

WASHINGTON TRUST BANCORP INC

Form 10-Q

November 07, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

- Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended SEPTEMBER 30, 2012 or
- Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____.

Commission file number: 001-32991

WASHINGTON TRUST BANCORP, INC.

(Exact name of registrant as specified in its charter)

RHODE ISLAND

(State or other jurisdiction of incorporation or organization)

23 BROAD STREET

WESTERLY, RHODE ISLAND

(Address of principal executive offices)

05-0404671

(I.R.S. Employer Identification No.)

02891

(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, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Mark one)

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

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 November 2, 2012 was 16,371,272.

FORM 10-Q
WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
For the Quarter Ended September 30, 2012

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (unaudited)(Dollars in thousands,
except par value)

| | September 30, 2012 | December 31, 2011 |
|---|-----------------------|----------------------|
| Assets: | | |
| Cash and due from banks | \$49,935 | \$82,238 |
| Short-term investments | 3,599 | 4,782 |
| Mortgage loans held for sale, at fair value; amortized cost \$33,737 in 2012 and \$19,624 in 2011 | 35,409 | 20,340 |
| Securities: | | |
| Available for sale, at fair value; amortized cost \$424,194 in 2012 and \$524,036 in 2011 | 440,289 | 541,253 |
| Held to maturity, at cost; fair value \$45,031 in 2012 and \$52,499 in 2011 | 43,569 | 52,139 |
| Total securities | 483,858 | 593,392 |
| Federal Home Loan Bank stock, at cost | 40,418 | 42,008 |
| Loans: | | |
| Commercial | 1,219,327 | 1,124,628 |
| Residential real estate | 715,412 | 700,414 |
| Consumer | 321,958 | 322,117 |
| Total loans | 2,256,697 | 2,147,159 |
| Less allowance for loan losses | 30,752 | 29,802 |
| Net loans | 2,225,945 | 2,117,357 |
| Premises and equipment, net | 27,482 | 26,028 |
| Investment in bank-owned life insurance | 54,344 | 53,783 |
| Goodwill | 58,114 | 58,114 |
| Identifiable intangible assets, net | 6,346 | 6,901 |
| Other assets | 63,418 | 59,155 |
| Total assets | \$3,048,868 | \$3,064,098 |
| Liabilities: | | |
| Deposits: | | |
| Demand deposits | \$352,330 | \$339,809 |
| NOW accounts | 267,495 | 257,031 |
| Money market accounts | 459,671 | 406,777 |
| Savings accounts | 268,191 | 243,904 |
| Time deposits | 886,972 | 878,794 |
| Total deposits | 2,234,659 | 2,126,315 |
| Federal Home Loan Bank advances | 417,675 | 540,450 |
| Junior subordinated debentures | 32,991 | 32,991 |
| Other borrowings | 229 | 19,758 |
| Other liabilities | 64,920 | 63,233 |
| Total liabilities | 2,750,474 | 2,782,747 |
| Commitments and contingencies | | |
| Shareholders' Equity: | | |
| Common stock of \$.0625 par value; authorized 30,000,000 shares; issued and outstanding 16,371,272 shares in 2012 and 16,292,471 shares in 2011 | 1,023 | 1,018 |
| Paid-in capital | 90,829 | 88,030 |
| Retained earnings | 208,639 | 194,198 |
| Accumulated other comprehensive loss | (2,097 |) (1,895 |

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| | | |
|--|-------------|-------------|
| Total shareholders' equity | 298,394 | 281,351 |
| Total liabilities and shareholders' equity | \$3,048,868 | \$3,064,098 |

