 2022	—	—	—	655,838
September 1 - 30, 2022	—	—	—	655,838
Total	18,754	$47.79	18,754	655,838

Item 6. Exhibits

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

Exhibit Number	
10.1	Form of Non-qualified Stock Option Agreement for Employees under the Washington Trust Bancorp, Inc. 2022 Long Term Incentive Plan - Filed herewith. (1)
10.2	Form of Restricted Stock Unit Award Agreement for Employees under the Washington Trust Bancorp, Inc. 2022 Long Term Incentive Plan - Filed herewith. (1)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Filed herewith.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Filed herewith.
32.1	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. (2)
101	The following materials from Washington Trust Bancorp, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2022 formatted in Inline XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income (Loss), (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 September 30, 2022 has been formatted in Inline XBRL and contained in Exhibit 101.

(1) Management contract or compensatory plan or arrangement.
(2) 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: November 7, 2022	By:	/s/ Edward O. Handy III
		Edward O. Handy III Chairman and Chief Executive Officer (principal executive officer)
Date: November 7, 2022	By:	/s/ Ronald S. Ohsberg
		Ronald S. Ohsberg Senior Executive Vice President, Chief Financial Officer and Treasurer (principal financial officer)
Date: November 7, 2022	By:	/s/ Maria N. Janes
		Maria N. Janes Executive Vice President, Chief Accounting Officer and Controller (principal accounting officer)

EXHIBIT 10.1

NON-QUALIFIED STOCK OPTION AGREEMENT
FOR EMPLOYEES
UNDER WASHINGTON TRUST BANCORP, INC.
2022 LONG TERM INCENTIVE PLAN

Name of Optionee:	#ParticipantName#
No. of Option Shares:	#QuantityGranted#
Option Exercise Price per Share:	$#GrantDateFMV# **[FMV on Grant Date]**
Grant Date:	#GrantDate#
Expiration Date:	#ExpirationDate#

Pursuant to the Washington Trust Bancorp, Inc. 2022 Long Term Incentive Plan as amended through the date hereof (the "Plan"), Washington Trust Bancorp, Inc. (the "Company") hereby grants to the Optionee named above an option (the "Stock Option") to purchase on or prior to the Expiration Date specified above all or part of the number of shares of Common Stock, par value $0.0625 per share (the "Stock") of the Company specified above at the Option Exercise Price per Share specified above subject to the terms and conditions set forth herein and in the Plan. This Stock Option is **not** intended to be an "incentive stock option" under Section 422 of the Internal Revenue Code of 1986, as amended.

1. Exercisability Schedule. No portion of this Stock Option may be exercised until such portion shall have become exercisable. Except as set forth below, and subject to the discretion of the Administrator (as defined in Section 2 of the Plan) to accelerate the exercisability schedule hereunder, this Stock Option shall be exercisable with respect to the following number of Option Shares on the dates indicated so long as Optionee remains an employee of the Company or a Subsidiary on such dates:

Incremental Number of Option Shares Exercisable	Exercisability Date
#VestQty 1# (#Vest% 1#%)	#VestDate 1#

Once exercisable, this Stock Option shall continue to be exercisable at any time or times prior to the close of business on the Expiration Date, subject to the provisions hereof and of the Plan.

Notwithstanding the foregoing, this Option shall become vested prior to the Vesting Date in the following circumstances:

(a) In the case of and subject to the consummation of a Sale Event, provided that the Optionee is remains an employee of the Company or a Subsidiary through the date of such Sale Event, any portion of this Stock Option that has not vested and has not previously been forfeited shall become fully vested and exercisable as of immediately prior to the effective time of the Sale Event.

(b) In the event of the Optionee's death, provided that the Optionee was an employee of the Company or a Subsidiary immediately prior to the date of the Optionee's death, any portion of this Stock Option that has not vested and has not previously been forfeited shall become fully vested and exercisable on the date of the Optionee's death.

