WASHINGTON TRUST BANCORP INC
Form 10-K
March 07, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-K
(Mark One)

x Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended DECEMBER 31, 2013 or

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

Commission file number: 001-32991
WASHINGTON TRUST BANCORP, INC.
(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code: 401-348-1200
Securities registered pursuant to Section 12(b) of the Act:

COMMON STOCK, $.0625 PAR VALUE PER SHARE	THE NASDAQ STOCK MARKET LLC
(Title of each class)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: NONE
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. oYes xNo
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. oYes xNo
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. xYes oNo
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). xYes oNo
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). oYes xNo
The aggregate market value of voting stock held by non-affiliates of the registrant at June 30, 2013 was $401,717,281 based on a closing sales price of $28.52 per share as reported for the NASDAQ Global Select Market, which includes $13,782,995 held by The Washington Trust Company under trust agreements and other instruments.
The number of shares of the registrant's common stock, $.0625 par value per share, outstanding as of February 28, 2014 was 16,625,861.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant’s Proxy Statement dated March 13, 2014 for the Annual Meeting of Shareholders to be held April 22, 2014 are incorporated by reference into Part III of this Form 10-K.

FORM 10-K
WASHINGTON TRUST BANCORP, INC.
For the Year Ended December 31, 2013

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PART I

ITEM 1. Business

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

Through its subsidiaries, the Bancorp offers a broad range of financial services, including commercial, residential and consumer lending, retail and commercial deposit products, and wealth management, through its offices in Rhode Island, eastern Massachusetts and Connecticut; automated teller machines (“ATMs”); and its Internet website (www.washtrust.com). The Bancorp’s common stock is traded on the NASDAQ Global Select® Market under the symbol “WASH.”

The accounting and reporting policies of the Bancorp and its subsidiaries (collectively, the “Corporation” or “Washington Trust”) conform to accounting principles generally accepted in the United States of America (“GAAP”) and to general practices of the banking industry. At December 31, 2013, Washington Trust had total assets of $3.2 billion, total deposits of $2.5 billion and total shareholders’ equity of $329.6 million.

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

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

Commercial Loans
Commercial lending represents a significant portion of the Bank’s loan portfolio. Commercial loans fall into two major categories, commercial real estate and other commercial loans (commercial and industrial).

Commercial real estate loans consist of commercial mortgages and construction and development loans made for the purpose of acquiring, developing, constructing, improving or refinancing commercial real estate where the property is the primary collateral securing the loan, and the income generated from the property is the primary repayment source. Properties such as retail facilities, office buildings, commercial mixed use, lodging, multi-family dwellings and industrial and warehouse properties normally collateralize commercial real estate loans. These properties are primarily located in Rhode Island, Massachusetts and Connecticut.

Commercial and industrial loans primarily provide working capital, equipment financing, financing for leasehold improvements and financing for expansion. Commercial and industrial loans are frequently collateralized by equipment, inventory, accounts receivable, and/or general business assets. A significant portion of the Bank’s commercial and industrial loans are also collateralized by real estate, but are not classified as commercial real estate loans because such loans are not made for the purpose of acquiring, developing, constructing, improving or refinancing the real estate securing the loan, nor is the repayment source income generated directly from such real property. The Bank’s commercial and industrial loan portfolio includes loans to business sectors such as healthcare/social assistance, owner occupied and other real estate, retail trade, manufacturing, construction businesses, wholesale trade, accommodation and food services, entertainment and recreation, public administration and professional services.

The commercial loan portfolio represented 55% of total loans at December 31, 2013. In making commercial loans, Washington Trust may occasionally solicit the participation of other banks and may also occasionally participate in commercial loans originated by other banks. From time to time, the guaranteed portion of Small Business Administration ("SBA") loans are sold to investors.

Residential Real Estate Mortgages

The residential real estate portfolio represented 31% of total loans at December 31, 2013. Residential real estate mortgages are primarily originated by commissioned mortgage originator employees. Washington Trust generally underwrites its residential mortgages based upon secondary market standards. Residential mortgages are originated both for sale in the secondary market as well as for retention in the Bank's loan portfolio. Loan sales in the secondary market provide funds for additional lending and other banking activities. Washington Trust sells loans with servicing retained or released. Residential real estate mortgages are also originated for various investors in a broker capacity, including conventional mortgages and reverse mortgages. In recent years, Washington Trust has experienced strong residential mortgage refinancing activity in response to the low mortgage interest rate environment, as well as origination volume growth due to our expansion of residential mortgage lending offices outside of Rhode Island. Total residential mortgage loan originations, including loans originated in a broker capacity, amounted to $730.3 million in 2013, compared to $414.9 million in 2009.

Prior to March 2009, Washington Trust had periodically purchased one- to four-family residential mortgages originated in other states as well as southern New England from other financial institutions. All residential mortgage loans purchased from other financial institutions were individually underwritten by us at the time of purchase using standards similar to those employed for Washington Trust's self-originated loans. At December 31, 2013, purchased residential mortgage balances represented 6% and 2% of the total residential real estate mortgage and total loan portfolios, respectively.

Washington Trust has never offered a sub-prime mortgage program and has no option-adjusted ARMs.

Consumer Loans

The consumer loan portfolio represented 14% of total loans as of December 31, 2013. Consumer loans include home equity loans and lines of credit, personal installment loans and loans to individuals secured by general aviation aircraft and automobiles. Home equity lines and home equity loans represent 83% of the total consumer portfolio at December 31, 2013. All home equity lines and home equity loans were originated by Washington Trust in its general market area. The Bank estimates that approximately 69% of the combined home equity line and home equity loan balances are first lien positions or subordinate to other Washington Trust mortgages.

Credit Risk Management and Asset Quality

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

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

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

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

Deposit Activities

Deposits represent Washington Trust's primary source of funds and are gathered primarily from the areas surrounding our branch network. The Bank offers a wide variety of deposit products with a range of interest rates and terms to consumer, commercial, non-profit and municipal deposit customers. Washington Trust's deposit accounts consist of interest-bearing checking, noninterest-bearing checking, savings, money market and certificates of deposit. A variety of retirement deposit accounts are offered to personal and business customers. Additional deposit services provided to customers include debit cards, ATMs, telephone banking, Internet banking, mobile banking, remote deposit capture and other cash management services. Washington Trust also offers merchant credit card processing services to business customers. From time to time, brokered time deposits from out-of-market institutional sources are utilized as part of our overall funding strategy.

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

Wealth Management Services

The Corporation's wealth management business generated revenues totaling $31.8 million in 2013, representing 21% of total revenues. It provides a broad range of wealth management services to personal and institutional clients and mutual funds. These services include investment management; financial planning; personal trust services, including services as trustee, administrator, custodian and guardian; and estate settlement. Institutional trust services are also provided, including custody and fiduciary services. Wealth management services are provided through the Bank and its registered investment adviser subsidiary, Weston Financial Group, Inc. The Corporation also operates a broker-dealer subsidiary which primarily conducts transactions for Weston Financial Group clients. See additional information under the caption "Subsidiaries." Noninterest income from wealth management services includes trust and investment management fees and mutual fund fees, which are classified as asset-based revenues since they are primarily derived from the value of wealth management assets under administration. Noninterest income from wealth management services also includes transaction-based revenues, such as financing planning, commissions and other service fees, which are not primarily derived from the value of assets.

At December 31, 2013 and 2012, wealth management assets under administration totaled $4.8 billion and $4.2 billion, respectively. These assets are not included in the Consolidated Financial Statements.

Investment Securities Portfolio

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

Washington Trust may acquire, hold and transact in various types of investment securities in accordance with applicable federal regulations, state statutes and guidelines specified in Washington Trust's internal investment policy. Permissible bank investments include federal funds, banker's acceptances, commercial paper, reverse repurchase agreements, interest-bearing deposits of federally insured banks, U.S. Treasury and government-sponsored agency debt obligations, including mortgage-backed securities, municipal securities, corporate debt, trust preferred securities, mutual funds, auction rate preferred stock, common and preferred equity securities, and Federal Home Loan Bank of Boston ("FHLBB") stock.

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

Wholesale Funding Activities

The Corporation utilizes advances from the FHLBB as well as other borrowings as part of its overall funding strategy. FHLBB advances are used to meet short-term liquidity needs and to purchase securities. The FHLBB is a cooperative that provides services, including funding in the form of advances, to its member banking institutions. As a requirement of membership, the Bank must own a minimum amount of FHLBB stock, calculated periodically based primarily on its level of borrowings from the FHLBB. The Bank also has access to an unused line of credit with the FHLBB amounting to $8.0 million at December 31, 2013. In addition, the FHLBB has issued standby letters of credit to depositor customers of the Bank to collateralize public deposits. The Bank's FHLBB borrowings, line of credit and letters of credit are collateralized by a blanket pledge agreement on the Bank's FHLBB stock, certain qualified investment securities and loans, as well as amounts maintained on deposits at the FHLBB. Additional funding sources are available through securities sold under agreements to repurchase and through the Federal Reserve Bank of Boston. See Note 11 to the Consolidated Financial Statements for additional information.

Acquisitions

The following summarizes Washington Trust's acquisition history:

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

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

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

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

Subsidiaries

The Bancorp's subsidiaries include the Bank and Weston Securities Corporation ("WSC"). In addition, as of December 31, 2013, the Bancorp also owned all of the outstanding common stock of WT Capital Trust I and WT Capital Trust II, special purpose finance entities formed with the sole purpose of issuing trust preferred debt securities and investing the proceeds in junior subordinated debentures of the Bancorp. See Note 11 to the Consolidated Financial Statements for additional information.

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

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

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

The Bank's subsidiary, Weston Financial, is a registered investment adviser and financial planning company located in Wellesley, Massachusetts, with an insurance agency subsidiary. In addition, the Bank has other passive investment subsidiaries whose primary functions are to provide servicing on passive investments, such as loans acquired from the Bank and investment securities. The Bank also has a limited liability company subsidiary that serves as a special limited partner responsible for certain administrative functions associated with the Bank's investment in two real estate limited partnerships. In 2012, we formed Washington Trust Mortgage Company LLC ("WTMC"), a mortgage banking subsidiary of the Bank. WTMC is licensed to do business in Rhode Island, Massachusetts, Connecticut and New Hampshire. Please see "-Supervision and Regulation-Consumer Protection Regulation-Mortgage Reform" for a discussion of certain regulations that apply to WTMC. Our mortgage origination business conducted in most of our residential mortgage lending offices located outside of Rhode Island is performed by this Bank subsidiary.

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

Market Area
Washington Trust is headquartered in Westerly, Rhode Island, in Washington County. Washington Trust's primary deposit gathering area consists of the communities that are served by its branch network. As of December 31, 2013, the Bank has ten branch offices located in southern Rhode Island (Washington County), seven branch offices located in the greater Providence area in Rhode Island and a branch office located in southeastern Connecticut. In the second quarter of 2014, we plan to open a new full-service branch in Johnston, Rhode Island, which will be a continuation of our expansion into the greater Providence area. This branch will be our nineteenth branch office and our first in Johnston. Both the population and number of businesses in Providence County far exceed those in southern Rhode Island.

Washington Trust's lending activities are conducted primarily in southern New England and, to a lesser extent, other states. In addition to branch offices, the Bank has a commercial lending office located in the financial district of Providence, Rhode Island. As of December 31, 2013, Washington Trust has six residential mortgage lending offices: three located in eastern Massachusetts (Sharon, Burlington and Braintree), two Connecticut offices (Glastonbury and Stamford) and a Warwick, Rhode Island office.

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

Competition

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

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

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

Employees

At December 31, 2013, Washington Trust had 570 employees consisting of 544 full-time and 26 part-time and other employees. Washington Trust maintains a comprehensive employee benefit program providing, among other benefits, group medical and dental insurance, life insurance, disability insurance, a pension plan and a 401(k) plan. In 2007, the pension plan was closed to new hires and rehires after September 30, 2007, and in 2013 it was amended primarily to freeze benefit accruals after a ten-year transition period ending in December 2023. Management considers relations with its employees to be good. See Note 15 to the Consolidated Financial Statements for additional information on certain employee benefit programs.

GUIDE 3 Statistical Disclosures

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

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Supervision and Regulation

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

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

The Dodd-Frank Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) comprehensively reformed the regulation of financial institutions, products and services.

Among other things, the Dodd-Frank Act:

- granted the Board of Governors of the Federal Reserve System (the “Federal Reserve”) increased supervisory authority and codifies the source of strength doctrine, as discussed in more detail in “-Regulation of the Bancorp-Source of Strength” below;
- provided for new capital standards applicable to the Corporation, as discussed in more detail in “-Capital Adequacy and Safety and Soundness-Regulatory Capital Requirements” below;

- modified the scope and costs associated with deposit insurance coverage, as discussed in "-Regulation of the Bank-Deposit Insurance" below;
- permitted well capitalized and well managed banks to acquire other banks in any state, subject to certain deposit concentration limits and other conditions, as discussed in "-Regulation of the Bank-Acquisitions and Branching" below;
- permitted the payment of interest on business demand deposit accounts;
- established new minimum mortgage underwriting standards for residential mortgages, as discussed in "-Consumer Protection Regulation-Mortgage Reform" below;
- established the Bureau of Consumer Financial Protection (the "CFPB");
- barred banking organizations, such as the Bancorp, from engaging in proprietary trading and from sponsoring and investing in hedge funds and private equity funds, except as permitted under certain circumstances, as discussed in "Regulation of Other Activities-Volcker Rule Restrictions on Proprietary Trading and Sponsorship of Hedge Funds and Private Equity Funds" below; and
- established the Financial Stability Oversight Council to designate certain activities as posing a risk to the U.S. financial system and recommend new or heightened standards and safeguards for financial institutions engaging in such activities.

Regulation of the Bancorp

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

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

Source of Strength. Under the Dodd-Frank Act, the Bancorp is required to serve as a source of financial strength for the Bank in the event of the financial distress of the Bank. This provision codifies the longstanding policy of the Federal Reserve. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a bank subsidiary will be assumed by the bankruptcy trustee and entitled to a priority of payment.

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

The BHCA also prohibits a bank holding company from engaging directly or indirectly in activities other than those of banking, managing or controlling banks or furnishing services to its subsidiary banks. In 2005, the Bancorp elected financial holding company status pursuant to the provisions of the Gramm-Leach-Bliley Act of 1999 ("GLBA"). As a financial holding company, the Bancorp is authorized to engage in certain financial activities in which a bank holding company may not engage. "Financial activities" is broadly defined to include not only banking, insurance and securities activities, but also merchant banking and additional activities that the Federal Reserve, in consultation with the Secretary of the Treasury, determines to be financial in nature, incidental to such financial activities, or complementary activities that do not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally. Currently, as a financial holding company, the Bancorp engages, through WSC, in broker-dealer activities pursuant to this authority.

If a financial holding company fails to remain well capitalized and well managed, the company and its affiliates may not commence any new activity that is authorized particularly for financial holding companies. If a financial holding company remains out of compliance for 180 days or such longer period as the Federal Reserve permits, the Federal Reserve may require the financial holding company to divest either its insured depository institution or all of its nonbanking subsidiaries engaged in activities not permissible for a bank holding company. If a financial holding company fails to maintain a "satisfactory" or better record of performance under the Community Reinvestment Act (the "CRA"), it will be prohibited, until the rating is raised to satisfactory or better, from engaging in new activities, or acquiring companies other than bank holding companies, banks or savings associations, except that the Bancorp could engage in new activities, or acquire companies engaged in activities that are closely related to banking under the BHCA. In addition, if the Federal Reserve finds that the Bank is not well capitalized or well managed, the Bancorp would be required to enter into an agreement with the Federal Reserve to comply with all applicable capital and management requirements and which may contain additional limitations or conditions. Until corrected, the Bancorp would not be able to engage in any new activity or acquire companies engaged in activities that are not closely related to banking under the BHCA without prior Federal Reserve approval. If the Bancorp fails to correct any such condition within a prescribed period, the Federal Reserve could order the Bancorp to divest its banking subsidiary or, in the alternative, to cease engaging in activities other than those closely related to banking under the BHCA.

Limitations on Acquisitions of Bancorp Common Stock. The Change in Bank Control Act prohibits a person or group of persons from acquiring "control" of a bank holding company unless the Federal Reserve has been notified and has not objected to the transaction. Under a rebuttable presumption established by the Federal Reserve, the acquisition of 10% or more of a class of voting securities of a bank holding company, such as the Bancorp, with a class of securities registered under Section 12 of the Exchange Act, would, under the circumstances set forth in the presumption, constitute the acquisition of control of a bank holding company. In addition, any company would be required to obtain the approval of the Federal Reserve under the BHCA before acquiring 25% (5% in the case of an acquirer that is a bank holding company) or more, or otherwise obtaining control or a controlling influence over a bank holding company. In 2008, the Federal Reserve released guidance on minority investments in banks that relaxed the presumption of control for investments of greater than 10% of a class of outstanding voting securities of a bank holding company in certain instances discussed in the guidance.

Regulation of the Bank

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

Deposit Insurance. Substantially all of the deposits of the Bank are insured up to applicable limits by the FDIC's Deposit Insurance Fund ("DIF") and are subject to deposit insurance assessments to maintain the DIF. The Federal Deposit Insurance Act (the "FDIA"), as amended by the Federal Deposit Insurance Reform Act and the Dodd-Frank Act, requires the FDIC to set a ratio of deposit insurance reserves to estimated insured deposits - the designated reserve ratio of 1.35%. The FDIC utilizes a risk-based assessment system that imposes insurance premiums based upon a risk matrix that takes into account a bank's capital level and supervisory rating ("CAMELS rating"). CAMELS ratings reflect the applicable bank regulatory agency's evaluation of a financial institution's capital, asset quality, management, earnings, liquidity and sensitivity to risk. Assessment rates may also vary for certain institutions based on long-term debt issuer ratings, secured or brokered deposits. Pursuant to the Dodd-Frank Act, deposit premiums are based on assets rather than insurable deposits. To determine its actual deposit insurance premiums, the Bank computes the base amount on its average consolidated assets less its average tangible equity (defined as the amount of Tier 1 capital) and its applicable assessment rate. Assessment rates range from 2.5 to 9 basis points on the broader assessment base for banks in the lowest risk category up to 30 to 45 basis points for banks in the highest risk category.

Pursuant to the Dodd-Frank Act, FDIC deposit insurance has been permanently increased from $100,000 to $250,000 per depositor. On December 31, 2012, unlimited FDIC insurance on noninterest-bearing transaction accounts under the Dodd-Frank Act expired. The Bank’s FDIC deposit insurance costs totaled $1.8 million in 2013.

Under the FDIA, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

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

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

Brokered Deposits. Section 29 of the FDIA and FDIC regulations generally limit the ability of an insured depository institution to accept, renew or roll over any brokered deposit unless the institution’s capital category is “well capitalized” or, with the FDIC’s approval, “adequately capitalized.” Depository institutions, other than those in the lowest risk category, that have brokered deposits in excess of 10% of total deposits will be subject to increased FDIC deposit insurance premium assessments. Additionally, depository institutions considered “adequately capitalized” that need FDIC approval to accept, renew or roll over any brokered deposits are subject to additional restrictions on the interest rate they may pay on deposits.

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

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

and violations of laws, regulations, or conditions imposed by, agreements with, or commitments to, the FDIC, the RI Division of Banking or the Connecticut Department of Banking. The FDIC, the RI Division of Banking or the Connecticut Department of Banking is also empowered to assess civil money penalties against companies or individuals who violate banking laws, orders or regulations.

Capital Adequacy and Safety and Soundness
Regulatory Capital Requirements. The Federal Reserve the FDIC have issued risk-based and leverage capital guidelines applicable to United States banking organizations. In addition, these agencies may from time to time require that a banking organization maintain capital above the minimum levels due to the banking organization's financial condition or actual or anticipated growth.

Current Federal Reserve risk-based guidelines define a three-tier capital framework. Tier 1 capital for bank holding companies generally consists of the sum of common shareholders' equity, perpetual preferred stock and trust preferred securities (both subject to certain limitations and, in the case of the latter, to specific limitations on the kind and amount of such securities which may be included as Tier 1 capital and certain additional restrictions described below), and minority interests in the equity accounts of consolidated subsidiaries, less goodwill and other non-qualifying intangible assets. Pursuant to the Dodd-Frank Act, trust preferred securities issued after May 19, 2010, will not count as Tier 1 capital. The Bancorp's currently outstanding trust preferred securities were grandfathered for Tier 1 eligibility, subject to a limit of 25% of Tier 1 capital, under the Final Capital Rule discussed below. Tier 2 capital generally consists of hybrid capital instruments, perpetual debt and mandatory convertible debt securities; perpetual preferred stock and trust preferred securities, to the extent it is not eligible to be included as Tier 1 capital; term subordinated debt and intermediate-term preferred stock; and, subject to limitations, general allowances for loan losses. The sum of Tier 1 and Tier 2 capital less certain required deductions, such as investments in unconsolidated banking or finance subsidiaries, represents qualifying total capital. Risk-based capital ratios are calculated by dividing Tier 1 and total capital, respectively, by risk-weighted assets. Assets and off-balance sheet credit equivalents are assigned to one of four categories of risk-weights, based primarily on relative credit risk. The minimum Tier 1 risk-based capital ratio is 4% and the minimum total risk-based capital ratio is 8%. As of December 31, 2013, the Bancorp's Tier 1 risk-based capital ratio was 12.12% and its total risk-based capital ratio was 13.29%. The Bancorp is currently considered "well capitalized" under all regulatory definitions.

In addition to the risk-based capital requirements, the Federal Reserve requires top-rated bank holding companies to maintain a minimum leverage capital ratio of Tier 1 capital (defined by reference to the risk-based capital guidelines) to its average total consolidated assets of at least 3.0%. For most other bank holding companies (including the Bancorp), the minimum leverage capital ratio is 4.0%. Bank holding companies with supervisory, financial, operational or managerial weaknesses, as well as bank holding companies that are anticipating or experiencing significant growth, are expected to maintain capital ratios well above the minimum levels. The Bancorp's leverage capital ratio as of December 31, 2013 was 9.41%.

The FDIC has adopted a statement of policy regarding the capital adequacy of state-chartered banks and promulgated regulations to implement the system of prompt corrective action established by Section 38 of the FDIA. Under these regulations, a bank is "well capitalized" if it has: (i) a total risk-based capital ratio of 10.0% or greater; (ii) a Tier 1 risk-based capital ratio of 6.0% or greater; (iii) a leverage capital ratio of 5.0% or greater; and (iv) is not subject to any written agreement, order, capital directive or prompt corrective action directive to meet and maintain a specific capital level for any capital measure. A bank is "adequately capitalized" if it has: (i) a total risk-based capital ratio of 8.0% or greater; (ii) a Tier 1 risk-based capital ratio of 4.0% or greater; and (iii) a leverage capital ratio of 4.0% or greater (3.0% under certain circumstances) and does not meet the definition of a "well capitalized bank." The FDIC also must take into consideration: (i) concentrations of credit risk; (ii) interest rate risk; and (iii) risks from non-traditional activities, as well as an institution's ability to manage those risks, when determining the adequacy of an institution's capital. This evaluation will be made as a part of the institution's regular safety and soundness examination. The Bank is currently considered well capitalized under all regulatory definitions.

Generally, a bank, upon receiving notice that it is not adequately capitalized (i.e., that it is "undercapitalized"), becomes subject to the prompt corrective action provisions of Section 38 of FDIA that, for example, (i) restrict payment of capital distributions and management fees, (ii) require that the FDIC monitor the condition of the institution and its efforts to restore its capital, (iii) require submission of a capital restoration plan, (iv) restrict the growth of the institution’s assets and (v) require prior regulatory approval of certain expansion proposals. A bank that is required to submit a capital restoration plan must concurrently submit a performance guarantee by each company that controls the bank. A bank that is “critically undercapitalized” (i.e., has a ratio of tangible equity to total assets that is equal to or less than 2.0%) will be subject to further restrictions, and generally will be placed in conservatorship or receivership within 90 days.

The Basel Committee on Banking Supervision has also released new capital requirements, known as Basel III, setting forth higher capital requirements, enhanced risk coverage, a global leverage ratio, provisions for counter-cyclical capital, and liquidity standards. On July 2, 2013, the Federal Reserve, along with the other federal banking agencies, issued a final rule (the “Final Capital Rule”) implementing the Basel III capital standards and establishing the minimum capital requirements for banks and bank holding companies required under the Dodd-Frank Act. The majority of the provisions of the Final Capital Rule apply to bank holding companies and banks with consolidated assets of $500 million or more, such as the Bancorp and the Bank. The Final Capital Rule establishes a new capital risk-based capital ratio, a minimum common equity Tier 1 capital ratio of 6.5% of risk-weighted assets to be a “well capitalized” institution, and increases the minimum total Tier 1 capital ratio to be a “well capitalized” institution from 6.0% to 8.0%. The Final Capital Rule also requires that an institution establish a capital conservation buffer of common equity Tier 1 capital in an amount above the minimum risk-based capital requirements for “adequately capitalized” institutions equal to 2.5% of total risk weight assets, or face restrictions on capital distributions and executive bonuses. The Final Capital Rule increases the required capital for certain categories of assets, including higher-risk construction real estate loans and certain exposures related to securitizations. Under the Final Capital Rule, the Bancorp may make a one-time, permanent election to continue to exclude accumulated other comprehensive income from capital.

The Bancorp must comply with the Final Capital Rule beginning on January 1, 2015.

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

Dividend Restrictions

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

Restrictions on Bank Holding Company Dividends. The Federal Reserve and the RI Division of Banking have authority to prohibit bank holding companies from paying dividends if such payment is deemed to be an unsafe or unsound practice. The Federal Reserve has indicated generally that it may be an unsafe or unsound practice for bank holding companies to pay dividends unless the bank holding company’s net income over the preceding year is sufficient to fund the dividends and the expected rate of earnings retention is consistent with the organization’s capital needs, asset quality and overall financial condition. Additionally, under Rhode Island law, distributions of dividends cannot be made if a bank holding company would not be able to pay its debts as they become due in the usual course of business or the bank holding company's total assets would be less than the sum of its total liabilities. The Bancorp's revenues consist primarily of cash dividends paid to it by the Bank. Further, when the Final Capital Rule comes into effect, our ability to pay dividends will be restricted if we do not maintain a capital conservation buffer. See "-Regulatory Capital Requirements" above.