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

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

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

| Periods ended September 30, | Three Months | | Nine Months | |
|--|--------------|----------|-------------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| Interest income: | | | | |
| Interest and fees on loans | \$25,840 | \$25,069 | \$76,547 | \$74,035 |
| Interest on securities: | | | | |
| Taxable | 3,672 | 4,640 | 12,118 | 14,282 |
| Nontaxable | 660 | 746 | 2,035 | 2,273 |
| Dividends on corporate stock and Federal Home Loan Bank stock | 52 | 64 | 207 | 197 |
| Other interest income | 27 | 15 | 64 | 52 |
| Total interest income | 30,251 | 30,534 | 90,971 | 90,839 |
| Interest expense: | | | | |
| Deposits | 3,391 | 3,808 | 10,210 | 12,040 |
| Federal Home Loan Bank advances | 3,726 | 4,539 | 11,809 | 13,956 |
| Junior subordinated debentures | 393 | 393 | 1,176 | 1,175 |
| Other interest expense | 5 | 245 | 244 | 728 |
| Total interest expense | 7,515 | 8,985 | 23,439 | 27,899 |
| Net interest income | 22,736 | 21,549 | 67,532 | 62,940 |
| Provision for loan losses | 600 | 1,000 | 2,100 | 3,700 |
| Net interest income after provision for loan losses | 22,136 | 20,549 | 65,432 | 59,240 |
| Noninterest income: | | | | |
| Wealth management services: | | | | |
| Trust and investment advisory fees | 5,877 | 5,547 | 17,474 | 17,045 |
| Mutual fund fees | 1,024 | 1,035 | 3,051 | 3,293 |
| Financial planning, commissions and other service fees | 292 | 209 | 1,326 | 1,043 |
| Wealth management services | 7,193 | 6,791 | 21,851 | 21,381 |
| Service charges on deposit accounts | 833 | 821 | 2,356 | 2,662 |
| Merchant processing fees | 3,207 | 3,223 | 7,927 | 7,849 |
| Card interchange fees | 675 | 597 | 1,844 | 1,665 |
| Income from bank-owned life insurance | 1,006 | 488 | 1,969 | 1,446 |
| Net gains on loan sales and commissions on loans originated for others | 3,504 | 1,077 | 9,616 | 2,139 |
| Net realized gains on securities | — | — | 299 | 197 |
| Net gains (losses) on interest rate swap contracts | 63 | (47) | 87 | (6) |
| Equity in earnings (losses) of unconsolidated subsidiaries | 27 | (144) | 114 | (433) |
| Other income | 413 | 308 | 1,473 | 1,229 |
| Noninterest income, excluding other-than-temporary impairment losses | 16,921 | 13,114 | 47,536 | 38,129 |
| Total other-than-temporary impairment losses on securities | — | — | (85) | (54) |
| Portion of loss recognized in other comprehensive income (before tax) | — | (158) | (124) | (137) |
| Net impairment losses recognized in earnings | — | (158) | (209) | (191) |
| Total noninterest income | 16,921 | 12,956 | 47,327 | 37,938 |
| Noninterest expense: | | | | |
| Salaries and employee benefits | 15,214 | 12,912 | 44,125 | 37,138 |
| Net occupancy | 1,468 | 1,362 | 4,521 | 3,919 |
| Equipment | 1,168 | 1,092 | 3,418 | 3,211 |
| Merchant processing costs | 2,707 | 2,781 | 6,690 | 6,795 |
| Outsourced services | 845 | 863 | 2,660 | 2,610 |
| FDIC deposit insurance costs | 427 | 427 | 1,311 | 1,614 |
| Legal, audit and professional fees | 598 | 430 | 1,599 | 1,389 |
| Advertising and promotion | 445 | 561 | 1,295 | 1,341 |

