WASHINGTON TRUST BANCORP INC
Form 10-Q
May 02, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)
x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended MARCH 31, 2019 or
o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ______ to ______.
Commission file number: 001-32991
WASHINGTON TRUST BANCORP, INC.
(Exact name of registrant as specified in its charter)

RHODE ISLAND	05-0404671
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

23 BROAD STREET

WESTERLY, RHODE ISLAND	02891
(Address of principal executive offices)	(Zip Code)

(401) 348-1200
(Registrant’s telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No

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

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

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

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

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

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

The number of shares of common stock of the registrant outstanding as of April 30, 2019 was 17,324,699.

FORM 10-Q
WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
For the Quarter Ended March 31, 2019

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

	March 31, 2019	December 31, 2018
Assets:		
Cash and due from banks	$88,242	$89,923
Short-term investments	3,317	3,552
Mortgage loans held for sale, at fair value	14,608	20,996
Securities:		
Available for sale debt securities, at fair value	994,881	927,810
Held to maturity debt securities, at amortized cost (fair value $10,316 at December 31, 2018)	—	10,415
Total securities	994,881	938,225
Federal Home Loan Bank stock, at cost	48,025	46,068
Loans:		
Total loans	3,738,469	3,680,360
Less allowance for loan losses	27,644	27,072
Net loans	3,710,825	3,653,288
Premises and equipment, net	29,822	29,005
Operating lease right-of-use assets	28,249	—
Investment in bank-owned life insurance	80,786	80,463
Goodwill	63,909	63,909
Identifiable intangible assets, net	7,923	8,162
Other assets	84,142	77,175
Total assets	$5,154,729	$5,010,766
Liabilities:		
Deposits:		
Noninterest-bearing deposits	$577,319	$603,216
Interest-bearing deposits	2,926,941	2,920,832
Total deposits	3,504,260	3,524,048
Federal Home Loan Bank advances	1,056,129	950,722
Junior subordinated debentures	22,681	22,681
Operating lease liabilities	30,187	—
Other liabilities	71,629	65,131
Total liabilities	4,684,886	4,562,582
Commitments and contingencies (Note 18)		
Shareholders' Equity:		
Common stock of $.0625 par value; authorized 60,000,000 shares; issued and outstanding 17,305,279 shares at March 31, 2019 and 17,302,037 at December 31, 2018	1,082	1,081
Paid-in capital	120,743	119,888
Retained earnings	365,521	355,524
Accumulated other comprehensive loss	(17,503)	(28,309)
Total shareholders' equity	469,843	448,184
Total liabilities and shareholders' equity	$5,154,729	$5,010,766

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

Washington Trust Bancorp, Inc. and Subsidiaries

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

Three months ended March 31,	2019	2018
Interest income:		
Interest and fees on loans	$41,744	$34,352
Interest on mortgage loans held for sale	180	226
Taxable interest on debt securities	7,226	5,118
Nontaxable interest on debt securities	9	23
Dividends on Federal Home Loan Bank stock	695	516
Other interest income	340	205
Total interest and dividend income	50,194	40,440
Interest expense:		
Deposits	8,696	4,422
Federal Home Loan Bank advances	6,661	3,983
Junior subordinated debentures	253	183
Total interest expense	15,610	8,588
Net interest income	34,584	31,852
Provision for loan losses	650	—
Net interest income after provision for loan losses	33,934	31,852
Noninterest income:		
Wealth management revenues	9,252	10,273
Mortgage banking revenues	2,646	2,838
Card interchange fees	997	847
Service charges on deposit accounts	875	863
Loan related derivative income	724	141
Income from bank-owned life insurance	649	515
Other income	224	266
Total noninterest income	15,367	15,743
Noninterest expense:		
Salaries and employee benefits	17,619	17,772
Outsourced services	2,606	1,873
Net occupancy	1,998	2,002
Equipment	1,011	1,180
Legal, audit and professional fees	534	726
FDIC deposit insurance costs	429	404
Advertising and promotion	239	177
Amortization of intangibles	239	248
Other expenses	2,289	2,748
Total noninterest expense	26,964	27,130
Income before income taxes	22,337	20,465
Income tax expense	4,842	4,254
Net income	$17,495	$16,211
Net income available to common shareholders	$17,461	$16,173
Weighted average common shares outstanding - basic	17,304	17,234

Weighted average common shares outstanding - diluted		17,401	17,345
Per share information:	Basic earnings per common share	$1.01	$0.94
	Diluted earnings per common share	$1.00	$0.93
	Cash dividends declared per share	$0.47	$0.43

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

Washington Trust Bancorp, Inc. and Subsidiaries

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

Three months ended March 31,	2019	2018
Net income	$17,495	$16,211
Other comprehensive income (loss), net of tax:		
Net change in fair value of available for sale debt securities	11,021	(10,414)
Net change in fair value of cash flow hedges	(442)	889
Net change in defined benefit plan obligations	227	360
Total other comprehensive income (loss), net of tax	10,806	(9,165)
Total comprehensive income	$28,301	$7,046

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

Washington Trust Bancorp, Inc. and Subsidiaries

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

	Common Shares Outstanding	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
Balance at January 1, 2019	17,302	$1,081	$119,888	$355,524	($28,309)	$448,184
Net income	—	—	—	17,495	—	17,495
Total other comprehensive income, net of tax	—	—	—	—	10,806	10,806
Cash dividends declared	—	—	—	(8,220)	—	(8,220)
Share-based compensation	—	—	740	—	—	740
Exercise of stock options, issuance of other compensation-related equity awards, net of awards surrendered	3	1	115	—	—	116
Cumulative effect of change in accounting principle	—	—	—	722	—	722
Balance at March 31, 2019	17,305	$1,082	$120,743	$365,521	($17,503)	$469,843

	Common Shares Outstanding	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at January 1, 2018	17,227	$1,077	$117,961	$317,756	($23,510)	$413,284
Net income	—	—	—	16,211	—	16,211
Total other comprehensive loss, net of tax	—	—	—	—	(9,165)	(9,165)
Cash dividends declared	—	—	—	(7,462)	—	(7,462)
Share-based compensation	—	—	669	—	—	669
Exercise of stock options, issuance of other compensation-related equity awards, net of awards surrendered	35	2	(458)	—	—	(456)
Balance at March 31, 2018	17,262	$1,079	$118,172	$326,505	($32,675)	$413,081

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

Washington Trust Bancorp, Inc. and Subsidiaries

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

Three months ended March 31,		2019	2018
Cash flows from operating activities:			
Net income		$17,495	$16,211
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses		650	—
Depreciation of premises and equipment		838	827
Net amortization of premiums and discounts on securities and loans		822	695
Amortization of intangibles		239	248
Share-based compensation		740	669
Tax benefit from stock option exercises and other equity awards		7	207
Income from bank-owned life insurance		(649)	(515)
Net gains on loan sales and commissions on loans originated for others, including fair value adjustments		(2,474)	(2,679)
Proceeds from sales of loans		51,673	89,575
Loans originated for sale		(46,864)	(79,212)
Decrease in operating lease right-of-use assets		673	—
Decrease in operating lease liabilities		(666)	—
Increase in other assets		(11,022)	(10,973)
Increase in other liabilities		9,532	6,483
Net cash provided by operating activities		20,994	21,536
Cash flows from investing activities:			
Purchases of:	Available for sale debt securities: Mortgage-backed	(62,109)	(40,657)
	Available for sale debt securities: Other	(10,507)	(1,064)
Maturities, calls and principal payments of:	Available for sale debt securities: Mortgage-backed	19,718	20,100
	Available for sale debt securities: Other	10,000	500
	Held to maturity debt securities: Mortgage-backed	—	540
Purchases of Federal Home Loan Bank stock		(1,957)	(610)
Net increase in loans		(54,147)	(15,571)
Purchases of loans		(161)	(1,520)
Purchases of premises and equipment		(1,655)	(811)
Proceeds from surrender of bank-owned life insurance		326	—
Net cash used in investing activities		(100,492)	(39,093)
Cash flows from financing activities:			
Net (decrease) increase in deposits		(19,788)	13,727
Proceeds from Federal Home Loan Bank advances		532,000	515,000
Repayment of Federal Home Loan Bank advances		(426,593)	(497,679)
Payment of contingent consideration liability		—	(1,217)
Net proceeds from stock option exercises and issuance of other equity awards, net of awards surrendered		116	(456)
Cash dividends paid		(8,153)	(6,739)
Net cash provided by financing activities		77,582	22,636
Net (decrease) increase in cash and cash equivalents		(1,916)	5,079
Cash and cash equivalents at beginning of period		93,475	82,923