(c) Upon the Retirement of the Optionee prior to the Vesting Date, the Optionee shall vest in a number of his or her Option Shares determined by multiplying the number of Option Shares granted to the Optionee by a fraction, the numerator of which shall be the number of full months from the Grant Date to the date of the Optionee's Retirement and the denominator of which shall be **#VestingMonths#**. For purposes of this Agreement, "Retirement" shall mean the Optionee's termination of employment with the Company or a Subsidiary after attaining age 65 or after attaining age 55 with at least ten years of service.

2. Manner of Exercise.

(a) The Optionee may exercise this Stock Option only in the following manner: from time to time on or prior to the Expiration Date of this Stock Option, the Optionee may give written notice to the Chief Human Resources Officer of the Company, on any business day prior to the Expiration Date or earlier date specified in Paragraph 3 below of his or her election to purchase some or all of the Option Shares purchasable at the time of such notice. This notice shall specify the number of Option Shares to be purchased. The Company, in its discretion, may modify or augment these requirements where it determines appropriate because a person other than the Optionee is exercising the Stock Option, in which event the exercise notice shall be accompanied by appropriate proof of the right of such person to exercise the Option.

The exercise notice must be accompanied by payment of the purchase price for the Option Shares, which may be made by one or more of the following methods: (i) in United States dollars in cash, by certified or bank check or other instrument acceptable to the Administrator; (ii) through the delivery (or attestation to the ownership) of shares of Stock that have been purchased by the Optionee on the open market or that are beneficially owned by the Optionee and are not then subject to any restrictions under any Company plan and that otherwise satisfy any holding periods as may be required by the Administrator; (iii) by the Optionee delivering to the Company a properly executed exercise notice together with irrevocable instructions to a broker to promptly deliver to the Company cash or a check payable and acceptable to the Company to pay the option purchase price, provided that in the event the Optionee chooses to pay the option purchase price as so provided, the Optionee and the broker shall comply with such procedures and enter into such agreements of indemnity and other agreements as the Administrator shall prescribe as a condition of such payment procedure; (iv) by a "net exercise" arrangement pursuant to which the Company will reduce the number of shares of Stock issuable upon exercise by the largest whole number of shares with a Fair Market Value that does not exceed the aggregate exercise price; or (v) a combination of (i), (ii), (iii) and (iv) above. Payment instruments will be received subject to collection.

The transfer to the Optionee on the records of the Company or of the transfer agent of the Option Shares will be contingent upon (i) the Company's receipt from the Optionee of the full purchase price for the Option Shares, as set forth above, (ii) the fulfillment of any other requirements contained herein or in the Plan or in any other agreement or provision of laws, and (iii) the receipt by the Company of any agreement, statement or other evidence that the Company may require to satisfy itself that the issuance of Stock to be purchased pursuant to the exercise of Stock Options under the Plan and any subsequent resale of the shares of Stock will be in compliance with applicable laws and regulations. In the event the Optionee chooses to pay the purchase price by previously-owned shares of Stock through the attestation method, the number of shares of Stock transferred to the Optionee upon the exercise of the Stock Option shall be net of the Shares attested to.

(b) The shares of Stock purchased upon exercise of this Stock Option shall be transferred to the Optionee on the records of the Company or of the transfer agent upon compliance to the satisfaction of the Administrator with all requirements under applicable laws or regulations in connection with such transfer and with the requirements hereof and of the Plan. The determination of the Administrator as to such compliance shall be final and binding on the Optionee. The Optionee shall not be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares of Stock subject to this Stock Option unless and until this Stock Option shall have been exercised pursuant to the terms hereof, the Company or the transfer agent shall have transferred the shares to the Optionee, and the Optionee's name shall have been entered as the stockholder of record on the books of the Company. Thereupon, the Optionee shall have full voting, dividend and other ownership rights with respect to such shares of Stock.

(c) The minimum number of shares of Stock with respect to which this Stock Option may be exercised at any one time shall be 50 shares, unless the number of shares with respect to which this Stock Option is being exercised is the total number of shares subject to exercise under this Stock Option at the time.