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

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

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

Mortgage Reform. The Dodd-Frank Act prescribes certain standards that mortgage lenders must consider before making a residential mortgage loan, including verifying a borrower's ability to repay such mortgage loan, and allows borrowers to assert violations of certain provisions of the Truth-in-Lending Act as a defense to foreclosure proceedings. Under the Dodd-Frank Act, prepayment penalties are prohibited for certain mortgage transactions and creditors are prohibited from financing insurance policies in connection with a residential mortgage loan or home equity line of credit. In addition, the Dodd-Frank Act prohibits mortgage originators from receiving compensation based on the terms of residential mortgage loans and generally limits the ability of a mortgage originator to be compensated by others if compensation is received from a consumer. The Dodd-Frank Act requires mortgage lenders to make additional disclosures prior to the extension of credit, in each billing statement and for negative amortization loans and hybrid adjustable rate mortgages.

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

Anti-Money Laundering and the Bank Secrecy Act

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

Office of Foreign Assets Control (“OFAC”). The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These sanctions, which are administered by OFAC, take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on “U.S. persons” engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (for example, property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC.

Regulation of Other Activities

Registered Investment Adviser and Broker-Dealer. WSC is a registered broker-dealer and a member of the Financial Industry Regulatory Authority, Inc. ("FINRA"). WSC is subject to extensive regulation, supervision, and examination by the Securities and Exchange Commission ("SEC"), FINRA and the Commonwealth of Massachusetts. Weston Financial is registered as an investment advisor under the Investment Advisers Act of 1940, as amended (the "Investment Advisers

Act”), and is subject to extensive regulation, supervision, and examination by the SEC and the Commonwealth of Massachusetts, including those related to sales methods, trading practices, the use and safekeeping of customers’ funds and securities, capital structure, record keeping and the conduct of directors, officers and employees.

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

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

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

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

ERISA. The Bank and Weston Financial are each also subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and related regulations, to the extent it is a “fiduciary” under ERISA with respect to some of its clients. ERISA and related provisions of the Code impose duties on persons who are fiduciaries under ERISA, and prohibit certain transactions involving the assets of each ERISA plan that is a client of the Bank or Weston Financial, as applicable, as well as certain transactions by the fiduciaries (and several other related parties) to such plans.

Securities and Exchange Commission Availability of Filings

Under Sections 13 and 15(d) of the Exchange Act, periodic and current reports must be filed or furnished with the SEC. You may read and copy any reports, statements or other information filed by Washington Trust with the SEC at its public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Washington Trust’s filings are also available to the public from commercial document retrieval services and at the website maintained by the SEC at http://www.sec.gov. In addition, Washington Trust makes available free of charge on the Investor Relations section of its website (www.washtrust.com) its annual report on Form 10-K, its quarterly reports on Form 10-Q, current reports on Form

8-K, and exhibits and amendments to those reports as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the SEC. Information on the Washington Trust website is not incorporated by reference into this Annual Report on Form 10-K.

Item 1A. Risk Factors.

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

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

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

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

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

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

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

Fluctuations in interest rates may reduce our profitability.

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

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

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

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

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

Our loan portfolio includes commercial loans, which are generally riskier than other types of loans.
At December 31, 2013, commercial loans represented 55% of our loan portfolio. Commercial loans generally carry larger loan balances and involve a higher risk of nonpayment or late payment than residential mortgage loans. These loans may lack standardized terms and may include a balloon payment feature. The ability of a borrower to make or refinance a balloon payment may be affected by a number of factors, including the financial condition of the borrower, prevailing economic conditions and prevailing interest rates. Repayment of these loans is generally more dependent on the economy and the successful operation of a business. Because of the risks associated with commercial loans, we may experience higher rates of default than if the portfolio were more heavily weighted toward residential mortgage loans. Higher rates of default could have an adverse effect on our financial condition and results of operations.

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

We have credit and market risk inherent in our securities portfolio.
We maintain a diversified securities portfolio, which includes mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises, obligations of U.S. government-sponsored agencies, securities issued by state and political subdivisions, trust preferred debt securities issued primarily by financial service companies, and corporate debt securities. We seek to limit credit losses in our securities portfolios by generally purchasing only highly-rated securities. The valuation and liquidity of our securities could be adversely impacted by reduced market liquidity, increased normal bid-asked spreads and increased uncertainty of market participants, which could reduce the market value of our securities, even those with no apparent credit exposure. The valuation of our securities requires judgment and as market conditions change security values may also change.

A change to the conservatorship of the Federal National Mortgage Association (“Fannie Mae”) and the Federal Home Loan Mortgage Corporation (“Freddie Mac”), and related actions, along with any changes in laws and regulations affecting the relationship between Fannie Mae and Freddie Mac and the U.S. federal government, could adversely affect our business.

There continues to be substantial uncertainty regarding the future of U.S. government-sponsored enterprises Fannie Mae and Freddie Mac, including whether they both will continue to exist in their current form. We sell some of our residential mortgages to Fannie Mae and Freddie Mac. Our ability to sell our residential mortgages into the secondary market is an important part of our overall interest rate risk, liquidity risk and capital management strategies.

Due to increased market concerns about the ability of Fannie Mae and Freddie Mac to withstand future credit losses associated with securities on which they provide guarantees and loans held in their investment portfolios without the direct support of the U.S. federal government, in September 2008, the Federal Housing Finance Agency placed Fannie Mae and Freddie Mac into conservatorship and, together with the U.S. Treasury, established a program designed to boost investor confidence in Fannie Mae and Freddie Mac by supporting the availability of mortgage financing and protecting taxpayers. Although the U.S. government has described some specific steps that it intends to take as part of the conservatorship process, efforts to stabilize these entities may not be successful and the outcome and impact of these events remain highly uncertain.

Future legislation could further change the relationship between Fannie Mae and Freddie Mac and the U.S. government, could change their business charters or structure, or could nationalize or eliminate such entities entirely. We cannot predict whether, or when, any such legislation may be enacted.

Difficult market conditions and economic trends in the real estate market have adversely affected our industry and our business.

We are particularly affected by downturns in the U.S. real estate market. Declines in the real estate market over the past several years, including decreased property values and increased delinquencies and foreclosures, may continue to have a negative impact on the credit performance of commercial and construction, mortgage, and consumer loan portfolios resulting in significant write-downs of assets by many financial institutions as the values of real estate collateral supporting many loans have declined significantly. In addition, a weakened economy and continued high levels of unemployment, among other factors, have led to erosion of customer confidence, a reduction in general business activity and increased market volatility. The resulting economic pressure on consumers and businesses and the lack of confidence in the financial markets have adversely affected our business, financial condition, results of operations and stock price. A worsening of these economic conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the industry. Our ability to properly assess the creditworthiness of customers and to estimate the losses inherent in our credit exposure is made more complex by these difficult market and economic conditions. Accordingly, if market conditions worsen, we may experience increases in foreclosures, delinquencies, write-offs and customer bankruptcies, as well as more restricted access to funds.

Continued weakness in the southern New England economy could adversely affect our financial condition and results of operations.

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

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

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

We are subject to regulation and supervision by the Federal Reserve, and the Bank is subject to regulation and supervision by the FDIC, Rhode Island Division of Banking and the Connecticut Department of Banking. Federal and state laws and regulations govern numerous matters affecting us, including changes in the ownership or control of banks and bank holding companies, maintenance of adequate capital and the financial condition of a financial institution, permissible types, amounts and terms of extensions of credit and investments, permissible non-banking activities, the level of reserves against deposits and restrictions on dividend payments. The FDIC, Rhode Island

Division of Banking and the Connecticut Division of Banking have the power to issue consent orders to prevent or remedy unsafe or unsound practices or violations

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of law by banks subject to their regulation, and the Federal Reserve possesses similar powers with respect to bank holding companies.

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

Because our business is highly regulated, the laws, rules, regulations, and supervisory guidance and policies applicable to us are subject to regular modification and change. It is impossible to predict the competitive impact that any such changes would have on the banking and financial services industry in general or on our business in particular. Such changes may, among other things, increase the cost of doing business, limit permissible activities, or affect the competitive balance between banks and other financial institutions. Changes to statutes, regulations, or regulatory policies, including changes in interpretation or implementation of statutes, regulations, or policies, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer, and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations, or policies could result in sanctions by regulatory agencies, civil money penalties, and/or reputation damage, which could have a material adverse effect on our business, financial condition, and results of operations. See "Business-Supervision and Regulation."

Additional requirements imposed by the Dodd-Frank Act could adversely affect us.
The Dodd-Frank Act comprehensively reformed the regulation of financial institutions, products and services. Because many aspects of the Dodd-Frank Act are subject to rulemaking that will take effect over several years, it is difficult to forecast the full impact that such rulemaking that will have on us, our customers or the financial industry. In addition, the Dodd-Frank Act established the CFPB as an independent bureau of the Federal Reserve. The CFPB has the authority to prescribe rules for all depository institutions governing the provision of consumer financial products and services, which may result in rules and regulations that reduce the profitability of such products and services or impose greater costs and restrictions on us and our subsidiaries. The Dodd-Frank Act also established new minimum mortgage underwriting standards for residential mortgages, and the regulatory agencies have focused on the examination and supervision of mortgage lending and servicing activities. The CFPB recently issued a final rule that requires creditors, such as Washington Trust, to make a reasonable good faith determination of a consumer's ability to repay any consumer credit transaction secured by a dwelling. The rule provides creditors with minimum requirements for making such ability-to-repay determinations. See "Business-Supervision and Regulation-The Dodd-Frank Act."

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

We will become subject to more stringent capital requirements.
The Dodd-Frank Act requires the federal banking agencies to establish minimum leverage and risk-based capital requirements for insured banks and their holding companies. The federal banking agencies issued a joint final rule, or the "Final Capital Rule," that implements the Basel III capital standards and establishes the minimum capital levels required under the Dodd-Frank Act. We must comply with the Final Capital Rule by January 1, 2015. The Final Capital Rule establishes a minimum common equity Tier I capital ratio of 6.5% of risk-weighted assets for a "well capitalized" institution and increases the minimum Tier I capital ratio for a "well capitalized" institution from 6.0% to 8.0%. Additionally, the Final Capital Rule requires an institution to maintain a 2.5% common equity Tier I capital

conservation buffer over the 6.5% minimum risk based capital requirements for “adequately capitalized” institutions to avoid restrictions on the ability to pay dividends, discretionary bonuses, and engage in share repurchases. The Final Capital Rule permanently grandfathers trust preferred securities issued before May 19, 2010 subject to a limit of 25% of Tier I capital. The Final Capital Rule increases the required capital for certain categories of assets, including high-volatility construction real estate loans and certain exposures related to securitizations; however, the Final Capital Rule retains the current capital treatment of residential mortgages. Under the Final Capital Rule, we may make a one-time, permanent election to continue to exclude accumulated other comprehensive income from capital. If we do not make this election, unrealized gains and losses will be included in the calculation of our regulatory capital. Implementation of these standards, or any other new regulations, may adversely affect our ability to pay dividends, or require us to reduce business levels or raise capital, including in ways that may adversely affect our results of operations or financial condition.

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

Risks Related to Our Wealth Management Business
Our wealth management business is highly regulated, and the regulators have the ability to limit or restrict our activities and impose fines or suspensions on the conduct of our business.
We offer wealth management services through the Bank and its subsidiary, Weston Financial, a registered investment adviser under the Investment Advisers Act of 1940, as amended (the “Investment Advisers Act”.) The Investment Advisers Act imposes numerous obligations on registered investment advisers, including fiduciary, record keeping, operational and disclosure obligations. We are also subject to the provisions and regulations of ERISA to the extent that we act as a “fiduciary” under ERISA with respect to certain of our clients. ERISA and the applicable provisions of the federal tax laws impose a number of duties on persons who are fiduciaries under ERISA and prohibit certain transactions involving the assets of each ERISA plan which is a client, as well as certain transactions by the fiduciaries (and certain other related parties) to such plans. In addition, applicable law provides that all investment contracts with mutual fund clients may be terminated by the clients, without penalty, upon no more than 60 days notice. Investment contracts with institutional and other clients are typically terminable by the client, also without penalty, upon 30 days notice. Changes in these laws or regulations could have a material adverse impact on our profitability and mode of operations.

The market value of wealth management assets under administration may be negatively affected by changes in economic and market conditions.
Revenues from wealth management services represented 21% of our total revenues for 2013. A substantial portion of these fees are dependent on the market value of wealth management assets under administration, which are primarily marketable securities. Changes in domestic and foreign economic conditions, volatility in financial markets, and general trends in business and finance, all of which are beyond our control, could adversely impact the market value of these assets and the fee revenues derived from the management of these assets.

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

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

Wealth management revenues are primarily derived from investment management (including mutual funds), trust fees and financial planning services. Most of our investment management clients may withdraw funds from accounts under management generally at their sole discretion. Financial planning contracts must typically be renewed on an annual basis and are terminable upon relatively short notice. The financial performance of our wealth management business is a significant factor in our overall results of operations and financial condition.

Risks Related to Our Operations

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

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

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

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

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

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

We may be unable to attract and retain key personnel.

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

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

We are dependent on our reputation within our market area, as a trusted and responsible financial company, for all aspects of our business with customers, employees, vendors, third-party service providers, and others, with whom we conduct business or potential future businesses. Our ability to attract and retain customers and employees could be adversely affected if our reputation is damaged. Our actual or perceived failure to address various issues could give rise to reputational risk that could cause harm to us and our business prospects. These issues also include, but are not limited to, legal and regulatory requirements; properly maintaining customer and employee personal information; record keeping; money-laundering; sales and trading practices; ethical issues; appropriately addressing potential conflicts of interest; and the proper identification of the legal, reputational, credit, liquidity and market risks inherent in our products. Failure to appropriately address any of these issues could also give rise to additional regulatory restrictions and legal risks, which could, among other consequences, increase the size and number of litigation claims and damages asserted or subject us to enforcement actions, fines and penalties and cause us to incur related costs and expenses. Furthermore, any damage to our reputation could affect our ability to retain and develop the business relationships necessary to conduct business, which in turn could negatively impact our financial condition, results of operations, and the market price of our common stock.

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

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

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

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

We are a holding company and depend on The Washington Trust Company for dividends, distributions and other payments.

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

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

Risks Related to Accounting and Accounting Standards

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

Applicable accounting standards require us to use the purchase method of accounting for all business combinations. Under purchase accounting, if the purchase price of an acquired company exceeds the fair value of the company's net assets, the excess is carried on the acquirer's balance sheet as goodwill. At December 31, 2013, we had $58.1 million of goodwill on our balance sheet. Goodwill must be evaluated for impairment at least annually. Write-downs of the amount of any impairment, if necessary, are to be charged to the results of operations in the period in which the impairment occurs. There can be no assurance that future evaluations of goodwill will not result in findings of impairment and related write-downs, which would have an adverse effect on our financial condition and results of operations.

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

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

Risks Related to Our Common Stock

Our common stock is not insured by any governmental entity.

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

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

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

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

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

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

ITEM 1B. Unresolved Staff Comments.
None.

ITEM 2. Properties.
Washington Trust is headquartered at 23 Broad Street, Westerly, Rhode Island. As of December 31, 2013, the Bank has ten branch offices located in southern Rhode Island (Washington County), seven branch offices located in the greater Providence area in Rhode Island and a branch office located in southeastern Connecticut. In addition, Washington Trust has a commercial lending office located in the financial district of Providence, Rhode Island and six residential mortgage lending offices that are located in eastern Massachusetts (Sharon, Burlington and Braintree), in Glastonbury and Stamford Connecticut and in Warwick, Rhode Island. Washington Trust also provides wealth management services from its offices located in Westerly, Narragansett and Providence, Rhode Island, and Wellesley, Massachusetts. Washington Trust has two operations facilities and a corporate office located in Westerly, Rhode Island, as well as an additional corporate office located in East Greenwich, Rhode Island.

At December 31, 2013, nine of the Corporation’s facilities were owned, twenty-two were leased and one branch office was owned on leased land. Lease expiration dates range from five months to twenty-five years with renewal options on certain leases of six months to twenty-five years. All of the Corporation’s properties are considered to be in good condition and adequate for the purpose for which they are used.

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

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

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

ITEM 3. Legal Proceedings.
The Corporation is involved in various claims and legal proceedings arising out of the ordinary course of business. Management is of the opinion, based on its review with counsel of the development of such matters to date, that the ultimate disposition of such other matters will not materially affect the consolidated financial position or results of operations of the Corporation.

ITEM 4. Mine Safety Disclosures.
Not applicable.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.
The Bancorp's common stock trades on the NASDAQ Global Select® Market under the symbol WASH.

The following table summarizes quarterly high and low stock price ranges, the end of quarter closing price and dividends paid per share for the years ended December 31, 2013 and 2012:

	Quarters			
2013	1	2	3	4
Stock prices:				
High	$28.00	$29.08	$33.09	$38.05
Low	25.53	25.71	28.33	30.49
Close	27.38	28.52	31.43	37.22
Cash dividend declared per share	$0.25	$0.25	$0.26	$0.27

	Quarters			
2012	1	2	3	4
Stock prices:				
High	$26.76	$24.74	$27.75	$27.46
Low	23.01	22.53	23.85	23.50
Close	24.14	24.38	26.27	26.31
Cash dividend declared per share	$0.23	$0.23	$0.24	$0.24

At February 28, 2014, there were 1,770 holders of record of the Bancorp's common stock.

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

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

See additional disclosures on Equity Compensation Plan Information in Part III, Item 12 "Security Ownership of Certain Beneficial Owners and Management." The Bancorp did not repurchase any shares during the fourth quarter of 2013.

Stock Performance Graph

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

The results presented assume that the value of the Corporation's common stock and each index was $100.00 on December 31, 2008. The total return assumes reinvestment of dividends.

For the period ending December 31,	2008	2009	2010	2011	2012	2013
Washington Trust Bancorp, Inc.	$100.00	$82.81	$121.38	$137.66	$157.56	$230.43
NASDAQ Bank Stocks	$100.00	$83.70	$95.55	$85.52	$101.50	$143.84
NASDAQ Stock Market (U.S.)	$100.00	$145.36	$171.74	$170.38	$200.63	$281.22

ITEM 6. Selected Financial Data.

The selected consolidated financial data set forth below does not purport to be complete and should be read in conjunction with, and is qualified in its entirety by, the more detailed information including the Consolidated Financial Statements and related Notes, and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," appearing elsewhere in this Annual Report on Form 10-K. Certain prior period amounts have been reclassified to conform to current year classification.

Selected Financial Data	(Dollars in thousands, except per share amounts)				
At or for the years ended December 31,	2013	2012	2011	2010	2009
Financial Results:					
Interest income	$116,348	$121,061	$121,346	$123,254	$129,630
Interest expense	24,563	30,365	36,391	46,063	63,738
Net interest income	91,785	90,696	84,955	77,191	65,892
Provision for loan losses	2,400	2,700	4,700	6,000	8,500
Net interest income after provision for loan losses	89,385	87,996	80,255	71,191	57,392
Noninterest income:					
Net realized gains on sales of securities	—	1,223	698	729	314
Net other-than-temporary impairment losses on securities	(3,489)	(221)	(191)	(417)	(3,137)
Other noninterest income	65,569	64,212	52,257	48,161	45,476
Total noninterest income	62,080	65,214	52,764	48,473	42,653
Noninterest expense	98,785	102,338	90,373	85,311	77,603
Income before income taxes	52,680	50,872	42,646	34,353	22,442
Income tax expense	16,527	15,798	12,922	10,302	6,346
Net income	$36,153	$35,074	$29,724	$24,051	$16,096
Per share information ($):					
Earnings per share:					
Basic	2.18	2.13	1.82	1.49	1.01
Diluted	2.16	2.13	1.82	1.49	1.00
Cash dividends declared (1)	1.03	0.94	0.88	0.84	0.84
Book value	19.84	18.05	17.27	16.63	15.89
Market value - closing stock price	37.22	26.31	23.86	21.88	15.58
Performance Ratios (%):					
Return on average assets	1.17	1.16	1.02	0.82	0.55
Return on average shareholders' equity	11.65	11.97	10.61	9.09	6.56
Average equity to average total assets	10.34	9.65	9.57	9.08	8.40
Dividend payout ratio (2)	47.69	44.13	48.35	56.38	84.00
Asset Quality Ratios (%):					
Total past due loans to total loans	0.89	1.22	1.22	1.27	1.64
Nonperforming loans to total loans	0.74	0.98	0.99	0.93	1.43
Nonperforming assets to total assets	0.62	0.83	0.81	0.79	1.06
Allowance for loan losses to nonaccrual loans	152.37	136.95	140.33	154.42	99.75
Allowance for loan losses to total loans	1.13	1.35	1.39	1.43	1.43
Net charge-offs to average loans	0.23	0.07	0.17	0.24	0.25
Capital Ratios (%):					
Tier 1 leverage capital ratio	9.41	9.30	8.70	8.25	7.82
Tier 1 risk-based capital ratio	12.12	12.01	11.61	11.53	11.14
Total risk-based capital ratio	13.29	13.26	12.86	12.79	12.40

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

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

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Selected Financial Data	(Dollars in thousands)				
December 31,	2013	2012	2011	2010	2009
Assets:					
Cash and cash equivalents	$85,317	$92,650	$87,020	$92,736	$57,260
Total securities	422,808	415,879	593,392	594,100	691,484
FHLBB stock	37,730	40,418	42,008	42,008	42,008
Loans:					
Commercial and other	1,363,335	1,252,419	1,124,628	1,027,065	984,550
Residential real estate	772,674	717,681	700,414	645,020	605,575
Consumer	326,875	323,903	322,117	323,553	329,543
Total loans	2,462,884	2,294,003	2,147,159	1,995,638	1,919,668
Less allowance for loan losses	27,886	30,873	29,802	28,583	27,400
Net loans	2,434,998	2,263,130	2,117,357	1,967,055	1,892,268
Investment in bank-owned life insurance	56,673	54,823	53,783	51,844	44,957
Goodwill and other intangibles	63,607	64,287	65,015	65,966	67,057
Other assets	87,734	140,697	105,523	95,816	89,439
Total assets	$3,188,867	$3,071,884	$3,064,098	$2,909,525	$2,884,473
Liabilities:					
Deposits:					
Demand deposits	$440,785	$379,889	$339,809	$228,437	$194,046
NOW accounts	309,771	291,174	257,031	241,974	202,367
Money market accounts	666,646	496,402	406,777	396,455	403,333
Savings accounts	297,357	274,934	243,904	220,888	191,580
Time deposits	790,762	870,232	878,794	948,576	931,684
Total deposits	2,505,321	2,312,631	2,126,315	2,036,330	1,923,010
FHLBB advances	288,082	361,172	540,450	498,722	607,328
Junior subordinated debentures	22,681	32,991	32,991	32,991	32,991
Other borrowings	178	1,212	19,758	23,359	21,501
Other liabilities	42,959	68,226	63,233	49,259	44,697
Shareholders’ equity	329,646	295,652	281,351	268,864	254,946
Total liabilities and shareholders’ equity	$3,188,867	$3,071,884	$3,064,098	$2,909,525	$2,884,473

Asset Quality:					
Nonaccrual loans	$18,302	$22,543	$21,237	$18,510	$27,470
Nonaccrual investment securities	547	843	887	806	1,065
Property acquired through foreclosure or repossession	932	2,047	2,647	3,644	1,974
Total nonperforming assets	$19,781	$25,433	$24,771	$22,960	$30,509

Wealth Management Assets:					
Market value of assets under administration	$4,781,958	$4,199,640	$3,900,061	$3,967,207	$3,735,646

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Selected Quarterly Financial Data		(Dollars and shares in thousands, except per share amounts)				
2013		Q1	Q2	Q3	Q4	Year
Interest income		$28,793	$28,799	$29,390	$29,366	$116,348
Interest expense		6,326	6,390	6,002	5,845	24,563
Net interest income		22,467	22,409	23,388	23,521	91,785
Provision for loan losses		600	700	700	400	2,400
Net interest income after provision for loan losses		21,867	21,709	22,688	23,121	89,385
Noninterest income:						
Net realized gains on sales of securities		—	—	—	—	—
Net other-than-temporary impairment losses on securities		(2,772)	—	—	(717)	(3,489)
Other noninterest income		15,938	16,394	17,400	15,837	65,569
Total noninterest income		13,166	16,394	17,400	15,120	62,080
Noninterest expense		24,184	25,005	25,548	24,048	98,785
Income before income taxes		10,849	13,098	14,540	14,193	52,680
Income tax expense		3,428	4,115	4,580	4,404	16,527
Net income		$7,421	$8,983	$9,960	$9,789	$36,153
Weighted average common shares outstanding - basic		16,401	16,454	16,563	16,602	16,506
Weighted average common shares outstanding - diluted		16,449	16,581	16,696	16,770	16,664
Per share information:	Basic earnings per common share	$0.45	$0.54	$0.60	$0.59	$2.18
	Diluted earnings per common share	$0.45	$0.54	$0.59	$0.58	$2.16
	Cash dividends declared per share	$0.25	$0.25	$0.26	$0.27	$1.03

Selected Quarterly Financial Data	(Dollars and shares in thousands, except per share amounts)				
2012	Q1	Q2	Q3	Q4	Year
Interest income	$30,530	$30,190	$30,251	$30,090	$121,061
Interest expense	8,145	7,779	7,515	6,926	30,365
Net interest income	22,385	22,411	22,736	23,164	90,696
Provision for loan losses	900	600	600	600	2,700
Net interest income after provision for loan losses	21,485	21,811	22,136	22,564	87,996
Noninterest income:					
Net realized gains on sales of securities	—	299	—	924	1,223
Net other-than-temporary impairment losses on securities	(209)	—	—	(12)	(221)
Other noninterest income	14,441	15,875	16,921	16,975	64,212
Total noninterest income	14,232	16,174	16,921	17,887	65,214
Noninterest expense	23,399	25,228	26,290	27,421	102,338
Income before income taxes	12,318	12,757	12,767	13,030	50,872
Income tax expense	3,880	4,044	3,867	4,007	15,798
Net income	$8,438	$8,713	$8,900	$9,023	$35,074
Weighted average common shares outstanding - basic	16,330	16,358	16,366	16,376	16,358
Weighted average common shares outstanding - diluted	16,370	16,392	16,414	16,425	16,401
Per share information:	$0.51	$0.53	$0.54	$0.55	$2.13

Basic earnings per common share					
Diluted earnings per common share	$0.51	$0.53	$0.54	$0.55	$2.13
Cash dividends declared per share	$0.23	$0.23	$0.24	$0.24	$0.94

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.
The following analysis is intended to provide the reader with a further understanding of the consolidated financial condition and results of operations of the Corporation for the periods shown. For a full understanding of this analysis, it should be read in conjunction with other sections of this Annual Report on Form 10-K, including Part I, "Item 1. Business", Part II, "Item 6. Selected Financial Data" and Part II, "Item 8. Financial Statements and Supplementary Data."