Cash and cash equivalents at end of period	$91,559	$88,002

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

Washington Trust Bancorp, Inc. and Subsidiaries

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

Three months ended March 31,	2019	2018
Noncash Activities:		
Loans charged off	$103	$690
Loans transferred to property acquired through foreclosure or repossession	—	3,074
In conjunction with the adoption of ASU 2016-02 as detailed in Note 2 to the Unaudited Consolidated Financial Statements, the following assets and liabilities were recognized:		
Operating lease right-of-use assets	28,923	—
Operating lease liabilities	30,853	—
In conjunction with the adoption of ASU 2017-12 as detailed in Note 2 to the Unaudited Consolidated Financial Statements, the following qualifying debt securities classified as held-to-maturity were transferred to available for sale:		
Fair value of debt securities transferred from held-to-maturity to available for sale	10,316	—
Supplemental Disclosures:		
Interest payments	$14,082	$8,047
Income tax payments	1,136	908

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

Condensed Notes to Unaudited Consolidated Financial Statements

Note 1 - Basis of Presentation

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

The Unaudited Consolidated Financial Statements include the accounts of the Bancorp and its subsidiaries (collectively the “Corporation” or “Washington Trust”). All intercompany balances and transactions have been eliminated. Certain previously reported amounts have been reclassified to conform to current year’s presentation.

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

The accounting and reporting policies of the Corporation conform to accounting principles generally accepted in the United States of America (“GAAP”) and to general practices of the banking industry. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ from those estimates.

The Unaudited Consolidated Financial Statements of the Corporation presented herein have been prepared pursuant to the rules of the Securities and Exchange Commission (“SEC”) for quarterly reports on Form 10-Q and do not include all of the information and note disclosures required by GAAP. In the opinion of management, all adjustments (consisting of normal recurring adjustments) and disclosures considered necessary for the fair presentation of the accompanying Unaudited Consolidated Financial Statements have been included. Interim results are not necessarily indicative of the results of the entire year. The accompanying Unaudited Consolidated Financial Statements should be read in conjunction with the Audited Consolidated Financial Statements and notes thereto included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Note 2 - Recently Issued Accounting Pronouncements

Accounting Standards Adopted in 2019

Leases - Topic 842

Accounting Standards Update No. 2016-02, “Leases” (“ASU 2016-02”), was issued in February 2016 and provides revised guidance related to the accounting and reporting of leases. ASU 2016-02 requires lessees to recognize most leases on the balance sheet. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee depends on its classification as a finance or operating lease. ASU 2016-02 requires a modified retrospective transition, with a package of practical expedients that entities may elect to apply. In January 2018, Accounting Standards Update No. 2018-01, “Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842” was issued to address concerns about the costs and complexity of complying with the transition provisions of ASU

2016-02. In July 2018, Accounting Standards Update No. 2018-10, “Codification Improvements to Topic 842, Leases” was issued to provide more detailed guidance and additional clarification for implementing ASU 2016-02. Also in July 2018, Accounting Standards Update No. 2018-11, “Targeted Improvements” (“ASU 2018-11”) was issued and allows for an optional transition method in which the provisions of Topic 842 would be applied upon the adoption date and would not have to be retroactively applied to the earliest reporting period presented in the consolidated financial statements. The Corporation used this optional transition method for the adoption of Topic 842. In December 2018, Accounting Standards Update No. 2018-20, “Leases (Topic 842) Narrow-Scope Improvement for Lessors” was issued to address lessors’ concerns about sales taxes and other similar taxes collected from lessees, certain lessor costs, and recognition of variable payments for contracts with lease and non-lease components. These ASUs were effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Management assembled a project team to address the changes pursuant to Topic 842. The project team identified and reviewed all lease agreements in scope of Topic 842. The Corporation rents premises used in business operations under non-cancelable operating leases, which as of December 31, 2018 were not reflected in its Consolidated Balance Sheets. The Corporation has no finance leases.

The Corporation adopted Topic 842 “Leases” effective January 1, 2019 and has applied the guidance to all operating leases within the scope of Topic 842 at that date. The Corporation elected to adopt the package of practical expedients, which among other things, does not require reassessment of lease classification. The Corporation recognized $28.9 million in operating lease right-of-use-assets, $30.9 million in operating lease liabilities, a reduction in rent-related liabilities of $2.9 million, a reduction of net deferred tax assets of $222 thousand and a cumulative effect adjustment (net of taxes) that increased beginning retained earnings by $722 thousand in the Consolidated Balance Sheets. The cumulative effect adjustment represented the recognition of unamortized deferred gains associated with two leases. There was no change to the timing in recognition of operating lease rent expense on the Corporation’s consolidated financial statements associated with our leases.

In March 2019, Accounting Standards Update No. 2019-01, “Leases (Topic 842) Codification Improvements” (“ASU 2019-01”) was issued to address lessors’ concerns about determining fair value of underlying leased assets and presentation issues in the statement of cash flows for sales-type and direct financing leases. ASU 2019-01 also clarified for both lessees and lessors that transition disclosures related to Topic 250 were not required for annual periods are also not required for interim periods. ASU 2019-01 was effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2019, with early adoption permitted. The Corporation early adopted this ASU 2019-01 effective January 1, 2019 and it did not have a material impact on the Corporation’s consolidated financial statements.

Derivatives and Hedging - Topic 815
Accounting Standards Update No. 2017-12, “Targeted Improvements to Accounting for Hedging Activities” (“ASU 2017-12”), was issued in August 2017 to better align financial reporting for hedging activities with the economic objectives of those activities. ASU 2017-12 was effective for fiscal years beginning after December 15, 2018, with early adoption, including adoption in an interim period, permitted. In addition, ASU 2017-12 also permitted the reclassification of eligible securities from the held-to-maturity classification to the available for sale classification. The Corporation adopted the provisions of ASU 2017-12 on January 1, 2019 using a modified retrospective transition method. As permitted by ASU 2017-12, qualifying debt securities classified as held to maturity with an amortized cost of $10.4 million and a fair value of $10.3 million were reclassified to available for sale upon the adoption date. An unrealized loss of $75 thousand (net of taxes) was recognized in the accumulated other comprehensive income component of shareholders’ equity at the date of adoption. The adoption of ASU 2017-12 did not have a material impact on the Corporation’s consolidated financial statements.

Accounting Standards Update No. 2018-16, “Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes” (“ASU 2018-16”), was issued in October 2018 to permit the use of the Overnight Index Swap rate based on the Secured Overnight Financing Rate as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815 in addition to existing benchmark interest rates that are currently used for hedge accounting. ASU 2018-16 was effective for fiscal years beginning after December 15, 2018, and interim periods with those fiscal years. The provisions required prospective application for qualifying new or re-designated hedging relationships entered into on or after the date of adoption. The Corporation adopted the provisions of ASU 2018-16 on January 1, 2019 and it did not have a material impact on the Corporation’s consolidated financial statements.

