

WASHINGTON TRUST BANCORP INC
Form 10-K
February 27, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-K

(Mark One)

Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended DECEMBER 31, 2008 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: 000-13091

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

RHODE ISLAND
(State or other jurisdiction of
incorporation or organization)

05-0404671
(I.R.S. Employer
Identification No.)

23 BROAD STREET
WESTERLY, RHODE ISLAND
(Address of principal executive offices)

02891
(Zip Code)

Registrant's telephone number, including area code: 401-348-1200

Securities registered pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK, \$.0625 PAR VALUE PER SHARE
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

The aggregate market value of voting stock held by non-affiliates of the registrant at June 30, 2008 was \$215,971,363 based on a closing sales price of \$19.70 per share as reported for the NASDAQ Global Select Market, which includes \$10,645,827 held by The Washington Trust Company under trust agreements and other instruments.

The number of shares of the registrant's common stock, \$.0625 par value per share, outstanding as of February 25, 2009 was 15,949,541.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement dated March 11, 2009 for the Annual Meeting of Shareholders to be held April 28, 2009 are incorporated by reference into Part III of this Form 10-K.

FORM 10-K
WASHINGTON TRUST BANCORP, INC.
For the Year Ended December 31, 2008

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Exhibit 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32.1 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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PART I

ITEM 1. Business

Washington Trust Bancorp, Inc.

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

Through its subsidiaries, the Bancorp offers a broad range of financial services to individuals and businesses, including wealth management, through its offices in Rhode Island, Massachusetts and southeastern Connecticut, ATMs, and its Internet website (www.washtrust.com). The Bancorp’s common stock is traded on the NASDAQ Global Select® Market under the symbol “WASH.”

The accounting and reporting policies of the Bancorp and its subsidiaries (collectively, the “Corporation” or “Washington Trust”) are in accordance with U. S. generally accepted accounting principles (“GAAP”) and conform to general practices of the banking industry. At December 31, 2008, Washington Trust had total assets of \$3.0 billion, total deposits of \$1.8 billion and total shareholders’ equity of \$235.1 million.

Commercial Banking

The Corporation offers a variety of banking and related financial services, including:

Residential mortgages	Consumer installment loans	Merchant credit card services
	Commercial and consumer demand deposits	Telephone banking services
Reverse mortgages	Savings, NOW and money market deposits	Internet banking services
Commercial loans	Certificates of deposit	Cash management services
Construction loans	Retirement accounts	Remote deposit capture
Home equity lines of credit	Automated teller machines (ATMs)	Safe deposit boxes
Home equity loans		

The Corporation’s largest source of income is net interest income, the difference between interest earned on interest-earning assets and interest paid on interest-bearing deposits and other borrowed funds.

The Corporation’s lending activities are conducted primarily in southern New England and, to a lesser extent, other states. Washington Trust offers a variety of commercial and retail lending products. In addition, Washington Trust purchases loans for its portfolio from various other financial institutions. In making commercial loans, Washington Trust may occasionally solicit the participation of other banks and may also occasionally participate in commercial loans originated by other banks. From time to time, we sell the guaranteed portion of Small Business Administration (“SBA”) loans to investors. Washington Trust generally underwrites its residential mortgages based upon secondary market standards. Residential mortgages are originated both for sale in the secondary market as well as for retention in the Corporation’s loan portfolio. Loan sales in the secondary market provide funds for additional lending and other banking activities. The majority of loans are sold with servicing released. We also originate residential loans for various investors in a broker capacity, including conventional mortgages and reverse mortgages.

Washington Trust offers a wide range of banking services, including the acceptance of demand, savings, NOW, money market and time deposits. Banking services are accessible through a variety of delivery channels including branch facilities, ATMs, telephone and Internet banking. Washington Trust also sells various business services products including merchant credit card processing and cash management services.

Wealth Management Services

The Corporation generates fee income from providing investment management, trust and financial planning services. Washington Trust provides personal trust services, including services as executor, trustee, administrator, custodian and guardian. Institutional trust services are also provided, including services as trustee for pension and profit sharing plans. Investment management and financial planning services are provided for both personal and

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institutional clients. At December 31, 2008 and 2007, wealth management assets under administration totaled \$3.1 billion and \$4.0 billion, respectively. These assets are not included in the Consolidated Financial Statements.

Business Segments

Segment reporting information is presented in Note 17 to the Consolidated Financial Statements.

Acquisitions

The following summarizes Washington Trust's acquisition history:

On August 31, 2005, the Bancorp completed the acquisition of Weston Financial Group, Inc. ("Weston Financial"), a Registered Investment Adviser and financial planning company located in Wellesley, Massachusetts, with broker-dealer and insurance agency subsidiaries. Pursuant to the Stock Purchase Agreement, dated March 18, 2005, as amended December 24, 2008, the acquisition was effected by the Bancorp's acquisition of all of Weston Financial's outstanding capital stock. (1)

On April 16, 2002, the Bancorp completed the acquisition of First Financial Corp., the parent company of First Bank and Trust Company, a Rhode Island chartered community bank. First Financial Corp. was headquartered in Providence, Rhode Island and its subsidiary, First Bank and Trust Company, operated banking offices in Providence, Cranston, Richmond and North Kingstown, Rhode Island. The Richmond and North Kingstown branches were closed and consolidated into existing Bank branches in May 2002. Pursuant to the Agreement and Plan of Merger, dated November 12, 2001, the acquisition was effected by means of the merger of First Financial Corp. with and into the Bancorp and the merger of First Bank with and into the Bank. (1)

On June 26, 2000, the Bancorp completed the acquisition of Phoenix Investment Management Company, Inc. ("Phoenix"), an independent investment advisory firm located in Providence, Rhode Island. Pursuant to the Agreement and Plan of Merger, dated April 24, 2000, the acquisition was effected by means of merger of Phoenix with and into the Bank. (2)

On August 25, 1999, the Bancorp completed the acquisition of Pier Bank, a Rhode Island chartered community bank headquartered in South Kingstown, Rhode Island. Pursuant to the Agreement and Plan of Merger, dated February 22, 1999, the acquisition was effected by means of merger of Pier Bank with and into the Bank. (2)

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- (1) These acquisitions have been accounted for as a purchase and, accordingly, the operations of the acquired companies are included in the Consolidated Financial Statements from their dates of acquisition.
 - (2) These acquisitions were accounted for as poolings of interests and, accordingly, all financial data was restated to reflect the combined financial condition and results of operations as if these acquisitions were in effect for all periods presented.

Subsidiaries

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

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

The Washington Trust Company

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

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

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The Bank's subsidiary, Weston Financial, is a Registered Investment Adviser and financial planning company located in Wellesley, Massachusetts, with an insurance agency subsidiary. In addition, the Bank has other passive investment subsidiaries whose primary functions are to provide servicing on passive investments, such as residential and consumer loans acquired from the Bank and investment securities.

Weston Securities Corporation

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

Market Area and Competition

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

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

The Bank operates ten of its seventeen branch offices in Washington County, Rhode Island. As of June 30, 2008, based upon information reported in the FDIC's Deposit Market Share Report, the Bank had 47% of total deposits reported by all financial institutions for Washington County. We have excluded our out-of-market brokered certificates of deposit from this measurement to provide a more representative measurement of our market share. Out-of-market brokered certificates of deposit are utilized by the Corporation as part of its overall funding program along with other sources. The closest competitor held 26%, and the second closest competitor held 8% of total deposits in Washington County. We believe that being the largest commercial banking institution headquartered within this market area provides a competitive advantage over other financial institutions.

The Bank's remaining seven branch offices are located in Providence and Kent Counties in Rhode Island and New London County in southeastern Connecticut. In December 2008, Washington Trust relocated its Washington Street branch office in Providence to a new branch office located in the financial district of Providence. In 2009, the Bank plans to open a de novo branch in Kent County (Warwick), subject to the approval of state and federal regulators. The Warwick branch will bring the total number of the Bank's branch offices to eighteen. We continue to expand our branch footprint and broaden our presence in Providence and Kent Counties. Both the population and number of businesses in Providence and Kent Counties far exceed those in Washington County.

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

Employees

At December 31, 2008, Washington Trust had 440 full-time and 43 part-time and other employees. Washington Trust maintains a comprehensive employee benefit program providing, among other benefits, group medical and dental insurance, life insurance, disability insurance, a pension plan and a 401(k) plan. Management considers relations with its employees to be good. See Note 15 to the Consolidated Financial Statements for additional information on certain

employee benefit programs.

