WASHINGTON TRUST BANCORP INC
Form 10-Q
May 05, 2011

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, 2011 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.
xYes oNo

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (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).
oYes oNo

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
oYes xNo

The number of shares of common stock of the registrant outstanding as of May 2, 2011 was 16,252,884.

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For the Quarter Ended March 31, 2011

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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)

	March 31, 2011	December 31, 2010
Assets:		
Cash and due from banks	$ 68,113	$ 85,971
Other short-term investments	6,296	6,765
Mortgage loans held for sale	2,985	13,894
Securities available for sale, at fair value; amortized cost $560,752 in 2011 and $578,897 in 2010	576,158	594,100
Federal Home Loan Bank stock, at cost	42,008	42,008
Loans:		
Commercial and other	1,056,388	1,027,065
Residential real estate	649,157	645,020
Consumer	324,092	323,553
Total loans	2,029,637	1,995,638
Less allowance for loan losses	29,109	28,583
Net loans	2,000,528	1,967,055
Premises and equipment, net	26,010	26,069
Investment in bank-owned life insurance	52,320	51,844
Goodwill	58,114	58,114
Identifiable intangible assets, net	7,614	7,852
Other assets	52,126	55,853
Total assets	$ 2,892,272	$ 2,909,525
Liabilities:		
Deposits:		
Demand deposits	$ 274,798	$ 228,437
NOW accounts	228,502	241,974
Money market accounts	387,923	396,455
Savings accounts	223,599	220,888
Time deposits	934,024	948,576
Total deposits	2,048,846	2,036,330
Federal Home Loan Bank advances	469,235	498,722
Junior subordinated debentures	32,991	32,991
Other borrowings	21,467	23,359
Other liabilities	45,848	49,259
Total liabilities	2,618,387	2,640,661
Shareholders' Equity:		
Common stock of $.0625 par value; authorized 30,000,000 shares; issued 16,233,587 shares in 2011 and 16,171,618 shares in 2010	1,015	1,011
Paid-in capital	86,348	84,889
Retained earnings	182,136	178,939
Accumulated other comprehensive income	4,386	4,025
Total shareholders' equity	273,885	268,864
Total liabilities and shareholders' equity	$ 2,892,272	$ 2,909,525

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)

Three months ended March 31,		2011	2010
Interest income:			
Interest and fees on loans		$ 24,259	$ 23,968
Interest on securities:	Taxable	4,773	6,051
	Nontaxable	769	769
Dividends on corporate stock and Federal Home Loan Bank stock		67	55
Other interest income		24	21
Total interest income		29,892	30,864
Interest expense:			
Deposits		4,202	5,769
Federal Home Loan Bank advances		4,732	6,219
Junior subordinated debentures		390	630
Other interest expense		241	242
Total interest expense		9,565	12,860
Net interest income		20,327	18,004
Provision for loan losses		1,500	1,500
Net interest income after provision for loan losses		18,827	16,504
Noninterest income:			
Wealth management services:			
Trust and investment advisory fees		5,676	5,017
Mutual fund fees		1,123	1,110
Financial planning, commissions and other service fees		281	179
Wealth management services		7,080	6,306
Service charges on deposit accounts		932	849
Merchant processing fees		1,944	1,606
Card interchange fees		487	389
Income from bank-owned life insurance		476	439
Net gains on loan sales and commissions on loans originated for others		525	560
Net realized loss on securities		(29)	–
Net gains on interest rate swap contracts		76	68
Equity in losses of unconsolidated subsidiaries		(144)	(52)
Other income		383	365
Noninterest income, excluding other-than-temporary impairment losses		11,730	10,530
Total other-than-temporary impairment losses on securities		(54)	(2)
Portion of loss recognized in other comprehensive income (before tax)		21	(61)
Net impairment losses recognized in earnings		(33)	(63)
Total noninterest income		11,697	10,467
Noninterest expense:			
Salaries and employee benefits		11,828	11,501
Net occupancy		1,321	1,224
Equipment		1,049	997
Merchant processing costs		1,669	1,357
Outsourced services		872	840
FDIC deposit insurance costs		723	794
Legal, audit and professional fees		492	518
Advertising and promotion		353	364

Amortization of intangibles			238		291
Foreclosed property costs			166		36
Other expenses			2,029		1,755
Total noninterest expense			20,740		19,677
Income before income taxes			9,784		7,294
Income tax expense			2,984		2,122
Net income		$	6,800	$	5,172
Weighted average common shares outstanding - basic			16,197.2		16,057.7
Weighted average common shares outstanding - diluted			16,229.8		16,063.9
Per share information:	Basic earnings per common share	$	0.42	$	0.32
	Diluted earnings per common share	$	0.42	$	0.32
	Cash dividends declared per share	$	0.22	$	0.21

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 CASH FLOWS
(unaudited)

(Dollars in thousands)

Three months ended March 31,		2011	2010
Cash Flows from Operating Activities:			
Net income		$ 6,800	$ 5,172
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses		1,500	1,500
Depreciation of premises and equipment		767	772
Net amortization of premium and discount		373	102
Net amortization of intangibles		238	291
Share-based compensation		328	177
Earnings from bank-owned life insurance		(476)	(439)
Net gains on loan sales and commissions on loans originated for others		(525)	(560)
Net realized losses on securities		29	–
Net impairment losses recognized in earnings		33	63
Net gains on interest rate swap contracts		(76)	(68)
Equity in losses of unconsolidated subsidiaries		144	52
Proceeds from sales of loans		32,066	36,113
Loans originated for sale		(20,267)	(30,336)
Decrease in other assets		3,073	2,267
Decrease in other liabilities		(3,103)	(708)
Other, net		5	6
Net cash provided by operating activities		20,909	14,404
Cash Flows from Investing Activities:			
Purchases of:	Mortgage-backed securities available for sale	(49,675)	(44,479)
	Other investment securities available for sale	-	(15,000)
Proceeds from sale of:	Mortgage-backed securities available for sale	36,838	-
	Other investment securities available for sale	-	711
Maturities and principal payments of mortgage-backed securities available for sale		30,519	36,184
Net increase in loans		(33,606)	(18,887)
Purchases of loans, including purchased interest		(1,710)	(75)
Proceeds from the sale of property acquired through foreclosure or repossession		251	–
Purchases of premises and equipment		(713)	(621)
Net cash used in investing activities		(18,096)	(42,167)
Cash Flows from Financing Activities:			
Net increase in deposits		12,517	38,178
Net decrease in other borrowings		(1,892)	(698)
Proceeds from Federal Home Loan Bank advances		43,578	15,000

Repayment of Federal Home Loan Bank advances		(73,065)		(44,360)
Issuance of treasury stock, including deferred compensation plan activity		-		35
Net proceeds from the issuance of common stock under dividend reinvestment plan		236		256
Net proceeds from the exercise of stock options and issuance of other compensation-related equity instruments		819		214
Tax benefit from stock option exercises and issuance of other compensation-related equity instruments		81		24
Cash dividends paid		(3,414)		(3,369)
Net cash (used in) provided by financing activities		(21,140)		5,280
Net decrease in cash and cash equivalents		(18,327)		(22,483)
Cash and cash equivalents at beginning of period		92,736		57,260
Cash and cash equivalents at end of period	$	74,409	$	34,777

Noncash Investing and Financing Activities:	Loans charged off	$	1,052	$	1,275
	Net transfer from loans to property acquired through foreclosure or repossession		129		–
	Proceeds due from sale of property acquired through foreclosure or repossession		1,267		–
Supplemental Disclosures:	Interest payments		9,190		12,064
	Income tax (refunds) payments		(584)		3

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

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WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

General
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 owns all of the outstanding common stock of The Washington Trust Company (the "Bank"), a Rhode Island chartered commercial bank founded in 1800. Through its subsidiaries, the Bancorp offers a complete product line of financial services including commercial, residential and consumer lending, retail and commercial deposit products, and wealth management services through its offices in Rhode Island, eastern Massachusetts and southeastern Connecticut.