Accounting Standards Pending Adoption

Financial Instruments - Credit Losses - Topic 326

Accounting Standards Update No. 2016-13, “Financial Instruments - Credit Losses” (“ASU 2016-13”), was issued in June 2016. ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization’s portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available for sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 provides for a modified retrospective transition, resulting in a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is effective, except for debt securities for which an other-than-temporary impairment has previously been recognized. For these debt securities, a prospective transition approach will be adopted in order to maintain the same amortized cost prior to and subsequent to the effective date of ASU 2016-13. This ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2019, with early adoption permitted in 2019. The Corporation will adopt ASU 2016-03 on

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

January 1, 2020 and is currently evaluating the effect that this ASU will have on the consolidated financial statements and disclosures.

Management has assembled a project team that meets regularly to address the additional data requirements necessary, to determine the approach for implementation and to identify new internal controls over enhanced processes that will be put into place for estimating the allowance under ASU 2016-13. This has included assessing the adequacy of existing loan and loss data, as well as developing models for default and loss estimates. The Corporation expects to continue the validation of models, the development of accounting policies and internal controls and the execution of "trial" or "parallel" runs of its ASU 2016-13 compliant methodology throughout 2019.

Fair Value Measurement - Topic 820
Accounting Standards Update No. 2018-13, "Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement" ("ASU 2018-13"), was issued in August 2018 to modify the disclosure requirements related to fair value. ASU 2018-13 is effective for fiscal years beginning after December 15, 2019, with early adoption permitted, including adoption in an interim period. Certain provisions under ASU 2018-13 require prospective application, while other provisions require retrospective application to all periods presented in the consolidated financial statements upon adoption. The adoption of ASU 2018-13 is not expected to have a material impact on the Corporation's consolidated financial statements.

Compensation - Retirement Benefits - Topic 715
Accounting Standards Update No. 2018-14, "Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans" ("ASU 2018-14"), was issued in August 2018 to modify the disclosure requirements associated with defined benefit pension plans and other postretirement plans. ASU 2018-14 is effective for fiscal years ending after December 15, 2020, with early adoption permitted. The provisions under ASU 2018-14 are required to be applied retrospectively. The adoption of ASU 2018-14 is not expected to have a material impact on the Corporation's consolidated financial statements.

Intangibles - Goodwill and Other - Internal-Use Software - Topic 350
Accounting Standards Update No. 2018-15, "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract" ("ASU 2018-15"), was issued in August 2018 to align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with those requirements that currently exist in GAAP for capitalizing implementation costs incurred to develop or obtain internal-use software. Implementation costs would either be capitalized or expensed as incurred depending on the project stage. All costs in the preliminary and post-implementation project stages are expensed as incurred, while certain costs within the application development stage are capitalized. The provisions under ASU 2018-15 can either be applied retrospectively or prospectively. ASU 2018-15 is effective for fiscal years beginning after December 15, 2019, with early adoption permitted, including adoption in an interim period. The adoption of ASU 2018-15 is not expected to have a material impact on the Corporation's consolidated financial statements.

Note 3 - Cash and Due from Banks
The Bank maintains certain average reserve balances to meet the requirements of the Board of Governors of the Federal Reserve System ("FRB"). Some or all of these reserve requirements may be satisfied with vault cash. Reserve balances amounted to $25.7 million at March 31, 2019 and $21.6 million at December 31, 2018 and were included in cash and due from banks in the Unaudited Consolidated Balance Sheets.

As of March 31, 2019 and December 31, 2018, cash and due from banks included interest-bearing deposits in other banks of $38.5 million and $33.7 million, respectively.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

March 31, 2019	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for Sale Debt Securities:				
Obligations of U.S. government-sponsored enterprises	$246,717	$682	($1,927)	$245,472
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	727,511	4,341	(8,347)	723,505
Obligations of states and political subdivisions	935	2	—	937
Individual name issuer trust preferred debt securities	13,311	—	(941)	12,370
Corporate bonds	13,911	9	(1,323)	12,597
Total available for sale debt securities	$1,002,385	$5,034	($12,538)	$994,881
Total securities	$1,002,385	$5,034	($12,538)	$994,881

(Dollars in thousands)

December 31, 2018	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for Sale Debt Securities:				
Obligations of U.S. government-sponsored enterprises	$246,708	$442	($4,467)	$242,683
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	675,368	1,943	(16,518)	660,793
Obligations of states and political subdivisions	935	2	—	937
Individual name issuer trust preferred debt securities	13,307	—	(1,535)	11,772
Corporate bonds	13,402	—	(1,777)	11,625
Total available for sale debt securities	$949,720	$2,387	($24,297)	$927,810
Held to Maturity Debt Securities:				
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	$10,415	$—	($99)	$10,316
Total held to maturity debt securities	$10,415	$—	($99)	$10,316
Total securities	$960,135	$2,387	($24,396)	$938,126

As discussed in Note 2, on January 1, 2019, the Corporation adopted ASU 2017-12. As permitted by ASU 2017-12, qualifying debt securities classified as held to maturity with an amortized cost of $10.4 million and a fair value of $10.3 million were reclassified to available for sale upon the adoption date. An unrealized loss of $75 thousand (net of taxes) was recognized in the accumulated other comprehensive income component of shareholders' equity at the date of adoption.

As of March 31, 2019 and December 31, 2018, debt securities with a fair value of $497.5 million and $439.7 million, respectively, were pledged as collateral for FHLB borrowings, potential borrowings with the FRB, certain public deposits and for other purposes. See Note 7 for additional disclosure on FHLB borrowings.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

(Dollars in thousands)	Available for Sale	
March 31, 2019	Amortized Cost	Fair Value
Due in one year or less	$74,364	$73,944
Due after one year to five years	345,082	343,090
Due after five years to ten years	351,603	348,484
Due after ten years	231,336	229,363
Total debt securities	$1,002,385	$994,881

Included in the above table are debt securities with an amortized cost balance of $273.4 million and a fair value of $269.8 million at March 31, 2019 that are callable at the discretion of the issuers. Final maturities of the callable securities range from 2 months to 18 years, with call features ranging from 1 month to 4 years.

Other-Than-Temporary Impairment Assessment

Management 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.

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

(Dollars in thousands)	Less than 12 Months			12 Months or Longer			Total		
March 31, 2019	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
Obligations of U.S. government-sponsored enterprises	—	$—	$—	14	$139,573	($1,927)	14	$139,573	($1,927)
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	—	—	—	47	409,374	(8,347)	47	409,374	(8,347)
Individual name issuer trust preferred debt securities	—	—	—	5	12,370	(941)	5	12,370	(941)
Corporate bonds	—	—	—	7	11,874	(1,323)	7	11,874	(1,323)
Total temporarily impaired securities	—	$—	$—	73	$573,191	($12,538)	73	$573,191	($12,538)

(Dollars in thousands)	Less than 12 Months			12 Months or Longer			Total		
December 31, 2018	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
Obligations of U.S. government-sponsored enterprises	—	$—	$—	16	$157,032	($4,467)	16	$157,032	($4,467)
Mortgage-backed securities issued by U.S. government agencies and U.S.	10	47,060	(439)	51	438,701	(16,178)	61	485,761	(16,617)

government-sponsored enterprises									
Individual name issuer trust preferred debt securities	—	—	—	5	11,772	(1,535)	5	11,772	(1,535)
Corporate bonds	3	1,198	(9)	5	10,427	(1,768)	8	11,625	(1,777)
Total temporarily impaired securities	13	$48,258	($448)	77	$617,932	($23,948)	90	$666,190	($24,396)

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Further deterioration in credit quality of the underlying issuers of the securities, deterioration in the condition of the financial services industry, worsening of the current economic environment, or 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.