Forward-Looking Statements
This report contains statements that are "forward-looking statements." We may also make written or oral forward-looking statements in other documents we file with the SEC, in our annual reports to shareholders, in press releases and other written materials, and in oral statements made by our officers, directors or employees. You can 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 the control of the Corporation. These risks, uncertainties and other factors may cause the actual results, performance or achievements of the Corporation to be materially different from 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: continued weakness in national, regional or international economic conditions or conditions affecting the banking or financial services industries or financial capital markets; volatility in national and international financial markets; additional government intervention in the U.S. financial system; reductions in net interest income resulting from interest rate volatility as well as changes in the balance and mix of loans and deposits; reductions in the market value of wealth management assets under administration; changes in the value of securities and other assets; reductions in loan demand; changes in loan collectibility, default and charge-off rates; changes in the size and nature of the Corporation's competition; changes in legislation or regulation and accounting principles, policies and guidelines, and changes in the assumptions used in making such forward-looking statements. In addition, the factors described under "Risk Factors" in Item 1A of this Annual Report on Form 10-K may result in these differences. You should carefully review all of these factors, and you should be aware that there may be other factors that could cause these differences. These forward-looking statements were based on information, plans and estimates at the date of this report, and we assume no obligation to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events or other changes.

Critical Accounting Policies and Estimates
Accounting policies involving significant judgments, estimates and assumptions by management, which have, or could have, a material impact on the carrying value of certain assets and impact income are considered critical accounting policies. The Corporation considers the following to be its critical accounting policies: allowance for loan losses, review of goodwill and intangible assets for impairment and assessment of investment securities for impairment.

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

(1) Loss allocations are identified for individual loans deemed to be impaired in accordance with GAAP. Impaired loans are loans for which it is probable that the Bank will not be able to collect all amounts due according to the contractual terms of the loan agreements and all loans restructured in a troubled debt restructuring. Impaired loans do not include large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment,

which consist of most residential mortgage loans and consumer loans. Impairment is measured on a discounted cash flow method based upon the loan's contractual effective interest rate, or at the loan's observable market price, or if the loan is collateral dependent, at the fair value of the collateral less costs to sell. For collateral dependent loans, management may adjust appraised values to reflect estimated market value declines or apply other discounts to appraised values for unobservable factors resulting from its knowledge of circumstances associated with the property.

(2) Loss allocation factors are used for non-impaired loans based on credit grade, loss experience, delinquency factors and other similar credit quality indicators.

Individual commercial loans and commercial mortgage loans not deemed to be impaired are evaluated using an internal rating system and the application of loss allocation factors. The loan rating system is described under the caption “Credit Quality Indicators” in Note 5 to the Consolidated Financial Statements. The loan rating system and the related loss allocation factors take into consideration parameters including the borrower’s financial condition, the borrower’s performance with respect to loan terms, and the adequacy of collateral. We periodically reassess and revise the loss allocation factors used in the assignment of loss exposure to appropriately reflect our analysis of migrational loss experience. We analyze historical loss experience over periods deemed to be relevant to the inherent risk of loss in the commercial loans and commercial mortgage loan portfolios as of the balance sheet date. We adjust loss allocations for various factors we believe are not adequately presented in historical loss experience, including trends in real estate values, trends in rental rates on commercial real estate, consideration of general economic conditions and our assessments of credit risk associated with certain industries and an ongoing trend toward larger credit relationships.

Portfolios of more homogeneous populations of loans, including the various categories of residential mortgages and consumer loans are analyzed as groups taking into account delinquency ratios and other indicators and our historical loss experience for each type of credit product. We analyze historical loss experience over periods deemed to be relevant to the inherent risk of loss in residential mortgage and consumer loan portfolios as of the balance sheet date. We periodically update these analyses and adjust the loss allocations for various factors that we believe are not adequately presented in historical loss experience including trends in real estate values, changes in unemployment levels and increases in delinquency levels. These factors are also evaluated taking into account the geographic location of the underlying loans.

Revisions to loss allocation factors are not retroactively applied.

(3) An additional unallocated allowance is maintained to allow for measurement imprecision attributable to uncertainty in the economic environment and ever changing conditions and to reflect management’s consideration of qualitative and quantitative assessments of other environmental factors, including, but not limited to, conditions that may affect the collateral position, such as environmental matters and regulatory changes affecting the foreclosure process, as well as conditions that may affect the ability of borrowers to meet debt service requirements.

Because the methodology is based upon historical experience and trends, current economic data as well as management’s judgment, factors may arise that result in different estimations. Significant factors that could give rise to changes in these estimates may include, but are not limited to, changes in economic conditions in our market area, concentration of risk and declines in local property values. Adversely different conditions or assumptions could lead to increases in the allowance. In addition, various regulatory agencies periodically review the allowance for loans losses. Such agencies may require additions to the allowance based on their judgments about information available to them at the time of their examination. As of December 31, 2013, management believes that the allowance is adequate and consistent with asset quality and delinquency indicators.

Review of Goodwill and Identifiable Intangible Assets for Impairment

The Corporation allocated the cost of an acquired entity to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. Other intangible assets identified in acquisitions consist of advisory contracts. The value attributed to the advisory contracts was based on the time period over which they are expected to generate economic benefits.

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

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

Washington Trust has two reporting units: the commercial banking segment and the wealth management services segment. For both segments of the Corporation, goodwill was assessed for impairment in 2013 by performing a discounted cash flow analysis ("income approach") and utilizing estimates of selected market information ("market approach"). The income approach measures the fair value of an interest in a business by discounting expected future cash flows to a present value. The market approach takes into consideration fair values of comparable companies operating in similar lines of business that are potentially subject to similar economic and environmental factors and could be considered reasonable investment alternatives. The results of the income approach and the market approach were weighted equally. Step 1 results of the 2013 impairment analysis indicated that the fair value significantly exceeded the carrying value for both reporting units.

Other intangible assets with definite lives are tested for impairment whenever events or circumstances occur that indicate that the carrying amount may not be recoverable. If applicable, the Corporation tests each of the intangibles by comparing the carrying value of the intangible asset to the sum of undiscounted cash flows expected to be generated by the asset. If the carrying amount of the asset exceeded its undiscounted cash flows, then an impairment loss would be recognized for the amount by which the carrying amount exceeds its fair value.

The fair value of the intangible asset associated with our wealth management advisory contracts was estimated using valuation techniques, based on discounted cash flow analysis. This intangible asset is being amortized over the period the asset is expected to contribute to the cash flows of the Corporation, which reflects the expected pattern of benefit. Wealth management assets under administration were analyzed to determine if there had been a reduction since acquisition that could have indicated possible impairment of the advisory contracts. Impairment would be recognized if the carrying value exceeded the sum of the undiscounted expected future cash flows from the intangible assets. Impairment would result in a write-down to the estimated fair value based on the anticipated discounted future cash flows. The remaining useful life of the intangible asset that is being amortized was also evaluated to determine whether events and circumstances warrant a revision to the remaining period of amortization.

The Corporation makes certain estimates and assumptions that affect the determination of the expected future cash flows from the advisory contracts. These estimates and assumptions include account attrition, market appreciation for wealth management assets under administration and anticipated fee rates, projected costs and other factors. Significant changes in these estimates and assumptions could cause a different valuation for the intangible assets. Changes in the original assumptions could change the amount of the intangible recognized and the resulting amortization. Subsequent changes in assumptions could result in recognition of impairment of the intangible assets.

These assumptions used in the impairment tests of goodwill and intangible assets are susceptible to change based on changes in economic conditions and other factors. Any change in the estimates which the Corporation uses to determine the carrying value of the Corporation's goodwill and identifiable intangible assets, or which otherwise adversely affects their value or estimated lives could adversely affect the Corporation's results of operations. See Note 8 to the Consolidated Financial Statements for additional information.

Assessment of Investment Securities for Impairment

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

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

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

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

Overview

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

Our largest source of operating income is net interest income, the difference between interest earned on loans and securities and interest paid on deposits and other borrowings. In addition, we generate noninterest income from a number of sources including wealth management services, loan sales and commissions on loans originated for others, merchant credit card processing and deposit services and bank-owned life insurance ("BOLI"). Our principal noninterest expenses include salaries and employee benefits, occupancy and facility-related costs, merchant processing costs, technology and other administrative expenses.

Our financial results are affected by interest rate volatility, changes in economic and market conditions, competitive conditions within our market area and changes in legislation, regulation and/or accounting principles. While the regional economic climate has been improving in recent quarters, uncertainty surrounding future economic growth, consumer confidence, credit availability and corporate earnings remains. Management believes that overall credit quality continues to be affected by weaknesses in national and regional economic conditions, including high unemployment levels, particularly in Rhode Island.

We believe the Corporation's financial strength and stability, capital resources and reputation as the largest independent bank headquartered in Rhode Island were key factors in the continued success in 2013. We continued to leverage our strong, statewide brand to build market share in Rhode Island whenever possible and bring select business lines to new markets with high-growth potential while remaining steadfast in our commitment to provide superior service. In the second quarter of 2014, Washington Trust expects to open a new full-service branch in Johnston, Rhode Island, in Providence County. This branch will be the Washington Trust's nineteenth branch office and its first in Johnston.

Subsequent Event

On March 1, 2014, the Corporation sold its merchant processing service business line to a third party. The sale resulted in a gain of approximately $6.3 million; after-tax $4.0 million, or $0.24 per diluted share. In addition, Washington Trust expects to incur divestiture related costs of approximately $359 thousand; after tax $230 thousand, or $0.01 per diluted share, in the first quarter of 2014. The Corporation will also have the opportunity to earn additional referral revenues during the ten-year period following the transaction.

Washington Trust has also entered into transactions in March 2014 involving the prepayment of FHLBB advances totaling approximately $99.3 million, resulting in debt prepayment penalty expense of approximately $6.3 million; after-tax $4.0 million, or $0.24 per diluted share. The weighted average rate of these FHLBB advances was 3.01% with a weighted average remaining term of thirty-six months. Other wholesale funding in the form of brokered time deposits as well as existing on balance sheet liquidity were utilized as the funding source for the prepayment of these FHLBB advances. The replacement wholesale funding is expected to amount to approximately $80.0 million, with maturities ranging from 2015 through 2019, a weighted average maturity of thirty-five months and an initial weighted average cost of approximately 0.94%.

In 2013, the merchant processing service business line contributed approximately $950 thousand in pre-tax income (after-tax $608 thousand) to Washington Trust's earnings. The combined impact of the divestiture of this business line and the reduction in interest expense due to the borrowing transactions is expected to result in future ongoing pre-tax income enhancement of approximately $1.1 million in 2014 and $1.3 million in 2015, with continuing benefits in future years.

Opportunities and Risks

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

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

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

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

Wealth management service revenues, which represented approximately 21% of total revenues in 2013, are largely dependent on the market value of wealth management assets under administration. These values may be negatively affected by changes in economic conditions and volatility in the financial markets.

Operational risk is the risk of loss resulting from data processing system failures and errors, inadequate or failed internal processes, customer or employee fraud and catastrophic failures resulting from terrorist acts or natural disasters. Operational risk is discussed above under Item 1A. "Risk Factors."

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

Composition of Earnings

Comparison of 2013 with 2012

Net income for the year ended December 31, 2013, amounted to $36.2 million, or $2.16 per diluted share, up from $35.1 million, or $2.13 per diluted share, reported for 2012. The returns on average equity and average assets for 2013 were 11.65% and 1.17%, respectively, compared to 11.97% and 1.16%, respectively, for 2012.

The increase in earnings in 2013 largely reflected higher wealth management revenues and increased net interest income, partially offset by a decline in mortgage banking revenues (net gains on loan sales and commissions on loans originated for others). The comparison of 2013 earnings to 2012 was also impacted by the following:

- Other-than-temporary impairment ("OTTI") losses of $3.5 million in 2013 and $221 thousand in 2012. See additional disclosure regarding OTTI losses in the section in the section "Financial Condition" under the heading "Securities".
- There were no net realized gains on securities in 2013, while there were $1.2 million recognized in 2012.
- Debt prepayment penalty expense of $1.1 million was recognized in 2013, compared to $3.9 million in 2012.

Net interest income for 2013 increased by $1.1 million, or 1%, over 2012, largely reflecting growth in average loan balances and continued reduction in funding costs. The net interest margin (fully taxable equivalent net interest income as a percentage of average interest-earnings assets) was 3.28% for 2013, down from 3.29% reported for 2012.

The loan loss provision charged to earnings for 2013 amounted to $2.4 million, a decrease of $300 thousand from 2012. Management believes that the level of the provision for loan losses has been consistent with the trends in asset quality and credit quality indicators.

Noninterest income for 2013 decreased by $3.1 million, or 5%, from 2012. Excluding the impact of the OTTI losses and net realized gains on securities mentioned above, noninterest income increased by $1.4 million, or 2%, mainly due to higher wealth management revenues offset, in party, by lower mortgage banking revenues.

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

Net gains on loan sales and commissions on loans originated for others ("mortgage banking revenues") are dependent on mortgage origination volume and are sensitive to interest rates and the condition of the housing markets. Mortgage banking revenues amounted to $13.1 million in 2013, down by $1.0 million, or 7.1%, from 2012 reflecting declines in mortgage loan refinancing and sales activity due to higher market interest rates.

Noninterest expenses for 2013 decreased by $3.6 million, or 4%, from 2012, primarily due a $2.8 million decline in debt prepayment penalty expense.

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

Comparison of 2012 with 2011

Net income for 2012 amounted to $35.1 million, or $2.13 per diluted share, up from $29.7 million, or $1.82 per diluted share, reported for 2011. On a diluted earnings per share basis, 2012 earnings were up by 17% over 2011. The returns on average equity and average assets for 2012 were 11.97% and 1.16%, respectively, compared to 10.61% and 1.02%, respectively, for 2011.

The increase in profitability over 2011 primarily reflected strong mortgage banking results, higher net interest income, a lower provision for loan losses and higher wealth management revenues, offset, in part, by increases in salaries and employee benefit costs and income taxes. Also included in 2012 and 2011 results were the following items:

- Balance sheet management transactions were conducted in 2012 and 2011 and were comprised of sales of mortgage-backed securities, prepayment of FHLBB advances and modifications of terms of FHLBB advances.
  During 2012, $39.1 million in mortgage-backed securities were sold and $86.2 million in FHLBB advances were prepaid, resulting in $1.1 million of net realized gains on securities and $3.9 million in debt prepayment penalty expense being recognized. Also in 2012, the terms of $113.0 million in FHLBB advances were modified, extending these advances into longer terms with a lower average rate.
  During 2011, $9.7 million in mortgage-backed securities were sold and $9.0 million in FHLBB advances were prepaid, resulting in $368 thousand of net realized gains on securities and $694 thousand in debt prepayment penalty expense being recognized. Also in 2011, the terms of $153.8 million in FHLBB advances were modified extending these advances into longer terms with a lower average rate.
- 2012 BOLI income included a non-taxable gain of $528 thousand recognized in the third quarter of 2012, due to the receipt of life insurance proceeds.
- Charitable contribution expense, which was classified in other expenses, totaled $400 thousand and $990 thousand, respectively, for 2012 and 2011.

Net interest income for 2012 increased by $5.7 million, or 7%, over 2011, largely reflecting the benefit of lower funding costs as well as growth in average loan balances. The net interest margin was 3.29% for 2012, up from 3.20% reported for 2011.

The loan loss provision charged to earnings for 2012 amounted to $2.7 million, a reduction of $2.0 million from 2011. In 2012, net charge-offs totaled $1.6 million, or 0.07% of total average loans, compared to $3.5 million, or 0.17% of average total loans, in 2011.

Noninterest income for 2012 increased by $12.5 million, or 24%, over 2011, primarily reflecting increases in mortgage banking and wealth management revenues.

For 2012, wealth management revenues totaled $29.6 million, up by $1.3 million, or 5%, over 2011. This included an increase of $620 thousand, or 42%, in transaction-based revenues and an increase of $715 thousand, or 3%, in asset-based revenues. The average balance of wealth management assets for the year 2012 was 2% higher than the average balance for 2011.

Mortgage banking revenues amounted to $14.1 million in 2012, up by $9.0 million from 2011. Residential mortgage origination volume during 2012 reflected strong refinancing activity in response to sustained low market rates of interest, as well as continued origination volume growth in our residential mortgage lending offices.

Noninterest expenses for 2012 increased by $12.0 million, or 13%, over 2011, primarily due to increases in salaries and employee benefit costs and the debt prepayment penalties associated with the balance sheet management transactions discussed above. The increase in salaries and employee benefit costs over 2011 reflected higher staffing levels to support growth and higher levels of business development based compensation primarily in mortgage banking, as well as higher defined benefit plan costs primarily due to a lower discount rate in 2012 compared to 2011.

Income tax expense amounted to $15.8 million for 2012, up by $2.9 million from 2011. The effective tax rate for 2012 was 31.1%, compared to 30.3% for 2011. The increase in the effective tax rate from 2011 reflected a higher proportion of taxable income to pre-tax book income in 2012.

Results of Operations
Segment Reporting

Washington Trust manages its operations through two business segments, Commercial Banking and Wealth Management Services. Activity not related to the segments, such as investment securities portfolio, wholesale funding, income from BOLI and administrative expenses are not allocated to the business lines are considered Corporate. The Corporate unit also includes the residual impact of methodology allocations such as funds transfer pricing offsets. Methodologies used to allocate income and expenses to business lines are periodically reviewed and revised. See Note 17 to the Consolidated Financial Statements for additional disclosure related to business segments.

Comparison of 2013 with 2012

The Commercial Banking segment reported net income of $29.0 million in 2013, an increase of $440 thousand, or 2%, from 2012. Commercial Banking net interest income for 2013 increased modestly by $128 thousand from 2012. The 2013 provision for loan losses totaled $2.4 million, down by $300 thousand from 2012 and consistent with trends in asset quality and credit quality indicators. Noninterest income derived from the Commercial Banking segment totaled $30.8 million for 2013, down by $958 thousand, or 3.0%, from 2012, largely due to lower mortgage banking revenues. Commercial Banking noninterest expenses for 2013, decreased by $898 thousand, or 1%, from 2012, largely due to a decline in salaries and employee benefit costs.

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

Comparison of 2012 with 2011

The Commercial Banking segment reported net income of $28.5 million in 2012, an increase of $5.3 million, or 23%, from 2011. Commercial Banking net interest income for 2012 increased by $3.5 million, or 5%, from 2011, reflecting the benefit of lower funding costs, as well as growth in average loan balances. The 2012 provision for loan losses was totaled $2.7 million, down by $2.0 million from 2011 based on trends in asset quality and credit quality indicators, as well as the absolute level of loan loss allocation. Noninterest income derived from the Commercial Banking segment totaled $31.7 million for 2012, up by $9.9 million, or 46%, from 2011, primarily due to higher mortgage banking revenues. Commercial Banking noninterest expenses for 2012, increased by $7.3 million, or 13%, over 2011, reflecting increased salaries and employee benefit expenses largely due to higher levels of business development based compensation primarily in mortgage banking, and higher staffing levels to support growth.

The Wealth Management Services segment reported 2012 net income of $5.5 million, an increase of $528 thousand, or 11%, from 2011. Noninterest income derived from the Wealth Management Services segment was $29.6 million in 2012, up by $1.3 million, or 5%, compared to 2011. This includes an increase of $620 thousand, or 42%, in transaction-based revenues (financial planning, commissions and other service fees). Asset-based wealth management revenues totaled $27.5 million for 2012, up by $715 thousand, or 3%, over 2011. The average balance of wealth management assets for the year 2012 was 2% higher than the average balance for 2011. Noninterest expenses for the Wealth Management Services segment totaled $20.9 million for 2012, up by $485 thousand, or 2%, from 2011.

Net Interest Income

Net interest income continues to be the primary source of our operating income. Net interest income is affected by the level of interest rates, changes in interest rates and changes in the amount and composition of interest-earning assets and interest-bearing liabilities. Included in interest income are loan prepayment fees and certain other fees, such as late charges. The following discussion presents net interest income on a fully taxable equivalent ("FTE") basis by adjusting income and yields on tax-exempt loans and securities to be comparable to taxable loans and securities. For more information see the section entitled "Average Balances / Net Interest Margin - Fully Taxable Equivalent (FTE) Basis" below.

Comparison of 2013 with 2012

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

- Loan prepayment fees and other fee income of $1.2 million and $715 thousand, respectively, for 2013 and 2012.
- Accelerated amortization of $244 thousand in debt issuance costs, which was classified as interest expense, resulting from the redemption of $10.3 million of our junior subordinated debentures in 2013. There was no such expense incurred in 2012. See additional disclosure regarding the redemption in the section "Source of Funds".
- The impact of both these items on the net interest margin for 2013 and 2012 was an increase of four basis points and two basis points, respectively.

In the recent interest rate environment, market yields on new loan originations have been below the average yield of the existing loan portfolio. Due to the combined effect of new loan growth and the runoff of higher yielding loan balances, the yield on total interest-earning assets may continue to decline.

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

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

The average balance of noninterest-bearing demand deposits for 2013 increased by $141.2 million, or 8%, compared to 2012.

Comparison of 2012 with 2011

FTE net interest income for 2012 increased by $5.8 million, or 7%, from 2011. The net interest margin increased by nine basis points from 3.20% in 2011 to 3.29% in 2012. The increase in net interest income and the improvement in the net interest margin were largely due to a reduction in funding costs and growth in average loan balances.

Average interest-earning assets amounted to $2.8 billion for 2012, up by 4% from the average balance in 2011. Total average loans increased by $165.3 million, or 8%, due to growth in both the commercial and residential real estate loan portfolios. The yield on total loans for 2012 decreased by 20 basis points from 2011, reflecting the impact of a sustained low interest rate environment on loan yields. The contribution of loan prepayment fees and other fees to the yield on total loans was 4 basis points and 2 basis points, respectively, in 2012 and 2011. Total average securities for 2012 decreased by $67.5 million, or 12%, from 2011, due to principal payments received on mortgage-backed securities not being reinvested and the sales of mortgage-backed securities associated with balance sheet management transactions. The rate of return on securities for 2012 decreased by 23 basis points from the prior year. The decrease in total yield on securities reflects maturities, pay-downs and sales of higher yielding securities.

Average interest-bearing liabilities for 2012 increased by $23.2 million, or 1%, from 2011, reflecting growth in lower-cost deposit balances, partially offset by decreases in time deposits and borrowings. The weighted average cost of funds for 2012 declined by 27 basis points from 2011, due to declines in the rate paid on time deposits and FHLBB advances. The average balance of FHLBB advances for 2012 decreased by $26.3 million, or 5%, compared to 2011. The average rate paid on such advances in 2012 decreased by 48 basis points from 2011, reflecting lower market interest rates on new advances and the benefit of balance sheet management transactions. Total average interest-bearing deposits for 2012 increased by $66.3 million, or 4%, compared to 2011, reflecting growth in lower-cost deposit balances, partially offset by a decrease in time deposits. The average rate paid on interest-bearing deposits for 2012 decreased by 14 basis points compared to 2011, primarily due to declines in the rate paid on time deposits. The average balance of noninterest-bearing demand deposits for 2012 increased by $59.9 million, or 22%, compared to 2011.