(1) Basis of Presentation
The consolidated financial statements include the accounts of the Bancorp and its subsidiaries (collectively, the "Corporation" or "Washington Trust"). All significant intercompany transactions have been eliminated. Certain prior year amounts have been reclassified to conform to the current year classification. Such reclassifications have no effect on previously reported net income or shareholders' equity.

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

In the opinion of management, the accompanying consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) and disclosures necessary to present fairly the Corporation's financial position as of March 31, 2011 and December 31, 2010, respectively, and the results of operations and cash flows for the interim periods presented. Interim results are not necessarily reflective of the results of the entire year. 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. The accompanying 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 year ended December 31, 2010.

(2) Recently Issued Accounting Pronouncements
Receivables – Topic 310
Accounting Standards Update No. 2010-20 "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses" ("ASU 2010-20") was issued in July 2010. ASU 2010-20 significantly enhances disclosures that entities must make about the credit quality of financing receivables and the allowance for credit losses. The FASB issued the ASU to give financial statement users greater transparency about entities' credit-risk exposures and the allowance for credit losses. The disclosures provide financial statement users with additional information about the nature of credit risks inherent in entities' financing receivables, how credit risk is analyzed and assessed when determining the allowance for credit losses, and the reasons for the change in the allowance for credit losses. Accounting Standards Update No. 2011-01 "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update 2010-20" ("ASU 2011-01") was issued in January 2011 and delayed the effective date of the ASU 2010-20 disclosures pertaining to troubled debt restructurings. The disclosures required by ASU 2011-01 are effective for interim and annual periods after June 15, 2011. Effective December 31, 2010, we adopted the provisions of ASU 2010-20 requiring end of period disclosures about credit quality of financing receivables and the allowance

for credit losses. ASU 2010-20 provisions encourage, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. The adoption of the remaining provisions of ASU 2010-20 and ASU 2011-11 is not expected to have a material impact on the Corporation's consolidated financial position, results of operations or cash flows.

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Accounting Standards Update No. 2011-02 “A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring” (“ASU 2011-02”) was issued in April 2011. ASU 2011-02 provides additional guidance to assist creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a trouble debt restructuring. ASU 2011-02 will be effective for interim and reporting periods beginning after June 15, 2011 and should be applied retrospectively to the beginning of the 2011 annual period. The adoption of ASU 2011-02 is not expected to have a material impact on the Corporation’s consolidated financial position, results of operations or cash flows.

(3) Cash and Due from Banks

The Bank is required to maintain certain average reserve balances with the Board of Governors of the Federal Reserve System (“FRB”). Such reserve balances amounted to $4.0 million at March 31, 2011 and December 31, 2010 and are included in cash and due from banks in the Consolidated Statements of Condition.

As of March 31, 2011 and December 31, 2010, cash and due from banks included interest-bearing deposits in other banks of $35.0 million and $50.5 million, respectively.

(4) Securities

The amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value of securities by major security type and class of security at March 31, 2011 and December 31, 2010 were as follows:

(Dollars in thousands)

March 31, 2011	Amortized Cost (1)	Unrealized Gains	Unrealized Losses	Fair Value
Securities Available for Sale:				
Obligations of U.S. government-sponsored enterprises	$ 29,408	$ 3,495	$ –	$ 32,903
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	400,471	17,870	(753)	417,588
States and political subdivisions	79,450	2,420	(227)	81,643
Trust preferred securities:				
Individual name issuers	30,610	–	(5,533)	25,077
Collateralized debt obligations	4,428	–	(3,676)	752
Corporate bonds	13,872	1,206	(3)	15,075
Common stocks	659	147	–	806
Perpetual preferred stocks (2)	1,854	460	–	2,314
Total securities available for sale	$ 560,752	$ 25,598	$ (10,192)	$ 576,158

(Dollars in thousands)

December 31, 2010	Amortized Cost (1)	Unrealized Gains	Unrealized Losses	Fair Value
Securities Available for Sale:				
Obligations of U.S. government-sponsored enterprises	$ 36,900	$ 4,094	$ –	$ 40,994
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	411,087	19,068	(384)	429,771
States and political subdivisions	79,455	1,975	(375)	81,055
Trust preferred securities:				
Individual name issuers	30,601	–	(7,326)	23,275

Collateralized debt obligations		4,466		–		(3,660)		806
Corporate bonds		13,874		1,338		–		15,212
Common stocks		660		149		–		809
Perpetual preferred stocks (2)		1,854		324		–		2,178
Total securities available for sale	$	578,897	$	26,948	$	(11,745)	$	594,100

(1) Net of other-than-temporary impairment losses.
(2) Callable at the discretion of the issuer.

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Securities available for sale with a fair value of $521 million and $507 million were pledged in compliance with state regulations concerning trust powers and to secure Treasury Tax and Loan deposits, borrowings, certain public deposits and certain interest rate swap agreements at March 31, 2011 and December 31, 2010, respectively. See Note 7 for additional disclosure regarding Federal Home Loan Bank of Boston ("FHLBB") borrowings. In addition, securities available for sale with a fair value of $22.9 million and $22.0 million were pledged for potential use at the Federal Reserve Bank discount window at March 31, 2011 and December 31, 2010, respectively. There were no borrowings with the Federal Reserve Bank at either date. As of March 31, 2011 and December 31, 2010, securities available for sale with a fair value of $5.1 million and $5.5 million, respectively, were designated in rabbi trusts for nonqualified retirement plans.

The following table presents a roll forward of the balance of credit-related impairment losses on debt securities, for which a portion of an other-than-temporary impairment was recognized in other comprehensive income:

(Dollars in thousands)

Three months ended March 31,	2011	2010
Balance at beginning of period	$ 2,913	$ 2,496
Credit-related impairment loss on debt securities for which an other-than-temporary impairment was not previously recognized	–	–
Additional increases to the amount of credit-related impairment loss on debt securities for which an other-than-temporary impairment was previously recognized	33	63
Balance at end of period	$ 2,946	$ 2,559

For the three months ended March 31, 2011 and 2010, credit-related impairment losses recognized in earnings on pooled trust preferred debt securities totaled $33 thousand and $63 thousand, respectively. The anticipated cash flows expected to be collected from these debt securities were discounted at the rate equal to the yield used to accrete the current and prospective beneficial interest for each security. Significant inputs included estimated cash flows and prospective deferrals, defaults and recoveries. Estimated cash flows are generated based on the underlying seniority status and subordination structure of the pooled trust preferred debt tranche at the time of measurement. Prospective deferral, default and recovery estimates affecting projected cash flows were based on analysis of the underlying financial condition of individual issuers, and took into account capital adequacy, credit quality, lending concentrations, and other factors. All cash flow estimates were based on the underlying security's tranche structure and contractual rate and maturity terms. The present value of the expected cash flows was compared to the current outstanding balance of the tranche to determine the ratio of the estimated present value of expected cash flows to the total current balance for the tranche. This ratio was then multiplied by the principal balance of Washington Trust's holding to determine the credit-related impairment loss. The estimates used in the determination of the present value of the expected cash flows are susceptible to changes in future periods, which could result in additional credit-related impairment losses.