Obligations of U.S. Government Agency and U.S. Government-Sponsored Enterprise Securities, including Mortgage-Backed Securities
The gross unrealized losses on U.S. government agency and U.S. government-sponsored debt securities, including mortgage-backed securities, were primarily attributable to relative changes in interest rates since the time of purchase. The contractual cash flows for these securities are guaranteed by U.S. government agencies and U.S. government-sponsored enterprises. 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 the Corporation will be required to sell these securities before recovery of their cost basis, which may be maturity. Therefore, management does not consider these investments to be other-than-temporarily impaired at March 31, 2019.

Individual Name Issuer Trust Preferred Debt Securities
Included in debt securities in an unrealized loss position at March 31, 2019 were five trust preferred securities issued by four individual companies in the banking sector. Management believes the unrealized losses on these holdings were attributable to the general widening of spreads for this category of debt securities issued by financial services companies since the time these securities were purchased. Based on the information available through the filing date of this report, all individual name issuer trust preferred debt securities held in our portfolio continue to accrue interest and make payments as expected with no payment deferrals or defaults on the part of the issuers. As of March 31, 2019, individual name issuer trust preferred debt securities with an amortized cost of $6.1 million and unrealized losses of $446 thousand 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 March 31, 2019 and the filing date of this report. Based on this review, management concluded that it 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 the Corporation will be required to sell these securities before recovery of their cost basis, which may be maturity. Therefore, management does not consider these investments to be other-than-temporarily impaired at March 31, 2019.

Corporate Bonds
At March 31, 2019, the Corporation had seven corporate bond holdings with unrealized losses totaling $1.3 million. These investment grade corporate bonds were issued by large corporations, primarily in the financial services industry. Management believes the unrealized losses on these bonds are a function of the changes in the investment spreads and interest rate movements and not changes in the credit quality of the issuers of the debt securities. Management expects to recover the entire amortized cost basis of these securities. Furthermore, the Corporation does not intend to sell these securities and it is not more-likely-than-not that the Corporation will be required to sell these securities before recovery of their cost basis, which may be maturity. Therefore, management does not consider these investments to be other-than-temporarily impaired at March 31, 2019.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Note 5 - Loans

The following is a summary of loans:

(Dollars in thousands)	March 31, 2019	December 31, 2018
Commercial:		
Commercial real estate (1)	$1,463,682	$1,392,408
Commercial & industrial (2)	610,608	620,704
Total commercial	2,074,290	2,013,112
Residential Real Estate:		
Residential real estate (3)	1,359,072	1,360,387
Consumer:		
Home equity	279,938	280,626
Other (4)	25,169	26,235
Total consumer	305,107	306,861
Total loans (5)	$3,738,469	$3,680,360

(1) Consists of commercial mortgages primarily secured by income-producing property, as well as construction and development loans. Construction and development loans are made to businesses for land development or the on-site construction of industrial, commercial, or residential buildings.

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

(3) Consists of mortgage and homeowner construction loans secured by one- to four-family residential properties.

(4) Consists of loans to individuals secured by general aviation aircraft and other personal installment loans.

(5) Includes net unamortized loan origination costs of $4.9 million and $4.7 million, respectively, at March 31, 2019 and December 31, 2018 and net unamortized premiums on purchased loans of $668 thousand and $703 thousand, respectively, at March 31, 2019 and December 31, 2018.

As of both March 31, 2019 and December 31, 2018, loans amounting to $2.0 billion were pledged as collateral to the FHLB under a blanket pledge agreement and to the FRB for the discount window. See Note 7 for additional disclosure regarding borrowings.

Past Due Loans

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

(Dollars in thousands)	Days Past Due					
March 31, 2019	30-59	60-89	Over 90	Total Past Due	Current	Total Loans
Commercial:						
Commercial real estate	$—	$—	$926	$926	$1,462,756	$1,463,682
Commercial & industrial	1	—	—	1	610,607	610,608
Total commercial	1	—	926	927	2,073,363	2,074,290
Residential Real Estate:						
Residential real estate	5,868	2,749	2,232	10,849	1,348,223	1,359,072
Consumer:						
Home equity	1,851	433	627	2,911	277,027	279,938
Other	13	—	—	13	25,156	25,169
Total consumer	1,864	433	627	2,924	302,183	305,107

Total loans	$7,733	$3,182	$3,785	$14,700	$3,723,769	$3,738,469

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(Dollars in thousands)	Days Past Due					
December 31, 2018	30-59	60-89	Over 90	Total Past Due	Current	Total Loans
Commercial:						
Commercial real estate	$155	$925	$—	$1,080	$1,391,328	$1,392,408
Commercial & industrial	—	—	—	—	620,704	620,704
Total commercial	155	925	—	1,080	2,012,032	2,013,112
Residential Real Estate:						
Residential real estate	6,318	2,693	1,509	10,520	1,349,867	1,360,387
Consumer:						
Home equity	1,281	156	552	1,989	278,637	280,626
Other	33	—	—	33	26,202	26,235
Total consumer	1,314	156	552	2,022	304,839	306,861
Total loans	$7,787	$3,774	$2,061	$13,622	$3,666,738	$3,680,360

Included in past due loans at both March 31, 2019 and December 31, 2018 were nonaccrual loans of $8.6 million.

All loans 90 days or more past due at March 31, 2019 and December 31, 2018 were classified as nonaccrual.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Impaired Loans
Impaired loans include nonaccrual loans and loans restructured in a troubled debt restructuring. The Corporation identifies loss allocations for impaired loans on an individual loan basis.

The following is a summary of impaired loans:

(Dollars in thousands)	Recorded Investment (1)		Unpaid Principal		Related Allowance	
	Mar 31, 2019	Dec 31, 2018	Mar 31, 2019	Dec 31, 2018	Mar 31, 2019	Dec 31, 2018
No Related Allowance Recorded						
Commercial:						
Commercial real estate	$926	$925	$926	$926	$—	$—
Commercial & industrial	4,645	4,681	4,633	4,732	—	—
Total commercial	5,571	5,606	5,559	5,658	—	—
Residential Real Estate:						
Residential real estate	9,659	9,347	10,010	9,695	—	—
Consumer:						
Home equity	1,297	1,360	1,297	1,360	—	—
Other	—	—	—	—	—	—
Total consumer	1,297	1,360	1,297	1,360	—	—
Subtotal	16,527	16,313	16,866	16,713	—	—
With Related Allowance Recorded						
Commercial:						
Commercial real estate	$—	$—	$—	$—	$—	$—
Commercial & industrial	—	52	—	73	—	—
Total commercial	—	52	—	73	—	—
Residential Real Estate:						
Residential real estate	736	364	762	390	98	100
Consumer:						
Home equity	111	85	111	85	111	24
Other	21	22	20	22	1	3
Total consumer	132	107	131	107	112	27
Subtotal	868	523	893	570	210	127
Total impaired loans	$17,395	$16,836	$17,759	$17,283	$210	$127
Total:						
Commercial	$5,571	$5,658	$5,559	$5,731	$—	$—
Residential real estate	10,395	9,711	10,772	10,085	98	100
Consumer	1,429	1,467	1,428	1,467	112	27
Total impaired loans	$17,395	$16,836	$17,759	$17,283	$210	$127

(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 accruing impaired loans (troubled debt restructurings for which management has concluded that the collectibility of the loan is not in doubt), the recorded investment also includes accrued interest.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

The following tables present the average recorded investment balance of impaired loans and interest income recognized on impaired loans segregated by loan class.