(d) Notwithstanding any other provision hereof or of the Plan, no portion of this Stock Option shall be exercisable after the Expiration Date hereof.

3. Termination of Employment. If the Optionee's employment by the Company or a Subsidiary (as defined in the Plan) is terminated, the period within which to exercise the Stock Option may be subject to earlier termination as set forth below.

(a) Termination Due to Death. If the Optionee's employment terminates by reason of the Optionee's death, any portion of this Stock Option outstanding on such date, to the extent exercisable on the date of death, may thereafter be exercised by the Optionee's legal representative or legatee for a period of three years from the date of death or until the Expiration Date, if earlier. Any portion of this Stock Option that is not exercisable on the date of death shall terminate immediately and be of no further force or effect.

(b) Termination Due to Disability. If the Optionee's employment terminates by reason of the Optionee's disability (as determined by the Administrator), any portion of this Stock Option outstanding on such date, to the extent exercisable on the date of such termination of employment, may thereafter be exercised by the Optionee for a period of three years from the date of disability or until the Expiration Date, if earlier. Any portion of this Stock Option that is not exercisable on the date of disability shall terminate immediately and be of no further force or effect.

(c) Termination Due to Retirement. If the Optionee's employment terminates by reason of the Optionee's Retirement with the consent of the Company, any portion of this Stock Option outstanding on such date, to the extent exercisable on the date of such termination of employment due to Retirement, may thereafter be exercised by the Optionee for a period of three years from the date of Retirement or until the Expiration Date, if earlier. Any portion of this Stock Option that is not exercisable on the date of such approved Retirement shall terminate immediately and be of no further force or effect.

(d) Termination for Cause. If the Optionee's employment terminates for Cause, any portion of this Stock Option outstanding on such date shall terminate immediately and be of no further force and effect. For purposes hereof, "Cause" shall mean, unless otherwise provided in an employment agreement between the Company and the Optionee, a determination by the Administrator that the Optionee shall be dismissed as a result of (i) any material breach by the Optionee of any agreement between the Optionee and the Company; (ii) the conviction of, indictment for or plea of nolo contendere by the Optionee to a felony or a crime involving moral turpitude; or (iii) any material misconduct or willful and deliberate non-performance (other than by reason of disability) by the Optionee of the Optionee's duties to the Company.

(e) Other Termination. If the Optionee's employment terminates for any reason other than the Optionee's death, the Optionee's disability, the Optionee's Retirement or Cause, and unless otherwise determined by the Administrator, this Stock Option will terminate and be of no force or effect after the date of such termination of the Optionee's employment. Any portion of this Stock Option outstanding on or before such date may be exercised, to the extent exercisable on the date of such termination, on or before the date of the termination of the Optionee's employment. Any portion of this Stock Option that is not exercisable on the date of termination shall terminate immediately and be of no further force or effect.

The Administrator's determination of the reason for termination of the Optionee's employment shall be conclusive and binding on the Optionee and his or her representatives or legatees.

4. Incorporation of Plan. Notwithstanding anything herein to the contrary, this Stock Option shall be subject to and governed by all the terms and conditions of the Plan, including the powers of the Administrator set forth in Section 2(b) of the Plan. Capitalized terms in this Agreement shall have the meaning specified in the Plan, unless a different meaning is specified herein.

5. Transferability. This Agreement is personal to the Optionee, is non-assignable and is not transferable in any manner, by operation of law or otherwise, other than by will or the laws of descent and distribution. This Stock Option is exercisable, during the Optionee's lifetime, only by the Optionee, and thereafter, only by the Optionee's legal representative or legatee.

6. Tax Withholding. The Optionee shall, not later than the date as of which the exercise of this Stock Option becomes a taxable event for Federal income tax purposes, pay to the Company or make arrangements satisfactory to the Administrator for payment of any Federal, state, and local taxes required by law to be withheld on account of such taxable event. The Company shall have the authority to cause the minimum required tax withholding obligation to be satisfied, in whole or in part, by withholding from shares of Stock to be issued to the Optionee a number of shares of Stock with an aggregate Fair Market Value that would satisfy the minimum withholding amount due.