The following table summarizes temporarily impaired securities as of March 31, 2011, 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, 2011	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	7	$ 101,688	$ 753	–	$ –	$ –	7	$ 101,688	$ 753
States and political subdivisions	6	5,706	122	2	1,225	105	8	6,931	227
Trust preferred securities:									
Individual name issuers	–	–	–	11	25,077	5,533	11	25,077	5,533
Collateralized debt obligations	–	–	–	2	752	3,676	2	752	3,676
Corporate bonds	1	604	3	–	–	–	1	604	3
Total temporarily impaired securities	14	$ 107,998	$ 878	15	$ 27,054	$ 9,314	29	$ 135,052	$ 10,192

The following table summarizes temporarily impaired securities as of December 31, 2010, 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		
December 31, 2010	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	6	$ 76,382	$ 369	3	$ 5,208	$ 15	9	$ 81,590	$ 384
States and political subdivisions	15	14,209	273	2	1,228	102	17	15,437	375
Trust preferred securities:									
Individual name issuers	–	–	–	11	23,275	7,326	11	23,275	7,326
Collateralized debt obligations	–	–	–	2	806	3,660	2	806	3,660
Total temporarily impaired securities	21	$ 90,591	$ 642	18	$ 30,517	$ 11,103	39	$ 121,108	$ 11,745

Unrealized losses on debt securities generally occur as a result of increases in interest rates since the time of purchase, a structural change in an investment or from deterioration in credit quality of the issuer. Management evaluates impairments in value whether caused by adverse interest rates or credit movements to determine if they are

other-than-temporary.

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

Mortgage-backed Securities Issued by U.S. Government Agencies and U.S. Government-sponsored Enterprises
The unrealized losses on mortgage-backed securities issued by U.S. government agencies or U.S. government-sponsored enterprises amounted to $753 thousand at March 31, 2011 and were primarily attributable to relative changes in interest rates since the time of purchase. The contractual cash flows for these securities are guaranteed by U.S. government agencies and U.S. government-sponsored enterprises. Based on its assessment of these factors, management believes that the unrealized losses on these debt security holdings are a function of changes

in investment spreads and interest rate movements and not changes in credit quality. Management expects to recover the entire amortized cost basis of these securities. Furthermore, Washington Trust does not intend to sell these securities and it is not more likely than not that Washington Trust will be required to sell these securities before recovery of their cost basis, which may be maturity. Therefore, management does not consider these investments to be other-than-temporarily impaired at March 31, 2011.

Debt Securities Issued by States and Political Subdivisions
The unrealized losses on debt securities issued by states and political subdivisions amounted to $227 thousand at March 31, 2011. The unrealized losses on state and municipal holdings included in this analysis are primarily attributable to an increase in risk premiums for credit-sensitive securities since the time of purchase. Based on its assessment of these factors, management believes that unrealized losses on these debt security holdings are a function of changes in investment spreads and liquidity and not changes in credit quality. Management expects to recover the entire amortized cost basis of these securities. Furthermore, Washington Trust does not intend to sell these securities and it is not more likely than not that Washington Trust will be required to sell these securities before recovery of their cost basis, which may be maturity. Therefore, management does not consider these investments to be other-than-temporarily impaired at March 31, 2011.

Trust Preferred Debt Securities of Individual Name Issuers
Included in debt securities in an unrealized loss position at March 31, 2011 were 11 trust preferred security holdings issued by seven individual companies in the financial services/banking industry. The aggregate unrealized losses on these debt securities amounted to $5.5 million at March 31, 2011. Management believes the decline in fair value of these trust preferred securities primarily reflects investor concerns about global economic growth and how it will affect the recent and potential future losses in the financial services industry. These concerns resulted in increased risk premiums for securities in this sector. Based on the information available through the filing date of this report, all individual name trust preferred debt securities held in our portfolio continue to accrue and make payments as expected with no payment deferrals or defaults on the part of the issuers. As of March 31, 2011, trust preferred debt securities with a carrying value of $9.2 million and unrealized losses of $2.6 million were rated below investment grade by Standard & Poors, Inc. ("S&P"). Management reviewed the collectibility of these securities taking into consideration such factors as the financial condition of the issuers, reported regulatory capital ratios of the issuers, credit ratings including ratings in effect as of the reporting period date as well as credit rating changes between the reporting period date and the filing date of this report and other information. We noted no additional downgrades to below investment grade between the reporting period date and the filing date of this report. Based on these analyses, management concluded that it expects to recover the entire amortized cost basis of these securities. Furthermore, Washington Trust does not intend to sell these securities and it is not more likely than not that Washington Trust will be required to sell these securities before recovery of their cost basis, which may be maturity. Therefore, management does not consider these investments to be other-than-temporarily impaired at March 31, 2011.

Trust Preferred Debt Securities in the Form of Collateralized Debt Obligations
Washington Trust has two pooled trust preferred holdings in the form of collateralized debt obligations with a total amortized cost of $4.4 million and aggregate unrealized losses of $3.7 million at March 31, 2011. These pooled trust preferred holdings consist of trust preferred obligations of banking industry companies and, to a lesser extent, insurance industry companies. For both of these pooled trust preferred securities, Washington Trust's investment is senior to one or more subordinated tranches which have first loss exposure. Valuations of the pooled trust preferred holdings are dependent in part on cash flows from underlying issuers. Unexpected cash flow disruptions could have an adverse impact on the fair value and performance of pooled trust preferred securities. Management believes the unrealized losses on these pooled trust preferred securities primarily reflect investor concerns about global economic

growth and how it will affect the recent and potential future losses in the financial services industry and the possibility of further incremental deferrals of or defaults on interest payments on trust preferred debentures by financial institutions participating in these pools. These concerns have resulted in a substantial decrease in market liquidity and increased risk premiums for securities in this sector. Credit spreads for issuers in this sector have remained wide during recent months, causing prices for these securities holdings to remain at low levels.

As of March 31, 2011, one of the pooled trust preferred securities had an amortized cost of $3.2 million. This amortized cost was net of $1.7 million of credit-related impairment losses previously recognized in earnings reflective of payment deferrals and credit deterioration of the underlying collateral. This security was placed on nonaccrual

status in March 2009. The tranche instrument held by Washington Trust has been deferring a portion of interest payments since April 2010. As of March 31, 2011, this security has unrealized losses of $2.5 million and a below investment grade rating of "Ca" by Moody's Investors Service Inc. ("Moody's"). Through the filing date of this report, there have been no further rating changes on this security. This credit rating status has been considered by management in its assessment of the impairment status of this security. During the first quarter of 2011, a modest adverse change occurred in the expected cash flows for this security and additional credit-related impairment losses of $13 thousand were recognized in earnings.