(Dollars in thousands)	Average Recorded Investment		Interest Income Recognized	
Three months ended March 31,	2019	2018	2019	2018
Commercial:				
Commercial real estate	$976	$4,100	$1	$—
Commercial & industrial	4,689	5,492	54	66
Total commercial	5,665	9,592	55	66
Residential Real Estate:				
Residential real estate	10,151	9,850	115	112
Consumer:				
Home equity	1,480	667	14	9
Other	21	144	—	3
Total consumer	1,501	811	14	12
Totals	$17,317	$20,253	$184	$190

Nonaccrual Loans

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

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

(Dollars in thousands)	Mar 31, 2019	Dec 31, 2018
Commercial:		
Commercial real estate	$926	$925
Commercial & industrial	—	—
Total commercial	926	925
Residential Real Estate:		
Residential real estate	10,032	9,346
Consumer:		
Home equity	1,407	1,436
Other	—	—
Total consumer	1,407	1,436
Total nonaccrual loans	$12,365	$11,707
Accruing loans 90 days or more past due	$—	$—

As of March 31, 2019 and December 31, 2018, loans secured by one- to four-family residential property amounting to $1.7 million and $761 thousand, respectively, were in process of foreclosure.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Nonaccrual loans of $3.8 million and $3.1 million, respectively, were current as to the payment of principal and interest at March 31, 2019 and December 31, 2018.

There were no significant commitments to lend additional funds to borrowers whose loans were on nonaccrual status at March 31, 2019.

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. These concessions may include modifications of the terms of the debt such as deferral of payments, extension of maturity, reduction of principal balance, reduction of the stated interest rate other than normal market rate adjustments, or a combination of these concessions. Debt may be bifurcated with separate terms for each tranche of the restructured debt. Restructuring of a loan in lieu of aggressively enforcing the collection of the loan may benefit the Corporation by increasing the ultimate probability of collection.

Restructured loans are classified as accruing or non-accruing based on management's assessment of the collectability 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.

The recorded investment in troubled debt restructurings consists of unpaid principal balance, net of charge-offs and unamortized deferred loan origination fees and costs, at the time of the restructuring. For accruing troubled debt restructured loans, the recorded investment also includes accrued interest. The recorded investment in troubled debt restructurings was $5.5 million and $5.6 million, respectively, at March 31, 2019 and December 31, 2018. The allowance for loan losses included specific reserves for these troubled debt restructurings of $99 thousand and $103 thousand, respectively, at March 31, 2019 and December 31, 2018.

For the three months ended March 31, 2019, there were no loans modified as a troubled debt restructuring. For the three months ended March 31, 2018, there was one commercial and industrial loan modified as a troubled debt restructuring with a pre-modification and post-modification recorded investment of $608 thousand. This troubled debt restructuring included a combination of concessions pertaining to maturity and interest only payment terms.

For the three months ended March 31, 2019 and 2018, there were no payment defaults on troubled debt restructured loans modified within the previous 12 months.

As of March 31, 2019, there were no significant commitments to lend additional funds to borrowers whose loans had been restructured.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Credit Quality Indicators
Commercial
The Corporation utilizes an internal rating system to assign a risk to each of its commercial loans. Loans are rated on a scale of 1 to 10. This scale can be assigned to three broad categories including "pass" for ratings 1 through 6, "special mention" for 7-rated loans, and "classified" for loans rated 8, 9 or 10. The loan rating system takes into consideration parameters including the borrower's financial condition, the borrower's performance with respect to loan terms, the adequacy of collateral, the adequacy of guarantees and other credit quality characteristics. For non-impaired loans, the Corporation takes the risk rating into consideration along with other credit attributes in the establishment of an appropriate allowance for loan losses. See Note 6 for additional information.

A description of the commercial loan categories is as follows:

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

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

Classified - Loans identified as "substandard," "doubtful" or "loss" based on criteria consistent with guidelines provided by banking regulators. A "substandard" loan has defined weaknesses which make payment default or principal exposure likely, but not yet certain. Such loans are apt to be dependent upon collateral liquidation, a secondary source of repayment or an event outside of the normal course of business. The loans are closely watched and are either already on nonaccrual status or may be placed on nonaccrual status when management determines there is uncertainty of collectability. A "doubtful" loan is placed on nonaccrual status and has a high probability of loss, but the extent of the loss is difficult to quantify due to dependency upon collateral having a value that is difficult to determine or upon some near-term event which lacks certainty. A loan in the "loss" category is considered generally uncollectible or the timing or amount of payments cannot be determined. "Loss" is not intended to imply that the loan has no recovery value, but rather, it is not practical or desirable to continue to carry the asset.

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

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

(Dollars in thousands)	Pass	Special Mention	Classified

	Mar 31, 2019	Dec 31, 2018	Mar 31, 2019	Dec 31, 2018	Mar 31, 2019	Dec 31, 2018
Commercial:						
Commercial real estate	$1,441,182	$1,387,666	$17,778	$205	$4,722	$4,537
Commercial & industrial	571,489	559,019	27,073	50,426	12,046	11,259
Total commercial	$2,012,671	$1,946,685	$44,851	$50,631	$16,768	$15,796

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Residential and Consumer
Management monitors the relatively homogeneous residential real estate and consumer loan portfolios on an ongoing basis using delinquency information by loan type. For non-impaired residential real estate and consumer loans, the Corporation assigns loss allocation factors to each respective loan type.

Other techniques are utilized to monitor indicators of credit deterioration in the residential real estate loans and consumer loan portfolios. Among these techniques is the periodic tracking of loans with an updated Fair Isaac Corporation ("FICO") score and an estimated loan to value ("LTV") ratio. LTV ratio is determined via statistical modeling analyses. The indicated LTV levels are estimated based on such factors as the location, the original LTV ratio, and the date of origination of the loan and do not reflect actual appraisal amounts. The results of these analyses and other loan review procedures are taken into consideration in the determination of loss allocation factors for residential mortgage and home equity consumer credits.

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

(Dollars in thousands)	Current		Past Due	
	Mar 31, 2019	Dec 31, 2018	Mar 31, 2019	Dec 31, 2018
Residential Real Estate:				
Self-originated mortgages	$1,240,306	$1,238,402	$9,751	$9,079
Purchased mortgages	107,917	111,465	1,098	1,441
Total residential real estate	$1,348,223	$1,349,867	$10,849	$10,520
Consumer:				
Home equity	$277,027	$278,637	$2,911	$1,989
Other	25,156	26,202	13	33
Total consumer	$302,183	$304,839	$2,924	$2,022

Note 6 - Allowance for Loan Losses
The allowance for loan losses is management's best estimate of incurred losses inherent in the loan portfolio as of the balance sheet date. 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: (1) the identification of loss allocations for individual loans deemed to be impaired and (2) the application of loss allocation factors for non-impaired loans based on historical loss experience and estimated loss emergence period, with adjustments for various exposures that management believes are not adequately represented by historical loss experience.

The following table presents the activity in the allowance for loan losses for the three months ended March 31, 2019:

(Dollars in thousands)	Commercial				Consumer			
	CRE (1)	C&I (2)	Total Commercial	Residential Real Estate	Home Equity	Other	Total Consumer	Total
Beginning Balance	$15,381	$5,847	$21,228	$3,987	$1,603	$254	$1,857	$27,072
Charge-offs	—	(14)	(14)	—	(61)	(28)	(89)	(103)
Recoveries	—	8	8	—	13	4	17	25
Provision	1,810	(1,343)	467	22	34	127	161	650
Ending Balance	$17,191	$4,498	$21,689	$4,009	$1,589	$357	$1,946	$27,644

(1) Commercial real estate loans.

