

WASHINGTON TRUST BANCORP INC
Form 10-Q
August 04, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

- Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended JUNE 30, 2017 or
 Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____.

Commission file number: 001-32991

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

RHODE ISLAND 05-0404671
(State or other jurisdiction of incorporation or organization) (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. Yes No

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

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

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

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

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

The number of shares of common stock of the registrant outstanding as of July 31, 2017 was 17,210,750.

FORM 10-Q
WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
For the Quarter Ended June 30, 2017

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PART I. Financial Information

Item 1. Financial Statements

Consolidated Balance Sheets (unaudited) (Dollars in thousands, except par value)

	June 30, 2017	December 31, 2016
Assets:		
Cash and due from banks	\$117,608	\$106,185
Short-term investments	2,324	1,612
Mortgage loans held for sale, at fair value	32,784	29,434
Securities:		
Available for sale, at fair value	749,486	739,912
Held to maturity, at amortized cost (fair value \$14,231 at June 30, 2017 and \$15,920 at December 31, 2016)	13,942	15,633
Total securities	763,428	755,545
Federal Home Loan Bank stock, at cost	44,640	43,129
Loans:		
Commercial	1,698,389	1,771,666
Residential real estate	1,168,105	1,122,748
Consumer	333,606	339,957
Total loans	3,200,100	3,234,371
Less allowance for loan losses	26,662	26,004
Net loans	3,173,438	3,208,367
Premises and equipment, net	28,508	29,020
Investment in bank-owned life insurance	72,183	71,105
Goodwill	63,909	64,059
Identifiable intangible assets, net	9,642	10,175
Other assets	67,065	62,484
Total assets	\$4,375,529	\$4,381,115
Liabilities:		
Deposits:		
Demand deposits	\$587,813	\$585,960
NOW accounts	448,617	427,707
Money market accounts	666,047	730,075
Savings accounts	364,002	358,397
Time deposits	954,710	961,613
Total deposits	3,021,189	3,063,752
Federal Home Loan Bank advances	869,733	848,930
Junior subordinated debentures	22,681	22,681
Other liabilities	55,884	54,948
Total liabilities	3,969,487	3,990,311
Commitments and contingencies		
Shareholders' Equity:		
Common stock of \$.0625 par value; authorized 60,000,000 shares; issued and outstanding 17,209,699 shares at June 30, 2017 and 17,170,820 shares at December 31, 2016	1,076	1,073
Paid-in capital	116,484	115,123
Retained earnings	306,151	294,365
Accumulated other comprehensive loss	(17,669)	(19,757)
Total shareholders' equity	406,042	390,804
Total liabilities and shareholders' equity	\$4,375,529	\$4,381,115

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

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

Periods ended June 30,	Three months		Six months	
	2017	2016	2017	2016
Interest income:				
Interest and fees on loans	\$31,642	\$29,122	\$61,994	\$59,120
Interest on securities: Taxable	4,844	2,487	9,553	4,857
Nontaxable	72	280	184	607
Dividends on Federal Home Loan Bank stock	439	231	826	441
Other interest income	156	70	260	134
Total interest and dividend income	37,153	32,190	72,817	65,159
Interest expense:				
Deposits	3,591	2,981	7,093	5,949
Federal Home Loan Bank advances	3,509	2,313	6,853	4,465
Junior subordinated debentures	149	119	287	231
Other interest expense	—	1	1	3
Total interest expense	7,249	5,414	14,234	10,648
Net interest income	29,904	26,776	58,583	54,511
Provision for loan losses	700	450	1,100	950
Net interest income after provision for loan losses	29,204	26,326	57,483	53,561
Noninterest income:				
Wealth management revenues	9,942	9,481	19,419	18,655
Mortgage banking revenues	2,919	2,710	5,259	4,908
Service charges on deposit accounts	901	935	1,784	1,842
Card interchange fees	902	860	1,704	1,657
Income from bank-owned life insurance	542	1,090	1,078	1,589
Loan related derivative income	1,144	508	1,292	1,153
Equity in earnings (losses) of unconsolidated subsidiaries	(89)	(89)	(177)	(177)
Other income	545	419	957	921
Total noninterest income	16,806	15,914	31,316	30,548
Noninterest expense:				
Salaries and employee benefits	17,358	17,405	34,153	33,785
Net occupancy	1,767	1,803	3,734	3,610
Equipment	1,313	1,503	2,780	3,004
Outsourced services	1,710	1,294	3,167	2,657
Legal, audit and professional fees	582	662	1,198	1,291
FDIC deposit insurance costs	469	491	950	984
Advertising and promotion	362	420	599	685
Amortization of intangibles	257	322	534	645
Debt prepayment penalties	—	—	—	431
Change in fair value of contingent consideration	—	16	(310)	41
Other expenses	2,488	2,114	4,787	4,347
Total noninterest expense	26,306	26,030	51,592	51,480
Income before income taxes	19,704	16,210	37,207	32,629
Income tax expense	6,505	5,153	12,226	10,637
Net income	\$13,199	\$11,057	\$24,981	\$21,992