7. No Obligation to Continue Employment. Neither the Company nor any Subsidiary is obligated by or as a result of the Plan or this Agreement to continue the Optionee in employment and neither the Plan nor this Agreement shall interfere in any way with the right of the Company or any Subsidiary to terminate the employment of the Optionee at any time.

8. Integration. This Agreement constitutes the entire agreement between the parties with respect to this Stock Option and supersedes all prior agreements and discussions between the parties concerning such subject matter.

9. Data Privacy Consent. In order to administer the Plan and this Agreement and to implement or structure future equity grants, the Company, its subsidiaries and affiliates and certain agents thereof (together, the "Relevant Companies") may process any and all personal or professional data, including but not limited to Social Security or other identification number, home address and telephone number, date of birth and other information that is necessary or desirable for the administration of the Plan and/or this Agreement (the "Relevant Information"). By entering into this Agreement, the Optionee (i) authorizes the Company to collect, process, register and transfer to the Relevant Companies all Relevant Information; (ii) waives any privacy rights the Optionee may have with respect to the Relevant Information; (iii) authorizes the Relevant Companies to store and transmit such information in electronic form; and (iv) authorizes the transfer of the Relevant Information to any jurisdiction in which the Relevant Companies consider appropriate. The Optionee shall have access to, and the right to change, the Relevant Information. Relevant Information will only be used in accordance with applicable law.

10. Notices. Notices hereunder shall be mailed or delivered to the Company at its principal place of business and shall be mailed or delivered to the Optionee at the address on file with the Company or, in either case, at such other address as one party may subsequently furnish to the other party in writing.

11. Clawback. If the Optionee is or becomes an "Executive Officer," as defined in the Washington Trust Bancorp, Inc. Incentive Compensation Clawback and Forfeiture Policy, as amended from time to time (the "Clawback Policy"), the Stock Option and any shares of Stock issued upon exercise of the Stock Option shall be subject to the Clawback Policy.

WASHINGTON TRUST BANCORP, INC.

By:
Senior Executive Vice President
Chief Human Resources Officer
and Corporate Secretary

The foregoing Agreement is hereby accepted and the terms and conditions thereof hereby agreed to by the undersigned. Electronic acceptance of this Agreement pursuant to the Company's instructions to the Grantee (including through an online acceptance process) is acceptable.

Dated: #AcceptanceDate

#Signature#
Optionee's Signature

#ParticipantName#

EXHIBIT 10.2

RESTRICTED STOCK UNIT AWARD AGREEMENT
FOR EMPLOYEES
UNDER WASHINGTON TRUST BANCORP, INC.
2022 LONG TERM INCENTIVE PLAN

Name of Grantee:	#ParticipantName#
No. of Restricted Stock Units	#QuantityGranted#
Grant Date:	#GrantDate#

Pursuant to the Washington Trust Bancorp, Inc. 2022 Long Term Incentive Plan as amended through the date hereof (the "Plan"), Washington Trust Bancorp, Inc. (the "Company") hereby grants an award of the number of Restricted Stock Units listed above (an "Award") to the Grantee named above. Each Restricted Stock Unit shall relate to one share of Common Stock, par value $0.0625 per share (the "Stock"), of the Company.

1. Restrictions on Transfer of Award. This Award may not be sold, transferred, pledged, assigned or otherwise encumbered or disposed of by the Grantee, and any shares of Stock issuable with respect to the Award may not be sold, transferred, pledged, assigned or otherwise encumbered or disposed of until (i) the Restricted Stock Units have vested as provided in Paragraph 2 of this Agreement and (ii) shares of Stock have been issued to the Grantee in accordance with the terms of the Plan and this Agreement.

2. Vesting of Restricted Stock Units. The restrictions and conditions of Paragraph 1 of this Agreement shall lapse on the Vesting Date or Dates specified in the following schedule so long as the Grantee remains an employee of the Company or a Subsidiary on such Dates. If a series of Vesting Dates is specified, then the restrictions and conditions in Paragraph 1 shall lapse only with respect to the number of Restricted Stock Units specified as vested on such date.