(2) Commercial & industrial loans.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

The following table presents the activity in the allowance for loan losses for the three months ended March 31, 2018:

(Dollars in thousands)	Commercial				Consumer			
	CRE (1)	C&I (2)	Total Commercial	Residential Real Estate	Home Equity	Other	Total Consumer	Total
Beginning Balance	$12,729	$5,580	$18,309	$5,427	$2,412	$340	$2,752	$26,488
Charge-offs	(627)	(6)	(633)	—	(35)	(22)	(57)	(690)
Recoveries	25	29	54	—	7	5	12	66
Provision	(308)	268	(40)	67	(192)	165	(27)	—
Ending Balance	$11,819	$5,871	$17,690	$5,494	$2,192	$488	$2,680	$25,864

(1) Commercial real estate loans.
(2) Commercial & industrial loans.

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

(Dollars in thousands)	March 31, 2019		December 31, 2018	
	Loans	Related Allowance	Loans	Related Allowance
Loans Individually Evaluated for Impairment				
Commercial:				
Commercial real estate	$926	$—	$925	$—
Commercial & industrial	4,626	—	4,714	—
Total commercial	5,552	—	5,639	—
Residential Real Estate:				
Residential real estate	10,394	98	9,710	100
Consumer:				
Home equity	1,408	111	1,445	24
Other	20	1	22	3
Total consumer	1,428	112	1,467	27
Subtotal	17,374	210	16,816	127
Loans Collectively Evaluated for Impairment				
Commercial:				
Commercial real estate	1,462,756	17,191	1,391,483	15,381
Commercial & industrial	605,982	4,498	615,990	5,847
Total commercial	2,068,738	21,689	2,007,473	21,228
Residential Real Estate:				
Residential real estate	1,348,678	3,911	1,350,677	3,887
Consumer:				
Home equity	278,530	1,478	279,182	1,579
Other	25,149	356	26,212	251
Total consumer	303,679	1,834	305,394	1,830
Subtotal	3,721,095	27,434	3,663,544	26,945
Total	$3,738,469	$27,644	$3,680,360	$27,072

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Note 7 - Federal Home Loan Bank Advances
Advances payable to the FHLB amounted to $1.1 billion and $950.7 million, respectively, at March 31, 2019 and December 31, 2018.

The following table presents maturities and weighted average interest rates on FHLB advances outstanding as of March 31, 2019:

(Dollars in thousands)	Scheduled Maturity	Weighted Average Rate	
April 1, 2019 to December 31, 2019	$822,665	2.63	%
2020	77,033	2.10	
2021	86,222	2.73	
2022	55,447	3.65	
2023	9,428	4.01	
2024 and thereafter	5,334	5.06	
Balance at March 31, 2019	$1,056,129	2.68	%

As of March 31, 2019 and December 31, 2018, the Bank had access to a $40.0 million unused line of credit with the FHLB and also had remaining available borrowing capacity of $575.7 million and $628.5 million, respectively. The Bank pledges certain qualified investment securities and loans as collateral to the FHLB.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Note 8 - Shareholders' Equity
Regulatory Capital Requirements
Capital levels at March 31, 2019 exceeded the regulatory minimum levels to be considered "well capitalized."

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

(Dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be "Well Capitalized" Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2019						
Total Capital (to Risk-Weighted Assets):						
Corporation	$467,260	12.59 %	$296,925	8.00 %	N/A	N/A
Bank	463,549	12.49	296,892	8.00	$371,115	10.00 %
Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	439,374	11.84	222,694	6.00	N/A	N/A
Bank	435,663	11.74	222,669	6.00	296,892	8.00
Common Equity Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	417,376	11.25	167,020	4.50	N/A	N/A
Bank	435,663	11.74	167,002	4.50	241,225	6.50
Tier 1 Capital (to Average Assets): (1)						
Corporation	439,374	8.69	202,274	4.00	N/A	N/A
Bank	435,663	8.62	202,213	4.00	252,767	5.00
December 31, 2018						
Total Capital (to Risk-Weighted Assets):						
Corporation	455,699	12.56	290,146	8.00	N/A	N/A
Bank	453,033	12.49	290,128	8.00	362,660	10.00
Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	428,338	11.81	217,609	6.00	N/A	N/A
Bank	425,672	11.74	217,596	6.00	290,128	8.00
Common Equity Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	406,340	11.20	163,207	4.50	N/A	N/A
Bank	425,672	11.74	163,197	4.50	235,729	6.50
Tier 1 Capital (to Average Assets): (1)						
Corporation	428,338	8.89	192,690	4.00	N/A	N/A
Bank	425,672	8.84	192,652	4.00	240,815	5.00

(1) Leverage ratio.

In addition to the minimum regulatory capital required for capital adequacy purposes included in the table above, the Corporation is required to maintain a minimum capital conservation buffer, in the form of common equity, in order to avoid restrictions on capital distributions and discretionary bonuses. The required amount of the capital conservation buffer was 1.875% on January 1, 2018. The capital conservation buffer increased another 0.625% on January 1, 2019, reaching the full requirement of 2.50%.

The Bancorp owns the common stock of two capital trusts, which have issued trust preferred securities. In accordance with GAAP, the capital trusts are treated as unconsolidated subsidiaries. At both March 31, 2019 and December 31, 2018, $22.0 million in trust preferred securities were included in the Tier 1 Capital of the Corporation for regulatory capital reporting purposes pursuant to the Federal Reserve’s capital adequacy guidelines.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Note 9 - Derivative Financial Instruments

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

Interest Rate Risk Management Agreements

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

Cash Flow Hedging Instruments

As of March 31, 2019 and December 31, 2018, the Bancorp had two interest rate caps with a total notional amount of $22.7 million that were designated as cash flow hedges to hedge the interest rate risk associated with our variable rate junior subordinated debentures. For both interest rate caps, the Bancorp obtained the right to receive the difference between 3-month LIBOR and a 4.5% strike. The caps mature in 2020.

As of March 31, 2019 and December 31, 2018, the Bank had two interest rate swap contracts with a total notional amount of $60.0 million that were designated as cash flow hedges to hedge the interest rate risk associated with short-term variable rate FHLB advances. The interest rate swaps mature in 2021 and 2023.

As of March 31, 2019 and December 31, 2018, the Bank had three interest rate floor contracts with a total notional amount of $300.0 million that were designated as cash flow hedges to hedge the interest rate risk associated with a pool of variable rate commercial loans. The Bank obtained the right to receive the difference between 1-month LIBOR and a 1.0% strike for each of the interest rate floors. The floors mature in 2020.

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

Loan Related Derivative Contracts

Interest Rate Swap Contracts with Customers

The Corporation has entered into interest rate swap contracts to help commercial loan borrowers manage their interest rate risk. The interest rate swap contracts with commercial loan borrowers allow them to convert variable-rate loan payments to fixed-rate loan payments. When we enter into an interest rate swap contract with a commercial loan borrower, we simultaneously enter into a “mirror” swap contract with a third party. The third party exchanges the client’s fixed-rate loan payments for variable-rate loan payments. We retain the risk that is associated with the potential failure of counterparties and the risk inherent in originating loans. As of March 31, 2019 and December 31, 2018, Washington Trust had interest rate swap contracts with commercial loan borrowers with notional amounts of $671.5 million and $648.0 million, respectively, and equal amounts of “mirror” swap contracts with third-party financial institutions. These derivatives are not designated as hedges and therefore, changes in fair value are recognized in earnings.