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

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

Years ended December 31,	2013			2012			2011		
(Dollars in thousands)	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets:									
Commercial loans	$1,286,029	$59,387	4.62	$1,177,268	$58,823	5.00	$1,063,322	$55,592	5.23
Residential real estate loans, including mortgage loans held for sale	767,450	31,752	4.14	733,178	31,974	4.36	678,697	31,447	4.63
Consumer loans	323,847	12,304	3.80	320,828	12,428	3.87	324,002	12,649	3.90
Total loans	2,377,326	103,443	4.35	2,231,274	103,225	4.63	2,066,021	99,688	4.83
Cash, federal funds sold and short-term investments	72,726	158	0.22	41,359	91	0.22	35,625	69	0.19
FHLBB stock	38,238	148	0.39	40,713	207	0.51	42,008	124	0.30
Taxable debt securities	316,440	11,008	3.48	431,024	15,359	3.56	489,210	18,704	3.82
Nontaxable debt securities	65,708	3,889	5.92	69,838	4,115	5.89	77,634	4,555	5.87
Corporate stocks	—	—	—	910	68	7.47	2,456	177	7.21
Total securities	382,148	14,897	3.90	501,772	19,542	3.89	569,300	23,436	4.12
Total interest-earning assets	2,870,438	118,646	4.13	2,815,118	123,065	4.37	2,712,954	123,317	4.55
Noninterest-earning assets	208,463			221,031			214,214		
Total assets	$3,078,901			$3,036,149			$2,927,168		
Liabilities and Shareholders' Equity:									
Interest-bearing demand deposits	$4,461	$—	—	$—	$—	—	$—	$—	—
NOW accounts	291,705	183	0.06	259,595	175	0.07	232,545	242	0.10
Money market accounts	569,534	1,749	0.31	430,262	1,078	0.25	392,002	1,051	0.27
Savings accounts	288,892	186	0.06	261,795	276	0.11	229,180	286	0.12
Time deposits	831,729	10,302	1.24	893,474	12,061	1.35	925,064	14,113	1.53
FHLBB advances	322,118	10,643	3.30	466,424	14,957	3.21	492,714	18,158	3.69
Junior subordinated debentures	27,398	1,484	5.42	32,991	1,570	4.76	32,991	1,568	4.75
Other	581	16	2.75	5,093	248	4.87	21,891	973	4.44
Total interest-bearing liabilities	2,336,418	24,563	1.05	2,349,634	30,365	1.29	2,326,387	36,391	1.56

Demand deposits	384,323			338,046			278,120		
Other liabilities	47,961			55,382			42,554		
Shareholders’ equity	310,199			293,087			280,107		
Total liabilities and shareholders’ equity	$3,078,901			$3,036,149			$2,927,168		
Net interest income		$94,083			$92,700			$86,926	
Interest rate spread			3.08			3.08			2.99
Net interest margin			3.28			3.29			3.20

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

(Dollars in thousands)			
Years ended December 31,	2013	2012	2011
Commercial loans	$962	$569	$369
Nontaxable debt securities	1,336	1,416	1,553
Corporate stocks	—	19	49
Total	$2,298	$2,004	$1,971

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

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

(Dollars in thousands)	2013/2012			2012/2011		
	Volume	Rate	Net Change	Volume	Rate	Net Change
Interest on interest-earning assets:						
Commercial loans	$5,218	($4,654)	$564	$5,759	($2,528)	$3,231
Residential real estate loans, including mortgage loans held for sale	1,445	(1,667)	(222)	2,428	(1,901)	527
Consumer loans	111	(235)	(124)	(124)	(97)	(221)
Cash, federal funds sold and short-term investments	67	—	67	11	11	22
FHLBB stock	(12)	(47)	(59)	(4)	87	83
Taxable debt securities	(4,012)	(339)	(4,351)	(2,127)	(1,217)	(3,344)
Nontaxable debt securities	(247)	21	(226)	(456)	16	(440)
Corporate stocks	(34)	(34)	(68)	(115)	5	(110)
Total interest income	2,536	(6,955)	(4,419)	5,372	(5,624)	(252)
Interest on interest-bearing liabilities:						
NOW accounts	28	(20)	8	20	(87)	(67)
Money market accounts	385	286	671	104	(77)	27
Savings accounts	32	(122)	(90)	23	(33)	(10)
Time deposits	(807)	(952)	(1,759)	(462)	(1,590)	(2,052)
FHLBB advances	(4,724)	411	(4,313)	(931)	(2,270)	(3,201)
Junior subordinated debentures	(287)	201	(86)	—	2	2
Other	(156)	(77)	(233)	(811)	86	(725)
Total interest expense	(5,529)	(273)	(5,802)	(2,057)	(3,969)	(6,026)
Net interest income	$8,065	($6,682)	$1,383	$7,429	($1,655)	$5,774

Provision and Allowance for Loan Losses

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

Based on our analysis of trends in asset quality and credit quality indicators, the provision for loan losses charged to earnings amounted to $2.4 million in 2013, compared to $2.7 million in 2012 and $4.7 million in 2011. Net charge-offs were $5.4 million, or 0.23% of average loans, in 2013 and included a $4.0 million charge-off recognized in the second

quarter on one commercial mortgage loan. Net charge-offs were $1.6 million, or 0.07% of average loans, in 2012 and $3.5 million, or 0.17% of average loans, in 2011.

The allowance for loan losses was $27.9 million, or 1.13% of total loans, at December 31, 2013, compared to $30.9 million, or 1.35% of total loans, at December 31, 2012. The decline reflects charge-offs, a decrease in specific reserves on impaired loans and a decrease in estimated loss exposure on loans collectively evaluated for impairment, as evidenced by improvement in commercial loan portfolio credit quality indicators. See additional discussion under the caption "Asset Quality" for further information on the Allowance for Loan Losses.

Noninterest Income

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

(Dollars in thousands)	Years Ended December 31,			2013/2012 Change		2012/2011 Change	
	2013	2012	2011	$	%	$	%
Noninterest income:							
Wealth management revenues	$31,825	$29,641	$28,306	$2,184	7 %	$1,335	5 %
Service charges on deposit accounts	3,256	3,193	3,455	63	2	(262)	(8)
Merchant processing fees	10,220	10,159	9,905	61	1	254	3
Card interchange fees	2,788	2,480	2,249	308	12	231	10
Income from bank-owned life insurance	1,850	2,448	1,939	(598)	(24)	509	26
Net gains on loan sales and commissions on loans originated for others	13,085	14,092	5,074	(1,007)	(7)	9,018	178
Net realized gains on securities	—	1,223	698	(1,223)	(100)	525	75
Net gains on interest rate swap contracts	951	255	6	696	273	249	4,150
Equity in earnings (losses) of unconsolidated subsidiaries	(107)	196	(213)	(303)	(155)	409	192
Other income	1,701	1,748	1,536	(47)	(3)	212	14
Noninterest income, excluding other-than-temporary impairment losses	65,569	65,435	52,955	134	—	12,480	24
Total other-than-temporary impairment losses on securities	(294)	(28)	(54)	(266)	(950)	26	48
Portion of loss recognized in other comprehensive income (before taxes)	(3,195)	(193)	(137)	(3,002)	(1,555)	(56)	(41)
Net impairment losses recognized in earnings	(3,489)	(221)	(191)	(3,268)	(1,479)	(30)	(16)
Total noninterest income	$62,080	$65,214	$52,764	($3,134)	(5)%	$12,450	24 %

Comparison of 2013 with 2012

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

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

(Dollars in thousands)	Years Ended December 31,			2013/2012 Change		2012/2011 Change	
	2013	2012	2011	$	%	$	%
Wealth management revenues:							
Trust and investment management fees	$25,224	$23,465	$22,532	$1,759	7 %	$933	4 %
Mutual fund fees	4,278	4,069	4,287	209	5	(218)	(5)
Asset-based revenues	29,502	27,534	26,819	1,968	7	715	3
Transaction-based revenues	2,323	2,107	1,487	216	10	620	42
Total wealth management revenues	$31,825	$29,641	$28,306	$2,184	7 %	$1,335	5 %

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

(Dollars in thousands)	2013	2012	2011
Balance at the beginning of year	$4,199,640	$3,900,061	$3,967,207
Net investment appreciation (depreciation) & income	632,681	315,799	(12,324)
Net client cash flows	(50,363)	(16,220)	(47,412)
Other (1)	—	—	(7,410)
Balance at the end of year	$4,781,958	$4,199,640	$3,900,061

(1) Represents declassifications of largely low-fee paying assets from assets under administration due to a change in the scope and/or frequency of services provided by Washington Trust. The impact of this change on wealth management revenues was minimal.

Wealth management revenues for 2013 were $31.8 million, up by $2.2 million, or 7%, from 2012. Asset-based wealth management revenues totaled $29.5 million for 2013, up by $1.8 million, or 7%, over 2012. Wealth management assets under administration amounted to $4.78 billion at December 31, 2013, up by $582.3 million, or 14%, from 2012 largely reflecting net investment appreciation and income. The average balance of assets under administration for 2013 was 9% higher than 2012. Transaction-based revenues were $2.3 million for 2013, up by $216 thousand, or 10%, from 2012, largely due to an increase in insurance commission income.

Merchant processing fee revenue represents charges to merchants for credit card transactions processed. Merchant processing fees increased by $61 thousand, or 1%, over 2012, reflecting modest increases in the volume of transactions processed for customers. See the discussion below regarding a corresponding increase in merchant processing costs under the caption “Noninterest Expense.” In addition, see additional disclosure regarding the March 2014 sale of the merchant processing service business line in the “Overview” section under the heading “Subsequent Event.”

Card interchange fees represent fee income related to debit card transactions. Card interchange fees for 2013 increased by $308 thousand, or 12%, from 2012, largely reflecting increased transaction volume.

Income from BOLI in 2013 amounted to $1.9 million, a decrease of $598 thousand, or 24%, from 2012. This decrease was due to a non-taxable gain of $528 thousand resulting from the receipt of tax-exempt life insurance proceeds in the third quarter of 2012.

Mortgage banking revenues totaled $13.1 million in 2013, down by $1.0 million, or 7%, from 2012, largely reflecting declines in refinancing and sales activity due to increased market interest rates. Also included in mortgage banking revenues in 2013 was a gain of $977 thousand recognized on the sale of $48.7 million of residential mortgage portfolio loans that had a weighted average rate of 3.94% and a weighted average contractual maturity of 24 years. Included in this portfolio loans sale gain was $456 thousand attributable to mortgage servicing rights retained. The primary purpose of the portfolio loan sale was to reduce the interest rate exposure associated with holding longer term fixed rate assets in a rising rate environment. We do not have a practice of selling loans from portfolio and except for this sale, we have not sold any packages of loans from our portfolio in many years.

There were no net realized gains on securities in 2013, compared to $1.2 million for 2012. The gains in 2012 were primarily recognized on the sale of mortgage backed securities associated with balance sheet management transactions executed in 2012.

Net gains on interest rate swap contracts for the year ended December 31, 2013, totaled $951 thousand compared to $255 thousand in 2012. The increase was largely due to new customer-related interest rate swap contracts executed in 2013.

Equity in losses of unconsolidated subsidiaries (primarily generated by two real estate limited partnerships) amounted to $107 thousand in 2013 compared to equity in earnings of $196 thousand in 2012. Washington Trust has investments in two real estate limited partnerships that renovate, own and operate two low-income housing complexes. These investments are accounted for under the equity method of accounting and tax credits generated by the partnerships are recorded as a reduction of income tax expense.

For 2013 and 2012, total OTTI losses recognized in earnings on investment securities totaled $3.5 million and $221 thousand, respectively. See additional discussion in the "Financial Condition" section under the caption "Securities" below.

Comparison of 2012 with 2011

Wealth management revenues for 2012 were $29.6 million, up by $1.3 million, or 5%, from 2011. This includes an increase of $620 thousand, or 42%, in transaction-based revenues (financial planning, commissions and other service fees). Asset-based wealth management revenues totaled $27.5 million for 2012, up by $715 thousand, or 3%, over 2011. Wealth management assets under administration amounted to $4.2 billion at December 31, 2012, up by $299.6 million, or 8%, from the balance at December 31, 2011, largely reflecting net investment appreciation and income resulting from favorable conditions in the financial markets. The end of period balance of wealth management assets at December 31, 2012 was 8% higher than the end of period balance at December 31, 2011 and the average balance of wealth management assets for the year ended December 31, 2012 was 2% higher than the average balance for 2011.

Service charges on deposit accounts totaled $3.2 million in 2012, compared to $3.5 million in 2011. This decline of $262 thousand, or 8%, reflected the competitive environment and its impact on deposit product pricing.

Merchant processing fee revenue increased by $254 thousand, or 3%, over 2011, reflecting increases in the volume of transactions processed for existing and new customers. This increase was partially offset by the impact of fourth quarter 2011 regulatory changes, which reduced fees on all debit cards issued by certain regulated banks, resulting in a modest decline in merchant processing fee revenue and a corresponding decline in merchant processing expenses.

Card interchange fees represent fee income related to debit card transactions. Card interchange fees for 2012 increased by $231 thousand, or 10%, from 2011, reflecting increased transaction volume.

Income from BOLI in 2012 amounted to $2.4 million, an increase of $509 thousand, or 26%, from 2011. This increase was due to a $528 thousand non-taxable gain resulting from the receipt of tax-exempt life insurance proceeds in the third quarter of 2012.

Mortgage banking revenues totaled $14.1 million in 2012, up by $9.0 million, or 178%, from 2011, reflecting strong refinancing and sales activity in response to sustained low market rates of interest and origination volume growth in our residential mortgage lending offices.

Net realized gains on securities in 2012 and 2011 totaled $1.2 million and $698 thousand, respectively. These amounts were primarily recognized on the sale of mortgage-backed securities associated with balance sheet management transactions executed in both years. Also included in 2011 were gains recognized on a contribution of appreciated equity securities, which is discussed below under the caption “Noninterest Expenses.”

Net gains on interest rate swap contracts for the year ended December 31, 2012, totaled $255 thousand compared to $6 thousand in 2011. The increase was largely due to new customer-related interest rate swap contracts executed in 2012.

For 2012, equity in earnings of unconsolidated subsidiaries (primarily generated by two real estate limited partnerships) amounted to $196 thousand compared to losses of $213 thousand in 2011.

Other noninterest income totaled $1.7 million in 2012, up by $212 thousand, or 14%, from 2011. Included in other noninterest income were gains on the sale of bank property of $348 thousand and $203 thousand, which were recognized during the second quarters of 2012 and 2011, respectively.

For 2012 and 2011, OTTI losses recognized in earnings on investment securities totaled $221 thousand and $191 thousand, respectively. See additional discussion in the “Financial Condition” section under the caption “Securities” below.

Noninterest Expense

The following table presents noninterest expense comparisons:

(Dollars in thousands)	Years Ended December 31,			2013/2012 Change		2012/2011 Change	
	2013	2012	2011	$	%	$	%
Noninterest expense:							
Salaries and employee benefits	$60,052	$59,786	$51,095	$266	— %	$8,691	17 %
Net occupancy	5,769	6,039	5,295	(270)	(4)	744	14
Equipment	4,847	4,640	4,344	207	4	296	7
Merchant processing costs	8,682	8,593	8,560	89	1	33	—
Outsourced services	3,662	3,560	3,530	102	3	30	1
Legal, audit and professional fees	2,330	2,240	1,927	90	4	313	16
FDIC deposit insurance costs	1,761	1,730	2,043	31	2	(313)	(15)
Advertising and promotion	1,464	1,730	1,819	(266)	(15)	(89)	(5)
Amortization of intangibles	680	728	951	(48)	(7)	(223)	(23)
Foreclosed property costs	258	762	878	(504)	(66)	(116)	(13)
Debt prepayment penalties	1,125	3,908	694	(2,783)	(71)	3,214	463
Other	8,155	8,622	9,237	(467)	(5)	(615)	(7)
Total noninterest expense	$98,785	$102,338	$90,373	($3,553)	(3)%	$11,965	13 %

Comparison of 2013 with 2012

For 2013, salaries and employee benefit expense, the largest component of noninterest expense, totaled $60.1 million, up modestly by $266 thousand from 2012. Included in salaries and employee benefit expense were severance related costs of $648 thousand and $75 thousand, respectively, in 2013 and 2012. Excluding the impact of severance related costs, salaries and employee benefit expense declined by $307 thousand, or 1%. This decline reflected decreases in transaction-based compensation in the mortgage banking area resulting from declines in mortgage mortgage refinancing activity; a reduction in defined benefit pension costs; which were offset, in part, by increases in business development commission expense in our wealth management area.

Net occupancy expense for 2013 decreased by $270 thousand, or 4%, compared to 2012, largely reflecting declines in repairs and maintenance and depreciation expense.

Equipment expenses increased by $207 thousand, or 4%, in 2013, largely due to additional investments in technology.

Merchant processing costs represent third-party costs incurred that are directly attributable to handling merchant credit card transactions. Merchant processing costs totaled $8.7 million in 2013, up modestly from the $8.6 million in 2012. See the discussion above regarding a corresponding increase in merchant processing fees under the caption “Noninterest Income.” In addition, see additional disclosure regarding the March 2014 sale of the merchant processing service business line in the “Overview” section under the heading “Subsequent Event.”

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Outsourced services totaled $3.7 million in 2013, up by $102 thousand, or 3%, from 2012, reflecting an increase in third party card processing services due to increased transaction volume.

For 2013, legal, audit and professional fees totaled $2.3 million, up by $90 thousand, or 4%, from 2012, largely due to various consulting projects throughout 2013.

Advertising and promotion costs amounted to $1.5 million in 2013, down by $266 thousand, or 15%, from 2012, reflecting management's discretion over this category.

Amortization of intangibles amounted to $680 thousand in 2013 and $728 thousand in 2012. See Note 8 to the Consolidated Financial Statements for additional information on intangible assets.

Foreclosed property costs amounted to $258 thousand in 2012, down by $504 thousand, or 66%, from 2012, reflecting declines in foreclosure activity.

The prepayment of FHLBB advances associated with certain balance sheet management transactions executed in 2013 and 2012 resulted in debt prepayment penalty expense of $1.1 million in 2013 and $3.9 million in 2012. See additional discussion regarding FHLBB advances under the section "Sources of Funds."

Other noninterest expenses amounted to $8.2 million in 2013, down by $467 thousand, or 5%, from 2012, largely due to decreases in telephone line costs resulting from changes in technology infrastructure implemented at the beginning of 2013, as well as a decline in credit and collection costs. Included in other noninterest expenses in 2013 and 2012 was the cost of Washington Trust's annual contribution to its charitable foundation, which amounted to $400 thousand in each year.

Comparison of 2012 with 2011

For 2012, salaries and employee benefit expense totaled $59.8 million, up by $8.7 million, or 17%, from 2011. This increase reflected higher levels of business development based compensation primarily in mortgage banking, higher staffing levels to support growth, higher defined benefit pension costs primarily due to a lower discount rate in 2012 compared to 2011 and, to a lesser extent, an increase in stock-based compensation expense due to current year award grants.

Net occupancy expense for 2012 increased by $744 thousand, or 14%, compared to 2011, reflecting increased rental expense for premises leased by Washington Trust and occupancy costs associated with de novo branches and residential mortgage lending offices that opened in the latter portion of 2011 and in 2012. Also included in net occupancy expense was a charge of $94 thousand for the termination of an operating lease associated with a branch closure in September 2012.

Costs associated with branch expansion and business line growth were also reflected in equipment expenses, which increased by $296 thousand, or 7%, in 2012. The increase is largely related to additional investments in technology and other equipment.

Merchant processing costs totaled $8.6 million in both 2012 and 2011, as lower third-party processing rates offset transaction volume-related cost increases. See discussion on merchant processing fees under the caption "Noninterest Income" above.

FDIC deposit insurance costs for 2012 amounted to $1.7 million, down by $313 thousand, or 15%, from 2011, reflecting lower assessment rates and a statutory change in the calculation method that was effective for the second quarter of 2011.

For 2012, legal, audit and professional fees totaled $2.2 million, up by $313 thousand, or 16%, from 2011 largely due to costs incurred in connection with the formation of a mortgage banking subsidiary of the Bank.

Amortization of intangibles amounted to $728 thousand in 2012 and $951 thousand in 2011. See Note 8 to the Consolidated Financial Statements for additional information on intangible assets.

Foreclosed property costs amounted to $762 thousand in 2012, down by $116 thousand, or 13%, from 2011, largely due to a decrease in the number of properties held as of December 31, 2012 compared to the prior year.

The prepayment of FHLBB advances associated with the balance sheet management transactions executed in 2012 and 2011, resulted in debt prepayment penalty expense of $3.9 million in 2012 and $694 thousand in 2011.

Other noninterest expenses amounted to $8.6 million in 2012, down by $615 thousand, or 7%, from 2011 largely due to a $588 thousand decrease in charitable contribution expense. In 2012, Washington Trust made a $400 thousand cash contribution to its charitable foundation. In 2011, Washington Trust made a contribution of appreciated equity securities to its charitable foundation. The cost of this contribution was $990 thousand. This contribution also resulted in a realized gain of $331 thousand on the disposition of the equity securities, which was recorded in noninterest income.

Income Taxes

Income tax expense for 2013, 2012 and 2011 totaled $16.5 million, $15.8 million and $12.9 million, respectively. The effective tax rates for the years ended December 31, 2013, 2012 and 2011 were 31.4%, 31.1% and 30.3%, respectively. The increase in the effective tax rate reflected a higher proportion of taxable income to pre-tax book income. The effective tax rates differed from the federal rate of 35.0% due largely to the benefits of tax-exempt income, income from BOLI and federal tax credits.

The Corporation's net deferred tax asset amounted to $12.8 million at December 31, 2013, down from $19.9 million at December 31, 2012. This decline in 2013 largely reflected a reduction in the deferred tax asset related to defined benefit pension obligations. See Note 15 to the Consolidated Financial Statements for additional disclosure regarding the 2013 amendment of the Corporation's defined benefit pension plans.

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, carryback to taxable income in prior years or by offsetting projected future taxable income. See Note 9 to the Consolidated Financial Statements for additional information regarding income taxes.

Financial Condition

Summary

Total assets amounted to $3.19 billion at December 31, 2013, an increase of $117.0 million, or 4%, from the end of 2012, largely due to growth in loans. Total loans amounted to $2.46 billion, or 77% of total assets, at December 31, 2013. In 2013, total loans increased by $168.9 million, or 7%, due to growth in the commercial loan and residential real estate loan portfolios.

Nonperforming assets as a percentage of total assets amounted to 0.62% and 0.83%, respectively, at December 31, 2013 and 2012. The decline in this ratio largely reflects charge-offs and payoffs on commercial loans. While overall credit quality continues to be affected by relatively weak economic conditions, we experienced improvements in many of our asset and credit quality indicators.

Total liabilities increased by $83.0 million, or 3%, from December 31, 2012, largely due to deposit growth of $192.7 million, or 8%, offset, in part, by reductions in FHLBB advances of $73.1 million, or 20%.

Shareholders' equity totaled $329.6 million at December 31, 2013, up by $34.0 million from December 31, 2012. Capital levels continue to exceed the the regulatory minimum levels to be considered well-capitalized, with a total risk-based capital ratio of 13.29% at December 31, 2013, compared to 13.26% at December 31, 2012.

Securities

Washington Trust'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 currently 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. 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. Securities held to maturity are reported at amortized cost.

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. The Corporation reviews the independent pricing service's documentation to gain an understanding of the appropriateness of the pricing methodologies. The Corporation 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, the Corporation periodically performs independent price tests of a sample of securities to ensure proper valuation and to verify our understanding of how securities are priced. As of December 31, 2013 and 2012, the Corporation did not make any adjustments to the prices provided by the pricing service.

Generally, our fair value measurements utilize Level 2 inputs, which utilize 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. Our Level 2 financial instruments consist primarily of available for sale debt securities.

See Notes 4 and 14 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)

December 31,	2013 Amount	%		2012 Amount	%		2011 Amount	%	
Securities Available for Sale:									
Obligations of U.S. government-sponsored enterprises	$55,115	14	%	$31,670	8	%	$32,833	6	%
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	238,355	61		231,233	62		389,658	72	
States and political subdivisions	62,859	16		72,620	19		79,493	15	
Trust preferred securities:									
Individual name issuers	24,684	6		24,751	7		22,396	4	
Collateralized debt obligations	547	—		843	—		887	—	
Corporate bonds	11,343	3		14,381	4		14,282	3	
Perpetual preferred stocks	—	—		—	—		1,704	—	
Total securities available for sale	$392,903	100	%	$375,498	100	%	$541,253	100	%

(Dollars in thousands)

December 31,	2013 Amount	%		2012 Amount	%		2011 Amount	%	
Securities Held to Maturity:									
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	$29,905	100	%	$40,381	100	%	$52,139	100	%
Total securities held to maturity	$29,905	100	%	$40,381	100	%	$52,139	100	%

As of December 31, 2013, the securities portfolio totaled $422.8 million, up by $6.9 million from December 31, 2012, reflecting $117.3 million in purchases of mortgage-backed securities and U.S. government agency debt securities, mostly offset by maturities and principal payments received on mortgage-backed securities. The majority of the purchases were made during the third quarter of 2013 to redeploy the excess liquidity from deposit growth, add to on balance sheet liquidity and to provide a source of collateralization for public and institutional deposits. See additional disclosure regarding investment activities in the Corporation's Consolidated Statements of Cash Flows.

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.

At December 31, 2013 and 2012, the net unrealized gain position on securities available for sale and held to maturity amounted to $5.0 million and $13.1 million, respectively, and included gross unrealized losses of $6.6 million and $9.1 million, respectively, as of December 31, 2013 and 2012. Nearly all of these gross unrealized losses were concentrated in variable rate trust preferred securities issued by financial services companies.

State and Political Subdivision Holdings

The carrying amount of state and political subdivision holdings included in our securities portfolio at December 31, 2013 totaled $62.9 million. The following table presents state and political subdivision holdings by geographic location:

(Dollars in thousands)

December 31, 2013	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
New Jersey	$30,861	$1,302	$—	$32,163
New York	10,600	399	—	10,999
Pennsylvania	6,520	186	—	6,706
Illinois	7,314	135	—	7,449
Other	5,365	177	—	5,542
Total	$60,660	$2,199	$—	$62,859

The following table presents state and political subdivision holdings by category:

(Dollars in thousands)

December 31, 2013	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
General obligations	$54,516	$2,030	$—	$56,546
Revenue obligations (a)	6,144	169	—	6,313
Total	$60,660	$2,199	$—	$62,859

(a) Includes water and sewer districts, tax revenue obligations and other.

Washington Trust owns trust preferred security holdings of seven individual name issuers in the financial industry. The following table presents information concerning the named issuers. The Corporation's Investment Policy contains rating standards that specifically reference ratings issued by Moody's and S&P.

Individual Issuer Trust Preferred Securities

(Dollars in thousands)		December 31, 2013			Credit Ratings				
Named Issuer (parent holding company)	(a)	Amortized Cost	Fair Value	Unrealized Loss	December 31, 2013 Moody's	S&P	Form 10-K Filing Date Moody's	S&P	
JPMorgan Chase & Co.	2	$9,756	$7,550	($2,206)	Baa2	BBB	Baa2	BBB	
Bank of America Corporation	3	5,761	4,641	(1,120)	Ba1	BB+	Ba1	BB+	(b)
Wells Fargo & Company	2	5,135	4,253	(882)	A3/Baa1	A-/BBB+	A3/Baa1	A-/BBB+	
SunTrust Banks, Inc.	1	4,172	3,360	(812)	Baa3	BB+	Baa3	BB+	(b)
Northern Trust Corporation	1	1,984	1,660	(324)	Baa1	A-	Baa1	A-	
State Street Corporation	1	1,974	1,600	(374)	A3	BBB+	A3	BBB+	
Huntington Bancshares Incorporated	1	1,933	1,620	(313)	Baa3	BB+	Baa3	BB+	(b)
Totals	11	$30,715	$24,684	($6,031)					

(a) Number of separate issuances, including issuances of acquired institutions.
(b) Rating is below investment grade.