As of March 31, 2011, the second pooled trust preferred security held by Washington Trust had an amortized cost of $1.3 million. This amortized cost was net of $1.2 million of credit-related impairment losses previously recognized in earnings reflective of payment deferrals and credit deterioration of the underlying collateral. This security was placed on nonaccrual status in December 2008. The tranche instrument held by Washington Trust has been deferring interest payments since December 2008. As of March 31, 2011, this security has unrealized losses of $1.1 million and a below investment grade rating of "C" by Moody's. Through the filing date of this report, there have been no further rating changes on this security. This credit rating status has been considered by management in its assessment of the impairment status of this security. During the first quarter of 2011, a modest adverse change occurred in the expected cash flows for this security and additional credit-related impairment losses of $20 thousand were recognized in earnings.

Based on information available through the filing date of this report, there have been no further adverse changes in the deferral or default status of the underlying issuer institutions within either of these trust preferred collateralized debt obligations. Based on cash flow forecasts for these securities, management expects to recover the remaining amortized cost of these securities. Furthermore, Washington Trust does not intend to sell these securities and it is not more likely than not that Washington Trust will be required to sell these securities before recovery of their cost basis, which may be at maturity. Therefore, management does not consider the unrealized losses on these investments to be other-than-temporary.

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As of March 31, 2011, the amortized cost of debt securities by maturity is presented below. Mortgage-backed securities are included based on weighted average maturities, adjusted for anticipated prepayments. All other securities are included based on contractual maturities. Actual maturities may differ from amounts presented because certain issuers have the right to call or prepay obligations with or without call or prepayment penalties. Yields on tax exempt obligations are not computed on a tax equivalent basis. Included in the securities portfolio at March 31, 2011 were debt securities with an amortized cost balance of $101 million and a fair value of $93 million that are callable at the discretion of the issuers. Final maturities of the callable securities range from five to twenty-six years, with call features ranging from one month to six years.

(Dollars in thousands)	Due in 1 Year or Less	After 1 Year but within 5 Years	After 5 Years but within 10 Years	After 10 Years	Totals
Securities Available for Sale:					
Obligations of U.S. government-sponsored enterprises:					
Amortized cost	$ –	$ 29,408	$ –	$ –	$ 29,408
Weighted average yield	– %	5.41 %	– %	– %	5.41 %
Mortgage-backed securities issued by U.S. government agencies & U.S. government-sponsored enterprises:					
Amortized cost	93,731	200,991	82,852	22,897	400,471
Weighted average yield	4.59 %	4.28 %	2.78 %	2.61 %	3.95 %
State and political subdivisions:					
Amortized cost	8,094	42,862	28,494	–	79,450
Weighted average yield	3.90 %	3.84 %	3.96 %	– %	3.89 %
Trust preferred securities:					
Amortized cost (1)	–	–	–	35,038	35,038
Weighted average yield	– %	– %	– %	1.53 %	1.53 %
Corporate bonds:					
Amortized cost	4,990	8,882	–	–	13,872
Weighted average yield	6.50 %	6.30 %	– %	– %	6.37 %
Total debt securities:					
Amortized cost	$ 106,815	$ 282,143	$ 111,346	$ 57,935	$ 558,239
Weighted average yield	4.63 %	4.39 %	3.08 %	1.95 %	3.92 %
Fair value	$ 108,165	$ 290,285	$ 115,674	$ 58,914	$ 573,038

(1) Net of other-than-temporary impairment losses.

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WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES (Continued)
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(5) Loans
The following is a summary of loans:

(Dollars in thousands)	March 31, 2011		December 31, 2010	
	Amount	%	Amount	%
Commercial:				
Mortgages (1)	$ 551,069	27 %	$ 518,623	26 %
Construction and development (2)	34,615	2	47,335	2
Other (3)	470,704	23	461,107	23
Total commercial	1,056,388	52	1,027,065	51
Residential real estate:				
Mortgages (4)	636,916	31	634,739	31
Homeowner construction	12,241	1	10,281	1
Total residential real estate	649,157	32	645,020	32
Consumer:				
Home equity lines (5)	221,003	11	218,288	11
Home equity loans (5)	48,337	2	50,624	3
Other (6)	54,752	3	54,641	3
Total consumer	324,092	16	323,553	17
Total loans (7)	$ 2,029,637	100%	$ 1,995,638	100%

(1) Amortizing mortgages and lines of credit, primarily secured by income producing property. As of March 31, 2011 and December 31, 2010, $118 million and $122 million, respectively, of these loans were pledged as collateral for FHLBB borrowings (see Note 7).
(2) Loans for construction of residential and commercial properties and for land development.
(3) Loans to businesses and individuals, a substantial portion of which are fully or partially collateralized by real estate. As of March 31, 2011, $29 million and $59 million, respectively, of these loans were pledged as collateral for FHLBB borrowings and were collateralized for the discount window at the Federal Reserve Bank. Comparable amounts for December 31, 2010 were $30 million and $61 million, respectively (see Note 7).
(4) A substantial portion of these loans was pledged as collateral for FHLBB borrowings (see Note 7).
(5) A significant portion of these loans was pledged as collateral for FHLBB borrowings (see Note 7).
(6) Fixed rate consumer installment loans.
(7) Includes unamortized loan origination costs, net of fees, totaling $293 thousand and $271 thousand at March 31, 2011 and December 31, 2010, respectively. Also includes $15 thousand and $39 thousand of net premiums on purchased loans at March 31, 2011 and December 31, 2010, respectively.

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Nonaccrual Loans

Loans, with the exception of certain well-secured residential mortgage 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 residential mortgage loans are permitted to remain on accrual status provided that full collection of principal and interest is assured and the loan is in the process of collection. Loans are also placed on nonaccrual status when, in the opinion of management, full collection of principal and interest is doubtful. Interest previously accrued but not collected on such loans is reversed against current period income. Subsequent cash receipts 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, as of the dates indicated:

(Dollars in thousands)		March 31, 2011		December 31, 2010
Commercial:				
Mortgages	$	6,068	$	6,624
Construction and development		–		–
Other		4,445		5,259
Residential real estate:				
Mortgages		8,265		6,414
Homeowner construction		–		–
Consumer:				
Home equity lines		272		152
Home equity loans		294		53
Other		35		8
Total nonaccrual loans	$	19,379	$	18,510
Accruing loans 90 days or more past due	$	–	$	–

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Past Due Loans

The following tables present an age analysis of past due loans, segregated by class of loans, as of the dates indicated:

(Dollars in thousands)	Days Past Due					
March 31, 2011	30-59	60-89	Over 90	Total Past Due	Current	Total Loans
Commercial:						
Mortgages	$ 3,223	$ 1,626	$ 5,242	$ 10,091	$ 540,978	$ 551,069
Construction and development	–	–	–	–	34,615	34,615
Other	2,474	315	2,524	5,313	465,391	470,704
Residential real estate:						
Mortgages	2,986	1,345	5,165	9,496	627,420	636,916
Homeowner construction	–	–	–	–	12,241	12,241
Consumer:						
Home equity lines	1,062	238	120	1,420	219,583	221,003
Home equity loans	598	–	170	768	47,569	48,337
Other	75	97	27	199	54,553	54,752
Total loans	$ 10,418	$ 3,621	$ 13,248	$ 27,287	$ 2,002,350	$ 2,029,637

(Dollars in thousands)	Days Past Due					
December 31, 2010	30-59	60-89	Over 90	Total Past Due	Current	Total Loans
Commercial:						
Mortgages	$ 2,185	$ 514	$ 5,322	$ 8,021	$ 510,602	$ 518,623
Construction and development	–	–	–	–	47,335	47,335
Other	1,862	953	3,376	6,191	454,916	461,107
Residential real estate:						
Mortgages	3,073	1,477	4,041	8,591	626,148	634,739
Homeowner construction	–	–	–	–	10,281	10,281
Consumer:						
Home equity lines	1,255	170	–	1,425	216,863	218,288
Home equity loans	529	180	11	720	49,904	50,624
Other	221	98	–	319	54,322	54,641
Total loans	$ 9,125	$ 3,392	$ 12,750	$ 25,267	$ 1,970,371	$ 1,995,638

Included in past due loans as of March 31, 2011 and December 31, 2010, were nonaccrual loans of $16.5 million and $14.9 million, respectively.

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Impaired Loans

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

(Dollars in thousands)	Recorded Investment (1)		Unpaid Principal		Related Allowance	
	Mar. 31, 2011	Dec. 31, 2010	Mar. 31, 2011	Dec. 31, 2010	Mar. 31, 2011	Dec. 31, 2010
No Related Allowance Recorded:						
Commercial:						
Mortgages	$ 1,772	$ 3,113	$ 1,768	$ 3,128	$ –	$ –
Construction and development	–	–	–	–	–	–
Other	2,453	3,237	2,579	3,834	–	–
Residential real estate:						
Mortgages	2,149	928	2,230	937	–	–
Homeowner construction	–	–	–	–	–	–
Consumer:						
Home equity lines	–	–	–	–	–	–
Home equity loans	159	163	159	159	–	–
Other	–	–	–	–	–	–
Subtotal	$ 6,533	$ 7,441	$ 6,736	$ 8,058	$ –	$ –
With Related Allowance Recorded:						
Commercial:						
Mortgages	$ 14,418	$ 15,287	$ 15,422	$ 15,930	$ 546	$ 629
Construction and development	–	–	–	–	–	–
Other	6,636	6,632	9,119	9,311	774	1,245
Residential real estate:						
Mortgages	3,742	3,773	4,004	3,971	337	258
Homeowner construction	–	–	–	–	–	–
Consumer:						
Home equity lines	105	105	172	172	1	1
Home equity loans	260	307	281	330	1	4
Other	258	145	259	143	2	–
Subtotal	$ 25,419	$ 26,249	$ 29,257	$ 29,857	$ 1,661	$ 2,137
Total impaired loans	$ 31,952	$ 33,690	$ 35,993	$ 37,915	$ 1,661	$ 2,137
Total:						
Commercial	$ 25,279	$ 28,269	$ 28,888	$ 32,203	$ 1,320	$ 1,874

Residential real estate	5,891	4,701	6,234	4,908	337	258
Consumer	782	720	871	804	4	5
Total impaired loans	$ 31,952	$ 33,690	$ 35,993	$ 37,915	$ 1,661	$ 2,137

(1) The recorded investment in impaired loans consists of unpaid principal balance, net of charge-offs, interest payments received applied to principal and unamortized deferred loan origination fees and costs. For impaired accruing loans (those troubled debt restructurings for which management has concluded that the collectibility of the loan is not in doubt), the recorded investment also includes accrued interest. As of March 31, 2011 and December 31, 2010, recorded investment in impaired loans included accrued interest of $58 thousand and $62 thousand, respectively.

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WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES (Continued)
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The following table presents the average recorded investment and interest income recognized on impaired loans segregated by loan class for the period indicated:

(Dollars in thousands)	Average Recorded Investment		Interest Income Recognized	
Three months ended March 31,	2011	2010	2011	2010
Commercial:				
Mortgages	$ 18,150	$ 16,653	$ 173	$ 169
Construction and development	–	–	–	–
Other	11,480	9,796	94	66
Residential real estate:				
Mortgages	5,028	4,369	44	52
Homeowner construction	–	–	–	–
Consumer:				
Home equity lines	105	303	1	3
Home equity loans	459	620	6	12
Other	201	210	4	4
Totals	$ 35,423	$ 31,951	$ 322	$ 306

At March 31, 2011, there were no significant commitments to lend additional funds to borrowers whose loans were on nonaccrual status or had been restructured.

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, and the adequacy of collateral. As of March 31, 2011 and December 31, 2010, the weighted average risk rating of the Corporation's commercial loan portfolio was 5.00 and 5.01, respectively.

For non-impaired loans, the Corporation assigns a loss allocation factor to each loan, based on its risk rating for purposes of establishing an appropriate allowance for loan losses. See Note 6 for additional information.

A description of the commercial loan categories are 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, 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 in nonaccrual status when management determines there

WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES (Continued)
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

is uncertainty of collectibility. A “doubtful” loan is placed on non-accrual status and may be dependent 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 following table presents the commercial loan portfolio, segregated by category of credit quality indicator:

(Dollars in thousands)

	Pass		Special Mention		Classified	
	Mar. 31, 2011	Dec. 31, 2010	Mar. 31, 2011	Dec. 31, 2010	Mar. 31, 2011	Dec. 31, 2010
Mortgages	$ 520,656	$ 485,668	$ 13,914	$ 16,367	$ 16,499	$ 16,588
Construction and development	30,307	43,119	4,308	4,216	–	–
Other	437,063	425,522	23,632	28,131	10,009	7,454
Total commercial loans	$ 988,026	$ 954,309	$ 41,854	$ 48,714	$ 26,508	$ 24,042

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

Residential and Consumer
The residential and consumer portfolios are monitored on an ongoing basis by the Corporation using delinquency information and loan type as credit quality indicators. These credit quality indicators are assessed on an aggregate basis in these relatively homogenous portfolios. The following table presents the residential and consumer loan portfolios, segregated by category of credit quality indicator:

(Dollars in thousands)	Under 90 Days Past Due		Over 90 Days Past Due	
	Mar. 31, 2011	Dec. 31, 2010	Mar. 31, 2011	Dec. 31, 2010
Residential Real Estate:				
Accruing mortgages	$ 628,651	$ 628,325	$ –	$ –
Nonaccrual mortgages	3,100	2,373	5,165	4,041
Homeowner construction	12,241	10,281	–	–
Total residential real estate loans	$ 643,992	$ 640,979	$ 5,165	$ 4,041
Consumer:				
Home equity lines	$ 220,883	$ 218,288	$ 120	$ –
Home equity loans	48,167	50,613	170	11

Other	54,725	54,641	27	–
Total consumer loans	$ 323,775	$ 323,542	$ 317	$ 11

For non-impaired loans, the Corporation assigns loss allocation factors to each respective loan type and delinquency status. See Note 6 for additional information.