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

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

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

As of March 31, 2019, the notional amounts of risk participation-out agreements and risk participation-in agreements were $57.0 million and $46.4 million, respectively, compared to $57.3 million and $46.5 million, respectively, as of December 31, 2018.

Foreign Exchange Contracts

Foreign exchange contracts represent contractual commitments to buy or sell a foreign currency on a future date at a specified price. The Corporation uses these foreign exchange contracts on a limited basis to reduce its exposure to fluctuations in currency exchange rates associated with a commercial loan that is denominated in a foreign currency. These derivatives are not designated as hedges and therefore changes in fair value are recognized in earnings. The changes in fair value on the foreign exchange contracts substantially offset the foreign currency translation gains and losses on the related commercial loan.

As of March 31, 2019 and December 31, 2018, the notional amount of foreign exchange contracts was $2.7 million and $2.8 million, respectively.

Loan Commitments

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

As of March 31, 2019, the notional amounts of interest rate lock commitments and forward sale commitments were $64.1 million and $94.6 million, respectively, compared to $30.8 million and $62.0 million, respectively, as of December 31, 2018.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

(Dollars in thousands)	Asset Derivatives			Liability Derivatives		
		Fair Value			Fair Value	
	Balance Sheet Location	Mar 31, 2019	Dec 31, 2018	Balance Sheet Location	Mar 31, 2019	Dec 31, 2018
Derivatives Designated as Cash Flow Hedging Instruments:						
Interest rate risk management contracts:						
Interest rate caps	Other assets	$3	$20	Other liabilities	$—	$—
Interest rate swaps	Other assets	291	903	Other liabilities	—	—
Interest rate floors	Other assets	16	37	Other liabilities	—	—
Derivatives not Designated as Hedging Instruments:						
Loan related derivative contracts:						
Interest rate swaps with customers	Other assets	11,176	5,340	Other liabilities	2,952	7,719
Mirror swaps with counterparties	Other assets	2,897	7,592	Other liabilities	11,236	5,392
Risk participation agreements	Other assets	—	—	Other liabilities	1	—
Foreign exchange contracts	Other assets	8	—	Other liabilities	—	7
Forward loan commitments:						
Interest rate lock commitments	Other assets	1,491	806	Other liabilities	—	—
Forward sale commitments	Other assets	—	—	Other liabilities	818	816
Gross amounts		15,882	14,698		15,007	13,934
Less amounts offset in Consolidated Balance Sheets (1)		1,899	10,732		1,899	10,732
Net amounts presented in Consolidated Balance Sheets		13,983	3,966		13,108	3,202
Less collateral pledged (2)		—	—		9,569	1,460
Net amounts		$13,983	$3,966		$3,539	$1,742

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

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

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

(Dollars in thousands)	Gain (Loss) Recognized in Other Comprehensive Income, Net of Tax	
Three months ended March 31,	2019	2018
Derivatives Designated as Cash Flow Hedging Instruments:		
Interest rate risk management contracts:		
Interest rate caps	$—	$38

Interest rate swaps	(466)	839
Interest rate floors	24	12
Total	($442)	$889

See Note 15 for additional disclosure pertaining to the amounts reclassified from accumulated other comprehensive income into earnings for derivatives designated as cash flow hedging instruments.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(Dollars in thousands)		Amount of Gain (Loss) Recognized in Income on Derivatives	
Three months ended March 31,	Statement of Income Location	2019	2018
Derivatives not Designated as Hedging Instruments:			
Loan related derivative contracts:			
Interest rate swaps with customers	Loan related derivative income	$10,310	($9,195)
Mirror swaps with counterparties	Loan related derivative income	(9,604)	9,324
Risk participation agreements	Loan related derivative income	—	—
Foreign exchange contracts	Loan related derivative income	18	12
Forward loan commitments:			
Interest rate lock commitments	Mortgage banking revenues	685	(14)
Forward sale commitments	Mortgage banking revenues	(429)	1,318
Total		$980	$1,445

Note 10 - Fair Value Measurements

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

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

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

Fair Value Option Election

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

The following table presents a summary of mortgage loans held for sale accounted for under the fair value option:
(Dollars in thousands)

	March 31, 2019	December 31, 2018
Aggregate fair value	$14,608	$20,996
Aggregate principal balance	14,244	20,498
Difference between fair value and principal balance	$364	$498

Changes in fair value of mortgage loans held for sale accounted for under the fair value option election amounted to a decrease of $135 thousand in the three months ended March 31, 2019, compared to a decrease of $329 thousand in the three months ended March 31, 2018. These amounts were partially offset in earnings by the changes in fair value of forward sale commitments used to economically hedge them. The changes in fair value are reported as a component of mortgage banking revenues in the Unaudited Consolidated Statements of Income.

There were no mortgage loans held for sale 90 days or more past due as of March 31, 2019 and December 31, 2018.

Valuation Techniques
Debt Securities
Available for sale debt securities are recorded at fair value on a recurring basis. When available, the Corporation uses quoted market prices to determine the fair value of debt securities; such items are classified as Level 1. There were no Level 1 debt securities held at March 31, 2019 and December 31, 2018.

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

Debt securities not actively traded whose fair value is determined through the use of cash flows utilizing inputs that are unobservable are classified as Level 3. There were no Level 3 debt securities held at March 31, 2019 and December 31, 2018.

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

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

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

Derivatives
Interest rate cap, swap and floor contracts are traded in over-the-counter markets where quoted market prices are not readily available. Fair value measurements are determined using independent pricing models that utilize primarily

market observable inputs, such as swap rates of different maturities and LIBOR rates. The Corporation also evaluates the credit risk of its counterparties as well as that of the Corporation. Accordingly, factors such as the likelihood of default by the Corporation and its counterparties, its net exposures and remaining contractual life are considered in determining if any fair value adjustments related to credit risk are required. Counterparty exposure is evaluated by netting positions that are subject to master netting agreements, as well as considering the amount of collateral securing the position, if any. Although the Corporation has determined that the majority of the inputs used to value its interest rate swap, cap and floor contracts fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with interest rate contracts and risk participation agreements utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by the Corporation and its counterparties. However, as of March 31, 2019 and December 31, 2018, the Corporation has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

are not significant to the overall valuation of its derivatives. As a result, the Corporation has classified its derivative valuations in their entirety as Level 2.

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

Contingent Consideration Liability
A contingent consideration liability was recognized upon the completion of the Halsey Associates, Inc. acquisition on August 1, 2015 representing the estimated present value of future earn-outs to be paid based on the future revenue growth of the acquired business during the five-year period following the acquisition.

The fair value measurement was based upon unobservable inputs; therefore, the contingent liability was classified within Level 3 of the fair value hierarchy. The unobservable inputs included probability estimates regarding the likelihood of achieving revenue growth targets and the discount rates utilized the discounted cash flow calculations applied to the estimated earn-outs to be paid. The contingent consideration liability was remeasured to fair value at each reporting period taking into consideration changes in those unobservable inputs. Changes in the fair value of the contingent consideration liability were included in noninterest expenses in the Consolidated Statements of Income.

One of the two earn-out periods associated with this contingent consideration liability ended December 31, 2017 and a payment of $1.2 million was made by the Corporation in the first quarter of 2018. The likelihood of payout on the remaining earn-out period had been deemed remote and as a result the fair value of the contingent consideration liability was reduced to zero in 2018. There have been no changes to the fair value of the contingent consideration liability for the three months ended March 31, 2019.