Supervision and Regulation

The business in which the Corporation is engaged is subject to extensive supervision, regulation, and examination by various bank regulatory authorities and other governmental agencies. State and federal banking laws have as their principal objective either the maintenance of the safety and soundness of financial institutions and the federal deposit

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insurance system or the protection of consumers, or classes of consumers, and depositors, in particular, rather than the specific protection of shareholders of a bank or its parent company.

Set forth below is a brief description of certain laws and regulations that relate to the regulation of Washington Trust. To the extent the following material describes statutory or regulatory provisions, it is qualified in its entirety by reference to the particular statute or regulation. A change in applicable statutes, regulations or regulatory policy may have a material effect on our business.

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

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

During 2005, the Bancorp elected financial holding company status pursuant to the provisions of the Gramm-Leach-Bliley Act of 1999 (“GLBA”). As a financial holding company, the Bancorp is authorized to engage in certain financial activities in which a bank holding company may not engage. “Financial activities” is broadly defined to include not only banking, insurance and securities activities, but also merchant banking and additional activities that the FRB, in consultation with the Secretary of the Treasury, determines to be financial in nature, incidental to such financial activities, or complementary activities that do not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally. Currently, the Bancorp engages in broker-dealer activities pursuant to this authority. If a financial holding company fails to remain well capitalized and well managed, the company and its affiliates may not commence any new activity that is authorized particularly for financial holding companies. If a financial holding company remains out of compliance for 180 days or such longer period as the FRB permits, the FRB may require the financial holding company to divest either its insured depository institution or all of its nonbanking subsidiaries engaged in activities not permissible for a bank holding company. If a financial holding company fails to maintain a “satisfactory” or better record of performance under the Community Reinvestment Act, it will be prohibited, until the rating is raised to satisfactory or better, from engaging in new activities, or acquiring companies other than bank holding companies, banks or savings associations, except that the Bancorp could engage in new activities, or acquire companies engaged in activities that are closely related to banking under the BHCA. In addition, if the FRB finds that the Bank is not well capitalized or well managed, the Bancorp would be required to enter into an agreement with the FRB to comply with all applicable capital and management requirements and which may contain additional limitations or conditions. Until corrected, the Bancorp would not be able to engage in any new activity or acquire companies engaged in activities that are not closely related to banking under the BHCA without prior FRB approval. If the Bancorp fails to correct any such condition within a prescribed period, the FRB could order the Bancorp to divest its banking subsidiary or, in the alternative, to cease engaging in activities other than those closely related to banking under the BHCA.

Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (“Interstate Act”). The Interstate Act permits adequately capitalized or well-capitalized and adequately or well-managed bank holding companies, as determined by the FRB, to acquire banks in any state subject to certain concentration limits and other conditions. The Interstate Act also generally authorizes the interstate merger of banks. In addition, among other things, the Interstate Act permits banks to establish new branches on an interstate basis provided that the law of the host state specifically authorizes

such action. Rhode Island and Connecticut, the two states in which the Corporation conducts branch-banking operations, have adopted legislation to "opt in" to interstate merger and branching provisions that effectively eliminated state law barriers. However, as a bank holding company, we are required to obtain prior FRB approval before acquiring more than 5% of a class of voting securities, or substantially all of the assets, of a bank holding company, bank or savings association.

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Control Acquisitions. The Change in Bank Control Act prohibits a person or a group of persons from acquiring “control” of a bank holding company, such as the Bancorp, unless the FRB has been notified and has not objected to the transaction. Under a rebuttable presumption established by the FRB, the acquisition of 10% or more of a class of voting securities of a bank holding company with a class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), would, under the circumstances set forth in the presumption, constitute the acquisition of control of the bank holding company. In addition, a company is required to obtain the approval of the FRB under the BHCA before acquiring 25% (5% in the case of an acquirer that is a bank holding company) or more of any class of outstanding voting securities of a bank holding company, or otherwise obtaining control or a “controlling influence” over that bank holding company. In September 2008, the FRB released guidance on minority investment in banks which relaxed the presumption of control for investments of greater than 10% of a class of outstanding voting securities of a bank holding company in certain instances discussed in the guidance.

Bank Holding Company Dividends. The FRB and the Rhode Island Division of Banking have authority to prohibit bank holding companies from paying dividends if such payment is deemed to be an unsafe or unsound practice. The FRB has indicated generally that it may be an unsafe or unsound practice for bank holding companies to pay dividends unless the bank holding company’s net income over the preceding year is sufficient to fund the dividends and the expected rate of earnings retention is consistent with the organization’s capital needs, asset quality and overall financial condition. Additionally, under Rhode Island law, distributions of dividends cannot be made if a bank holding company would not be able to pay its debts as they become due in the usual course of business or the bank holding company’s total assets would be less than the sum of its total liabilities. The Bancorp’s revenues consist primarily of cash dividends paid to it by the Bank. As described below, the FDIC and the Rhode Island Division of Banking may also regulate the amount of dividends payable by the Bank. The inability of the Bank to pay dividends may have an adverse effect on the Bancorp.

Regulation of the Bank. The Bank is subject to the regulation, supervision and examination by the FDIC, the Rhode Island Division of Banking and the State of Connecticut, Department of Banking. The Bank is also subject to various Rhode Island and Connecticut business and banking regulations.

Regulation of the Registered Investment Adviser and Broker-Dealer. WSC is a registered broker-dealer and a member of the Financial Industry Regulatory Authority, Inc. (“FINRA”) and is subject to extensive regulation, supervision, and examination by the Securities and Exchange Commission (“SEC”), FINRA and the Commonwealth of Massachusetts. Weston Financial is registered as an investment advisor under the Investment Advisers Act of 1940, as amended (the “Investment Advisers Act”), and is subject to extensive regulation, supervision, and examination by the SEC and the Commonwealth of Massachusetts, including those related to sales methods, trading practices, the use and safekeeping of customers’ funds and securities, capital structure, record keeping and the conduct of directors, officers and employees.

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

The foregoing laws and regulations generally grant supervisory agencies and bodies broad administrative powers, including the power to limit or restrict Weston Financial from conducting its business in the event it fails to comply

with such laws and regulations. Possible sanctions that may be imposed in the event of such noncompliance include the suspension of individual employees, limitations on business activities for specified periods of time, revocation of registration as an investment advisor, commodity trading advisor and/or other registrations, and other censures and fines.

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

Insurance of Accounts and FDIC Regulation. The Bank pays deposit insurance premiums to the FDIC based on an assessment rate established by the FDIC. In 2006, the FDIC enacted various rules to implement the provisions of the Federal Deposit Insurance Reform Act of 2005 (the “FDIR Act”). Pursuant to the FDIR Act, in 2006 the FDIC merged the Bank Insurance Fund with the Savings Association Insurance Fund to create a newly named Deposit Insurance Fund (the “DIF”) that covers both banks and savings associations. The FDIC also revised, effective January 1, 2007, the risk-based premium system under which the FDIC classifies institutions based on the factors described below and generally assesses higher rates on those institutions that tend to pose greater risks to the DIF. For most banks and savings associations, including the Bank, FDIC rates depend upon a combination of CAMELS component ratings and financial ratios. CAMELS ratings reflect the applicable bank regulatory agency’s evaluation of the financial institution’s capital, asset quality, management, earnings, liquidity and sensitivity to risk. For large banks and savings associations that have long-term debt issuer ratings, assessment rates will depend upon such ratings and CAMELS component ratings. For institutions, such as the Bank, which are in the lowest risk category, assessment rates vary initially from five to seven basis points of deposits. Beginning January 1, 2009, the FDIC assessment rates were raised seven basis points and vary initially from twelve to fourteen basis points of deposits. Based on a final ruling approved by the FDIC on February 27, 2009, further rate changes will take effect on April 1, 2009, after which assessment rates will vary initially from twelve to sixteen basis points of deposits with additional adjustments which could result in total base assessment rates of seven to twenty-four basis points of deposits. On February 27, 2009, the FDIC also issued an interim rule that provides for a twenty basis point special assessment on June 30, 2009. The interim rule also provides that the FDIC may impose additional assessments of up to ten basis points thereafter under certain circumstances. The Federal Deposit Insurance Act (“FDIA”), as amended by the FDIR Act, requires the FDIC to set a ratio of deposit insurance reserves to estimated insured deposits, the designated reserve ratio (the “DRR”), for a particular year within a range of 1.15% to 1.50%. For 2008, the FDIC has set the initial DRR at 1.25%. Under the FDIR Act and the FDIC’s revised premium assessment program, every FDIC-insured institution will pay some level of deposit insurance assessments regardless of the level of the DRR. In 2008, FDIC deposit insurance was temporarily increased from \$100,000 to \$250,000 per depositor through December 31, 2009. The Bank’s FDIC deposit insurance costs totaled \$1.0 million in 2008. We cannot predict whether, as a result of an adverse change in economic conditions or other reasons, the FDIC will be required in the future to further increase deposit insurance assessments levels.