Various other techniques are utilized to monitor indicators of credit deterioration in the portfolios of residential real estate mortgages and home equity lines and loans. Among these techniques is the periodic tracking of loans with an updated FICO score and an estimated loan to value ("LTV") ratio. LTV is determined via statistical modeling analyses. The indicated LTV levels are estimated based on such factors as the location, the original LTV, and the date

of origination of the loan and do not reflect actual appraisal amounts. The results of these analyses are taken into consideration in the determination of loss allocation factors for residential mortgage and home equity consumer credits. See Note 6 for additional information.

(6) Allowance for Loan Losses
The allowance for loan losses is management's best estimate of inherent risk of loss in the loan portfolio as of the balance sheet date. The allowance is increased by provisions charged to earnings and by recoveries of amounts previously charged off, and is reduced by charge-offs on loans. The Corporation uses a methodology to systematically measure the amount of estimated loan loss exposure inherent in the loan portfolio for purposes of establishing a sufficient allowance for loan losses. The methodology includes three elements: (1) identification of loss allocations for individual loans deemed to be impaired, (2) loss allocation factors for non-impaired loans based on credit grade, loss experience, delinquency factors and other similar economic indicators, and (3) general loss allocations for other environmental factors, which is classified as “unallocated”.

Periodic assessments and revisions to the loss allocation factors used in the assignment of loss exposure are made to appropriately reflect the analysis of migrational loss experience. The Corporation analyzes historical loss experience in the various portfolios over periods deemed to be relevant to the inherent risk of loss in the respective portfolios as of the balance sheet date. The Corporation adjusts the loss allocations for various factors it believes are not adequately presented in historical loss experience including trends in real estate values, continued weakness in general economic conditions, changes in unemployment levels, our assessments of credit risk associated with industry concentrations and an ongoing trend toward larger credit relationships and changes in asset quality. These factors are also evaluated taking into account the geographic location of the underlying loans. Revisions to loss allocation factors are not retroactively applied.

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

Loss allocation factors are used for non-impaired loans based on credit grade, loss experience, delinquency factors and other similar credit quality indicators. Individual commercial loans and commercial mortgage loans not deemed to be impaired are evaluated using the internal rating system described in Note 5 under the caption “Credit Quality Indicators” and the application of loss allocation factors. The loan rating system and the related loss allocation factors take into consideration parameters including the borrower's financial condition, the borrower's performance with respect to loan terms, and the adequacy of collateral. Portfolios of more homogenous populations of loans including residential mortgages and consumer loans are analyzed as groups taking into account delinquency ratios and other indicators and our historical loss experience for each type of credit product.

An additional unallocated allowance is maintained based on a judgmental process whereby management considers qualitative and quantitative assessments of other environmental factors, including, but not limited to, portfolio composition; regional concentration; trends in and severity of credit quality metrics; economic trends and business conditions; conditions that may affect the collateral position such as environmental matters, tax liens, and regulatory changes affecting the foreclosure process; and conditions that may affect the ability of borrowers to meet debt service requirements.

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

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The following is an analysis of activity in the allowance for loan losses for the three months ended March 31, 2011:

(Dollars in thousands)

	Commercial							
	Mortgages	Construction	Other	Total Commercial	Residential	Consumer	Un-allocated	Total
Beginning Balance	$ 7,330	$ 723	$ 6,495	$ 14,548	$ 4,129	$ 1,903	$ 8,003	$ 28,583
Charge-offs	(335)	–	(578)	(913)	(119)	(20)	–	(1,052)
Recoveries	2	–	70	72	1	5	–	78
Provision	603	(191)	269	681	794	158	(133)	1,500
Ending Balance	$ 7,600	$ 532	$ 6,256	$ 14,388	$ 4,805	$ 2,046	$ 7,870	$ 29,109

The following table presents an analysis of the activity in the allowance for loan losses for the period indicated:

(Dollars in thousands)

Three months ended March 31,		2010
Beginning Balance		$ 27,400
Charge-offs:		
Commercial:	Mortgages	(493)
	Other	(535)
Residential real estate mortgages		(171)
Consumer		(76)
Total charge-offs		(1,275)
Recoveries:		
Commercial:	Mortgages	2
	Other	27
Residential real estate mortgages		50
Consumer		7
Total recoveries		86
Net charge-offs		(1,189)
Provision charged to expense		1,500
Ending Balance		$ 27,711

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WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES (Continued)
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The following table presents the Corporation's loan portfolio and associated allowance for loan loss at March 31, 2011 and December 31, 2010 by portfolio segment and disaggregated on the basis of the Corporation's impairment methodology.

(Dollars in thousands)	March 31, 2011		December 31, 2010	
	Loans	Related Allowance	Loans	Related Allowance
Loans Individually Evaluated for Impairment:				
Commercial:				
Mortgages	$ 16,140	$ 546	$ 18,360	$ 629
Construction & development	–	–	–	–
Other	9,074	774	9,854	1,245
Residential real estate mortgages	5,898	337	4,699	258
Consumer	782	4	715	5
Subtotal	$ 31,984	$ 1,661	$ 33,628	$ 2,137
Loans Collectively Evaluated for Impairment:				
Commercial:				
Mortgages	$ 534,929	$ 7,054	$ 500,263	$ 6,701
Construction & development	34,615	532	47,335	723
Other	461,630	5,482	451,253	5,250
Residential real estate mortgages	643,259	4,468	640,321	3,871
Consumer	323,310	2,042	322,838	1,898
Subtotal	$ 1,997,743	$ 19,578	$ 1,962,010	$ 18,443
Unallocated	–	7,870	–	8,003
Total	$ 2,029,637	$ 29,109	$ 1,995,638	$ 28,583

(7) Borrowings

Federal Home Loan Bank Advances

Advances payable to the FHLBB amounted to $469 million at March 31, 2011 and $499 million at December 31, 2010.

In addition to the outstanding advances, the Bank also has access to an unused line of credit with the FHLBB amounting to $8.0 million at March 31, 2011. Under agreement with the FHLBB, the Bank is required to maintain qualified collateral, free and clear of liens, pledges, or encumbrances that, based on certain percentages of book and fair values, has a value equal to the aggregate amount of the line of credit and outstanding advances. The FHLBB maintains a security interest in various assets of the Corporation including, but not limited to, residential mortgage loans, commercial mortgages and other commercial loans, U.S. government agency securities, U.S. government-sponsored enterprise securities, and amounts maintained on deposit at the FHLBB. The Corporation maintained qualified collateral in excess of the amount required to collateralize the line of credit and outstanding advances at March 31, 2011. Included in the collateral were securities available for sale with a fair value of

$281.5 million and $273.7 million that were specifically pledged to secure FHLBB borrowings at March 31, 2011 and December 31, 2010, respectively. See Note 5 for discussion on loans pledged as collateral for FHLBB borrowings. Unless there is an event of default under the agreement, the Corporation may use, encumber or dispose any portion of the collateral in excess of the amount required to secure FHLBB borrowings, except for that collateral which has been specifically pledged.