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Weighted average common shares outstanding - basic	17,206	17,067	17,196	17,045
Weighted average common shares outstanding - diluted	17,316	17,194	17,312	17,185
Per share information: Basic earnings per common share	\$0.77	\$0.65	\$1.45	\$1.29
Diluted earnings per common share	\$0.76	\$0.64	\$1.44	\$1.28
Cash dividends declared per share	\$0.38	\$0.36	\$0.76	\$0.72

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

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

Periods ended June 30,	Three Months		Six Months	
	2017	2016	2017	2016
Net income	\$13,199	\$11,057	\$24,981	\$21,992
Other comprehensive income, net of tax:				
Net change in fair value of securities available for sale	1,828	1,378	2,229	1,742
Net change in fair value of cash flow hedges	(448)	(24)	(350)	(90)
Net change in defined benefit plan obligations	(4)	165	209	331
Total other comprehensive income, net of tax	1,376	1,519	2,088	1,983
Total comprehensive income	\$14,575	\$12,576	\$27,069	\$23,975

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

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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, 2017	17,171	\$1,073	\$115,123	\$294,365	(\$19,757)	\$390,804
Net income	—	—	—	24,981	—	24,981
Total other comprehensive income, net of tax	—	—	—	—	2,088	2,088
Cash dividends declared	—	—	—	(13,195)	—	(13,195)
Share-based compensation	—	—	1,198	—	—	1,198
Exercise of stock options, issuance of other compensation-related equity awards	39	3	163	—	—	166
Balance at June 30, 2017	17,210	\$1,076	\$116,484	\$306,151	(\$17,669)	\$406,042

	Common Shares Outstanding	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
Balance at January 1, 2016	17,020	\$1,064	\$110,949	\$273,074	(\$9,699)	\$375,388
Net income	—	—	—	21,992	—	21,992
Total other comprehensive income, net of tax	—	—	—	—	1,983	1,983
Cash dividends declared	—	—	—	(12,400)	—	(12,400)
Share-based compensation	—	—	1,109	—	—	1,109
Exercise of stock options, issuance of other compensation-related equity awards and related tax benefit	61	4	256	—	—	260
Balance at June 30, 2016	17,081	\$1,068	\$112,314	\$282,666	(\$7,716)	\$388,332

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

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

Six months ended June 30,	2017	2016
Cash flows from operating activities:		
Net income	\$24,981	\$21,992
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,100	950
Depreciation of premises and equipment	1,759	1,790
Net amortization of premium and discount	1,616	977
Amortization of intangibles	534	645
Goodwill impairment	150	—
Share-based compensation	1,198	1,109
Tax benefit from stock option exercises and other equity awards	350	286
Income from bank-owned life insurance	(1,078)	(1,589)
Net gains on loan sales and commissions on loans originated for others	(5,052)	(4,938)
Net gain on sale of portfolio loans	—	(135)
Equity in (earnings) losses of unconsolidated subsidiaries	177	177
Proceeds from sales of loans	215,239	222,098
Loans originated for sale	(213,929)	(217,682)
Change in fair value of contingent consideration liability	(310)	41
Increase in other assets	(6,064)	(21,194)
Increase in other liabilities	1,110	16,409
Net cash provided by operating activities	21,781	20,936
Cash flows from investing activities:		
Purchases of:		
Mortgage-backed securities available for sale	(35,213)	(62,497)
Other investment securities available for sale	(19,963)	(40,495)
Maturities and principal payments of:		
Mortgage-backed securities available for sale	38,861	23,696
Other investment securities available for sale	8,955	54,681
Mortgage-backed securities held to maturity	1,614	2,008
Purchases of Federal Home Loan Bank stock	(1,511)	(9,987)
Net decrease (increase) in loans	33,596	(53,972)
Net proceeds from sale of portfolio loans	—	510
Purchases of loans	—	(17,079)
Proceeds from the sale of property acquired through foreclosure or repossession	213	254
Purchases of premises and equipment	(1,247)	(1,816)
Proceeds of bank-owned life insurance	—	2,054
Net cash provided by (used in) investing activities	25,305	(102,643)
Cash flows from financing activities:		
Net decrease in deposits	(42,563)	(144,905)
Proceeds from Federal Home Loan Bank advances	657,500	640,000
Repayment of Federal Home Loan Bank advances	(636,697)	(378,963)
Net proceeds from stock option exercises and issuance of other equity awards	(184)	(26)
Cash dividends paid	(13,007)	(12,117)
Net cash (used in) provided by financing activities	(34,951)	