Items Recorded at Fair Value on a Recurring Basis
The following tables present the balances of assets and liabilities reported at fair value on a recurring basis:
(Dollars in thousands)

March 31, 2019	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available for sale debt securities:				
Obligations of U.S. government-sponsored enterprises	$245,472	$—	$245,472	$—
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	723,505	—	723,505	—

Obligations of states and political subdivisions	937	—	937	—
Individual name issuer trust preferred debt securities	12,370	—	12,370	—
Corporate bonds	12,597	—	12,597	—
Mortgage loans held for sale	14,608	—	14,608	—
Derivative assets	13,983	—	13,983	—
Total assets at fair value on a recurring basis	$1,023,472	$—	$1,023,472	$—
Liabilities:				
Derivative liabilities	$13,108	$—	$13,108	$—
Total liabilities at fair value on a recurring basis	$13,108	$—	$13,108	$—

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(Dollars in thousands) December 31, 2018	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available for sale debt securities:				
Obligations of U.S. government-sponsored enterprises	$242,683	$—	$242,683	$—
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	660,793	—	660,793	—
Obligations of states and political subdivisions	937	—	937	—
Individual name issuer trust preferred debt securities	11,772	—	11,772	—
Corporate bonds	11,625	—	11,625	—
Mortgage loans held for sale	20,996	—	20,996	—
Derivative assets	3,966	—	3,966	—
Total assets at fair value on a recurring basis	$952,772	$—	$952,772	$—
Liabilities:				
Derivative liabilities	$3,202	$—	$3,202	$—
Total liabilities at fair value on a recurring basis	$3,202	$—	$3,202	$—

It is the Corporation's policy to review and reflect transfers between Levels as of the financial statement reporting date. There were no transfers in and/or out of Level 1, 2 or 3 during the three months ended March 31, 2019 and 2018.

Items Recorded at Fair Value on a Nonrecurring Basis

During the three months ended March 31, 2019, one collateral dependent impaired loan with a carrying value of $103 thousand at December 31, 2018 was written down to a fair value of zero.

The allowance for loan losses on collateral dependent impaired loans amounted to $111 thousand at March 31, 2019.

The following table presents the carrying value of assets held at December 31, 2018, which were written down to fair value during the year ended December 31, 2018:

(Dollars in thousands)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Collateral dependent impaired loans	$883	$—	$—	$883

Property acquired through foreclosure or repossession	2,142	—	—	2,142
Total assets at fair value on a nonrecurring basis	$3,025	$—	$—	$3,025

The allowance for loan losses on collateral dependent impaired loans amounted to $24 thousand at December 31, 2018.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

(Dollars in thousands) March 31, 2019	Fair Value	Valuation Technique	Unobservable Input	Range of Inputs Utilized (Weighted Average)
Collateral dependent impaired loans	$—	Appraisals of collateral	Appraisal adjustments (1)	100%

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

(Dollars in thousands) December 31, 2018	Fair Value	Valuation Technique	Unobservable Input	Range of Inputs Utilized (Weighted Average)
Collateral dependent impaired loans	$883	Appraisals of collateral	Discount for costs to sell	0% - 10% (10%)
			Appraisal adjustments (1)	0% - 100% (2%)
Property acquired through foreclosure or repossession	$2,142	Appraisals of collateral	Discount for costs to sell	13%
			Appraisal adjustments (1)	12% - 28% (20%)

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

Valuation of Financial Instruments

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

(Dollars in thousands)

March 31, 2019	Carrying Amount	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:					
Loans, net of allowance for loan losses	$3,710,825	$3,664,361	$—	$—	$3,664,361
Financial Liabilities:					
Time deposits	$1,276,464	$1,292,947	$—	$1,292,947	$—
FHLB advances	1,056,129	1,058,936	—	1,058,936	—
Junior subordinated debentures	22,681	19,363	—	19,363	—

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

(Dollars in thousands)

December 31, 2018	Carrying Amount	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:					
Held to maturity debt securities	$10,415	$10,316	$—	$10,316	$—
Loans, net of allowance for loan losses	3,653,288	3,598,025	—	—	3,598,025
Financial Liabilities:					
Time deposits	$1,255,108	$1,269,433	$—	$1,269,433	$—
FHLB advances	950,722	950,691	—	950,691	—
Junior subordinated debentures	22,681	19,226	—	19,226	—

Note 11 - Revenue from Contracts with Customers

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

For the three months ended March 31,	2019		2018	
(Dollars in thousands)	As reported in Consolidated Statements of Income	Revenue from contracts in scope of Topic 606	As reported in Consolidated Statements of Income	Revenue from contracts in scope of Topic 606
Net interest income	$34,584	$—	$31,852	$—
Noninterest income:				
Asset-based wealth management revenues	8,921	8,921	9,955	9,955
Transaction-based wealth management revenues	331	331	318	318
Total wealth management revenues	9,252	9,252	10,273	10,273
Mortgage banking revenues	2,646	—	2,838	—
Card interchange fees	997	997	847	847
Service charges on deposit accounts	875	875	863	863
Loan related derivative income	724	—	141	—
Income from bank-owned life insurance	649	—	515	—
Other income	224	224	266	266
Total noninterest income	15,367	11,348	15,743	12,249
Total revenues	$49,951	$11,348	$47,595	$12,249

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

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

(Dollars in thousands)		
Three months ended March 31,	2019	2018
Revenue recognized at a point in time:		
Card interchange fees	$997	$847
Service charges on deposit accounts	662	672
Other income	179	226
Revenue recognized over time:		
Wealth management revenues	9,252	10,273
Service charges on deposit accounts	213	191
Other income	45	40
Total revenues from contracts in scope of Topic 606	$11,348	$12,249

Receivables primarily consist of amounts due from customers for wealth management services performed for which the Corporation's performance obligations have been fully satisfied. Receivables amounted to $5.0 million at March 31, 2019, compared to $4.8 million at December 31, 2018 and were included in other assets in the Unaudited Consolidated Balance Sheets.

Deferred revenues, which are considered contract liabilities under Topic 606, represent advance consideration received from customers for which the Corporation has a remaining performance obligation to fulfill. Contract liabilities are recognized as revenue over the life of the contract as the performance obligations are satisfied. The balances of contract liabilities were insignificant at both March 31, 2019 and December 31, 2018 and were included in other liabilities in the Unaudited Consolidated Balance Sheets.

For commissions and incentives that are in-scope of Topic 606, such as those paid to employees in our wealth management services and commercial banking segments in order to obtain customer contracts, contract cost assets are established. The contract cost assets are capitalized and amortized over the estimated useful life that the asset is expected to generate benefits. The carrying value of contract cost assets amounted to $483 thousand at March 31, 2019, compared to $458 thousand at December 31, 2018 and were included in other assets in the Unaudited Consolidated Balance Sheets.

Condensed Notes to Unaudited Consolidated Financial Statements – (continued)

Note 12 - Defined Benefit Pension Plans
Washington Trust maintains a qualified pension plan for the benefit of certain eligible employees who were hired prior to October 1, 2007. Washington Trust also has non-qualified retirement plans to provide supplemental retirement benefits to certain employees, as defined in the plans. The defined benefit pension plans were previously amended to freeze benefit accruals after a 10-year transition period ending in December 2023.

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

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

(Dollars in thousands)	Qualified Pension Plan		Non-Qualified Retirement Plans	
Three months ended March 31,	2019	2018	2019	2018
Net Periodic Benefit Cost:				
Service cost (1)	$509	$561	$31	$27
Interest cost (2)	742	679	141	119
Expected return on plan assets (2)	(1,124)	(1,318)	—	—
Amortization of prior service credit (2)	(4)	(6)	—	—
Recognized net actuarial loss (2)	198	374	102	102