The Corporation's evaluation of the impairment status of individual name trust preferred securities includes various considerations in addition to the degree of impairment and the duration of impairment. We review the reported regulatory capital ratios of the issuer and, in all cases, the regulatory capital ratios were deemed to be in excess of the regulatory minimums. Credit ratings were also taken into consideration, 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. We noted no additional downgrades to below investment grade between the reporting period date and the filing date of this report. Where available, credit ratings from multiple rating agencies are obtained and rating downgrades are specifically analyzed. Our review process for these credit-sensitive holdings also includes a periodic review of relevant financial information for each issuer, such as quarterly financial reports, press releases and analyst reports. This information is used to evaluate the current and prospective financial condition of the issuer in order to assess the issuer's ability to meet its debt obligations. Through the filing date of this report, each of the individual name issuer securities was current with respect to interest payments. Based on our evaluation of the facts and circumstances relating to each issuer, management concluded that all principal and interest payments for these individual issuer trust preferred securities would be collected according to their contractual terms and it expects to recover the entire amortized cost basis of these securities. Furthermore, Washington Trust does not intend to sell these securities and it is not more-likely-than-not that Washington Trust will be required to sell these securities before recovery of their cost basis, which may be at maturity. Therefore, management does not consider these investments to be other-than-temporarily impaired at December 31, 2013.

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

Pooled Trust Preferred Obligations

Washington Trust had invested in two pooled trust preferred securities, Tropic CDO 1, tranche A4L ("Tropic") and PreTSL XXV, tranche C1 ("PreTSL").

On March 22, 2013, the trustee for the Tropic security issued a notice that liquidation of the CDO entity would take place at the direction of holders of the CDO tranches senior to the subordinate tranche interest held by Washington

Trust. Accordingly, Washington Trust recognized an OTTI charge in the first quarter of 2013 on the entire $2.8 million carrying value of this security, based on the expectation that proceeds from the liquidation would be insufficient to satisfy the amount owed to the subordinate tranche. The liquidation was conducted in August 2013 and was insufficient to satisfy any amount owed on the subordinate tranche.

In December 2013, Washington Trust changed its intent to hold its investment in the PreTSL until recovery of its cost basis and subsequently sold this security in January 2014. As a result, Washington Trust recognized an OTTI loss of $717 thousand on the PreTSL in December 2013. The amortized cost and fair value of the PreTSL amounted to $547 thousand at December 31, 2013, which equaled the January 2014 sales price.

The following table summarizes other-than-temporary impairment losses on securities recognized in earnings in the periods indicated:

(Dollars in thousands)			
Years ended December 31,	2013	2012	2011
Pooled trust preferred securities			
Tropic CDO 1, tranche A4L	$2,772	$221	$171
Preferred Term Securities [PreTSL] XXV, tranche C1	717	—	20
Other-than-temporary impairment losses recognized in earnings	$3,489	$221	$191

Investment in Bank-Owned Life Insurance (“BOLI”)

BOLI amounted to $56.7 million and $54.8 million at December 31, 2013 and 2012, respectively. BOLI provides a means to mitigate increasing employee benefit costs. The Corporation expects to benefit from the BOLI contracts as a result of the tax-free growth in cash surrender value and death benefits that are expected to be generated over time. The purchase of the life insurance policy results in an income-earning asset on the Consolidated Balance Sheet that provides monthly tax-free income to the Corporation. The largest risk to the BOLI program is credit risk of the insurance carriers. To mitigate this risk, annual financial condition reviews are completed on all carriers. BOLI is invested in the “general account” of quality insurance companies. All such general account carriers were rated “A” or better by A.M. Best and “A3” or better by Moody’s at December 31, 2013. BOLI is included in the Consolidated Balance Sheets at its cash surrender value. Increases in BOLI’s cash surrender value are reported as a component of noninterest income in the Consolidated Statements of Income.

Loans

Total loans amounted to $2.5 billion at December 31, 2013. In 2013, loans grew by $168.9 million, or 7%, with increases of $110.9 million in the commercial loan portfolio, $55.0 million in the residential real estate portfolio and $3.0 million in consumer loans.

The following table sets forth the composition of the Corporation's loan portfolio for each of the past five years:
(Dollars in thousands)

December 31,	2013		2012		2011		2010		2009	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Commercial:										
Mortgages (1)	$796,249	32 %	$710,813	31 %	$624,813	29 %	$518,623	26 %	$496,996	26 %
Construction & development	36,289	1 %	27,842	1 %	10,955	1 %	47,335	2 %	72,293	4 %
Other (2)	530,797	22 %	513,764	23 %	488,860	22 %	461,107	23 %	415,261	21 %
Total commercial	1,363,335	55 %	1,252,419	55 %	1,124,628	52 %	1,027,065	51 %	984,550	51 %
Residential real estate:										
Mortgages	749,163	30 %	692,798	30 %	678,582	32 %	634,739	31 %	593,981	31 %
Homeowner construction	23,511	1 %	24,883	1 %	21,832	1 %	10,281	1 %	11,594	1 %
Total residential real estate	772,674	31 %	717,681	31 %	700,414	33 %	645,020	32 %	605,575	32 %
Consumer:										
Home equity lines	231,362	9 %	226,861	10 %	223,430	10 %	218,288	11 %	209,801	11 %
Home equity loans	40,212	2 %	39,329	2 %	43,121	2 %	50,624	3 %	62,430	3 %
Other (3)	55,301	3 %	57,713	2 %	55,566	3 %	54,641	3 %	57,312	3 %
Total consumer loans	326,875	14 %	323,903	14 %	322,117	15 %	323,553	17 %	329,543	17 %
Total loans	$2,462,884	100 %	$2,294,003	100 %	$2,147,159	100 %	$1,995,638	100 %	$1,919,668	100 %

(1) Amortizing mortgages and lines of credit, primarily secured by income producing property.
(2) Loans to businesses and individuals, a substantial portion of which are fully or partially collateralized by real estate.
(3) Other consumer loans include personal installment loans and loans to individuals secured by general aviation aircraft and automobiles.

An analysis of the maturity and interest rate sensitivity of the Corporation's loan portfolio as of December 31, 2013 follows:

(Dollars in thousands)	Commercial			Residential Real Estate			
	Mortgages	Construction	Other	Mortgages	Homeowner Construction (1)	Consumer	Total
Amounts due in:							
One year or less	$97,479	$8,372	$125,303	$23,810	$456	$8,652	$264,072
After one year to five years	417,514	14,607	243,158	103,220	3,827	36,129	818,455
After five years	281,256	13,310	162,336	622,133	19,228	282,094	1,380,357
Total	$796,249	$36,289	$530,797	$749,163	$23,511	$326,875	$2,462,884
Interest rate terms on amounts due after one year:							
Predetermined rates	$295,059	$732	$275,268	$332,032	$20,573	$74,710	$998,374
Floating or adjustable rates	403,711	27,185	130,226	393,321	2,482	243,513	1,200,438

(1) Maturities of homeowner construction loans are included based on their contractual conventional mortgage repayment terms following the completion of construction.

Commercial Loans

Commercial loans fall into two major categories, commercial real estate and other commercial loans (commercial and industrial). Commercial real estate loans consist of commercial mortgages and construction and development loans made for the purpose of acquiring, developing, constructing, improving or refinancing commercial real estate where the property is the primary collateral securing the loan, and the income generated from the property is the primary repayment source. Commercial and industrial loans primarily provide working capital, equipment financing, financing for leasehold improvements and financing for expansion. Commercial and industrial loans are frequently collateralized by equipment, inventory, accounts receivable, and/or general business assets. A significant portion of the Bank's commercial and industrial loans are also collateralized by real estate, but are not classified as commercial real restate loans because such loans are not made for the purpose of acquiring, developing, constructing, improving or refinancing the real estate securing the loan, nor is the repayment source income generated directly from such real property.

Management evaluates the appropriateness of the Corporation's underwriting standards in response to changes in national and regional economic conditions, including such matters as market interest rates, energy prices, trends in real estate values, and employment levels. Based on management's assessment of these matters, underwriting standards and credit monitoring activities are enhanced from time to time in response to changes in these conditions. These assessments may result in clarification of debt service ratio calculations, modifications to loan to value standards for real estate collateral, formalized watch list criteria, and enhancements to monitoring of commercial construction loans.

Commercial Real Estate Loans

Commercial real estate loans amounted to $832.5 million at December 31, 2013, an increase of $93.9 million, or 13%, from the $738.7 million balance at December 31, 2012. Included in these amounts were commercial construction loans of $36.3 million and $27.8 million, respectively. The growth in commercial real estate loans was in large part due to enhanced business cultivation efforts with new and existing borrowers.

Commercial real estate loans are secured by a variety of property types, with approximately 82% of the total at December 31, 2013 composed of office buildings, retail facilities, commercial mixed use, lodging, multi-family dwellings and industrial & warehouse properties.

The following table presents a geographic summary of commercial real estate loans, including commercial construction, by property location.

(Dollars in thousands)	December 31, 2013			December 31, 2012		
	Amount	% of Total		Amount	% of Total	
Rhode Island, Connecticut, Massachusetts	$791,682	95	%	$707,068	96	%
New York, New Jersey	32,126	4	%	22,081	3	%
New Hampshire	8,730	1	%	9,290	1	%
Other	—	—	%	216	—	%
Total	$832,538	100	%	$738,655	100	%

Other Commercial Loans

Commercial and industrial loans amounted to $530.8 million at December 31, 2013, an increase of $17.0 million, or 3.3%, from December 31, 2012, reflecting growth in owner occupied and other real estate loans. This portfolio includes loans to a variety of business types. Approximately 78% of the total is composed of owner occupied and other real estate, health care/social assistance, retail trade, manufacturing, public administration, accommodation and food services, entertainment and recreation, construction businesses and wholesale trade businesses.

Residential Real Estate Loans

Residential real estate loans amounted to $772.7 million at December 31, 2013, an increase of $55.0 million from December 31, 2012. See discussion regarding the September 2013 sale of $48.7 million of residential mortgage portfolio loans in the "Results of Operations" section under the caption "Noninterest Income."

Washington Trust originates residential real estate mortgages within our general market area of southern New England for portfolio and for sale in the secondary market. In recent years, the mortgage origination business has been expanded beyond our bank branch network,which is primarily located in Rhode Island, through the addition of residential mortgage lending offices in Massachusetts and Connecticut. This expansion has allowed us to originate a higher volume of residential real estate mortgages. In 2013, approximately 55% of our mortgage origination volume was generated by our offices outside of Rhode Island. We also originate residential real estate mortgages for various investors in a broker capacity, including conventional mortgages and reverse mortgages. Total residential real estate loan originations for retention in portfolio were $303.4 million and $210.8 million, respectively, for 2013 and 2012. Total residential real estate loan originations for sale to the secondary market, including loans originated in a broker capacity and excluding the September 2013 portfolio loan sale, were $426.9 million and $571.4 million, respectively, for 2013 and 2012. Origination volume declined in 2013, reflecting declines in refinancing activity due to increased market interest rates.

Loans are sold with servicing retained or released. During 2012, we began to retain servicing on a higher proportion of loans sold to the secondary market. In general, loans sold with the retention of servicing yield a larger gain on sale due to the capitalization of servicing rights, which are subsequently amortized over the estimated period of servicing. The net balance of capitalized servicing rights has increased from $765 thousand at December 31, 2011 to $2.7 million at December 31, 2013.

When selling a residential real estate mortgage loan or acting as originating agent on behalf of a third party, Washington Trust generally makes various representations and warranties. As such, we may be required to either repurchase the residential real estate mortgage loan (generally at unpaid principal balance plus accrued interest) with the identified defects or indemnify (“make-whole”) the investor for its losses if the representations and warranties were breached. The unpaid principal balance of loans repurchased due to representation and warranty claims as of December 31, 2013 was $682 thousand, compared to $843 thousand at December 31, 2012. In 2013 and 2012, rebates of premiums for loans sold that were paid off within a contractually agreed upon of period of time were insignificant. Washington Trust has recorded a reserve for premium recapture and the obligation to repurchase previously sold residential mortgage loans. The reserve balance amounted to $275 thousand and $250 thousand, respectively, at December 31, 2013 and 2012, and is included in other liabilities in the Consolidated Balance Sheets. For 2013 and 2012, the provision for loan repurchases and premium recapture exposure totaled $55 thousand and $201 thousand, respectively. The provision was recorded as a reduction of net gains on loan sales and commissions on loans originated for others.

Prior to March 2009, Washington Trust had periodically purchased one- to four-family residential mortgages originated in other states as well as southern New England from other financial institutions. All residential mortgage loans purchased from other financial institutions were individually underwritten using standards similar to those employed for Washington Trust’s self-originated loans. Purchased residential mortgage balances totaled $42.6 million and $56.0 million, respectively, as of December 31, 2013 and 2012.

The following is a geographic summary of residential mortgages by property location.

(Dollars in thousands)	December 31, 2013		December 31, 2012	
	Amount	% of Total	Amount	% of Total
Rhode Island, Connecticut, Massachusetts	$751,932	97.3 %	$697,814	97.2 %
New York, Virginia, New Jersey, Maryland, Pennsylvania, District of Columbia	6,972	0.9 %	9,591	1.3 %
New Hampshire	7,900	1.0 %	3,903	0.5 %
Ohio	2,509	0.3 %	2,953	0.4 %
Washington, Oregon	1,356	0.2 %	1,379	0.2 %
Georgia	1,083	0.1 %	1,101	0.2 %
New Mexico	468	0.1 %	476	0.1 %
Other	454	0.1 %	464	0.1 %
Total	$772,674	100.0 %	$717,681	100.0 %

Consumer Loans

Consumer loans amounted to $326.9 million at December 31, 2013, up $3.0 million from December 31, 2012. Our consumer portfolio is predominantly home equity lines and home equity loans, representing 83% of the total consumer portfolio at December 31, 2013. The Bank estimates that approximately 69% of the combined home equity line and home equity loan balances are first lien positions or subordinate to other Washington Trust mortgages. Consumer loans also include personal installment loans and loans to individuals secured by general aviation aircraft and automobiles.

Asset Quality

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

Nonperforming Assets

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

The following table presents nonperforming assets and additional asset quality data for the dates indicated:

(Dollars in thousands)

December 31,	2013	2012	2011	2010	2009
Nonaccrual loans:					
Commercial mortgages	$7,492	$10,681	$5,709	$6,624	$11,588
Commercial construction and development	—	—	—	—	—
Other commercial	1,291	4,412	3,708	5,259	9,075
Residential real estate	8,315	6,158	10,614	6,414	6,038
Consumer	1,204	1,292	1,206	213	769
Total nonaccrual loans	18,302	22,543	21,237	18,510	27,470
Nonaccrual investment securities	547	843	887	806	1,065
Property acquired through foreclosure or repossession, net	932	2,047	2,647	3,644	1,974
Total nonperforming assets	$19,781	$25,433	$24,771	$22,960	$30,509
Nonperforming assets to total assets	0.62 %	0.83 %	0.81 %	0.79 %	1.06 %
Nonaccrual loans to total loans	0.74 %	0.98 %	0.99 %	0.93 %	1.43 %
Total past due loans to total loans	0.89 %	1.22 %	1.22 %	1.27 %	1.64 %
Accruing loans 90 days or more past due	$—	$—	$—	$—	$—

Nonperforming assets totaled $19.8 million, or 0.62% of total assets, at December 31, 2013 compared to $25.4 million, or 0.83% of total assets, at December 31, 2012. This decrease in nonperforming assets reflects charge-offs and payoffs on commercial loans, as well as dispositions of properties acquired through foreclosure in 2013.

Nonaccrual loans totaled $18.3 million at December 31, 2013, down by $4.2 million in 2013. Property acquired through foreclosure or repossession amounted to $932 thousand at December 31, 2013, compared to $2.0 million at the end of 2012. The balance at December 31, 2013 consisted of five commercial properties and three residential properties. Nonaccrual investment securities at December 31, 2013 and 2012 were comprised of our pooled trust preferred securities. See additional information herein under the caption "Securities."

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 past due with respect to principal and/or interest or sooner if considered appropriate by management. Well-secured loans are permitted to remain on accrual status provided that full collection of principal and interest is assured and the loan is in the process of collection. Loans

are also placed on nonaccrual status when, in the opinion of management, full collection of principal and interest is doubtful. Interest previously accrued, but uncollected, is reversed against current period income. Subsequent interest payments received on nonaccrual loans are applied to the outstanding principal balance of the loan or recognized as interest income, depending on management's assessment of the ultimate collectibility of the loan. Loans are removed from nonaccrual status when they have been current as to principal and interest for a period of time, the borrower has demonstrated an ability to comply with repayment terms, and when, in management's opinion, the loans are considered to be fully collectible.

During 2013, the Corporation made no significant changes in its practices or policies concerning the placement of loans or investment securities into nonaccrual status.

There were no significant commitments to lend additional funds to borrowers whose loans were on nonaccrual status at December 31, 2013.

Interest income that would have been recognized if loans on nonaccrual status had been current in accordance with their original terms was approximately $1.8 million, $1.8 million and $1.7 million in 2013, 2012 and 2011, respectively. Interest income attributable to these loans included in the Consolidated Statements of Income amounted to approximately $400 thousand, $679 thousand and $505 thousand in 2013, 2012 and 2011, respectively.

(Dollars in thousands)	December 31, 2013					December 31, 2012				
	Days Past Due					Days Past Due				
	Over 90	Under 90	Total	% (1)		Over 90	Under 90	Total	% (1)	
Commercial:										
Mortgages	$7,492	$—	$7,492	0.94	%	$10,300	$381	$10,681	1.50	%
Construction and development	—	—	—	—		—	—	—	—	
Other commercial	731	560	1,291	0.24	%	3,647	765	4,412	0.86	%
Residential real estate mortgages	5,633	2,682	8,315	1.08	%	3,658	2,500	6,158	0.86	%
Consumer	656	548	1,204	0.37	%	844	448	1,292	0.40	%
Total nonaccrual loans	$14,512	$3,790	$18,302	0.74	%	$18,449	$4,094	$22,543	0.98	%

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

Nonaccrual commercial mortgage loans decreased by $3.2 million in 2013. As of December 31, 2013, 85% of the $7.5 million balance of nonaccrual commercial mortgage loans consisted of two relationships. The December 31, 2013 balance of nonaccrual commercial mortgage loans was net of charge-offs of $1.5 million and has a remaining loss allocation of $403 thousand. All of the nonaccrual commercial mortgage loans were located in Rhode Island and Connecticut.

The largest nonaccrual relationship in the commercial mortgage category totaled $4.7 million at December 31, 2013, down from $5.9 million at December 31, 2012, due to a payoff received in the second quarter of 2013 on one of the loans in this relationship. This relationship is secured by several properties, including office, light industrial and retail space and is collateral dependent. Based on the estimated fair value of the underlying collateral, a $259 thousand loss allocation on this relationship was deemed necessary at December 31, 2013. The Bank has additional accruing residential mortgage loans, which are related to this borrower by common guarantor, totaling $822 thousand at December 31, 2013. These additional loans have performed in accordance with terms of the loans and were not past due as of December 31, 2013. The second largest nonaccrual relationship in the commercial mortgage category totaled $1.7 million and is secured by an office building. This loan is collateral dependent and based on the fair value of the underlying collateral, inclusive of guarantees, a $100 thousand loss allocation on this relationship was deemed necessary at December 31, 2013.

During 2013, a $4.0 million charge-off was recognized on a commercial mortgage loan that had a carrying value of $5.1 million at December 31, 2012. This loan was secured by a distribution facility and was considered collateral dependent.

It had been identified as a potential problem loan prior to 2013 and was placed on nonaccrual status in the first quarter of 2013. This loan was paid off in the fourth quarter of 2013, resulting in a recovery of $143 thousand.

Other commercial loans (commercial and industrial loans) in nonaccrual status amounted to $1.3 million at December 31, 2013, down by a net $3.1 million from December 31, 2012, reflecting the payoff of $2.0 million received in the second quarter of 2013 on a commercial and industrial loan relationship. The loss allocation on the balance of commercial and industrial loans in nonaccrual status at December 31, 2013 was $456 thousand.

Nonaccrual residential real estate loans increased by $2.2 million from the balance at the end of 2012. Management believes that the increase in 2013 is partly due to the lengthening of time to resolve problem credits, including foreclosure efforts, resulting from a higher level of regulatory and judicial requirements. As of December 31, 2013, the $8.3 million balance of nonaccrual residential real estate loans included 34 loans with $7.9 million located in Rhode Island and Massachusetts. The loss allocation on total nonaccrual residential real estate loans was $1.4 million at December 31, 2013. Included in total nonaccrual residential real estate loans at December 31, 2013 were 16 loans purchased for portfolio and serviced by others amounting to $3.6 million. Management monitors the collection efforts of its third party servicers as part of its assessment of the collectibility of nonperforming loans.

Past Due Loans

The following table presents past due loans by category as of the dates indicated:

(Dollars in thousands)

December 31,	2013			2012		
	Amount	% (1)		Amount	% (1)	
Commercial:						
Mortgages	$7,492	0.94	%	$11,081	1.56	%
Construction and development	—	—	%	—	—	%
Other commercial	1,309	0.25	%	4,203	0.82	%
Residential real estate	10,958	1.42	%	10,449	1.46	%
Consumer	2,144	0.66	%	2,363	0.73	%
Total past due loans	$21,903	0.89	%	$28,096	1.22	%

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

As of December 31, 2013, total past due loans amounted to $21.9 million, or 0.89% of total loans, down by $6.2 million from December 31, 2012.

Included in past due loans as of December 31, 2013 were nonaccrual loans of $15.6 million. All loans 90 days or more past due at December 31, 2013 and 2012 were classified as nonaccrual.

The decrease in total delinquencies in 2013 was concentrated in commercial loan delinquencies and was largely attributable to the paydowns and payoffs on the largest nonaccrual commercial relationships described above under the caption “Nonaccrual Loans.”

We use various techniques to monitor credit deterioration in the portfolios of residential mortgage loans and home equity lines and loans. Among these techniques, the Corporation periodically tracks loans with an updated FICO score and an estimated LTV ratio, with LTV determined via statistical modeling analyses. The indicated LTV levels are estimated based on such factors as the location, the original LTV, and the date of origination of the loan and do not reflect actual appraisal amounts. This information and trends associated with this information is considered by management in its assessment of the allocation of loss exposure in the residential mortgage loan portfolio.

Troubled Debt Restructurings

Loans are considered restructured in a troubled debt restructuring when the Corporation has granted concessions to a borrower due to the borrower's financial condition that it otherwise would not have considered. These concessions include modifications of the terms of the debt such as reduction of the stated interest rate other than normal market rate adjustments, extension of maturity dates, or reduction of principal balance or accrued interest. The decision to restructure a loan, rather than aggressively enforcing the collection of the loan, may benefit the Corporation by increasing the ultimate probability of collection.

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

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

As of December 31, 2013, there were no significant commitments to lend additional funds to borrowers whose loans had been restructured.

The following table sets forth information on troubled debt restructured loans as of the dates indicated. The amounts below do not include insignificant amounts of accrued interest on accruing troubled debt restructured loans. See Note 5 to the Consolidated Financial Statements for additional information.

(Dollars in thousands)

December 31,	2013	2012	2011	2010	2009
Accruing troubled debt restructured loans:					
Commercial real estate	$22,800	$9,569	$6,389	$11,736	$5,566
Other commercial	1,265	6,577	6,625	4,594	540
Residential real estate	1,442	1,123	1,481	2,863	2,736
Consumer	236	154	171	509	858
Accruing troubled debt restructured loans	25,743	17,423	14,666	19,702	9,700
Nonaccrual troubled debt restructured loans:					
Commercial real estate	—	—	91	1,302	—
Other commercial	542	2,063	2,154	431	228
Residential real estate	—	688	2,615	948	336
Consumer	38	44	106	41	45
Nonaccrual troubled debt restructured loans	580	2,795	4,966	2,722	609
Total troubled debt restructured loans	$26,323	$20,218	$19,632	$22,424	$10,309

As of December 31, 2013, loans classified as troubled debt restructurings totaled $26.3 million, up by $6.1 million from the balance at December 31, 2012. As of December 31, 2013, 85% of the troubled debt restructured loans consisted of three relationships.

The largest troubled debt restructured relationship at December 31, 2013 consisted of an accruing commercial mortgage relationship with a carrying value of $9.5 million, secured by mixed use properties. The restructuring took place in the second quarter of 2013 and included a modification of certain payment terms and a below market rate concession for a temporary period. At December 31, 2013, the second largest troubled debt restructured relationship consisted of an accruing commercial mortgage relationship with a carrying value of $8.1 million, secured by a hotel industry property. The restructuring took place in the third quarter of 2012 and included a modification of certain payment terms and a below market interest rate reduction for a temporary period on approximately $3.1 million of the total balance. In

connection with this restructuring, additional collateral was also provided by the borrower during the third quarter of 2012. The third largest troubled debt restructured relationship consisted of a commercial mortgage with a carrying value of $4.9 million, secured by commercial property. The restructuring took place in the third quarter of 2013 and included a modification of certain payment terms and a below market rate concession for a temporary period. In connection with this restructuring, a principal paydown of $1.2 million was provided by the borrower during the third quarter of 2013.

During the second quarter of 2013, a payoff was received on an accruing troubled debt restructured commercial and industrial loan relationship that had a carrying value of $4.7 million at December 31, 2012.

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 consist of classified accruing commercial loans that were less than 90 days past due at December 31, 2013 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. These loans are not included in the amounts of nonaccrual or restructured loans presented above. Management cannot predict the extent to which economic conditions or other factors may impact borrowers and the potential problem loans. Accordingly, there can be no assurance that other loans will not become 90 days or more past due, be placed on nonaccrual, become restructured, or require increased allowance coverage and provision for loan losses. The Corporation has identified approximately $931 thousand in potential problem loans at December 31, 2013, compared to $6.4 million at December 31, 2012. Included in potential problem loans at the end of 2012 was the $5.1 million commercial mortgage described above under the caption “Nonaccrual loans.” Potential problem loans are assessed for loss exposure using the methods described in Note 5 to the Consolidated Financial Statements under the caption “Credit Quality Indicators.”