Incremental Number of Restricted Stock Units Vested	Vesting Date
#VestQty 1# (#Vest% 1#%)	#VestDate 1#

The Administrator may at any time accelerate the vesting schedule specified in this Paragraph 2.

Notwithstanding the foregoing, the Grantee shall become vested in the Restricted Stock Units prior to the Vesting Date in the following circumstances:

(a) In the case of and subject to the consummation of a Sale Event, provided that the Grantee remains an employee of the Company or a Subsidiary through the date of such Sale Event, any Restricted Stock Units that have not vested and have not previously been forfeited shall become fully vested as of immediately prior to the effective time of the Sale Event.

(b) In the event of the Grantee's death, provided that the Grantee was an employee of the Company or a Subsidiary immediately prior to the date of the Grantee's death, any Restricted Stock Units that have not vested and have not previously been forfeited shall become fully vested on the date of the Optionee's death.

(c) Upon the Grantee's termination due to Retirement prior to the Vesting Date, the Grantee shall become fully vested in a number of his Restricted Stock Units determined by multiplying the number of Restricted Stock Units credited to the Grantee by a fraction, the numerator of which shall be the number of full months from the Grant Date to the date of the Grantee's Retirement and the denominator of which shall be **#VestingMonths#**. For purposes of this Award, "Retirement" shall mean the Grantee's termination of employment with the Company or a Subsidiary after attaining age 65 or after attaining age 55 with at least ten years of service.

3. Termination of Employment; Clawback. Except as set forth in Paragraph 2 above, if the Grantee's employment with the Company and its Subsidiaries terminates for any reason (including disability) prior to the satisfaction of the vesting conditions set forth in Paragraph 2 above, any Restricted Stock Units that have not vested as of such date shall automatically and without notice terminate and be forfeited, and neither the Grantee nor any of his successors, heirs, assigns, or

personal representatives will thereafter have any further rights or interests in such unvested Restricted Stock Units. If the Grantee is or becomes an "Executive Officer," as defined in the Washington Trust Bancorp, Inc. Incentive Compensation Clawback and Forfeiture Policy, the Restricted Stock Units, any shares of Stock issued upon settlement of the Restricted Stock Units, and any dividend equivalents pursuant to Paragraph 4 of this Agreement, shall be subject to the Clawback Policy.

4. Dividend Equivalents. Upon the issuance of shares of Stock to the Grantee pursuant to Paragraph 5 below, the Company shall also provide the Grantee with a lump sum cash payment in an amount equal to the amount of dividends per share paid by the Company from the Grant Date through the share issuance date multiplied by the number of shares of Stock actually issued to the Grantee.

5. Issuance of Shares of Stock. As soon as practicable following each Vesting Date, or the date of earlier vesting in accordance with Paragraph 2 above (but in no event later than two and one-half months after the end of the year in which such Vesting Date or vesting, as applicable, occurs), the Company shall issue to the Grantee the number of shares of Stock equal to the aggregate number of Restricted Stock Units that have vested pursuant to Paragraph 2 of this Agreement on such date and the Grantee shall thereafter have all the rights of a stockholder of the Company with respect to such shares; provided, that if the Grantee becomes vested in the Restricted Stock Units on or following the date he becomes Retirement-eligible then such issuance shall occur in the year in which such vesting occurs or, if later, by the 15th day of the third calendar month following such vesting date. The issuance of shares of Stock may be made in book entry form.

(a) Notwithstanding the foregoing, in the event the Grantee becomes vested in the Restricted Stock Units on account of his Retirement, if the Grantee is a "specified employee" within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended and the regulations promulgated thereunder ("Section 409A") upon his Retirement, the shares of Stock shall not be issued to the Grantee until the seventh month after the Grantee's "separation from service" within the meaning of Section 409A.