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| | | | | | |
|--|-----------------------------------|---------|---------|----------|----------|
| Amortization of intangibles | | 182 | 230 | 555 | 705 |
| Foreclosed property costs | | 136 | 45 | 604 | 549 |
| Debt prepayment penalties | | 1,173 | — | 2,134 | 221 |
| Other expenses | | 1,927 | 1,892 | 6,005 | 6,107 |
| Total noninterest expense | | 26,290 | 22,595 | 74,917 | 65,599 |
| Income before income taxes | | 12,767 | 10,910 | 37,842 | 31,579 |
| Income tax expense | | 3,867 | 3,328 | 11,791 | 9,632 |
| Net income | | \$8,900 | \$7,582 | \$26,051 | \$21,947 |
| | | | | | |
| Weighted average common shares outstanding - basic | | 16,366 | 16,278 | 16,351 | 16,242 |
| Weighted average common shares outstanding - diluted | | 16,414 | 16,294 | 16,392 | 16,269 |
| Per share information: | | | | | |
| | Basic earnings per common share | \$0.54 | \$0.46 | \$1.59 | \$1.35 |
| | Diluted earnings per common share | \$0.54 | \$0.46 | \$1.58 | \$1.34 |
| | Cash dividends declared per share | \$0.24 | \$0.22 | \$0.70 | \$0.66 |

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

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WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES (Dollars in thousands)
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

| Periods ended September 30, | Three Months | | Nine Months | |
|--|--------------|---------|-------------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| Net income | \$8,900 | \$7,582 | \$26,051 | \$21,947 |
| Other comprehensive income, net of tax: | | | | |
| Securities available for sale: | | | | |
| Unrealized (losses) gains on securities arising during the period | (218) | (310) | (676) | 3,315 |
| Less: reclassification adjustment for net gains on securities realized in net income | — | — | 138 | 92 |
| Net unrealized (losses) gains on securities available for sale | (218) | (310) | (814) | 3,223 |
| Reclassification adjustment for change in non-credit portion of OTTI realized losses transferred to net income | — | 101 | 80 | 88 |
| Cash flow hedges: | | | | |
| Unrealized losses on cash flow hedges arising during the period | (127) | (498) | (331) | (917) |
| Less: reclassification adjustment for amount of gains on cash flow hedges realized in net income | 113 | 123 | 336 | 368 |
| Net unrealized (losses) gains on cash flow hedges | (14) | (375) | 5 | (549) |
| Defined benefit plan obligation adjustment | 171 | 60 | 527 | 181 |
| Total other comprehensive (loss) income, net of tax | (61) | (524) | (202) | 2,943 |
| Total comprehensive income | \$8,839 | \$7,058 | \$25,849 | \$24,890 |

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

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

| | Common Shares Outstanding | Common Stock | Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income | Total |
|---|---------------------------------|-----------------|--------------------|----------------------|---|-----------|
| Balance at January 1, 2011 | 16,172 | \$1,011 | \$84,889 | \$178,939 | \$4,025 | \$268,864 |
| Net income | | | | 21,947 | | 21,947 |
| Total other comprehensive income, net of tax | | | | | 2,943 | 2,943 |
| Cash dividends declared | | | | (10,844) | | (10,844) |
| Share-based compensation | | | 1,037 | | | 1,037 |
| Exercise of stock options, issuance of other compensation-related equity | 74 | 4 | 789 | | | 793 |
| Shares issued – dividend reinvestment plan | 33 | 2 | 752 | | | 754 |
| Balance at September 30, 2011 | 16,279 | \$1,017 | \$87,467 | \$190,042 | \$6,968 | \$285,494 |

| | Common Shares Outstanding | Common Stock | Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive (Loss) | Total |
|---|---------------------------------|-----------------|--------------------|----------------------|---|-----------|
| Balance at January 1, 2012 | 16,292 | \$1,018 | \$88,030 | \$194,198 | (\$1,895) | \$281,351 |
| Net income | | | | 26,051 | | 26,051 |
| Total other comprehensive loss, net of tax | | | | | (202) | (202) |
| Cash dividends declared | | | | (11,610) | | (11,610) |
| Share-based compensation | | | 1,404 | | | 1,404 |
| Deferred compensation plan | 10 | 1 | 145 | | | |