Allowance for Loan Losses
Establishing an appropriate level of allowance for loan losses necessarily involves a high degree of judgment. The Corporation uses a methodology to systematically measure the amount of estimated loan loss exposure inherent in the loan portfolio for purposes of establishing a sufficient allowance for loan losses. See additional discussion regarding the allowance for loan losses under the caption “Critical Accounting Policies and Estimates” and in Note 6 to the Consolidated Financial Statements.

The allowance for loan losses is management’s best estimate of probable loan losses inherent in the loan portfolio as of the balance sheet date. The allowance is increased by provisions charged to earnings and by recoveries of amounts previously charged off, and is reduced by charge-offs on loans. The status of nonaccrual loans, delinquent loans and performing loans were all taken into consideration in the assessment of the adequacy of the allowance for loans losses. In addition, the balance and trends of credit quality indicators, including the commercial loan categories of Pass, Special Mention and Classified, are integrated into the process used to determine the allocation of loss exposure. See Note 5 to the Unaudited Consolidated Financial Statements for additional information under the caption “Credit Quality Indicators.” Management believes that the level of allowance for loan losses at December 31, 2013 is adequate and consistent with asset quality and delinquency indicators. Management will continue to assess the adequacy of the allowance for loan losses in accordance with its established policies.

The Bank’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. The Bank recognizes full or partial charge-offs on collateral dependent impaired loans when the collateral is deemed to be insufficient to support the carrying value of the loan. The Bank does not recognize a recovery when an updated appraisal indicates a subsequent increase in value.

The estimation of loan loss exposure inherent in the loan portfolio includes, among other procedures, (1) identification of loss allocations for individual loans deemed to be impaired in accordance with GAAP, (2) loss allocation factors for non-impaired loans based on credit grade, loss experience, delinquency factors and other similar credit quality indicators, and (3) an additional unallocated allowance is maintained for measurement imprecision attributable to uncertainty in the economic environment and ever changing conditions and to reflect management's consideration of qualitative and quantitative assessments of other environmental factors. We periodically reassess and revise the loss allocation factors used in the assignment of loss exposure to appropriately reflect our analysis of migrational loss experience. We analyze historical loss experience in the various portfolios over periods deemed to be relevant to the inherent risk of loss in the respective portfolios as of the balance sheet date. Revisions to loss allocation factors are not retroactively applied.

The methodology to measure the amount of estimated loan loss exposure includes an analysis of individual loans deemed to be impaired. Impaired loans are loans for which it is probable that the Bank will not be able to collect all amounts due according to the contractual terms of the loan agreements and all loans restructured in a troubled debt restructuring. Impaired loans do not include large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment, which consist of most residential mortgage loans and consumer loans. Impairment is measured on a discounted cash flow method based upon the loan's contractual effective interest rate, or at the loan's observable market price, or if the loan is collateral dependent, at the fair value of the collateral less costs to sell. For collateral dependent loans, management may adjust appraised values to reflect estimated market value declines or apply other discounts to appraised values for unobservable factors resulting from its knowledge of circumstances associated with the property.

The following is a summary of impaired loans by measurement type:

(Dollars in thousands)

December 31,	2013	2012
Collateral dependent impaired loans (1)	$21,940	$23,359
Impaired loans measured on discounted cash flow method (2)	15,553	12,188
Total impaired loans	$37,493	$35,547

(1) Net of partial charge-offs of $2.4 million and $2.3 million, respectively, at December 31, 2013 and 2012.
(2) Net of partial charge-offs of $141 thousand and $92 thousand, respectively, at December 31, 2013 and 2012.

Impaired loans consist of nonaccrual commercial loans, troubled debt restructured loans and other loans classified as impaired. The loss allocation on impaired loans amounted to $1.5 million and $2.9 million, respectively, at December 31, 2013 and 2012. Various loan loss allowance coverage ratios are affected by the timing and extent of charge-offs, particularly with respect to impaired collateral dependent loans. For such loans the Bank generally recognizes a partial charge-off equal to the identified loss exposure, therefore the remaining allocation of loss is minimal.

Other individual commercial loans and commercial mortgage loans not deemed to be impaired are evaluated using the internal rating system and the application of loss allocation factors. The loan rating system is described under the caption "Credit Quality Indicators" in Note 5 to the Consolidated Financial Statements. The loan rating system and the related loss allocation factors take into consideration parameters including the borrower's financial condition, the borrower's performance with respect to loan terms, and the adequacy of collateral. Portfolios of more homogeneous populations of loans including residential mortgages and consumer loans are analyzed as groups taking into account delinquency ratios and other indicators and our historical loss experience for each type of credit product. We continue to periodically reassess and revise the loss allocation factors and estimates used in the assignment of loss exposure to appropriately reflect our analysis of migrational loss experience.

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. Updates to appraisals are generally obtained for troubled 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 mortgages 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.

For 2013 and 2012, the loan loss provision totaled $2.4 million and $2.7 million, respectively. Net charge-offs were $5.4 million, or 0.23% of average loans in 2013 and $1.6 million, or 0.07%, of average loans, in 2012. Net charge-offs in 2013 included a $4.0 million charge-off recognized in the second quarter on one commercial mortgage loan. This loan was paid off in the fourth quarter of 2013. See additional discussion regarding this charge-off under the caption "Nonaccrual Loans."

As of December 31, 2013, the allowance for loan losses was $27.9 million, or 1.13% of total loans, compared to $30.9 million, or 1.35% of total loans, at December 31, 2012. The decline in the ratio of the allowance for loan losses to total loans reflects charge-offs and a decrease in specific reserves on impaired loans. The decline in this ratio also reflects a decrease in estimated loss exposure on loans collectively evaluated for impairment, as evidenced by improvement in commercial loan portfolio credit quality indicators. See Note 5 to the Unaudited Consolidated Financial Statements for additional information under the caption "Credit Quality Indicators."

The following table presents additional detail on the Corporation's loan portfolio and associated allowance for loan losses as of the dates indicated.

(Dollars in thousands)	December 31, 2013				December 31, 2012			
	Loans	Related Allowance	Allowance / Loans		Loans	Related Allowance	Allowance / Loans	
Impaired loans individually evaluated for impairment	$37,493	$1,481	3.95	%	$35,547	$2,880	8.10	%
Loans collectively evaluated for impairment	2,425,391	18,494	0.76	%	2,258,456	19,700	0.87	%
Unallocated	—	7,911	—		—	8,293	—	
Total	$2,462,884	$27,886	1.13	%	$2,294,003	$30,873	1.35	%

The following table reflects the activity in the allowance for loan losses during the years presented:
(Dollars in thousands)

December 31,	2013	2012	2011	2010	2009
Balance at beginning of period	$30,873	$29,802	$28,583	$27,400	$23,725
Charge-offs:					
Commercial:					
Mortgages	5,213	485	960	1,284	1,615
Construction and development	—	—	—	—	—
Other	358	1,179	1,685	2,983	2,907
Residential real estate:					
Mortgages	128	367	641	646	417
Homeowner construction	—	—	—	—	—
Consumer	323	304	548	489	223
Total charge-offs	6,022	2,335	3,834	5,402	5,162
Recoveries:					
Commercial:					
Mortgages	380	442	7	132	37
Construction and development	—	—	—	—	—
Other	153	103	311	196	251
Residential real estate:					
Mortgages	3	110	4	233	28
Homeowner construction	—	—	—	—	—
Consumer	99	51	31	24	21
Total recoveries	635	706	353	585	337
Net charge-offs	5,387	1,629	3,481	4,817	4,825
Provision charged to earnings	2,400	2,700	4,700	6,000	8,500
Balance at end of period	$27,886	$30,873	$29,802	$28,583	$27,400
Net charge-offs (recoveries) to average loans	0.23 %	0.07 %	0.17 %	0.24 %	0.25 %

The following table presents the allocation of the allowance for loan losses. The allocation below is neither indicative of the specific amounts or the loan categories in which future charge-offs may occur, nor is it an indicator of any future loss trends. The allocation of the allowance to each category does not restrict the use of the allowance to absorb any losses in any category.

(Dollars in thousands)

December 31,	2013	2012	2011	2010	2009
Commercial:					
Mortgages	$6,969	$9,407	$8,195	$7,330	$7,360
% of these loans to all loans	32 %	31 %	29 %	26 %	26 %
Construction and development	362	224	95	723	874
% of these loans to all loans	2 %	1 %	1 %	2 %	4 %
Other	5,433	5,996	6,200	6,495	6,423
% of these loans to all loans	22 %	23 %	22 %	23 %	21 %
Residential real estate:					
Mortgages	4,571	4,132	4,575	4,081	3,638
% of these loans to all loans	30 %	30 %	32 %	31 %	31 %
Homeowner construction	129	137	119	48	43
% of these loans to all loans	1 %	1 %	1 %	1 %	1 %
Consumer	2,511	2,684	2,452	1,903	1,346
% of these loans to all loans	13 %	14 %	15 %	17 %	17 %
Unallocated	7,911	8,293	8,166	8,003	7,716
Balance at end of period	$27,886	$30,873	$29,802	$28,583	$27,400
	100 %	100 %	100 %	100 %	100 %

Sources of Funds

Our sources of funds include deposits, brokered certificates of deposit, FHLBB borrowings, other borrowings and proceeds from the sales, maturities and payments of loans and investment securities. Washington Trust uses funds to originate and purchase loans, purchase investment securities, conduct operations, expand the branch network and pay dividends to shareholders.

Management’s preferred strategy for funding asset growth is to grow low cost deposits (demand deposit, NOW and savings accounts). Asset growth in excess of low cost deposits is typically funded through higher cost deposits (certificates of deposit and money market accounts), brokered certificates of deposit, FHLBB borrowings, and securities portfolio cash flow.

Deposits

Washington Trust 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.

Washington Trust is a participant in the Insured Cash Sweep (“ICS”) program, Demand Deposit Marketplace (“DDM”) program, and the Certificate of Deposit Account Registry Service (“CDARS”) program. Washington Trust uses these deposit sweep services to place customer funds into interest-bearing demand accounts, money market accounts, and/or certificates of deposits issued by other participating banks. Customer funds are placed at one or more participating bank

to ensure that each deposit customer is eligible for the full amount of FDIC insurance. As a program participant, we receive reciprocal amounts of deposits from other participating banks. ICS, DDM and CDARS deposits are considered to be brokered deposits for bank regulatory purposes. We consider these reciprocal deposit balances to be in-market deposits as distinguished from traditional out of- market brokered deposits.

Total deposits amounted to $2.51 billion at December 31, 2013, up by $192.7 million, or 8%, from December 31, 2012, with increases in lower-cost categories of deposits. Excluding out-of-market brokered certificates of deposit, in-market deposits were up by $197.3 million, or 9%, in 2013.

Demand deposits totaled $440.8 million at December 31, 2013, up by $60.9 million, or 16%, from the balance at December 31, 2012, largely due to new commercial and cash management relationships. Also included in demand deposits at December 31, 2013 were DDM reciprocal demand deposits of $11.3 million. There were no DDM reciprocal demand deposits at the end of 2012.

NOW account balances increased by $18.6 million, or 6%, and totaled $309.8 million at December 31, 2013.

During 2013, savings deposits increased by $22.4 million, or 8%, and amounted to $297.4 million at December 31, 2013. Money market accounts totaled $666.6 million at December 31, 2013, up by $170.2 million, or 34%, from December 31, 2012. Included in money market deposits were ICS reciprocal money market deposits totaling $202.4 million at December 31, 2013, up from $142.8 million at December 31, 2012.

Time deposits amounted to $790.8 million at December 31, 2013, down by $79.5 million, or 9%, from December 31, 2012. Included in in-market time deposits were CDARS reciprocal time deposits of $157.0 million and $166.8 million, respectively, at December 31, 2013 and December 31, 2012.

Borrowings

Federal Home Loan Bank Advances

The Corporation utilizes advances from the FHLBB as well as other borrowings as part of its overall funding strategy. FHLBB advances are utilized used to meet short-term liquidity needs, to purchase securities and to purchase loans from other institutions. FHLBB advances amounted to $288.1 million at December 31, 2013, down by $73.1 million from the balance at the end of 2012, reflecting less need for wholesale funding due to strong deposit growth in 2013. See the additional disclosure regarding the prepayment of FHLBB advances in March 2014 in the section “Overview” under the heading “Subsequent Event.”

In connection with the Corporation’s ongoing interest rate risk management efforts, balance sheet management transactions were conducted in 2013 and 2012 that included the prepayment of Federal Home Loan Bank of Boston (“FHLBB”) advances and modifications of terms of FHLBB advances.

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

In 2012, FHLBB advances totaling $86.2 million with a weighted average interest rate of 3.09% and a weighted average remaining maturity of 20 months were prepaid and as a result, debt prepayment penalty expense of $3.9 million was recognized. Also the terms of $113.0 million in FHLBB advances were modified, extending these advances into longer terms lowering the weighted average rate from 4.18% to 3.22%.

Junior Subordinated Debentures

Junior subordinated debentures amounted to $22.7 million at December 31, 2013, down by $10.3 million from the balance at December 31, 2012, due to a redemption of junior subordinated dentures in June 2013. The source of funds used for the redemption were made available from our balance sheet liquidity.

Redemption of Certain Trust Preferred Securities and Related Junior Subordinated Debentures
The Bancorp was the sponsor of the Washington Preferred Capital Trust, a statutory trust created for the sole purpose of the April 7, 2008 issuance of trust preferred securities, the proceeds of which were invested in junior subordinated debentures of the Bancorp. On June 17, 2013, the Bancorp redeemed in whole at par the outstanding trust preferred securities and related subordinated debentures totaling $10.0 million. The Bancorp also had a related interest rate swap contract designated as a cash flow hedge, which matured at redemption or June 17, 2013. Including the cost of the related interest rate swap contract, the rate on this debt was approximately 5.69% at the time of redemption. In connection with the redemption, unamortized debit issuance costs of $244 thousand were expensed and classified as interest expense in June 2013.

Other Liabilities
Other liabilities decreased by $25.3 million from December 31, 2012, reflecting a decline in defined benefit pension plan liabilities. In September 2013, the Corporation amended its defined benefit pension plan primarily to freeze benefit accruals after a ten-year transition period ending in December 2023. See Note 15 for additional disclosure regarding the Corporation's defined benefit pension plans.

Liquidity and Capital Resources
Liquidity Management
Liquidity is the ability of a financial institution to meet maturing liability obligations and customer loan demand. Washington Trust's primary source of liquidity is deposits, which funded approximately 81% of total average assets in 2013. 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., FHLBB term advances and other borrowings), cash flows from the Corporation's securities portfolios and loan repayments. Securities designated as available for sale may also be sold in response to short-term or long-term liquidity needs although management has no intention to do so at this time.

Washington Trust 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. Washington Trust has established collateralized borrowing capacity with the Federal Reserve Bank of Boston and also maintains additional collateralized borrowing capacity with the FHLBB in excess of levels used in the ordinary course of business.

The ALCO establishes and monitors internal liquidity measures to manage liquidity exposure. Liquidity remained well within target ranges established by the ALCO during 2013. Based on its assessment of the liquidity considerations described above, management believes the Corporation's sources of funding meets anticipated funding needs.

In 2013, net cash used in financing activities amounted to $95.9 million. Total deposits increased by $192.7 million, while FHLBB advances decreased by $73.1 million. In addition, cash dividends paid totaled $16.6 million in 2013 and $10.3 million was used in connection with the 2013 redemption of junior subordinated debentures. Net cash used in investing activities totaled $184.1 million in 2013. The most significant elements of cash flow within investment activities were net outflows related to growth in the loan portfolio, offset by cash received from maturities, principal payments and sales of securities available for sale, primarily mortgage-backed securities. Net cash provided by operating activities amounted to $80.9 million in 2013. Net income totaled $36.2 million in 2013 and the most significant adjustments to reconcile net income to net cash provided by operating activities pertain to mortgage banking activities. See the Corporation's Consolidated Statements of Cash Flows for further information about sources and uses of cash.

Capital Resources

Total shareholders' equity amounted to $329.6 million at December 31, 2013, compared to $295.7 million at December 31, 2012, including $36.2 million of earnings retention and a reduction of $17.2 million for dividend declarations. Also included in the increase in shareholders' equity was total other comprehensive income, net of tax, of $8.9 million in 2013. This primarily consisted of an after-tax beneficial impact of $13.1 million in defined benefit plan obligations, offset, in part, by reductions in the fair value of securities available for sale. See Note 15 for additional disclosure regarding the 2013 amendment to the Corporation's defined benefit pension plans.

The Corporation's 2006 Stock Repurchase Plan authorizes the repurchase of up to 400,000 shares. As of December 31, 2013, a cumulative total of 185,400 shares have been repurchased. All of these shares of stock were repurchased in 2007 at a total cost of $4.8 million.

The ratio of total equity to total assets amounted to 10.34% at December 31, 2013. This compares to a ratio of 9.62% at December 31, 2012. Book value per share at December 31, 2013 and 2012 amounted to $19.84 and $18.05, respectively.

The Bancorp and the Bank are subject to various regulatory capital requirements. As of December 31, 2013, the Bancorp and the Bank are categorized as "well-capitalized" under the regulatory framework for prompt corrective action. As disclosed in the "Sources of Funds" section under the caption "Borrowings," the Bancorp redeemed junior subordinated debentures issued to Washington Preferred Capital Trust on June 17, 2013. This transaction reduced the regulatory capital levels of total capital and Tier 1 capital in the Bancorp and the Bank by approximately $10.0 million.

See Note 12 to the Consolidated Financial Statements for additional discussion of capital requirements.

Contractual Obligations and Commitments

The Corporation has entered into numerous contractual obligations and commitments. The following table summarizes our contractual cash obligations and other commitments at December 31, 2013:

(Dollars in thousands)	Payments Due by Period				
	Total	Less Than 1 Year (1)	1-3 Years	3-5 Years	After 5 Years
Contractual Obligations:					
FHLBB advances (2)	$288,082	$2,519	$86,635	$148,178	$50,750
Junior subordinated debentures	22,681	—	—	—	22,681
Operating lease obligations	22,185	2,542	3,548	2,605	13,490
Software licensing arrangements	4,569	2,245	2,275	49	—
Other borrowings	178	44	101	33	—
Total contractual obligations	$337,695	$7,350	$92,559	$150,865	$86,921

(1) Maturities or contractual obligations are considered by management in the administration of liquidity and are routinely refinanced in the ordinary course of business.

(2) All FHLBB advances are shown in the period corresponding to their scheduled maturity. Some FHLBB advances are callable at earlier dates. See Note 11 to the Consolidated Financial Statements for additional information.

(Dollars in thousands)	Amount of Commitment Expiration – Per Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	After 5 Years
Other Commitments:					
Commercial loans	$259,061	$139,921	$66,554	$21,955	$30,631
Home equity lines	198,432	—	—	—	198,432
Other loans	35,175	26,411	4,639	4,125	—
Standby letters of credit	1,363	1,116	100	147	—
Forward loan commitments to:					
Originate loans	17,910	17,910	—	—	—
Sell loans	29,364	29,364	—	—	—
Customer related derivative contracts:					
Interest rate swaps with customers	105,582	28,945	12,277	25,301	39,059
Mirror swaps with counterparties	105,582	28,945	12,277	25,301	39,059
Interest rate risk management contract:					
Interest rate swap	22,681	—	22,681	—	—
Total commitments	$775,150	$272,612	$118,528	$76,829	$307,181

Off-Balance Sheet Arrangements

In the normal course of business, Washington Trust 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, interest rate swaps, and commitments to originate and commitments to sell fixed rate mortgage loans. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. The Corporation's credit policies with respect to interest rate swap agreements with commercial borrowers, commitments to extend credit, and standby letters of credit are similar to those used for loans. The interest rate swaps 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 13 and 20 to the Consolidated Financial Statements.

Recently Issued Accounting Pronouncements

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

Asset/Liability Management and Interest Rate Risk

Interest rate risk is the primary market risk category associated with the Corporation's operations. 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 Washington Trust's liquidity, capital adequacy, growth, risk and profitability goals.

The ALCO manages the Corporation's interest rate risk using 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, the 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 December 31, 2013 and December 31, 2012, net interest income simulations indicated that exposure to changing interest rates over the simulation horizons remained within tolerance levels established by the Corporation. The Corporation defines maximum unfavorable net interest income exposure to be a change of no more than 5% in net interest income over the first 12 months, no more than 10% over the second 12 months, and no more than 10% over the full 60-month simulation horizon. 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 interest rate scenario, the ALCO also measures the trend of both net interest income and net interest margin over a 60-month horizon to ensure the stability and adequacy of this source of earnings in different interest rate scenarios.

The ALCO regularly reviews a wide variety of interest rate shift scenario results to evaluate interest 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 interest 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 December 31, 2013 and December 31, 2012. 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.

December 31,	2013		2012	
	Months 1 - 12	Months 13 - 24	Months 1 - 12	Months 13 - 24
100 basis point rate decrease	(1.66)%	(6.02)%	(2.33)%	(7.33)%
100 basis point rate increase	2.22%	3.91%	3.11%	5.86%
200 basis point rate increase	4.44%	7.16%	6.36%	10.98%
300 basis point rate increase	5.30%	6.98%	8.34%	13.19%

The ALCO estimates that the negative exposure of net interest income to falling rates as compared to an unchanged rate scenario results from a more rapid decline in earning asset yields compared to rates paid on deposits. If market interest rates were to fall from their already low levels 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 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 rates fall.

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

The relative decrease in positive exposure of net interest income to rising rates from December 31, 2012 to December 31, 2013 was largely attributable to changes in balance sheet composition and steepening of the yield curve.

While the ALCO reviews and updates simulation assumptions and also periodically back-tests the simulation results to ensure that the assumptions are reasonable and current, income simulation may not always prove to be an accurate indicator of interest rate risk or future net interest margin. Over time, the repricing, maturity and prepayment characteristics of financial instruments and the composition of the Corporation's balance sheet may change to a different degree than estimated. Simulation modeling assumes a static balance sheet, with the exception of certain modeled deposit mix shifts from low-cost core savings deposits to higher-cost time deposits in rising rate scenarios as noted above. Due to the current level of low market interest rates, the banking industry has experienced relatively strong growth in low-cost FDIC-insured core savings deposits over the past several years. The ALCO recognizes that a portion of these increased levels of low-cost balances could shift into higher yielding alternatives in the future, particularly if interest rates rise and as confidence in financial markets strengthens, and has modeled increased amounts of 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. Lastly, mortgage-backed securities and mortgage 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 of December 31, 2013 and 2012 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 (noncallable)	$139	($274)
U.S. government sponsored enterprise securities (callable)	463	(2,335)
States and political subdivisions	1,169	(2,449)
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	5,046	(16,641)
Trust preferred debt and other corporate debt securities	46	858
Total change in market value as of December 31, 2013	$6,863	($20,841)
Total change in market value as of December 31, 2012	$4,700	($12,824)

See Notes 13 and 20 to the Consolidated Financial Statements for more information regarding the nature and business purpose of derivative financial instruments and financial instruments with off-balance sheet risk.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk.

Information regarding quantitative and qualitative disclosures about market risk appears under Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” under the caption “Asset/Liability Management and Interest Rate Risk.”

ITEM 8. Financial Statements and Supplementary Data.

The financial statements and supplementary data are contained herein.

Management’s Annual Report on Internal Control Over Financial Reporting

The management of Washington Trust Bancorp, Inc. and subsidiaries (the “Corporation”) is responsible for establishing and maintaining adequate internal control over financial reporting for the Corporation. The Corporation’s internal control system was designed to provide reasonable assurance to management and the Board of Directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Corporation’s management assessed the effectiveness of the Corporation’s internal control over financial reporting as of December 31, 2013. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework (1992). Based on our assessment, we believe that, as of December 31, 2013, the Corporation’s internal control over financial reporting is effective based on those criteria.

The Corporation’s independent registered public accounting firm has issued an attestation report on the effectiveness of the Corporation’s internal control over financial reporting. This report appears on the following page of this Annual Report on Form 10-K.

/s/ Joseph J. MarcAurele	/s/ David V. Devault
Joseph J. MarcAurele	David V. Devault
Chairman and Chief Executive Officer	Vice Chair, Secretary and Chief Financial Officer

Report of Independent Registered Public Accounting Firm

[Graphic Omitted]

The Board of Directors and Shareholders
Washington Trust Bancorp, Inc:

We have audited Washington Trust Bancorp, Inc. and Subsidiaries' (the "Corporation's") internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Corporation's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Corporation as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2013, and our report dated March 7, 2014 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP
Providence, Rhode Island
March 7, 2014

Report of Independent Registered Public Accounting Firm

[Graphic Omitted]

The Board of Directors and Shareholders
Washington Trust Bancorp, Inc.:

We have audited the accompanying consolidated balance sheets of Washington Trust Bancorp, Inc. and Subsidiaries (the "Corporation") as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2013. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Washington Trust Bancorp, Inc. and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Corporation's internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 7, 2014 expressed an unqualified opinion on the effectiveness of the Corporation's internal control over financial reporting.