Bank Holding Company Support to Subsidiary Bank. Under FRB policy, a bank holding company is expected to act as a source of financial and managerial strength to its subsidiary bank and to commit resources to its support. This support may be required at times when the bank holding company may not have the resources to provide it. Similarly, under the cross-guarantee provisions of the FDIA, the FDIC can hold any FDIC-insured depository institution liable for any loss suffered or anticipated by the FDIC in connection with (1) the “default” of a commonly controlled FDIC-insured depository institution; or (2) any assistance provided by the FDIC to a commonly controlled FDIC-insured depository institution “in danger of default.” The Bank is a FDIC-insured depository institution.

Regulatory Capital Requirements. The FRB and the FDIC have issued substantially similar risk-based and leverage capital guidelines applicable to United States banking organizations. In addition, these regulatory agencies may from time to time require that a banking organization maintain capital above the minimum levels, whether because of its financial condition or actual or anticipated growth.

The FRB risk-based guidelines define a three-tier capital framework. Tier 1 capital includes common shareholders' equity and qualifying preferred stock, less goodwill and other adjustments. Tier 2 capital consists of preferred stock not qualifying as Tier 1 capital, mandatory convertible debt, limited amounts of subordinated debt, other qualifying term debt and the allowance for loan losses up to 1.25% of risk-weighted assets. Tier 3 capital includes subordinated debt that is unsecured, fully paid, has an original maturity of at least two years, is not redeemable before maturity without prior approval by the FRB and includes a lock-in clause precluding payment of either interest or principal if the payment would cause the issuing bank's risk-based capital ratio to fall or remain below the required minimum.

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The sum of Tier 1 and Tier 2 capital less investments in unconsolidated subsidiaries represents qualifying total capital. Risk-based capital ratios are calculated by dividing Tier 1 and total capital by risk-weighted assets. Assets and off-balance sheet exposures are assigned to one of four categories of risk-weights, based primarily on relative credit risk. The minimum Tier 1 capital ratio is 4% and the minimum total risk-based capital is 8%. At December 31, 2008, the Corporation's net risk-weighted assets amounted to \$1.9 billion, its Tier 1 capital ratio was 11.29% and its total risk-based capital ratio was 12.54%.

The leverage ratio is determined by dividing Tier 1 capital by adjusted average total assets. Although the stated minimum ratio is 100 to 200 basis points above 3%, banking organizations must maintain a ratio of at least 5% to be classified as "well-capitalized." The Corporation's leverage ratio was 7.53% as of December 31, 2008.

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), among other things, identifies five capital categories for insured depository institutions (well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized) and requires the federal banking agencies (the "Agencies") to implement systems for "prompt corrective action" for insured depository institutions that do not meet minimum capital requirements within such categories. FDICIA imposes progressively more restrictive constraints on operations, management and capital distributions, depending on the category in which an institution is classified. Failure to meet the capital guidelines could also subject a banking institution to capital raising requirements. An "undercapitalized" bank must develop a capital restoration plan and its parent holding company must guarantee that bank's compliance with the plan. The liability of the parent holding company under any such guarantee is limited to the lesser of 5% of the bank's assets at the time it became "undercapitalized" or the amount needed to comply with the plan. Furthermore, in the event of the bankruptcy of the parent holding company, such guarantee would take priority over the parent's general unsecured creditors. In addition, FDICIA requires the Agencies to prescribe certain non-capital standards for safety and soundness relating generally to operations and management, asset quality and executive compensation and permits regulatory action against a financial institution that does not meet such standards.

The Agencies have adopted substantially similar regulations that define the five capital categories identified by FDICIA, using the total risk-based capital, Tier 1 risk-based capital, and leverage capital ratios as the relevant capital measures. Such regulations establish various degrees of corrective action to be taken when an institution is considered undercapitalized. Under the regulations, a bank generally shall be deemed to be:

- § "well-capitalized" if it has a total risk based capital ratio of 10.0% or greater, has a Tier 1 risk based capital ratio of 6.0% or more, has a leverage ratio of 5.0% or greater and is not subject to any written agreement, order or capital directive or prompt corrective action directive;
- § "adequately capitalized" if it has a total risk based capital ratio of 8.0% or greater, a Tier 1 risk based capital ratio of 4.0% or more, and a leverage ratio of 4.0% or greater (3.0% under certain circumstances) and does not meet the definition of a "well-capitalized bank;"
- § "undercapitalized" if it has a total risk based capital ratio that is less than 8.0%, a Tier 1 risk based capital ratio that is less than 4.0% or a leverage ratio that is less than 4.0% (3.0% under certain circumstances);
- § "significantly undercapitalized" if it has a total risk based capital ratio that is less than 6.0%, a Tier 1 risk based capital ratio that is less than 3.0% or a leverage ratio that is less than 3.0%; and
- § "critically undercapitalized" if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%.

Regulators also must take into consideration (1) concentrations of credit risk; (2) interest rate risk (when the interest rate sensitivity of an institution's assets does not match the sensitivity of its liabilities or its off-balance sheet position); and (3) risks from non-traditional activities, as well as an institution's ability to manage those risks, when determining the adequacy of an institution's capital. This evaluation will be made as a part of the institution's regular safety and soundness examination. In addition, the Bancorp, and any bank with significant trading activity, must incorporate a measure for market risk in their regulatory capital calculations. At December 31, 2008, the Bank's capital ratios placed it in the well-capitalized category. Reference is made to Note 12 to the Consolidated Financial Statements for additional discussion of the Corporation's regulatory capital requirements.

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An institution generally must file a written capital restoration plan which meets specified requirements with an appropriate FDIC regional director within 45 days of the date that the institution receives notice or is deemed to have notice that it is undercapitalized, significantly undercapitalized or critically undercapitalized. An institution that is required to submit a capital restoration plan must concurrently submit a performance guaranty by each company that controls the institution. A critically undercapitalized institution generally is to be placed in conservatorship or receivership within 90 days unless the FDIC formally determines that forbearance from such action would better protect the deposit insurance fund. Immediately upon becoming undercapitalized, an institution becomes subject to the provisions of Section 38 of the FDIA, including for example, (i) restricting the payment of capital distributions and management fees, (ii) requiring that the FDIC monitor the condition of the institution and its efforts to restore its capital, (iii) requiring submission of a capital restoration plan, (iv) restricting growth of the institution's assets and (v) requiring prior approval of certain expansion proposals.

The Agencies issued a final rule entitled "Risk-Based Capital Standards: Advanced Capital Adequacy Framework - Basel II" ("Basel II"), which became effective on April 1, 2008 and "core banks" ("core banks" are the approximately 20 largest U.S. bank holding companies) were required to adopt a board-approved plan to implement Basel II by October 1, 2008. Basel II will result in significant changes to the risk based capital standards for "core banks" subject to Basel II and other banks that elect to use such rules to calculate their risk-based capital requirements. In connection with Basel II, the Agencies published a joint notice of proposed rulemaking entitled "Risk-Based Capital Guidelines; Capital Adequacy Guidelines: Standardized Framework" on July 29, 2008 (the "Standardized Approach Proposal"). The Standardized Approach Proposal, if adopted by the Agencies, would provide all non-core banks with an optional framework, based upon the standardized approach under the international Basel II Accord, for calculating their risk-based capital requirements. The Bank does not currently expect to calculate their capital ratios under Basel II or in accordance with the Standardized Approach Proposal. Accordingly, the Corporation is not yet in a position to determine the effect of such rules on its risk capital requirements.