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(8) Shareholders' Equity

Regulatory Capital Requirements

The following table presents the Corporation's and the Bank's actual capital amounts and ratios at March 31, 2011 and December 31, 2010, as well as the corresponding minimum and well capitalized regulatory amounts and ratios:

(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, 2011:						
Total Capital (to Risk-Weighted Assets):						
Corporation	$ 264,246	12.92 %	$ 163,612	8.00 %	$ 204,515	10.00 %
Bank	$ 260,407	12.75 %	$ 163,421	8.00 %	$ 204,276	10.00 %
Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	$ 238,361	11.65 %	$ 81,806	4.00 %	$ 122,709	6.00 %
Bank	$ 234,551	11.48 %	$ 81,710	4.00 %	$ 122,565	6.00 %
Tier 1 Capital (to Average Assets): (1)						
Corporation	$ 238,361	8.49 %	$ 112,242	4.00 %	$ 140,302	5.00 %
Bank	$ 234,551	8.37 %	$ 112,081	4.00 %	$ 140.101	5.00 %
December 31, 2010:						
Total Capital (to Risk-Weighted Assets):						
Corporation	$ 259,122	12.79 %	$ 162,083	8.00 %	$ 202,603	10.00 %
Bank	$ 255,078	12.61 %	$ 161,878	8.00 %	$ 202,347	10.00 %
Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	$ 233,540	11.53 %	$ 81,041	4.00 %	$ 121,562	6.00 %
Bank	$ 229,528	11.34 %	$ 80,939	4.00 %	$ 121,408	6.00 %
Tier 1 Capital (to Average Assets): (1)						
Corporation	$ 233,540	8.25 %	$ 113,188	4.00 %	$ 141,485	5.00 %
Bank	$ 229,528	8.12 %	$ 113,001	4.00 %	$ 141,252	5.00 %

(1) Leverage ratio

(9) Financial Instruments with Off-Balance Sheet Risk and Derivative Financial Instruments

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to manage the Corporation's exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby letters of credit, equity commitments to affordable housing partnerships, interest rate swap agreements and commitments to originate and commitments to sell fixed rate mortgage loans. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the Corporation's Consolidated Balance Sheets. The contract or notional amounts of these

instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments. The Corporation's credit policies with respect to interest rate swap agreements with commercial borrowers, commitments to extend credit, and financial guarantees are similar to those used for loans. The interest rate swaps with other counterparties are generally subject to bilateral collateralization terms. The contractual and notional amounts of financial instruments with off-balance sheet risk are as follows:

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(Dollars in thousands)	Mar. 31, 2011	Dec. 31, 2010
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit:		
Commercial loans	$ 167,176	$ 176,436
Home equity lines	181,472	182,260
Other loans	26,980	23,971
Standby letters of credit	9,567	9,510
Equity commitments to affordable housing partnerships	449	449
Financial instruments whose notional amounts exceed the amount of credit risk:		
Forward loan commitments:		
Commitments to originate fixed rate mortgage loans to be sold	8,048	10,893
Commitments to sell fixed rate mortgage loans	10,783	24,901
Customer related derivative contracts:		
Interest rate swaps with customers	62,518	59,749
Mirror swaps with counterparties	62,518	59,749
Interest rate risk management contracts:		
Interest rate swap contracts	32,991	32,991

Commitments to Extend Credit

Commitments to extend credit are agreements to lend to a customer as long as there are no violations of any conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each borrower's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained is based on management's credit evaluation of the borrower.

Standby Letters of Credit

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Under a standby letter of credit, the Corporation is required to make payments to the beneficiary of the letter of credit upon request by the beneficiary contingent upon the customer's failure to perform under the terms of the underlying contract with the beneficiary. Standby letters of credit extend up to five years. At March 31, 2011 and December 31, 2010, the maximum potential amount of undiscounted future payments, not reduced by amounts that may be recovered, totaled $9.6 million and $9.5 million, respectively. At March 31, 2011 and December 31, 2010, there was no liability to beneficiaries resulting from standby letters of credit. Fee income on standby letters of credit for the three months ended March 31, 2011 and 2010 $64 thousand and $20 thousand, respectively.

At March 31, 2011 and December 31, 2010, a substantial portion of the standby letters of credit was supported by pledged collateral. The collateral obtained is determined based on management's credit evaluation of the customer. Should the Corporation be required to make payments to the beneficiary, repayment from the customer to the Corporation is required.

Equity Commitments

Equity commitments to affordable housing partnerships represent funding commitments by Washington Trust to two limited partnerships. These partnerships were created for the purpose of renovating and operating two low-income housing projects. The funding of these commitments is generally contingent upon substantial completion of the projects.

Forward Loan Commitments

Interest rate lock commitments are extended to borrowers that relate to the origination of readily marketable mortgage loans held for sale. To mitigate the interest rate risk inherent in these rate locks, as well as closed mortgage loans held for sale, best efforts forward commitments are established to sell individual mortgage loans. Commitments to originate and commitments to sell fixed rate mortgage loans are derivative financial instruments and, therefore, changes in fair value of these commitments are recognized in earnings.

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Interest Rate Risk Management Agreements

Interest rate swaps are used from time to time as part of the Corporation's interest rate risk management strategy. 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. The credit risk associated with swap 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.

At of March 31, 2011 and December 31, 2010, the Bancorp had two interest rate swap contracts designated as cash flow hedges to hedge the interest rate associated with $33 million of variable rate junior subordinated debenture.

The effective portion of the changes in fair value of derivatives designated as cash flow hedges is recorded in other comprehensive income and subsequently reclassified to earnings when gains or losses are realized. The ineffective portion of changes in fair value of the derivatives is recognized directly in earnings as interest expense.

The Bancorp pledged collateral to derivative counterparties in the form of cash totaling $1.2 million and $1.9 million as of March 31, 2011 and December 31, 2010, respectively. The Bancorp may need to post additional collateral in the future in proportion to potential increases in unrealized loss positions.

The Bank 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 floating 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 floating rate loan payments. We retain the risk that is associated with the potential failure of counterparties and inherent in making loans. At March 31, 2011 and December 31, 2010, Washington Trust had interest rate swap contracts with commercial loan borrowers with notional amounts of $62.5 million and $59.7 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.