/s/ KPMG LLP
Providence, Rhode Island
March 7, 2014

WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except par value)

December 31,	2013	2012
Assets:		
Cash and due from banks	$81,939	$73,474
Short-term investments	3,378	19,176
Mortgage loans held for sale, at fair value	11,636	50,056
Securities:		
Available for sale, at fair value	392,903	375,498
Held to maturity, at amortized cost (fair value $29,865 in 2013 and $41,420 in 2012)	29,905	40,381
Total securities	422,808	415,879
Federal Home Loan Bank stock, at cost	37,730	40,418
Loans:		
Commercial	1,363,335	1,252,419
Residential real estate	772,674	717,681
Consumer	326,875	323,903
Total loans	2,462,884	2,294,003
Less allowance for loan losses	27,886	30,873
Net loans	2,434,998	2,263,130
Premises and equipment, net	25,402	27,232
Investment in bank-owned life insurance	56,673	54,823
Goodwill	58,114	58,114
Identifiable intangible assets, net	5,493	6,173
Other assets	50,696	63,409
Total assets	$3,188,867	$3,071,884
Liabilities:		
Deposits:		
Demand deposits	$440,785	$379,889
NOW accounts	309,771	291,174
Money market accounts	666,646	496,402
Savings accounts	297,357	274,934
Time deposits	790,762	870,232
Total deposits	2,505,321	2,312,631
Federal Home Loan Bank advances	288,082	361,172
Junior subordinated debentures	22,681	32,991
Other borrowings	178	1,212
Other liabilities	42,959	68,226
Total liabilities	2,859,221	2,776,232
Commitments and contingencies		
Shareholders' Equity:		
Common stock of $.0625 par value; authorized 30,000,000 shares; issued and outstanding 16,613,561 shares in 2013 and 16,379,771 shares in 2012	1,038	1,024
Paid-in capital	97,566	91,453
Retained earnings	232,595	213,674
Accumulated other comprehensive loss	(1,553)	(10,499)
Total shareholders' equity	329,646	295,652
Total liabilities and shareholders' equity	$3,188,867	$3,071,884

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

WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

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

Years ended December 31,	2013	2012	2011
Interest income:			
Interest and fees on loans	$102,481	$102,656	$99,319
Interest on securities: Taxable	11,008	15,359	18,704
Nontaxable	2,553	2,699	3,001
Dividends on corporate stock and Federal Home Loan Bank stock	148	256	253
Other interest income	158	91	69
Total interest and dividend income	116,348	121,061	121,346
Interest expense:			
Deposits	12,420	13,590	15,692
Federal Home Loan Bank advances	10,643	14,957	18,158
Junior subordinated debentures	1,484	1,570	1,568
Other interest expense	16	248	973
Total interest expense	24,563	30,365	36,391
Net interest income	91,785	90,696	84,955
Provision for loan losses	2,400	2,700	4,700
Net interest income after provision for loan losses	89,385	87,996	80,255
Noninterest income:			
Wealth management revenues	31,825	29,641	28,306
Service charges on deposit accounts	3,256	3,193	3,455
Merchant processing fees	10,220	10,159	9,905
Card interchange fees	2,788	2,480	2,249
Income from bank-owned life insurance	1,850	2,448	1,939
Net gains on loan sales and commissions on loans originated for others	13,085	14,092	5,074
Net realized gains on securities	—	1,223	698
Net gains on interest rate swap contracts	951	255	6
Equity in earnings (losses) of unconsolidated subsidiaries	(107)	196	(213)
Other income	1,701	1,748	1,536
Noninterest income, excluding other-than-temporary impairment losses	65,569	65,435	52,955
Total other-than-temporary impairment losses on securities	(294)	(28)	(54)
Portion of loss recognized in other comprehensive income (before tax)	(3,195)	(193)	(137)
Net impairment losses recognized in earnings	(3,489)	(221)	(191)
Total noninterest income	62,080	65,214	52,764
Noninterest expense:			
Salaries and employee benefits	60,052	59,786	51,095
Net occupancy	5,769	6,039	5,295
Equipment	4,847	4,640	4,344
Merchant processing costs	8,682	8,593	8,560
Outsourced services	3,662	3,560	3,530
Legal, audit and professional fees	2,330	2,240	1,927
FDIC deposit insurance costs	1,761	1,730	2,043
Advertising and promotion	1,464	1,730	1,819
Amortization of intangibles	680	728	951
Foreclosed property costs	258	762	878
Debt prepayment penalties	1,125	3,908	694
Other expenses	8,155	8,622	9,237
Total noninterest expense	98,785	102,338	90,373

Income before income taxes		52,680	50,872	42,646
Income tax expense		16,527	15,798	12,922
Net income		$36,153	$35,074	$29,724
Weighted average common shares outstanding - basic		16,506	16,358	16,254
Weighted average common shares outstanding - diluted		16,664	16,401	16,284
Per share information:	Basic earnings per common share	$2.18	$2.13	$1.82
	Diluted earnings per common share	$2.16	$2.13	$1.82
	Cash dividends declared per share	$1.03	$0.94	$0.88

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

WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

Years ended December 31,	2013	2012	2011
Net income	$36,153	$35,074	$29,724
Other comprehensive income (loss), net of tax:			
Securities available for sale:			
Changes in fair value of securities available for sale	(6,808)	(2,666)	1,622
Net losses (gains) on securities classified into earnings	188	(768)	(415)
Net change in fair value of securities available for sale	(6,620)	(3,434)	1,207
Reclassification adjustment for other-than-temporary impairment losses transferred into earnings	2,049	125	88
Cash flow hedges:			
Change in fair value of cash flow hedges	(35)	(333)	(942)
Net cash flow hedge losses reclassified into earnings	423	454	486
Net change in fair value of cash flow hedges	388	121	(456)
Defined benefit plan obligation adjustment	13,129	(5,416)	(6,759)
Total other comprehensive income (loss), net of tax	8,946	(8,604)	(5,920)
Total comprehensive income	$45,099	$26,470	$23,804

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

WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES (Dollars and shares in thousands)
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Common Shares Outstanding	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2011	16,172	$1,011	$84,889	$178,939	$4,025	$268,864
Net income				29,724		29,724
Total other comprehensive loss, net of tax					(5,920)	(5,920)
Cash dividends declared				(14,465)		(14,465)
Share-based compensation			1,394			1,394
Exercise of stock options, issuance of other compensation-related equity instruments and related tax benefit	87	5	995			1,000
Shares issued – dividend reinvestment plan	33	2	752			754
Balance at December 31, 2011	16,292	$1,018	$88,030	$194,198	($1,895)	$281,351
Net income				35,074		35,074
Total other comprehensive loss, net of tax					(8,604)	(8,604)
Cash dividends declared				(15,598)		(15,598)
Share-based compensation			1,962			1,962
Deferred compensation plan	10	1	145			146
Exercise of stock options, issuance of other compensation-related equity instruments and related tax benefit	78	5	1,316			1,321
Balance at December 31, 2012	16,380	$1,024	$91,453	$213,674	($10,499)	$295,652
Net income				36,153		36,153
Total other comprehensive income, net of tax					8,946	8,946
Cash dividends declared				(17,232)		(17,232)
Share-based compensation			1,876			1,876
Deferred compensation plan	2	—	30			30
Exercise of stock options, issuance of other compensation-related equity instruments and related tax benefit	232	14	4,207			4,221
Balance at December 31, 2013	16,614	$1,038	$97,566	$232,595	($1,553)	$329,646

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

WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

Years ended December 31,		2013	2012	2011
Cash flows from operating activities:				
Net income		$36,153	$35,074	$29,724
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for loan losses		2,400	2,700	4,700
Depreciation of premises and equipment		3,283	3,213	3,174
Foreclosed and repossessed property valuation adjustments		79	350	642
Net gain on sale of premises		—	(358)	(211)
Net amortization of premium and discount		1,401	2,127	1,768
Net amortization of intangibles		680	728	951
Non–cash charitable contribution		—	—	990
Share–based compensation		1,876	1,962	1,394
Deferred income tax expense (benefit)		2,267	1,328	(863)
Income from bank-owned life insurance		(1,850)	(2,448)	(1,939)
Net gains on loan sales and commissions on loans originated for others		(13,085)	(14,092)	(5,074)
Net realized gains on securities		—	(1,223)	(698)
Net impairment losses recognized in earnings		3,489	221	191
Net gains on interest rate swap contracts		(951)	(255)	(6)
Equity in (earnings) losses of unconsolidated subsidiaries		107	(196)	213
Proceeds from sales of loans		415,186	479,925	208,275
Loans originated for sale		(369,045)	(495,271)	(206,242)
Decrease (increase) in other assets		2,589	(7,987)	(2,804)
(Decrease) increase in other liabilities		(3,729)	(331)	3,014
Net cash provided by operating activities		80,850	5,467	37,199
Cash flows from investing activities:				
Purchases of:	Mortgage-backed securities available for sale	(91,928)	—	(115,208)
	Other investment securities available for sale	(25,404)	—	(5,000)
	Mortgage-backed securities held to maturity	—	—	(53,720)
Proceeds from sales of:	Mortgage-backed securities available for sale	—	40,222	46,889
	Other investment securities available for sale	—	6,338	9,572
Maturities and principal payments of:	Mortgage-backed securities available for sale	77,644	111,906	115,500
	Other investment securities available for sale	10,720	1,411	855
	Mortgage-backed securities held to maturity	9,993	11,177	1,489
Remittance of Federal Home Loan Bank stock		2,688	1,590	—
Net increase in loans		(208,125)	(138,084)	(148,652)
Proceeds from sale of portfolio loans		49,588	—	—
Purchases of loans, including purchased interest		(10,645)	(10,469)	(9,677)
Proceeds from the sale of property acquired through foreclosure or repossession		2,588	3,366	2,190
Purchases of premises and equipment		(1,491)	(5,110)	(3,644)
Net proceeds from sale of bank property		—	1,571	1,279
Proceeds from bank-owned life insurance		—	1,419	—
Repayment of investment in capital trust		310	—	—
Equity investment in real estate limited partnership		—	—	(449)
Net cash (used in) provided by investing activities		(184,062)	25,337	(158,576)

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

WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

Years ended December 31,	2013	2012	2011
Cash flows from financing activities:			
Net increase in deposits	192,690	186,316	89,985
Net decrease in other borrowings	(1,034)	(18,546)	(3,601)
Proceeds from Federal Home Loan Bank advances	204,000	627,179	514,475
Repayment of Federal Home Loan Bank advances	(277,090)	(806,457)	(472,747)
Proceeds from issuance of common stock under dividend reinvestment plan	—	—	754
Proceeds from stock option exercises and issuance of other equity instruments	3,681	1,257	885
Tax benefit from stock option exercises and other equity instruments	570	210	115
Cash dividends paid	(16,628)	(15,133)	(14,205)
Redemption of junior subordinated debentures	(10,310)	—	—
Net cash provided by (used in) financing activities	95,879	(25,174)	115,661
Net (decrease) increase in cash and cash equivalents	(7,333)	5,630	(5,716)
Cash and cash equivalents at beginning of year	92,650	87,020	92,736
Cash and cash equivalents at end of year	$85,317	$92,650	$87,020
Noncash Investing and Financing Activities:			
Loans charged off	$6,022	$2,335	$3,834
Loans transferred to property acquired through foreclosure or repossession	1,471	3,167	2,031
OREO proceeds due from attorney	—	132	—
Supplemental Disclosures:			
Interest payments	$24,194	$29,657	$35,594
Income tax payments	13,618	14,777	13,390

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

WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 and 2012

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

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

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

Short-term Investments
Short-term investments consist of highly liquid investments with a maturity date of three months or less when purchased and are considered to be cash equivalents. The Corporation's short-term investments may be comprised of overnight federal funds sold, securities purchased under resale agreements, money market mutual funds and US Treasury bills.

Securities
Investments in debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and carried at amortized cost. Management determines the appropriate classification of securities at the time of purchase.

Investments not classified as held to maturity are classified as available for sale. Securities available for sale consist of debt and equity securities that are available for sale to respond to changes in market interest rates, liquidity needs, changes in funding sources and other similar factors. These assets are specifically identified and are carried at fair value. Changes in fair value of available for sale securities, net of applicable income taxes, are reported as a separate component of shareholders' equity. Washington Trust does not have a trading portfolio.

Premiums and discounts are amortized and accreted over the term of the securities on a method that approximates the level yield method. The amortization and accretion is included in interest income on securities. Dividend and interest income are recognized when earned. Realized gains or losses from sales of equity securities are determined using the average cost method, while other realized gains and losses are determined using the specific identification method.

The fair values of securities may be based on either quoted market prices, third party pricing services or third party valuation specialists. When the fair value of an investment security is less than its amortized cost basis, the

Corporation assesses whether the decline in value is other-than-temporary. The Corporation considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for impairment, the severity and duration of the impairment, changes in the value subsequent to the reporting date, forecasted performance of the issuer, changes in the dividend or interest payment practices of the issuer, changes in the credit rating of the issuer or the specific security, and the general market condition in the geographic area or industry the issuer operates in.

In determining whether an other-than-temporary impairment has occurred for debt securities, the Corporation compares the present value of cash flows expected to be collected from the security with the amortized cost of the security. If the present value of expected cash flows is less than the amortized cost of the security, then the entire amortized cost of the

WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2013 and 2012

security will not be recovered; that is, a credit loss exists, and an other-than-temporary impairment shall be considered to have occurred. The credit loss component of an other-than-temporary impairment write-down for debt securities is recorded in earnings while the remaining portion of the impairment loss is recognized, net of tax, in other comprehensive income provided that the Corporation does not intend to sell the underlying debt security and it is more-likely-than not that the Corporation would not have to sell the debt security prior to recovery of the unrealized loss, which may be to maturity. If the Corporation intended to sell any securities with an unrealized loss or it is more-likely than not that the Corporation would be required to sell the investment securities, before recovery of their amortized cost basis, then the entire unrealized loss would be recorded in earnings.

See Note 4 for further discussion on the Corporation’s investment securities portfolio.

Federal Home Loan Bank Stock
The Bank is a member of the Federal Home Loan Bank of Boston (“FHLBB”). The FHLBB is a cooperative that provides services, including funding in the form of advances, to its member banking institutions. As a requirement of membership, the Bank must own a minimum amount of FHLBB stock, calculated periodically based primarily on its level of borrowings from the FHLBB. No market exists for shares of the FHLBB and therefore, they are carried at par value. FHLBB stock may be redeemed at par value five years following termination of FHLBB membership, subject to limitations which may be imposed by the FHLBB or its regulator, the Federal Housing Finance Board, to maintain capital adequacy of the FHLBB. While the Corporation currently has no intentions to terminate its FHLBB membership, the ability to redeem its investment in FHLBB stock would be subject to the conditions imposed by the FHLBB. Based on the capital adequacy and the liquidity position of the FHLBB, management believes there is no impairment related to the carrying amount of the Corporation’s FHLBB stock as of December 31, 2013. Further deterioration of the FHLBB’s capital levels may require the Corporation to deem its restricted investment in FHLBB stock to be other-than-temporarily impaired. If evidence of impairment exists in the future, the FHLBB stock would reflect fair value using either observable or unobservable inputs. The Corporation will continue to monitor its investment in FHLBB stock.

Mortgage Banking Activities
Mortgage Loans Held for Sale - Residential mortgage loans originated and intended for sale in the secondary market are classified as held for sale. The Corporation has elected the fair value option pursuant to Accounting Standards Codification (“ASC”) 825, “Financial Instruments” for closed loans intended for sale. ASC 825 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 that may otherwise not be required to be measured at fair value under other accounting standards. Washington Trust elected the fair value option for its portfolio of residential real estate mortgage loans held for sale pursuant to forward sale commitments in order to reduce certain timing differences and better match changes in fair values of the loans with changes in the fair value of the derivative forward loan sale contracts used to economically hedge them. Changes in the fair value of loans held for sale are recorded in earnings and are offset by changes in fair value relating to forward sale commitments and interest rate lock commitments. Gains and losses on residential loan sales are recorded in noninterest income as net gains on loan sales and commissions on loans originated for others. Commissions received on mortgage loans brokered to various investors are included in net gains on loan sales and commissions on loans originated for others are and are recorded as revenue when received.

Loan Servicing Rights - Rights to service mortgage loans for others are recognized as an asset, including rights acquired through both purchases and originations. Upon the sale of mortgage loans, a mortgage servicing asset is established, which represents the current estimated fair value based on the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, ancillary income, prepayment speeds, and default rates and losses. Capitalized loan servicing rights are included in other assets and are amortized as an offset to other income over the period of estimated net servicing income. They are periodically evaluated for impairment based on their fair value. Impairment is measured on an aggregated basis by stratifying the rights based on homogeneous characteristics such as note rate and loan type. The fair value is estimated based on the present value of expected cash flows, incorporating assumptions for discount rate, prepayment speed and servicing cost. Any impairment is recognized through a valuation allowance and as a reduction to other income in the Consolidated Statements of Income.

Loans

Portfolio Loans - Loans held in the portfolio are stated at the principal amount outstanding, net of unamortized deferred loan origination fees and costs. Interest income is accrued on a level yield basis based on principal amounts outstanding. Deferred loan origination fees and costs are amortized as an adjustment to yield over the life of the related loans.

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

Troubled Debt Restructured Loans - Loans are considered to be troubled debt restructurings when the Corporation has granted concessions to a borrower due to the borrower's financial condition that it otherwise would not have considered. These concessions generally 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. Troubled debt restructured loans are classified as accruing or non-accruing based on management's assessment of the collectibility of the loan. Loans which are already on nonaccrual status at the time of the restructuring generally remain on nonaccrual status for approximately six months before management considers such loans for return to accruing status. Accruing troubled debt restructured loans are placed into nonaccrual status if and when the borrower fails to comply with the restructured terms and management deems it unlikely that the borrower will return to a status of compliance in the near term. Troubled debt restructurings are generally reported as such for at least one year from the date of the restructuring. In years after the restructuring, troubled debt restructured loans are removed from this classification if the restructuring did not involve a below market rate concession and the loan is not deemed to be impaired based on the terms specified in the restructuring agreement.

Impaired Loans - Impaired loans are loans for which it is probable that the Corporation will not be able to collect all amounts due according to the contractual terms of the loan agreements and all loans restructured in a troubled debt restructuring. Impaired loans do not include large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment, which consist of most residential mortgage loans and consumer loans. Impairment is measured on a discounted cash flow method based upon the loan's contractual effective interest rate, or at the loan's observable market price, or if the loan is collateral dependent, at the fair value of the collateral less costs to sell. Impairment is also measured based on the fair value of the collateral less costs to sell if it is determined that foreclosure is probable. Interest income on nonaccrual impaired loans is recognized as described above under the caption "Nonaccrual Loans." Impaired accruing loans consist of those troubled debt restructurings for which management has concluded that the collectibility of the loan is not in doubt.

Allowance for Loan Losses

The allowance for loan losses is management's best estimate of the probable loan losses inherent in the loan portfolio as of the balance sheet date. The allowance is increased by provisions charged to earnings and by recoveries of amounts previously charged off, and is reduced by charge-offs on loans (or portions thereof) deemed to be uncollectible. Loan charge-offs are recognized when management believes the collectibility of the principal balance outstanding is unlikely. Full or partial charge-offs on collateral dependent impaired loans are generally recognized when the collateral is deemed to be insufficient to support the carrying value of the loan.

WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2013 and 2012

A methodology is used to systematically measure the amount of estimated loan loss exposure inherent in the loan portfolio for the purposes of establishing a sufficient allowance for loan losses. The methodology includes three elements: (1) identification of loss allocations for certain specific loans deemed to be impaired, (2) loss allocation factors for non-impaired loans based on credit grade, loss experience, delinquency factors and other similar credit quality indicators, and (3) an additional unallocated allowance maintained for measurement imprecision attributable to uncertainty in the economic environment and ever changing conditions and to reflect management's consideration of qualitative and quantitative assessments of other environmental factors.

The level of the allowance is based on management's ongoing review of the growth and composition of the loan portfolio, historical loss experience, current economic conditions, analysis of current levels and asset quality and delinquency trends, the performance of individual loans in relation to contract terms and other pertinent factors.

The adequacy of the allowance for loan losses is regularly evaluated by management. While management believes that the allowance for loan losses is adequate, future additions to the allowance may be necessary based on changes in assumptions and economic conditions. In addition, various regulatory agencies periodically review the allowance for loan losses. Such agencies may require additions to the allowance based on their judgments about information available to them at the time of their examination.

The allowance is an estimate, and ultimate losses may vary from management's estimate. Changes in the estimate are recorded in the results of operations in the period in which they become known, along with provisions for estimated losses incurred during that period.

Premises and Equipment
Premises and equipment are stated at cost less accumulated depreciation. Depreciation for financial reporting purposes is calculated on the straight-line method over the estimated useful lives of assets. Expenditures for major additions and improvements are capitalized while the costs of current maintenance and repairs are charged to operating expenses. The estimated useful lives of premises and improvements range from three to forty years. For furniture, fixtures and equipment, the estimated useful lives range from two to twenty years.

Goodwill and Other Identifiable Intangible Assets
The Corporation allocated the cost of an acquired entity to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. Other intangible assets identified in acquisitions consist of advisory contracts. The value attributed to the advisory contracts was based on the time period over which they are expected to generate economic benefits.

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

Step 1 of the quantitative impairment analysis requires a comparison of each reporting unit's fair value to its carrying value to identify potential impairment. Step 2 of the analysis is necessary only if a reporting unit's carrying amount exceeds its fair value. Step 2 is a more detailed analysis, which involves measuring the excess of the fair value of the reporting unit, as determined in Step 1, over the aggregate fair value of the individual assets, liabilities, and identifiable intangibles as if the reporting unit was being acquired in a business combination. Goodwill impairment exists when a reporting unit's carrying value of goodwill exceeds its implied fair value. Significant judgment is applied when goodwill is assessed for impairment. This judgment includes the selection of appropriate discount rates, the identification of relevant market comparables and the development of cash flow projections. The selection and weighting of the various fair value techniques may result in a higher or lower fair value. Judgment is applied in determining the weightings that are most representative of fair value.

Other intangible assets with definite lives are tested for impairment whenever events or circumstances occur that indicate that the carrying amount may not be recoverable. If applicable, the Corporation tests each of the intangibles by comparing the carrying value of the intangible asset to the sum of undiscounted cash flows expected to be generated by the asset. If the carrying amount of the asset exceeded its undiscounted cash flows, then an impairment loss would be recognized for the amount by which the carrying amount exceeds its fair value.

Impairment of Long-Lived Assets Other than Goodwill
Long-lived assets are reviewed for impairment at least annually or whenever events or changes in business circumstances indicate that the remaining useful life may warrant revision or that the carrying amount of the long-lived asset may not be fully recoverable. If impairment is determined to exist, any related impairment loss is calculated based on fair value. Impairment losses on assets to be disposed of, if any, are based on the estimated proceeds to be received, less costs of disposal.

Property Acquired through Foreclosure or Repossession
Property acquired through foreclosure or repossession is stated at the lower of cost or fair value minus estimated costs to sell at the date of acquisition or classification to this status. Fair value of such assets is determined based on independent appraisals and other relevant factors. Any write-down to fair value at the time of foreclosure or repossession is charged to the allowance for loan losses. A valuation allowance is maintained for declines in market value and for estimated selling expenses. Increases to the valuation allowance, expenses associated with ownership of these properties, and gains and losses from their sale are included in foreclosed property costs.

Loans that are substantively repossessed include only those loans for which the Corporation has taken possession of the collateral, but has not completed legal foreclosure proceedings.

Bank-Owned Life Insurance (“BOLI”)
The investment in BOLI represents the cash surrender value of life insurance policies on the lives of certain Bank employees who have provided positive consent allowing the Bank to be the beneficiary of such policies. Increases in the cash value of the policies, as well as insurance proceeds received, are recorded in noninterest income, and are not subject to income taxes. The financial strength of the insurance carrier is reviewed prior to the purchase of BOLI and annually thereafter.

Investment in Real Estate Limited Partnership
Washington Trust has a 99.9% ownership interest in two real estate limited partnerships that renovate, own and operate two low-income housing complexes. Washington Trust neither actively participates nor has a controlling interest in these limited partnerships and accounts for its investments under the equity method of accounting. The carrying value of the investments is recorded in other assets on the Consolidated Balance Sheet. Net losses generated by the partnership are recorded as a reduction to Washington Trust’s investment and as a reduction of noninterest income in the Consolidated Statements of Income. Tax credits generated by the partnership are recorded as a reduction in the income tax provision in the year they are allowed for tax reporting purposes.

The results of operations of the real estate limited partnerships are periodically reviewed to determine if the partnership generates sufficient operating cash flow to fund its current obligations. In addition, the current value of the underlying properties is compared to the outstanding debt obligations. If it is determined that the investment is permanently impaired, the carrying value will be written down to the estimated realizable value.

Transfers and Servicing of Assets and Extinguishments of Liabilities

The accounting for transfers and servicing of financial assets and extinguishments of liabilities is based on consistent application of a financial components approach that focuses on control. This approach distinguishes transfers of financial assets that are sales from transfers that are secured borrowings. After a transfer of financial assets, the Corporation recognizes all financial and servicing assets it controls and liabilities it has incurred and derecognizes financial assets it no longer controls and liabilities that have been extinguished. This financial components approach focuses on the assets

WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
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and liabilities that exist after the transfer. Many of these assets and liabilities are components of financial assets that existed prior to the transfer. If a transfer does not meet the criteria for a sale, the transfer is accounted for as a secured borrowing with a pledge of collateral.

Fee Revenue
Wealth management revenues include trust and investment advisory fees and mutual fund fees that are primarily accrued as earned based upon a percentage of asset values under administration. Also included in wealth management revenues are financial planning fees, commissions and other service fees, which are recognized as revenue to the extent that services have been completed. Fee revenue from deposit service charges is generally recognized when earned. Fee revenue for merchant processing services is generally recognized as earned.

Pension Costs
Pension benefits are accounted for using the net periodic benefit cost method, which recognizes the compensation cost of an employee's pension benefit over that employee's approximate service period. Pension benefit cost calculations incorporate various actuarial and other assumptions, including discount rates, mortality, assumed rates of return, compensation increases, and turnover rates. Washington Trust reviews its assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is appropriate to so do. The effect of modifications to those assumptions is recorded in other comprehensive income and amortized to net periodic cost over future periods. Washington Trust believes that the assumptions utilized in recording its obligations under its plans are reasonable based on its experience and market conditions.

The funded status of defined benefit pension plans, measured as the difference between the fair value of plan assets and the projected benefit obligation, is recognized in the Consolidated Balance Sheet. The changes in the funded status of the defined benefit plans, including actuarial gains and losses and prior service costs and credits, are recognized in comprehensive income in the year in which the changes occur.

Stock-Based Compensation
Stock-based compensation plans provide for awards of share options and other equity incentives including nonvested share units and share awards and nonvested performance shares.

Compensation expense for share options and nonvested share units and share awards is recognized over the service period based on the fair value at the date of grant. The Corporation estimates grant date fair value for share options using the Black-Scholes option-pricing model. Nonvested performance share compensation expense is based on the most recent performance assumption available and is adjusted as assumptions change.