Transactions with Affiliates. Under Sections 23A and 23B of the Federal Reserve Act and Regulation W thereunder, there are various legal restrictions on the extent to which a bank holding company and its nonbank subsidiaries may borrow, obtain credit from or otherwise engage in "covered transactions" with its FDIC-insured depository institution subsidiaries. Such borrowings and other covered transactions by an insured depository institution subsidiary (and its subsidiaries) with its nondepository institution affiliates are limited to the following amounts:

- § In the case of one such affiliate, the aggregate amount of covered transactions of the insured depository institution and its subsidiaries cannot exceed 10% of the capital stock and surplus of the insured depository institution.
- § In the case of all affiliates, the aggregate amount of covered transactions of the insured depository institution and its subsidiaries cannot exceed 20% of the capital stock and surplus of the insured depository institution.

"Covered transactions" are defined by statute for these purposes to include a loan or extension of credit to an affiliate, a purchase of or investment in securities issued by an affiliate, a purchase of assets from an affiliate unless exempted by the FRB, the acceptance of securities issued by an affiliate as collateral for a loan or extension of credit to any person or company, or the issuance of a guarantee, acceptance, or letter of credit on behalf of an affiliate. Covered transactions are also subject to certain collateral security requirements. Further, a bank holding company and its subsidiaries are prohibited from engaging in certain tying arrangements in connection with any extension of credit, lease or sale of property of any kind, or furnishing of any service.

Limitations on Bank Dividends. The Bancorp's revenues consist primarily of cash dividends paid to it by the Bank. The FDIC has the authority to use its enforcement powers to prohibit a bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice. Federal law also prohibits the payment of dividends by a bank that will result in the bank failing to meet its applicable capital requirements on a pro

forma basis. Payment of dividends by a bank is also restricted pursuant to various state regulatory limitations. Reference is made to Note 12 to the Consolidated Financial Statements for additional discussion of the Corporation's ability to pay dividends.

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Customer Information Security. The Agencies have adopted final guidelines for establishing standards for safeguarding nonpublic personal information about customers. These guidelines implement provisions of GLBA, which establishes a comprehensive framework to permit affiliations among commercial banks, insurance companies, securities firms, and other financial service providers by revising and expanding the BHCA framework. Specifically, the Information Security Guidelines established by the GLBA require each financial institution, under the supervision and ongoing oversight of its Board of Directors or an appropriate committee thereof, to develop, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, to protect against any anticipated threats or hazards to the security or integrity of such information, and protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer. The federal banking regulators have issued guidance for banks on response programs for unauthorized access to customer information. This guidance, among other things, requires notice to be sent to customers whose “sensitive information” has been compromised if unauthorized use of this information is “reasonably possible”. A majority of states have enacted legislation concerning breaches of data security and Congress is considering federal legislation that would require consumer notice of data security breaches.

Privacy. The GLBA requires financial institutions to implement policies and procedures regarding the disclosure of nonpublic personal information about consumers to nonaffiliated third parties. In general, the statute requires the financial institution to explain to consumers its policies and procedures regarding the disclosure of such nonpublic personal information, and, except as otherwise required by law, the financial institution is prohibited from disclosing such information except as provided in its policies and procedures.

USA Patriot Act of 2001 (the “Patriot Act”). The Patriot Act, designed to deny terrorists and others the ability to obtain anonymous access to the United States financial system, has significant implications for depository institutions, broker-dealers, mutual funds, insurance companies and businesses of other types involved in the transfer of money. The Patriot Act, together with the implementing regulations of various federal regulatory agencies, has caused financial institutions, including banks, to adopt and implement additional, or amend existing, policies and procedures with respect to, among other things, anti-money laundering compliance, suspicious activity and currency transaction reporting, customer identity verification and customer risk analysis. The statute and its underlying regulations also permit information sharing for counter-terrorist purposes between federal law enforcement agencies and financial institutions, as well as among financial institutions, subject to certain conditions, and require the FRB (and other federal banking agencies) to evaluate the effectiveness of an applicant and a target institution in combating money laundering activities when considering applications filed under Section 3 of the BHCA or the Bank Merger Act. In 2006, final regulations under the Patriot Act were issued requiring financial institutions, including the Bank, to take additional steps to monitor their correspondent banking and private banking relationships as well as their relationships with “shell Banks.” Management believes that the Corporation is in compliance with all the requirements prescribed by the Patriot Act and all applicable final implementing regulations.

The Community Reinvestment Act (the “CRA”). The CRA requires lenders to identify the communities served by the institution’s offices and other deposit taking facilities and to make loans and investments and provide services that meet the credit needs of these communities. Regulatory agencies examine each of the banks and rate such institutions’ compliance with CRA as “Outstanding”, “Satisfactory”, “Needs to Improve” or “Substantial Noncompliance”. Failure of an institution to receive at least a “Satisfactory” rating could inhibit an institution or its holding company from undertaking certain activities, including engaging in activities newly permitted as a financial holding company under GLBA and acquisitions of other financial institutions. The FRB must take into account the record of performance of banks in meeting the credit needs of the entire community served, including low and moderate income neighborhoods. The Bank has achieved a rating of “Satisfactory” on its most recent examination dated November 2006. Rhode Island and Connecticut also have enacted substantially similar community reinvestment requirements.

Regulation R. The FRB approved Regulation R implementing the bank broker push out provisions under Title II of the GLBA. GLBA provided 11 exceptions from the definition of “broker” in Section 3(a)(4) of the Exchange Act that permit banks not registered as broker-dealers with the SEC to effect securities transactions under certain conditions. Regulation R implements certain of these exceptions. In 2007, the SEC also approved Regulation R. The Bank began complying with Regulation R on the first day of the bank’s fiscal quarter starting after September 30, 2008. The FRB and SEC have stated that they will jointly issue any interpretations or no-action

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letters/guidance regarding Regulation R and consult with each other and the appropriate federal banking agency with respect to formal enforcement actions pursuant to Regulation R.

Regulatory Enforcement Authority. The enforcement powers available to the Agencies include, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to initiate injunctive actions against banking organizations and institution-affiliated parties, as defined. In general, these enforcement actions may be initiated for violations of law and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with regulatory authorities. Under certain circumstances, federal and state law requires public disclosure and reports of certain criminal offenses and also final enforcement actions by the Agencies.

Identity Theft Red Flags. The Agencies jointly issued final rules and guidelines in 2007 implementing Section 114 (“Section 114”) of the Fair and Accurate Credit Transactions Act of 2003 (“FACT Act”) and final rules implementing Section 315 (“Section 315”) of the FACT Act. Section 114 requires each financial institution or creditor to develop and implement a written Identity Theft Prevention Program (the “Program”) to detect, prevent, and mitigate identity theft in connection with the opening of certain accounts or certain existing accounts. Section 114 also requires credit and debit card issuers to assess the validity of notifications of changes of address under certain circumstances. The Agencies issued joint rules under Section 315 that provide guidance regarding reasonable policies and procedures that a user of consumer reports must employ when a consumer reporting agency sends the user a notice of address discrepancy. The final rules and guidelines became effective January 1, 2008 with a mandatory compliance deadline for the Bank of November 1, 2008.

Fair Credit Reporting Affiliate Marketing Regulations. In 2007, the Agencies published final rules to implement the affiliate marketing provisions in Section 214 of the FACT Act, which amends the Fair Credit Reporting Act. The final rules generally prohibit a person from using information received from an affiliate to make a solicitation for marketing purposes to a consumer, unless the consumer is given notice and a reasonable opportunity and a reasonable and simple method to opt out of the making of such solicitations. These rules became effective January 1, 2008 with a mandatory compliance deadline for the Bank of October 1, 2008.

The Sarbanes-Oxley Act of 2002, as amended (“Sarbanes-Oxley”). Sarbanes-Oxley implemented a broad range of corporate governance and accounting measures for public companies (including publicly-held bank holding companies such as Bancorp) designed to promote honesty and transparency in corporate America. Sarbanes-Oxley’s principal provisions, many of which have been interpreted through regulations released in 2003, provide for and include, among other things, (1) requirements for audit committees, including independence and financial expertise; (2) certification of financial statements by the principal executive officer and principal financial officer of the reporting company; (3) standards for auditors and regulation of audits; (4) disclosure and reporting requirements for the reporting company and directors and executive officers; and (5) a range of civil and criminal penalties for fraud and other violations of securities laws.