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

(Dollars in thousands)	Asset Derivatives			Liability Derivatives		
		Fair Value			Fair Value	
	Balance Sheet Location	Mar. 31, 2011	Dec. 31, 2010	Balance Sheet Location	Mar. 31, 2011	Dec. 31, 2010
Derivatives Designated as Cash Flow Hedging Instruments:						
Interest rate risk management contracts:						
Interest rate swap contracts		$ –	$ –	Other liabilities	$ 833	$ 1,098
Derivatives not Designated as Hedging Instruments:						

Forward loan commitments:						
Commitments to originate fixed rate mortgage loans to be sold	Other assets	28	31	Other liabilities	46	135
Commitments to sell fixed rate mortgage loans	Other assets	48	571	Other liabilities	57	32
Customer related derivative contracts:						
Interest rate swaps with customers	Other assets	3,142	3,690		–	–
Mirror swaps with counterparties		–	–	Other liabilities	3,228	3,806
Total		$ 3,218	$ 4,292		$ 4,164	$ 5,071

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WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES (Continued)
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following tables present the effect of derivative instruments in the Corporations' Consolidated Statements of Income and Changes in Shareholders' Equity for the periods indicated:

(Dollars in thousands)	Gain (Loss) Recognized in Other Comprehensive Income (Effective Portion)		Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)	
Three months ended March 31,	2011	2010		2011	2010
Derivatives in Cash Flow Hedging Relationships:					
Interest rate risk management contracts:					
Interest rate swap contracts	$172	$7	Interest Expense	$ –	$(78)
Total	$172	$7		$ –	$(78)

(Dollars in thousands)	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative	
Three months ended March 31,		2011	2010
Derivatives not Designated as Hedging Instruments:			
Forward loan commitments:			
Commitments to originate fixed rate mortgage loans to be sold	Net gains on loan sales & commissions on loans originated for others	$ 86	$ 149
Commitments to sell fixed rate mortgage loans	Net gains on loan sales & commissions on loans originated for others	(548)	(293)
Customer related derivative contracts:			
Interest rate swaps with customers	Net gains (losses) on interest rate swaps	(96)	1,107
Mirror swaps with counterparties	Net gains (losses) on interest rate swaps	172	(1,039)
Total		$ (386)	$ (76)

(10) Fair Value Measurements

The Corporation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available for sale and derivatives are recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, 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.

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Determination of Fair Value
Fair values are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When available, the Corporation uses quoted market prices to determine fair value. If quoted prices are not available, fair value is based upon valuation techniques such as matrix pricing or other models that use, where possible, current market-based or independently sourced market parameters, such as interest rates. If observable market-based inputs are not available, the Corporation uses unobservable inputs to determine appropriate valuation adjustments using methodologies applied consistently over time.

The following is a description of valuation methodologies for assets and liabilities recorded at fair value, including the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Items Measured at Fair Value on a Recurring Basis
Securities Available for Sale
Securities available for sale are recorded at fair value on a recurring basis. When available, the Corporation uses quoted market prices to determine the fair value of securities; such items are classified as Level 1. This category includes exchange-traded equity securities.

Level 2 securities include debt securities with quoted prices, which are traded less frequently than exchange-traded instruments, whose value 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 generally includes obligations of U.S. government-sponsored enterprises, mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises, municipal bonds, trust preferred securities, corporate bonds and certain preferred equity securities.

In certain cases where there is limited activity or less transparency around inputs to the valuation, securities may be classified as Level 3. As of March 31, 2011 and December 31, 2010, Level 3 securities were comprised of two pooled trust preferred debt securities, in the form of collateralized debt obligations, which were not actively traded. As of March 31, 2011 and December 31, 2010, the Corporation concluded that the low level of activity for its Level 3 pooled trust preferred debt securities continued to indicate that quoted market prices are not indicative of fair value. The Corporation obtained valuations including broker quotes and cash flow scenario analyses prepared by a third party valuation consultant. The fair values were assigned a weighting that was dependent upon the methods used to calculate the prices. The cash flow scenarios (Level 3) were given substantially more weight than the broker quotes (Level 2) as management believed that the broker quotes reflected highly limited sales evidenced by an inactive market. Pricing information from one broker at March 31, 2011 was excluded from our valuation analysis. We were unable to verify the factors used in determining the prices for both pooled trust preferred debt securities and found the pricing to be significantly above the range of price indications provided by other pricing sources. The cash flow scenarios were prepared using discounted cash flow methodologies based on detailed cash flow and credit analysis of the pooled securities. The weighting was then used to determine an overall fair value of the securities. Management believes that this approach is most representative of fair value for these particular securities in current market conditions.

Our internal review procedures have confirmed that the fair values provided by the aforementioned third party valuation sources utilized by the Corporation are consistent with GAAP. Our fair values assumed liquidation in an orderly market and not under distressed circumstances. Due to the continued market illiquidity and credit risk for securities in the financial sector, the fair value of these securities is highly sensitive to assumption changes and market

volatility.

Derivatives

Substantially all of our derivatives 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 and, accordingly, are classified as Level 2. Examples include interest rate swap contracts. Our internal review procedures have confirmed that the fair values determined with independent pricing models and utilized by the Corporation are consistent with GAAP. Any derivative for which we measure fair value using significant assumptions that are unobservable are classified as Level 3. Level 3 derivatives include commitments to sell fixed rate residential mortgages and interest rate lock

commitments written for our residential mortgage loans that we intend to sell. The valuation of these items is determined by management based on internal calculations using external market inputs.

For purposes of potential valuation adjustments to its interest rate swap contracts, the Corporation evaluates the credit risk of its counterparties as well as that of the Corporation. Accordingly, Washington Trust considers factors such as the likelihood of default by the Corporation and its counterparties, its net exposures and remaining contractual life, among other factors, 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.

Items Measured at Fair Value on a Nonrecurring Basis

Mortgage Loans Held for Sale

Mortgage loans held for sale are carried on an aggregate basis at the lower of cost or fair value. The fair value of loans held for sale is based on what secondary markets are currently offering for loans with similar characteristics. As such, we classify loans subjected to nonrecurring fair value adjustments as Level 2.

Collateral Dependent Impaired Loans

Collateral dependent loans that are deemed to be impaired are valued based upon the fair value of the underlying collateral less costs to sell. Such collateral primarily consists of real estate and, to a lesser extent, other business assets. Management adjusts 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.

Loan Servicing Rights

Loan servicing rights do not trade in an active market with readily observable prices. Accordingly, we determine the fair value of loan servicing rights using a valuation model that calculates the present value of the estimated future net servicing income. The model incorporates assumptions used in estimating future net servicing income, including estimates of prepayment speeds, discount rate, cost to service and contractual servicing fee income. Loan servicing rights are subject to fair value measurements on a nonrecurring basis. Fair value measurements of our loan servicing rights use significant unobservable inputs and, accordingly, are classified as Level 3.

Property Acquired Through Foreclosure or Repossession

Property acquired through foreclosure or repossession is adjusted to fair value less costs to sell upon transfer out of loans. Subsequently, it is carried at the lower of carrying value or fair value less costs to sell. Fair value is generally based upon independent market prices or appraised values of the collateral. Management adjusts 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.

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WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES (Continued)
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Items Recorded at Fair Value on a Recurring Basis
The table below presents the balances of assets and liabilities reported at fair value on a recurring basis:

(Dollars in thousands)	Fair Value Measurements Using			Assets/ Liabilities at Fair Value
March 31, 2011	Level 1	Level 2	Level 3	
Assets:				
Securities Available for Sale:				
Obligations of U.S. government-sponsored enterprises	$ –	$ 32,903	$ –	$ 32,903
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	–	417,588	–	417,588
States and political subdivisions	–	81,643	–	81,643
Trust preferred securities:				
Individual name issuers	–	25,077	–	25,077
Collateralized debt obligations	–	–	752	752
Corporate bonds	–	15,075	–	15,075
Common stocks	806	–	–	806
Perpetual preferred stocks	2,314	-	–	2,314
Derivative Assets (1)				