Excess tax benefits (expenses) related to stock option exercises and issuance of other compensation-related equity instruments are reflected on the Consolidated Statements of Cash Flows as financing activity.

Income Taxes
Income tax expense is determined based on the asset and liability method, whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Corporation recognizes the effect of income tax positions only if those positions are more- likely-than-not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are

reflected in the period in which the change in judgment occurs.

The Corporation records interest related to unrecognized tax benefits in income tax expense. Penalties, if incurred, would be recognized as a component of income tax expense.

Earnings Per Share ("EPS")

The Corporation utilizes the two-class method earnings allocation formula to determine earnings per share of each class of stock according to dividends and participation rights in undistributed earnings. Under the two-class method, basic earnings per common share is computed by dividing net earnings allocated to common stock by the weighted-average number of common shares outstanding. Diluted earnings per common share is computed using the weighted-average number of shares determined for the basic earnings per common share computation plus the dilutive effect of common stock equivalents.

Comprehensive Income

Comprehensive income is defined as all changes in equity, except for those resulting from transactions with shareholders. Net income is a component of comprehensive income. All other components are referred to in the aggregate as other comprehensive income.

Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold and other short-term investments. Generally, federal funds are sold on an overnight basis.

Guarantees

Standby letters of credit are considered a guarantee of the Corporation. Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Under the standby letters of credit, the Corporation is required to make payments to the beneficiary of the letters of credit upon request by the beneficiary contingent upon the customer’s failure to perform under the terms of the underlying contract with the beneficiary. The fair value of standby letters of credit is considered immaterial to the Corporation’s Consolidated Financial Statements.

Derivative Instruments and Hedging Activities

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.

For derivatives designated as fair value hedges, changes in the fair value of the derivative are recognized in earnings together with the changes in the fair value of the related hedged item (generally fixed-rate financial instruments). The net amount, if any, represents hedge ineffectiveness, is reflected in earnings.

For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative are recorded in other comprehensive income (loss) and recognized in earnings when the hedged transaction affects earnings. The ineffective portion of changes in the fair value of cash flow hedges is recognized directly in earnings.

For derivatives not designated as hedges, changes in fair value of the derivative instruments are recognized in earnings, in noninterest income.

The accrued net settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense based on the item being hedged. Changes in fair value of derivatives including accrued net settlements that do not qualify for hedge accounting are reported in noninterest income.

When hedge accounting is discontinued, the future changes in fair value of the derivative are recorded as noninterest income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued, but the hedged cash flows or forecasted transaction is still expected to occur, changes in value that were accumulated in other comprehensive income are amortized or accreted into earnings over the same periods which the hedged transactions will affect earnings.

By using certain derivative financial instruments, the Corporation exposes itself to credit risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Corporation, which creates credit risk for the Corporation. When the fair value of a derivative contract is negative, the Corporation owes the counterparty and, therefore, it does not possess credit risk. The credit risk in derivative instruments is minimized by entering into transactions with highly rated counterparties that management believes to be creditworthy.

Fair Value Measurements
Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820, "Fair Value Measurements and Disclosures", establishes a framework for measuring fair value and expands disclosures about fair value measurements. The required disclosures about fair value measurements have been included in Note 14.

(2) Recently Issued Accounting Pronouncements
Balance Sheet - Topic 210
Accounting Standards Update No. 2011-11, "Disclosures about Offsetting Assets and Liabilities" ("ASU 2011-11"), was issued in December 2011 and was intended to enhance current disclosure requirements on offsetting financial assets and liabilities. The requirements of ASU 2011-11 enable users to compare balance sheets prepared under U.S. GAAP and International Financial Reporting Standards ("IFRS"), which are subject to different offsetting models. The requirements affect all entities that have financial instruments that are either offset in the balance sheet or subject to an enforceable master netting arrangement or similar agreement. Accounting Standards Update No. 2013-01, "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities" ("ASU 2013-01"), was issued in January 2013 to address implementation issues about the scope of ASU 2011-11. Both ASU 2011-11 and ASU 2013-01 were effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The required disclosures were effective retrospectively for all comparative periods presented. The adoption of ASU 2011-11 and ASU 2013-01 did not have a material impact on the Corporation's consolidated financial statements.

Comprehensive Income - Topic 220
Accounting Standards Update No. 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" ("ASU 2013-02") was issued in February 2013 and requires additional disclosure of the effects of reclassifications out of accumulated other comprehensive income ("AOCI") in a single location, either on the face of the financial statement that reports net income or in the notes to the financial statements. ASU 2013-02 does not change the current requirements and carries forward the existing requirements that reclassifications out of AOCI be separately presented for each component of other comprehensive income. For items reclassified out of AOCI and into net income in their entirety, the effect of the reclassification on each affected net income line must be disclosed. For AOCI reclassification items that are not reclassified in their entirety into net income, a cross reference to other required disclosures is required. The amendments were effective prospectively for reporting periods beginning after December 15, 2012. The adoption of this standard did not have a material impact on the Corporation's consolidated financial statements, see Note 18.

Investments - Equity Method and Joint Ventures - Topic 323
Accounting Standards Update No. 2014-01, "Accounting for Investments in Qualified Affordable Housing Projects" ("ASU 2014-01"), was issued in January 2014 and permits a reporting entity to make an accounting policy election to account for investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. The amendments are expected to enable more entities to record the amortization of the investment in income tax expense together with the tax credits and other tax benefits generated from the partnership. ASU 2014-01 is effective retrospectively for public business entities for annual and interim reporting periods, beginning after December 15, 2014. Early adoption is permitted. The adoption of ASU 2014-01 is not expected to have a material impact on the Corporation's consolidated financial statements.

Receivables - Troubled Debt Restructurings by Creditors - Topic 310

Accounting Standards Update No. 2014-04, “Reclassifications of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure” (“ASU 2014-04”), was issued in January 2014 and clarifies when banks and similar institutions (creditors) should reclassify mortgage loans collateralized by residential real estate properties from the loan portfolio to other real estate owned (OREO). ASU 2014-04 is effective for annual periods beginning after December 15, 2014, and interim periods with annual periods beginning after December 15, 2015. An entity can elect either a modified retrospective or prospective transition method, and early adoption is permitted. The adoption of ASU 2014-04 is not expected to have a material impact on the Corporation’s consolidated financial statements.

(3) Cash and Due from Banks
The Bank maintains certain average reserve balances to meet the requirements of the Board of Governors of the Federal Reserve System ("FRB"). Some or all of this reserve requirement may be satisfied with vault cash. Reserve balances amounted to $6.7 million and $5.5 million, respectively, at December 31, 2013 and 2012 and are included in cash and due from banks in the Consolidated Balance Sheets.

As of December 31, 2013 and 2012, cash and due from banks includes interest-bearing deposits in other banks of $51.8 million and $32.2 million, respectively.

(4) Securities
The following tables present the amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value of securities by major security type and class of security:
(Dollars in thousands)

December 31, 2013	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities Available for Sale:				
Obligations of U.S. government-sponsored enterprises	$54,474	$720	($79)	$55,115
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	230,387	8,369	(401)	238,355
States and political subdivisions	60,659	2,200	—	62,859
Trust preferred securities:				
Individual name issuers	30,715	—	(6,031)	24,684
Collateralized debt obligations	547	—	—	547
Corporate bonds	11,128	231	(16)	11,343
Total securities available for sale	$387,910	$11,520	($6,527)	$392,903
Held to Maturity:				
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	$29,905	$14	($54)	$29,865
Total securities held to maturity	$29,905	$14	($54)	$29,865
Total securities	$417,815	$11,534	($6,581)	$422,768

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(Dollars in thousands)

December 31, 2012	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities Available for Sale:				
Obligations of U.S. government-sponsored enterprises	$29,458	$2,212	$—	$31,670
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	217,136	14,097	—	231,233
States and political subdivisions	68,196	4,424	—	72,620
Trust preferred securities:				
Individual name issuers	30,677	—	(5,926)	24,751
Collateralized debt obligations	4,036	—	(3,193)	843
Corporate bonds	13,905	476	—	14,381
Total securities available for sale	$363,408	$21,209	($9,119)	$375,498
Held to Maturity:				
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	$40,381	$1,039	$—	$41,420
Total securities held to maturity	$40,381	$1,039	$—	$41,420
Total securities	$403,789	$22,248	($9,119)	$416,918

At December 31, 2013 and 2012, securities available for sale and held to maturity with a fair value of $397.5 million and $386.5 million, respectively, were pledged as collateral for FHLBB borrowings and letters of credit, potential borrowings with the FRB, certain public deposits and for other purposes. See Note 11 for additional discussion of FHLBB borrowings.

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

	December 31, 2013				
(Dollars in thousands)	Within 1 Year	1-5 Years	5-10 Years	After 10 Years	Totals
Securities Available for Sale:					
Obligations of U.S. government-sponsored enterprises:					
Amortized cost	$54,474	$—	$—	$—	$54,474
Weighted average yield	4.04 %	— %	— %	— %	4.04 %
Mortgage-backed securities issued by U.S. government-sponsored enterprises:					
Amortized cost	53,902	107,955	46,983	21,547	230,387
Weighted average yield	4.19 %	3.66 %	2.73 %	2.20 %	3.46 %
State and political subdivisions:					
Amortized cost	13,977	46,682	—	—	60,659
Weighted average yield	3.84 %	3.92 %	— %	— %	3.91 %
Trust preferred securities:					
Amortized cost	—	—	—	31,262	31,262
Weighted average yield	— %	— %	— %	1.57 %	1.57 %
Corporate bonds:					
Amortized cost	5,023	5,703	402	—	11,128
Weighted average yield	6.64 %	2.82 %	2.45 %	— %	4.53 %
Total debt securities available for sale:					
Amortized cost	$127,376	$160,340	$47,385	$52,809	$387,910
Weighted average yield	4.19 %	3.71 %	2.73 %	1.83 %	3.49 %
Fair value	$127,764	$162,785	$48,800	$53,554	$392,903
Securities Held to Maturity:					
Mortgage-backed securities issued by U.S. government-sponsored enterprises:					
Amortized cost	$5,376	$13,892	$7,652	$2,985	$29,905
Weighted average yield	2.85 %	2.75 %	2.56 %	1.11 %	2.56 %
Fair value	$5,369	$13,873	$7,642	$2,981	$29,865

Included in the above table were debt securities with an amortized cost balance of $106.8 million and a fair value of $102.3 million at December 31, 2013 that are callable at the discretion of the issuers. Final maturities of the callable securities range from twenty-one months to twenty-three years, with call features ranging from one month to three years.

Other-Than-Temporary Impairment Assessment

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

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The following tables summarizes temporarily impaired investment securities at December 31, 2013 and December 31, 2012, segregated by length of time the securities have been continuously in an unrealized loss position.

(Dollars in thousands)	Less than 12 Months				12 Months or Longer			Total		
December 31, 2013	#		Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
Obligations of U.S. government-sponsored enterprises	1		$9,909	($79)	—	$—	$—	1	$9,909	($79)
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	7		76,748	(455)	—	—	—	7	76,748	(455)
Individual name issuer trust preferred securities	—		—	—	11	24,684	(6,031)	11	24,684	(6,031)
Corporate bonds	2	11	407	(16)	—	—	—	2	407	(16)
Total temporarily impaired securities	10	11	$87,064	($550)	11	$24,684	($6,031)	21	$111,748	($6,581)

(Dollars in thousands)	Less than 12 Months			12 Months or Longer			Total		
December 31, 2012	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
Trust preferred securities:									
Individual name issuers	—	$—	$—	11	$24,751	($5,926)	11	$24,751	($5,926)
Collateralized debt obligations	—	—	—	2	843	(3,193)	2	843	(3,193)
Total temporarily impaired securities	—	$—	$—	13	$25,594	($9,119)	13	$25,594	($9,119)

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

Obligations of U.S. Government-sponsored Enterprises and Mortgage-backed Securities issued by U.S. Government Agencies

The gross unrealized losses on mortgage-backed securities issued by U.S. government agencies or U.S. government-sponsored enterprises were primarily attributable to relative changes in interest rates since the time of purchase. The contractual cash flows for these securities are guaranteed by U.S. government agencies and U.S. government-sponsored enterprises. Based on the assessment of these factors, management believes that the unrealized losses on these debt security holdings are a function of changes in investment spreads and interest rate movements and not changes in credit quality. Management expects to recover the entire amortized cost basis of these securities. Furthermore, the Corporation does not intend to sell these securities and it is not more-likely-than-not that Washington Trust will be required to sell these securities before recovery of their cost basis, which may be maturity. Therefore, management does not consider these investments to be other-than-temporarily impaired at December 31, 2013.

Trust Preferred Debt Securities of Individual Name Issuers

Included in debt securities in an unrealized loss position at December 31, 2013 were eleven trust preferred security holdings issued by seven individual companies in the financial services industry, specifically, the banking sector. Management believes the decline in fair value of these trust preferred securities primarily reflects investor concerns about global economic growth and how it will affect potential future losses in the financial services industry. These concerns resulted in increased risk premiums for securities in this sector. Based on the information available through the filing date of this report, all individual name trust preferred debt securities held in our portfolio continue to accrue and make payments as expected with no payment deferrals or defaults on the part of the issuers. As of December 31, 2013, trust preferred debt securities with an amortized cost of $11.9 million and unrealized losses of $2.2 million were rated below investment grade by Standard & Poors, Inc. (“S&P”). Management reviewed the collectibility of these securities taking into consideration such factors as the financial condition of the issuers, reported regulatory capital ratios of the issuers, credit ratings including ratings in effect as of the reporting period date as well as credit rating changes between the reporting period date and the filing date of this report and other information. We noted no additional downgrades to below investment grade between the reporting period date and the filing date of this report. Based on these analyses, management concluded that it expects to recover the entire amortized cost basis of these securities. Furthermore, Washington Trust does not intend to sell these securities and it is not more-likely-than-not that Washington Trust will be required to sell these securities before recovery of their cost basis, which may be maturity. Therefore, management does not consider these investments to be other-than-temporarily impaired at December 31, 2013.

Trust Preferred Debt Securities in the Form of Collateralized Debt Obligations (“CDO”)
Washington Trust had invested in two pooled trust preferred holdings in the form of collateralized debt obligations. The pooled trust preferred holdings consist of trust preferred obligations of banking industry companies and, to a lesser extent, insurance industry companies.

On March 22, 2013, the trustee for one of the pooled trust preferred securities issued a notice that liquidation of the CDO entity would take place at the direction of holders of the CDO tranches senior to the subordinate tranche interest held by Washington Trust. Accordingly, we recognized an other-than-temporary impairment charge in the first quarter of 2013 on the entire $2.8 million carrying value of the security, based on the expectation that proceeds from liquidation would be insufficient to satisfy the amount owed to the subordinate tranche. The liquidation was conducted in August 2013 and was insufficient to satisfy any amount owed to the subordinate tranche.

In December 2013, Washington Trust changed its intent to hold its other CDO investment until recovery of its cost basis and subsequently sold this security in January 2014. As a result, Washington Trust recognized an other-than-temporary impairment loss of $717 thousand on this CDO in December 2013. The amortized cost and fair value of this CDO amounted to $547 thousand at December 31, 2013, which equaled the January 2014 sales price.

Credit-Related Impairment Losses Recognized on Debt Securities
The following table presents a rollforward of the cumulative credit-related impairment losses on debt securities:
(Dollars in thousands)

Years ended December 31,	2013	2012	2011
Balance at beginning of period	$3,325	$3,104	$2,913
Credit-related impairment loss on debt securities for which an other-than-temporary impairment was not previously recognized	—	—	—
Additional increases to the amount of credit-related impairment loss on debt securities for which an other-than-temporary impairment was previously recognized	3,489	221	191
Balance at end of period	$6,814	$3,325	$3,104

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The following is a summary of amounts relating to sales of securities:

(Dollars in thousands)			
Years ended December 31,	2013	2012	2011
Proceeds from sales (1)	$—	$46,560	$56,461
Gross realized gains (1)	$—	$1,224	$919
Gross realized losses	—	(1)	(221)
Net realized gains on securities	$—	$1,223	$698

(1) Includes a contribution of appreciated equity securities to the Corporation's charitable foundation in 2011. The cost of the contribution, included in noninterest expenses, amounted to $990 thousand in 2011. This transaction resulted in a realized security gain of $331 thousand for the same period.

(5) Loans

The following is a summary of loans:

(Dollars in thousands)	December 31, 2013			December 31, 2012		
	Amount	%		Amount	%	
Commercial:						
Mortgages (1)	$796,249	32	%	$710,813	31	%
Construction and development (2)	36,289	1	%	27,842	1	%
Other (3)	530,797	22	%	513,764	23	%
Total commercial	1,363,335	55	%	1,252,419	55	%
Residential real estate:						
Mortgages (4)	749,163	30	%	692,798	30	%
Homeowner construction	23,511	1	%	24,883	1	%
Total residential real estate	772,674	31	%	717,681	31	%
Consumer:						
Home equity lines (5)	231,362	9	%	226,861	10	%
Home equity loans (5)	40,212	2	%	39,329	2	%
Other (6)	55,301	3	%	57,713	2	%
Total consumer	326,875	14	%	323,903	14	%
Total loans (7)	$2,462,884	100	%	$2,294,003	100	%

(1) Amortizing mortgages and lines of credit, primarily secured by income producing property. As of December 31, 2013 and 2012, $190.7 million and $238.6 million, respectively, were pledged as collateral for FHLBB borrowings and letters of credit.

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

(3) Loans to businesses and individuals, a substantial portion of which are fully or partially collateralized by real estate. As of December 31, 2013, $44.1 million and $21.2 million, respectively, were pledged as collateral for FHLBB borrowings and letters of credit and were collateralized for the discount window at the FRB. Comparable amounts for December 31, 2012 were $51.8 million and $29.5 million, respectively.

(4) As of December 31, 2013 and 2012, $684.6 million and $627.4 million, respectively were pledged as collateral for FHLBB borrowings and letters of credit.

(5) As of December 31, 2013 and 2012, $195.3 million and $189.4 million, respectively were pledged as collateral for FHLBB borrowings and letters of credit.

(6) Fixed rate consumer installment loans.

(7) Includes net unamortized loan origination costs of $879 thousand and $39 thousand, respectively, and net unamortized premiums on purchased loans of $99 thousand and $83 thousand, respectively, at December 31, 2013 and 2012.

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.

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

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

The following is a summary of nonaccrual loans, segregated by class of loans:
(Dollars in thousands)

December 31,	2013	2012
Commercial:		
Mortgages	$7,492	$10,681
Construction and development	—	—
Other	1,291	4,412
Residential real estate:		
Mortgages	8,315	6,158
Homeowner construction	—	—
Consumer:		
Home equity lines	469	840
Home equity loans	687	371
Other	48	81
Total nonaccrual loans	$18,302	$22,543
Accruing loans 90 days or more past due	$—	$—

As of December 31, 2013 and 2012, nonaccrual loans of $2.7 million and $1.6 million, respectively, were current as to the payment of principal and interest.

Interest income that would have been recognized had nonaccrual loans been current in accordance with their original terms was approximately $1.8 million, $1.8 million and $1.7 million in 2013, 2012 and 2011, respectively. Interest income included in the Consolidated Statements of Income on nonaccrual loans amounted to approximately $400 thousand, $679 thousand and $505 thousand in 2013, 2012 and 2011, respectively.

Past Due Loans

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

(Dollars in thousands)	Days Past Due					
December 31, 2013	30-59	60-89	Over 90	Total Past Due	Current	Total Loans
Commercial:						
Mortgages	$—	$—	$7,492	$7,492	$788,757	$796,249
Construction and development	—	—	—	—	36,289	36,289
Other	276	302	731	1,309	529,488	530,797
Residential real estate:						
Mortgages	4,040	1,285	5,633	10,958	738,205	749,163
Homeowner construction	—	—	—	—	23,511	23,511
Consumer:						
Home equity lines	831	100	269	1,200	230,162	231,362
Home equity loans	448	66	349	863	39,349	40,212
Other	43	—	38	81	55,220	55,301
Total loans	$5,638	$1,753	$14,512	$21,903	$2,440,981	$2,462,884

(Dollars in thousands)	Days Past Due					
December 31, 2012	30-59	60-89	Over 90	Total Past Due	Current	Total Loans
Commercial:						
Mortgages	$373	$408	$10,300	$11,081	$699,732	$710,813
Construction and development	—	—	—	—	27,842	27,842
Other	260	296	3,647	4,203	509,561	513,764
Residential real estate:						
Mortgages	4,840	1,951	3,658	10,449	682,349	692,798
Homeowner construction	—	—	—	—	24,883	24,883
Consumer:						
Home equity lines	753	207	528	1,488	225,373	226,861
Home equity loans	252	114	250	616	38,713	39,329
Other	129	64	66	259	57,454	57,713
Total loans	$6,607	$3,040	$18,449	$28,096	$2,265,907	$2,294,003

Included in past due loans as of December 31, 2013 and 2012, were nonaccrual loans of $15.6 million and $21.0 million, respectively. All loans 90 days or more past due at December 31, 2013 and 2012 were classified as nonaccrual.

Impaired Loans

Impaired loans are loans for which it is probable that the Corporation will not be able to collect all amounts due according to the contractual terms of the loan agreements and loans restructured in a troubled debt restructuring. Impaired loans do not include large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment, which consist of most residential mortgage loans and consumer loans.

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The following is a summary of impaired loans, as of the dates indicated:
(Dollars in thousands)

	Recorded Investment (1)		Unpaid Principal		Related Allowance	
December 31,	2013	2012	2013	2012	2013	2012
No Related Allowance Recorded:						
Commercial:						
Mortgages	$998	$2,357	$998	$2,360	$—	$—
Construction and development	—	—	—	—	—	—
Other	1,055	1,058	1,050	1,057	—	—
Residential real estate:						
Mortgages	1,167	1,294	1,259	1,315	—	—
Homeowner construction	—	—	—	—	—	—
Consumer:						
Home equity lines	—	—	—	—	—	—
Home equity loans	—	—	—	—	—	—
Other	—	—	—	—	—	—
Subtotal	$3,220	$4,709	$3,307	$4,732	$—	$—
With Related Allowance Recorded:						
Commercial:						
Mortgages	$29,335	$17,897	$31,731	$19,738	$552	$1,720
Construction and development	—	—	—	—	—	—
Other	1,506	9,939	1,945	10,690	463	694
Residential real estate:						
Mortgages	3,122	2,576	3,507	2,947	463	463
Homeowner construction	—	—	—	—	—	—
Consumer:						
Home equity lines	173	187	174	255	1	1
Home equity loans	55	117	54	160	—	—
Other	127	137	130	136	2	2
Subtotal	$34,318	$30,853	$37,541	$33,926	$1,481	$2,880
Total impaired loans	$37,538	$35,562	$40,848	$38,658	$1,481	$2,880
Total:						
Commercial	$32,894	$31,251	$35,724	$33,845	$1,015	$2,414
Residential real estate	4,289	3,870	4,766	4,262	463	463
Consumer	355	441	358	551	3	3
Total impaired loans	$37,538	$35,562	$40,848	$38,658	$1,481	$2,880

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

The following table presents the average recorded investment balance of impaired loans and interest income recognized on impaired loans segregated by loan class, for the periods indicated:
(Dollars in thousands)

	Average Recorded Investment			Interest Income Recognized		
Years ended December 31,	2013	2012	2011	2013	2012	2011
Commercial:						
Mortgages	$27,496	$10,785	$14,923	$630	$273	$539
Construction and development	—	—	—	—	—	—
Other	6,029	10,661	8,226	190	297	388
Residential real estate:						
Mortgages	4,024	4,651	5,743	125	88	188
Homeowner construction	—	—	—	—	—	—
Consumer:						
Home equity lines	200	172	127	7	3	5
Home equity loans	72	131	290	6	7	17
Other	146	151	235	9	11	15
Totals	$37,967	$26,551	$29,544	$967	$679	$1,152

At December 31, 2013 and 2012, there were no significant commitments to lend additional funds to borrowers whose loans were on nonaccrual status or had been restructured.

Troubled Debt Restructurings

Loans are considered to be troubled debt restructurings when the Corporation has granted concessions to a borrower due to the borrower’s financial condition that it otherwise would not have considered.

Troubled debt restructurings are classified as impaired loans. The Corporation identifies loss allocations for impaired loans on an individual loan basis. The recorded investment in troubled debt restructurings was $26.4 million and $20.2 million, respectively, at December 31, 2013 and 2012. Included in these amounts was accrued interest of $44 thousand and $13 thousand, respectively. The allowance for loan losses included specific reserves for these troubled debt restructurings of $556 thousand and $898 thousand, respectively, at December 31, 2013 and 2012.

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The following table presents loans modified as a troubled debt restructuring during the periods indicated:

(Dollars in thousands)			Outstanding Recorded Investment (1)			
	# of Loans		Pre-Modifications		Post-Modifications	
Years ended December 31,	2013	2012	2013	2012	2013	2012
Commercial:						
Mortgages	6	6	$15,974	$9,525	$14,785	$9,525
Construction and development	—	—	—	—	—	—
Other	7	8	1,198	1,889	1,198	1,889
Residential real estate:						
Mortgages	1	2	570	651	570	651
Homeowner construction	—	—	—	—	—	—
Consumer:						
Home equity lines	1	—	92	—	92	—
Home equity loans	—	—	—	—	—	—
Other	—	2	—	5	—	5
Totals	15	18	$17,834	$12,070	$16,645	$12,070

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

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

(Dollars in thousands)		
Years ended December 31,	2013	2012
Below market interest rate concession	$15,836	$1,426
Payment deferral	570	240
Maturity / amortization concession	21	917
Interest only payments	424	361
Combination (1)	983	9,126
Total	$17,834	$12,070

(1) Loans included in this classification had a combination of any two of the concessions included in this table.

The following table presents loans modified in a troubled debt restructuring within the previous twelve months for which there was a payment default during the periods indicated:
(Dollars in thousands)

	# of Loans		Recorded Investment (1)	
Years ended December 31,	2013	2012	2013	2012
Commercial:				
Mortgages	1	1	$232	$195
Construction and development	—	—	—	—
Other	2	3	839	