Securities and Exchange Commission Availability of Filings

Under Sections 13 and 15(d) of the Exchange Act, periodic and current reports must be filed or furnished with the SEC. You may read and copy any reports, statements or other information filed by Washington Trust with the SEC at its public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Washington Trust’s filings are also available to the public from commercial document retrieval services and at the website maintained by the SEC at <http://www.sec.gov>. In addition, Washington Trust makes available free of charge on the Investor Relations section of its website (www.washtrust.com) its annual report on Form 10-K, its quarterly reports on Form 10-Q, current reports on Form 8-K, and exhibits and amendments to those reports as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the SEC. Information on the Washington Trust website is not incorporated by

reference into this Annual Report on Form 10-K.

Item 1A Risk Factors

In addition to the other information contained or incorporated by reference in this Annual Report on Form 10-K, you should consider the following factors relating to the business of the Corporation.

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Interest Rate Volatility May Reduce Our Profitability

Our consolidated results of operations depend, to a large extent, on the level of net interest income, which is the difference between interest income from interest-earning assets, such as loans and investments, and interest expense on interest-bearing liabilities, such as deposits and borrowings. If interest rate fluctuations cause the cost of interest-bearing liabilities to increase faster than the yield on interest-earning assets, then our net interest income will decrease. If the cost of interest-bearing liabilities declines faster than the yield on interest-earning assets, then our net interest income will increase.

We measure our interest rate risk using simulation analyses with particular emphasis on measuring changes in net income and net economic value in different interest-rate environments. The simulation analyses incorporate assumptions about balance sheet changes, such as asset and liability growth, loan and deposit pricing and changes due to the mix and maturity of such assets and liabilities. Other key assumptions relate to the behavior of interest rates and spreads, prepayments of loans and the run-off of deposits. These assumptions are inherently uncertain and, as a result, the simulation analyses cannot precisely estimate the impact that higher or lower rate environments will have on net income. Actual results will differ from simulated results due to timing, magnitude and frequency of interest rate changes, changes in cash flow patterns and market conditions, as well as changes in management's strategies.

While various monitors of interest-rate risk are employed, we are unable to predict future fluctuations in interest rates or the specific impact thereof. The market values of most of our financial assets are sensitive to fluctuations in market interest rates. Fixed-rate investments, mortgage-backed securities and mortgage loans typically decline in value as interest rates rise. Prepayments on mortgage-backed securities may adversely affect the value of such securities and the interest income generated by them.

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

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

Our principal sources of funding are deposits and borrowings. As a general matter, deposits are a lower cost source of funds than borrowings because interest rates paid for deposits are typically less than interest rates charged for borrowings. If, as a result of general economic conditions, market interest rates, competitive pressures or otherwise, the level of our deposits were to decline relative to the total sources of funds, we may have to rely more heavily on higher cost borrowings in the future.

For additional discussion on interest rate risk, see disclosures in Item 7 under the caption "Asset / Liability Management and Interest Rate Risk."

The Market Value of Wealth Management Assets under Administration May Be Negatively Affected by Changes in Economic and Market Conditions

Revenues from wealth management services represented 27% of our total revenues for 2008. A substantial portion of these fees are dependent on the market value of wealth management assets under administration, which are primarily

marketable securities. Changes in domestic and foreign economic conditions, volatility in financial markets, and general trends in business and finance, all of which are beyond our control, could adversely impact the market value of these assets and the fee revenues derived from the management of these assets.

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We May Not Be Able to Attract and Retain Wealth Management Clients at Current Levels

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

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

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

Our Allowance for Loan Losses May Not Be Adequate to Cover Actual Loan Losses

We make various assumptions and judgments about the collectibility of our loan portfolio and provide an allowance for potential losses based on a number of factors. If our assumptions are wrong, our allowance for loan losses may not be sufficient to cover our losses, which would have an adverse effect on our operating results, and may also cause us to increase the allowance in the future. Material additions to our allowance would materially decrease our net income. In addition to general real estate and economic factors, the following factors could affect our ability to collect our loans and require us to increase the allowance in the future:

- Regional credit concentration - We are exposed to real estate and economic factors in southern New England, because a significant portion of our loan portfolio is concentrated among borrowers in this market. Further, because a substantial portion of our loan portfolio is secured by real estate in this area, including residential mortgages, most consumer loans, commercial mortgages and other commercial loans, the value of our collateral is also subject to regional real estate market conditions and other factors that might affect the value of real estate, including natural disasters.
- Industry concentration - A portion of our loan portfolio consists of loans to the hospitality, tourism and recreation industries. Loans to companies in these industries may have a somewhat higher risk of loss than some other industries because these businesses are seasonal, with a substantial portion of commerce concentrated in the summer season. Accordingly, the ability of borrowers to meet their repayment terms is more dependent on economic, climate and other conditions and may be subject to a higher degree of volatility from year to year.
- Volatility in the financial markets associated with subprime mortgages, including adverse impacts on credit quality and liquidity within the financial markets, have been associated with a general decline in the real estate and housing market along with significant mortgage loan related losses reported by many other financial institutions. Global and domestic economic conditions have been adversely affected by these factors. No assurance can be given that these conditions will not result in an increase in delinquencies with a negative impact on our loan loss experience, necessitating an increase in our allowance for loan losses.
- Federal and state regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize additional charge-offs. Any increase in our allowance for loan losses or loan charge-offs required by these regulatory agencies could have a material adverse effect on our results of operations and financial condition.

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For a more detailed discussion on the allowance for loan losses, see additional information disclosed in Item 7 under the caption “Application of Critical Accounting Policies and Estimates.”

We Have Credit Risk Inherent in Our Securities Portfolio

We maintain a diversified securities portfolio, which includes mortgage-backed securities issued by U.S. government and government sponsored agencies, obligations of the U.S. Treasury and government-sponsored agencies, securities issued by state and political subdivisions, trust preferred debt securities primarily issued by financial service companies, and corporate debt securities. We also invest in capital securities, which include common and perpetual preferred stocks. We seek to limit credit losses in our securities portfolios by generally purchasing only highly-rated securities.

The current economic environment and recent volatility of financial markets increase the difficulty of assessing investment securities impairment and the same influences tend to increase the risk of potential impairment of these assets. During the year ended December 31, 2008, we recorded charges for other-than-temporary impairment of securities of \$5.9 million. We believe we have adequately reviewed our investment securities for impairment and that our investment securities are carried at fair value. However, over time, the economic and market environment may provide additional insight regarding the fair value of certain securities, which could change our judgment regarding impairment. This could result in realized losses relating to other-than-temporary declines being charged against future income. Given the current market conditions and the significant judgments involved, there is continuing risk that further declines in fair value may occur and additional material other-than-temporary impairments may be charged to income in future periods, resulting in realized losses.

We May Not Be Able to Compete Effectively Against Larger Financial Institutions in Our Increasingly Competitive Industry

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

Economic Conditions

National and local economic conditions have an impact on the banking and financial services industry, including those of the Corporation. The Corporation’s operating results depend to a large extent on providing products and services to customers in our local market area. Unemployment rates, real estate values, demographic changes, property tax rates, and local and state governments have an impact on local and regional economic conditions. An increase in unemployment, a decrease in real estate values, an increase in property tax rates, or decrease in population could weaken the local economies in which the Corporation operates. Weak economic conditions could lead to credit quality concerns related to repayment ability and collateral protection. These conditions could also affect the Corporation’s ability to retain or grow deposits.

Current Levels of Market Volatility Are Unprecedented.

The capital and credit markets have been experiencing volatility and disruption for more than 12 months, recently reaching unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial strength. If current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to access capital and on our business, financial condition and results of operations.

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Operational Risk

The Corporation is subject to certain operational risks, including, but not limited to, data processing system failures and errors, customer or employee fraud and catastrophic failures resulting from terrorist acts or natural disasters. The Corporation depends upon data processing, software, communication, and information exchange on a variety of computing platforms and networks and over the Internet. Despite instituted safeguards, the Corporation cannot be certain that all of its systems are entirely free from vulnerability to attack or other technological difficulties or failures. If information security is breached or other technology difficulties or failures occur, information may be lost or misappropriated, services and operations may be interrupted and the Corporation could be exposed to claims from customers. While the Corporation maintains a system of internal controls and procedures, any of these results could have a material adverse effect on the Corporation's business, financial condition, results of operations or liquidity.

Technological Development and Changes

The financial services industry is subject to rapid technological changes with frequent introductions of new technology driven products and services. In addition to improving the Corporation's ability to serve customers, the effective use of technology increases efficiencies and helps to maintain or reduce expenses. The Corporation's ability to keep pace with technological changes affecting the financial industry and to introduce new products and services based on this new technology will be important to the Corporation's continued success.