(b) Notwithstanding the foregoing, if the Grantee has met the age or age and service requirement for Retirement and a Sale Event occurs prior to the issuance of shares of Stock, if the Sale Event qualifies as a "change in control event" within the meaning of Section 409A, the shares of Stock shall be issued to the Grantee as soon as practicable following the Sale Event. If the Sale Event does not qualify as a "change in control event" within the meaning of Section 409A, the shares of Stock shall be issued to the Grantee upon the earliest of (i) the Vesting Date, (ii) the Grantee's death, or (iii) the Grantee's "separation from service" within the meaning of Section 409A; provided, however, that if the Grantee is a "specified employee" within the meaning of Section 409A upon his separation from service, the shares of Stock shall not be issued until the seventh month after the Grantee's separation from service.

6. Incorporation of Plan. Notwithstanding anything herein to the contrary, this Agreement shall be subject to and governed by all the terms and conditions of the Plan, including the powers of the Administrator set forth in Section 2(b) of the Plan. Capitalized terms in this Agreement shall have the meaning specified in the Plan, unless a different meaning is specified herein.

7. Tax Withholding. The Grantee shall, not later than the date as of which the receipt of this Award becomes a taxable event for Federal income tax purposes, pay to the Company or make arrangements satisfactory to the Administrator for payment of any Federal, state, and local taxes required by law to be withheld on account of such taxable event. The Company shall have the authority to cause the required minimum tax withholding obligation to be satisfied, in whole or in part, by withholding from shares of Stock to be issued to the Grantee a number of shares of Stock with an aggregate Fair Market Value that would satisfy the withholding amount due.

8. Section 409A. This Agreement shall be interpreted in such a manner that all provisions relating to the settlement of the Award are exempt from the requirements of Section 409A as "short-term deferrals" as described in Section 409A, or otherwise compliant with Section 409A.

9. No Obligation to Continue Employment. Neither the Company nor any Subsidiary is obligated by or as a result of the Plan or this Agreement to continue the Grantee in employment and neither the Plan nor this Agreement shall interfere in any way with the right of the Company or any Subsidiary to terminate the employment of the Grantee at any time.

10. Integration. This Agreement constitutes the entire agreement between the parties with respect to this Award and supersedes all prior agreements and discussions between the parties concerning such subject matter.

11. Data Privacy Consent. In order to administer the Plan and this Agreement and to implement or structure future equity grants, the Company, its subsidiaries and affiliates and certain agents thereof (together, the "Relevant Companies") may process any and all personal or professional data, including but not limited to Social Security or other identification number, home address and telephone number, date of birth and other information that is necessary or desirable for the administration of the Plan and/or this Agreement (the "Relevant Information"). By entering into this Agreement, the Grantee (i) authorizes the Company to collect, process, register and transfer to the Relevant Companies all Relevant

Information; (ii) waives any privacy rights the Grantee may have with respect to the Relevant Information; (iii) authorizes the Relevant Companies to store and transmit such information in electronic form; and (iv) authorizes the transfer of the Relevant Information to any jurisdiction in which the Relevant Companies consider appropriate. The Grantee shall have access to, and the right to change, the Relevant Information. Relevant Information will only be used in accordance with applicable law.

12. Notices. Notices hereunder shall be mailed or delivered to the Company at its principal place of business and shall be mailed or delivered to the Grantee at the address on file with the Company or, in either case, at such other address as one party may subsequently furnish to the other party in writing.

WASHINGTON TRUST BANCORP, INC.

By:
Senior Executive Vice President
Chief Human Resources Officer
and Corporate Secretary

The foregoing Agreement is hereby accepted and the terms and conditions thereof hereby agreed to by the undersigned. Electronic acceptance of this Agreement pursuant to the Company's instructions to the Grantee (including through an online acceptance process) is acceptable.

Dated: #AcceptanceDate

#Signature#
Optionee's Signature

#ParticipantName#

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 September 30, 2022, 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
   (e) 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:	November 7, 2022	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 September 30, 2022, 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: November 7, 2022   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 September 30, 2022 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: November 7, 2022 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 September 30, 2022 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: November 7, 2022 By: /s/ Ronald S. Ohsberg

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