Changes in Legislation and/or Regulation and Accounting Principles, Policies and Guidelines

Changes in legislation and/or regulation governing financial holding companies and their subsidiaries could affect our operations. The Corporation is subject to extensive federal and state laws and regulations and is subject to supervision, regulation and examination by various federal and state bank regulatory agencies. The restrictions imposed by such laws and regulations limit the manner in which the Corporation may conduct business. There can be no assurance that any modification of these laws and regulations, or new legislation that may be enacted in the future, will not make compliance more difficult or expensive, or otherwise adversely affect the operations of the Corporation. See the section entitled "Supervision and Regulation" in Item 1 of this Annual Report on Form 10-K.

The Corporation is subject to tax laws and regulations promulgated by the United States government and the states in which we operate. Changes to these laws and regulations or the interpretation of such laws and regulations by taxing authorities could impact future tax expense and the value of deferred tax assets.

Changes in GAAP applicable to the Corporation could have a material impact on the Corporation's reported results of operations.

ITEM 1B. Unresolved Staff Comments

None.

GUIDE 3 Statistical Disclosures

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

	Page
I. Distribution of Assets, Liabilities and Stockholder Equity; Interest Rates and Interest Differentials	31-32
II. Investment Portfolio	40-41, 82
III. Loan Portfolio	44-48, 83
IV. Summary of Loan Loss Experience	50-51, 85
V. Deposits	31, 90
VI. Return on Equity and Assets	21
VII. Short-Term Borrowings	91

ITEM 2. Properties

The Corporation conducts its business from seventeen offices, including its headquarters located at 23 Broad Street, Westerly, Rhode Island and offices located within Washington, Providence and Kent Counties in Rhode Island and New London County in southeastern Connecticut. In addition, Washington Trust has a commercial lending office located in the financial district of Providence and provides wealth management services from its main office and offices located in Providence and Narragansett, Rhode Island and Wellesley, Massachusetts. The Bank also has two

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operations facilities located in Westerly, Rhode Island. At December 31, 2008, nine of the Corporation's facilities were owned, twelve were leased and one branch office was owned on leased land. Lease expiration dates range from five months to fourteen years with renewal options on certain leases of two to fifteen years. All of the Corporation's properties are considered to be in good condition and adequate for the purpose for which they are used.

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

The Bank also operates ATMs that are branded with the Bank's logo under contracts with a third party vendor located in retail stores and other locations in Rhode Island, southeastern Connecticut and southeastern Massachusetts.

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

ITEM 3. Legal Proceedings

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

ITEM 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended December 31, 2008.

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Executive Officers of the Registrant

The following is a list of all executive officers of the Bancorp and the Bank with their titles, ages, and years of service, followed by certain biographical information as of December 31, 2008.

Name	Title	Age	Years of Service
John C. Warren	Chairman and Chief Executive Officer of the Bancorp and the Bank	63	13
John F. Treanor	President and Chief Operating Officer of the Bancorp and the Bank	61	10
Galan G. Daukas	Executive Vice President of Wealth Management of the Bancorp and the Bank	45	3
David V. Devault	Executive Vice President, Chief Financial Officer and Secretary of the Bancorp and the Bank	54	22
Mark K. W. Gim	Executive Vice President and Treasurer of the Bancorp and the Bank	42	15
Stephen M. Bessette	Executive Vice President – Retail Lending of the Bank	61	12
B. Michael Rauh, Jr.	Executive Vice President – Sales, Service and Delivery of the Bank	49	17
James M. Vesey	Executive Vice President and Chief Credit Officer of the Bank	61	10
Dennis L. Algieri	Senior Vice President – Chief Compliance Officer and Director of Community Affairs of the Bank	48	14
Vernon F. Bliven	Senior Vice President – Human Resources of the Bank	59	36
Elizabeth B. Eckel	Senior Vice President – Marketing of the Bank	48	17
William D. Gibson	Senior Vice President – Risk Management of the Bank	62	10
Barbara J. Perino, CPA	Senior Vice President – Operations and Technology of the Bank	47	20

John C. Warren joined the Bancorp and the Bank in 1996 as President and Chief Operating Officer. In 1997, he was elected President and Chief Executive Officer of the Bancorp and the Bank. In 1999, he was elected Chairman and Chief Executive Officer of the Bancorp and the Bank.

John F. Treanor joined the Bancorp and the Bank in 1999 as President and Chief Operating Officer.

Galan G. Daukas joined the Bancorp and the Bank in 2005 as Executive Vice President of Wealth Management. Prior to joining Washington Trust, he held the position of Chief Operating Officer of The Managers Funds, LLC from 2002 to 2005.

David V. Devault joined the Bank in 1986 as Controller. He was promoted to Vice President and Chief Financial Officer of the Bancorp and the Bank in 1987 and to Senior Vice President and Chief Financial Officer of the Bancorp and the Bank in 1990. In 1997, he was also elected Treasurer of the Bancorp and the Bank. He was named Executive Vice President, Treasurer and Chief Financial Officer of the Bancorp and the Bank in 1998. He was appointed to the position of Secretary of the Bank in 2002 and Secretary of the Bancorp in 2005. In 2008, his title was changed to Executive Vice President, Chief Financial Officer and Secretary of the Bancorp and the Bank.

Mark K. W. Gim joined the Bank in 1993 as Financial Planning Officer. He was promoted to Assistant Vice President – Financial Planning of the Bank in 1995, and to Vice President – Financial Planning of the Bank in 1996. In 2000, he was promoted to Senior Vice President – Financial Planning and Asset/Liability Management of the Bank. He was named Executive Vice President and Treasurer of the Bancorp and the Bank in 2008.

Stephen M. Bessette joined the Bank in 1997 as Senior Vice President – Retail Lending. He was named Executive Vice President – Retail Lending in 2005.

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B. Michael Rauh, Jr. joined the Bank in 1991 as Vice President - Marketing and was promoted in 1993 to Senior Vice President - Retail Banking. He was named Senior Vice President – Corporate Sales, Planning & Delivery in 2003. In 2005, he was appointed Executive Vice President – Corporate Sales, Planning and Delivery. In 2007, his title was changed to Executive Vice President, Sales, Service & Delivery.

James M. Vesey joined the Bank in 1998 as Senior Vice President – Commercial Lending. In 2000, he was named Senior Vice President and Chief Credit Officer. In 2007, he was appointed Executive Vice President and Chief Credit Officer.

Dennis L. Algiere joined the Bank in 1995 as Compliance Officer. He was named Vice President – Compliance in 1996 and was promoted to Senior Vice President – Compliance and Community Affairs in 2001. He was named Senior Vice President – Chief Compliance Officer and Director of Community Affairs in 2003.

Vernon F. Bliven joined the Bank in 1972 and was named Assistant Vice President in 1980, Vice President in 1986 and Senior Vice President – Human Resources in 1993.

Elizabeth B. Eckel joined the Bank in 1991 as Director of Advertising and Public Relations. In 1995, she was named Vice President – Marketing. She was promoted to Senior Vice President – Marketing in 2000.

William D. Gibson joined the Bank in 1999 as Senior Vice President – Credit Administration. In 2007, he was named Senior Vice President – Risk Management.

Barbara J. Perino joined the Bank in 1988 as Financial Accounting Officer. She was named Controller in 1989 and Vice President - Controller in 1992. In 1998, she was promoted to Senior Vice President – Operations and Technology.

PART II

ITEM 5. Market for the Registrant’s Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities

Washington Trust’s common stock trades on the NASDAQ Global Select® Market under the symbol WASH.

The quarterly common stock price ranges and dividends paid per share for the years ended December 31, 2008 and 2007 are presented in the following table. The stock prices are based on the high and low sales prices during the respective quarter.

2008 Quarters	1	2	3	4
Stock prices:				
High	\$ 26.50	\$ 26.49	\$ 33.34	\$ 27.30
Low	21.84	19.70	18.43	16.33
Cash dividend declared per share	\$ 0.20	\$ 0.21	\$ 0.21	\$ 0.21
2007 Quarters	1	2	3	4
Stock prices:				
High	\$ 28.98	\$ 27.69	\$ 28.42	\$ 28.65
Low	25.32	23.90	22.87	23.49
Cash dividend declared per share	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20

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

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

At February 25, 2009 there were 1,999 holders of record of the Bancorp's common stock.

See additional disclosures on Equity Compensation Plan Information in Part III, Item 12 "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

The following table provides information as of and for the quarter ended December 31, 2008 regarding shares of common stock of the Corporation that were repurchased under the Amended and Restated Nonqualified Deferred Compensation Plan ("Deferred Compensation Plan"), the 2006 Stock Repurchase Plan, the Bancorp's 1997 Equity Incentive Plan, as amended (the "1997 Plan"), and the Bancorp's 2003 Stock Incentive Plan, as amended (the "2003 Plan").

	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plan(s)	Maximum number of shares that may yet be purchased under the plan(s)
Deferred Compensation Plan (1)				
Balance at beginning of period				N/A
10/1/2008 to 10/31/2008	—	—	—	N/A
11/1/2008 to 11/30/2008	—	—	—	N/A
12/1/2008 to 12/31/2008	—	—	—	N/A
Total Deferred Compensation Plan	—	—	—	N/A
2006 Stock Repurchase Plan (2)				
Balance at beginning of period				214,600
10/1/2008 to 10/31/2008	—	—	—	214,600
11/1/2008 to 11/30/2008	—	—	—	214,600
12/1/2008 to 12/31/2008	—	—	—	214,600
Total 2006 Stock Repurchase Plan	—	—	—	214,600
Other (3)				
Balance at beginning of period				N/A
10/1/2008 to 10/31/2008	—	—	—	N/A
11/1/2008 to 11/30/2008	—	—	—	N/A
12/1/2008 to 12/31/2008	—	—	—	N/A
Total Other	—	—	—	N/A
Total Purchases of Equity Securities	—	—	—	—

(1) The Deferred Compensation Plan allows directors and officers to defer a portion of their compensation. The deferred compensation is contributed to a rabbi trust that invests the assets of the trust into selected mutual funds as well as shares of the Bancorp's common stock. The plan authorizes Bancorp to acquire shares of Bancorp's common stock to satisfy its obligation under this plan. All shares are purchased in the open market. As of October 15, 2007, the Bancorp's common stock was no longer available as a new benchmark investment under the plan. Further, directors and officers who currently have selected Bancorp's common stock as a benchmark

investment (the “Bancorp Stock Fund”) will be allowed to transfer from that fund during a transition period that will run through March 14, 2009. After March 14, 2009, directors and officers will not be allowed to make transfers from the Bancorp Stock Fund and any distributions will be made in whole shares of Bancorp’s common stock to the extent of the benchmark investment election in the Bancorp Stock Fund.

- (2) The 2006 Stock Repurchase Plan was established in December 2006. A maximum of 400,000 shares were authorized under the plan. The Bancorp plans to hold the repurchased shares as treasury stock for general corporate purposes.
- (3) Pursuant to the Corporation’s share-based compensation plans, employees may deliver back shares of stock previously issued in payment of the exercise price of stock options. While required to be reported in this table, such transactions are not reported as share repurchases in the Corporation’s Consolidated Financial Statements. The share-based compensation plans (the 1997 Plan and the 2003 Plan) have expiration dates of April 29, 2017 and February 20, 2023, respectively.

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ITEM 6. Selected Financial Data

The selected consolidated financial data set forth below does not purport to be complete and should be read in conjunction with, and is qualified in its entirety by, the more detailed information including the Consolidated Financial Statements and related Notes, and the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” appearing elsewhere in this Annual Report on Form 10-K.

Selected Financial Data

(Dollars in thousands, except per share amounts)

At or for the years ended December 31,	2008	2007	2006	2005	2004
Financial Results:					
Interest income	\$ 140,662	\$ 136,434	\$ 131,134	\$ 115,693	\$ 96,853
Interest expense	75,149	76,490	69,660	55,037	42,412
Net interest income	65,513	59,944	61,474	60,656	54,441
Provision for loan losses	4,800	1,900	1,200	1,200	610
Net interest income after provision for loan losses	60,713	58,044	60,274	59,456	53,831
Noninterest income:					
Net realized gains on securities	2,224	455	443	389	248
Losses on write-downs of investments to fair value	(5,937)	–	–	(32)	–
Other noninterest income	44,233	45,054	41,740	30,589	26,657
Total noninterest income	40,520	45,509	42,183	30,946	26,905
Noninterest expense	71,742	68,906	65,335	56,393	50,373
Income before income taxes	29,491	34,647	37,122	34,009	30,363
Income tax expense	7,319	10,847	12,091	10,985	9,534
Net income	\$ 22,172	\$ 23,800	\$ 25,031	\$ 23,024	\$ 20,829
Per share information (\$):					
Earnings per share:					
Basic	1.59	1.78	1.86	1.73	1.57
Diluted	1.57	1.75	1.82	1.69	1.54
Cash dividends declared (1)	0.83	0.80	0.76	0.72	0.68
Book value	14.75	13.97	12.89	11.86	11.44
Tangible book value	10.47	9.33	8.61	7.79	9.64
Market value - closing stock price	19.75	25.23	27.89	26.18	29.31
Performance Ratios (%):					
Return on average assets	0.82	0.99	1.04	0.98	0.97
Return on average shareholders’ equity	11.12	13.48	14.99	14.80	14.40
Average equity to average total assets	7.35	7.33	6.93	6.62	6.73
Dividend payout ratio (2)	52.87	45.71	41.76	42.60	44.16
Asset Quality Ratios (%):					
Total past due loans to total loans	0.96	0.45	0.49	0.27	0.43
Nonperforming loans to total loans	0.42	0.27	0.19	0.17	0.38
Nonperforming assets to total assets	0.30	0.17	0.11	0.10	0.21
Allowance for loan losses to nonaccrual loans	305.07	471.12	693.87	742.25	354.49
Allowance for loan losses to total loans	1.29	1.29	1.29	1.28	1.34
Net charge-offs (recoveries) to average loans	0.08	0.03	0.02	(0.01)	(0.02)
Capital Ratios (%):					
Tier 1 leverage capital ratio	7.53	6.09	6.01	5.45	5.35
Tier 1 risk-based capital ratio	11.29	9.10	9.57	9.06	9.15

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Total risk-based capital ratio	12.54	10.39	10.96	10.51	10.72
Tangible equity to tangible assets	5.76	5.03	4.94	4.43	5.60

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

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

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Selected Financial Data

(Dollars in thousands)

December 31,	2008	2007	2006	2005	2004
Assets:					
Cash and cash equivalents	\$ 58,190	\$ 41,112	\$ 71,909	\$ 66,163	\$ 52,081
Total securities	866,219	751,778	703,851	783,941	890,058
FHLB stock	42,008	31,725	28,727	34,966	34,373
Loans:					
Commercial and other	880,313	680,266	587,397	554,734	507,711
Residential real estate	642,052	599,671	588,671	582,708	513,695
Consumer	316,789	293,715	283,918	264,466	228,270
Total loans	1,839,154	1,573,652	1,459,986	1,401,908	1,249,676
Less allowance for loan losses	23,725	20,277	18,894	17,918	16,771
Net loans	1,815,429	1,553,375	1,441,092	1,383,990	1,232,905
Investment in bank-owned life insurance	43,163	41,363	39,770	30,360	29,249
Goodwill and other intangibles	68,266	61,912	57,374	54,372	23,900
Other assets	72,191	58,675	56,442	48,211	45,254
Total assets	\$ 2,965,466	\$ 2,539,940	\$ 2,399,165	\$ 2,402,003	\$ 2,307,820
Liabilities:					
Deposits:					
Demand deposits	\$ 172,771	\$ 175,542	\$ 186,533	\$ 196,102	\$ 189,588
NOW accounts	171,306	164,944	175,479	178,677	174,727
Money market accounts	305,879	321,600	286,998	223,255	196,775
Savings accounts	173,485	176,278	205,998	212,499	251,920
Time deposits	967,427	807,841	822,989	828,725	644,875
Total deposits	1,790,868	1,646,205	1,677,997	1,639,258	1,457,885
FHLB advances	829,626	616,417	474,561	545,323	672,748
Junior subordinated debentures	32,991	22,681	22,681	22,681	—
Other borrowings	26,743	32,560	14,684	9,774	3,417
Other liabilities	50,127	35,564	36,186	26,521	21,918
Shareholders' equity	235,111	186,513	173,056	158,446	151,852
Total liabilities and shareholders' equity	\$ 2,965,466	\$ 2,539,940	\$ 2,399,165	\$ 2,402,003	\$ 2,307,820

Asset Quality:

Nonaccrual loans	\$ 7,777	\$ 4,304	\$ 2,723	\$ 2,414	\$ 4,731
Nonaccrual investment securities	633	—	—	—	—
Other real estate owned, net	392	—	—	—	4
Total nonperforming assets	\$ 8,802	\$ 4,304	\$ 2,723	\$ 2,414	\$ 4,735

Wealth Management Assets:

Market value of assets under administration	\$ 3,147,649	\$ 4,014,352	\$ 3,609,180	\$ 3,215,763	\$ 1,821,718
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Selected Quarterly Financial Data

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

2008	Q1	Q2	Q3	Q4	Year
Interest income:					
Interest and fees on loans	\$ 24,970	\$ 24,406	\$ 25,520	\$ 26,043	\$ 100,939
Income on securities:					
Taxable	8,416	8,302	8,504	9,160	34,382
Nontaxable	780	786	778	781	3,125
Dividends on corporate stock and FHLB stock	620	489	407	366	1,882
Other interest income	140	50	128	16	334
Total interest income	34,926	34,033	35,337	36,366	140,662
Interest expense:					
Deposits	11,899	9,248	9,884	10,164	41,195
FHLB advances	7,299	7,794	8,011	7,790	30,894
Junior subordinated debentures	338	509	524	508	1,879
Other interest expense	314	275	274	318	1,181
Total interest expense	19,850	17,826	18,693	18,780	75,149
Net interest income	15,076	16,207	16,644	17,586	65,513
Provision for loan losses	450	1,400	1,100	1,850	4,800
Net interest income after provision for loan losses	14,626	14,807	15,544	15,736	60,713
Noninterest income:					
Wealth management services:					
Trust and investment advisory fees	5,342	5,321	5,238	4,415	20,316
Mutual fund fees	1,341	1,445	1,383	1,036	5,205
Financial planning, commissions and other service fees					
Wealth management services	7,258	7,650	7,191	6,174	28,273
Service charges on deposit accounts	1,160	1,208	1,215	1,198	4,781
Merchant processing fees	1,272	1,914	2,221	1,493	6,900
Income from bank-owned life insurance	447	453	452	448	1,800
Net gains on loan sales and commissions on loans originated for others					
Net realized gains on securities	813	1,096	–	315	2,224
Losses on write-downs of investments to fair value	(858)	(1,149)	(982)	(2,948)	(5,937)
Net unrealized gains (losses) on interest rate swap contracts					
Other income	342	528	278	477	1,625
Total noninterest income	11,044	12,159	10,590	6,727	40,520
Noninterest expense:					
Salaries and employee benefits	10,343	10,411	10,580	9,703	41,037
Net occupancy	1,138	1,064	1,123	1,211	4,536
Equipment	944	977	956	961	3,838
Merchant processing costs	1,068	1,598	1,857	1,246	5,769
Outsourced services	636	742	700	781	2,859
Advertising and promotion	386	467	376	500	1,729
Legal, audit and professional fees	543	430	626	726	2,325

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Amortization of intangibles	326	326	320	309	1,281
Other expenses	1,758	2,039	1,933	2,638	8,368
Total noninterest expense	17,142	18,054	18,471	18,075	71,742
Income before income taxes	8,528	8,912	7,663	4,388	29,491
Income tax expense	2,712	2,817	1,623	167	7,319
Net income	\$ 5,816	\$ 6,095	\$ 6,040	\$ 4,221	\$ 22,172
Weighted average shares outstanding - basic	13,358.1	13,381.1	13,409.5	15,765.4	13,981.9
Weighted average shares outstanding - diluted	13,560.6	13,566.7	13,588.3	15,871.6	14,146.3
Per share information:					
Basic earnings per share	\$ 0.44	\$ 0.45	\$ 0.45	\$ 0.27	\$ 1.59
Diluted earnings per share	\$ 0.43	\$ 0.45	\$ 0.44	\$ 0.27	\$ 1.57
Cash dividends declared per share	\$ 0.20	\$ 0.21	\$ 0.21	\$ 0.21	\$ 0.83

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Selected Quarterly Financial Data

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

2007	Q1	Q2	Q3	Q4	Year
Interest income:					
Interest and fees on loans	\$ 23,934	\$ 24,414	\$ 25,032	\$ 25,340	\$ 98,720
Income on securities:					
Taxable	7,792	7,839	7,565	7,967	31,163
Nontaxable	668	759	781	775	2,983
Dividends on corporate stock and FHLB stock	718	685	669	665	2,737
Other interest income	191	184	275	181	831
Total interest income	33,303	33,881	34,322	34,928	136,434
Interest expense:					
Deposits	12,977	13,215	13,140	13,090	52,422
FHLB advances	4,968	5,112	5,243	6,318	21,641
Junior subordinated debentures	338	338	338	338	1,352
Other interest expense	150	289	291	345	1,075
Total interest expense	18,433	18,954	19,012	20,091	76,490
Net interest income	14,870	14,927	15,310	14,837	59,944
Provision for loan losses	300	300	300	1,000	1,900
Net interest income after provision for loan losses	14,570	14,627	15,010	13,837	58,044
Noninterest income:					
Wealth management services:					
Trust and investment advisory fees	5,038	5,252	5,336	5,498	21,124
Mutual fund fees	1,262	1,352	1,386	1,430	5,430
Financial planning, commissions and other service fees	570	889	456	547	2,462
Wealth management services	6,870	7,493	7,178	7,475	29,016
Service charges on deposit accounts	1,125	1,220	1,214	1,154	4,713
Merchant processing fees	1,204	1,829	2,252	1,425	6,710
Income from bank-owned life insurance	391	399	376	427	1,593
Net gains on loan sales and commissions on loans originated for others	264	510	431	288	1,493
Net realized gains (losses) on securities	1,036	(700)	–	119	455
Net unrealized gains on interest rate swap contracts	–	–	–	27	27
Other income	358	372	399	373	1,502
Total noninterest income	11,248	11,123	11,850	11,288	45,509
Noninterest expense:					
Salaries and employee benefits	9,812	10,285	10,098	9,791	39,986
Net occupancy	1,017	1,038	1,021	1,074	4,150
Equipment	832	861	871	909	3,473
Merchant processing costs	1,019	1,558	1,916	1,193	5,686
Outsourced services	519	535	556	570	2,180
Advertising and promotion	429	572	466	557	2,024
Legal, audit and professional fees	450	404	444	463	1,761
Amortization of intangibles	368	348	341	326	1,383
Debt prepayment penalties	1,067	–	–	–	1,067
Other expenses	1,596	2,159	1,599	1,842	7,196

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Total noninterest expense	17,109	17,760	17,312	16,725	68,906
Income before income taxes	8,709	7,990	9,548	8,400	34,647
Income tax expense	2,734	2,508	2,992	2,613	10,847
Net income	\$ 5,975	\$ 5,482	\$ 6,556	\$ 5,787	\$ 23,800
Weighted average shares outstanding - basic	13,412.1	13,339.6	13,323.6	13,347.5	13,355.5
Weighted average shares outstanding - diluted	13,723.0	13,616.4	13,564.1	13,580.7	13,604.1
Per share information:					
Basic earnings per share	\$ 0.45	\$ 0.41	\$ 0.49	\$ 0.43	\$ 1.78
Diluted earnings per share	\$ 0.44	\$ 0.40	\$ 0.48	\$ 0.43	\$ 1.75
Cash dividends declared per share	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.80

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ITEM 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

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

Forward-Looking Statements

This report contains statements that are “forward-looking statements.” We may also make written or oral forward-looking statements in other documents we file with the SEC, in our annual reports to shareholders, in press releases and other written materials, and in oral statements made by our officers, directors or employees. You can identify forward-looking statements by the use of the words “believe,” “expect,” “anticipate,” “intend,” “estimate,” “assume,” “outlook,” “will,” “should,” and other expressions that predict or indicate future events and trends and which do not relate to historical matters. You should not rely on forward-looking statements, because they involve known and unknown risks, uncertainties and other factors, some of which are beyond the control of the Corporation. These risks, uncertainties and other factors may cause the actual results, performance or achievements of the Corporation to be materially different from the anticipated future results, performance or achievements expressed or implied by the forward-looking statements.

Some of the factors that might cause these differences include the following: changes in general national, regional or international economic conditions or conditions affecting the banking or financial services industries or financial capital markets, volatility and disruption in national and international financial markets, government intervention in the U.S. financial system, reductions in net interest income resulting from interest rate volatility as well as changes in the balance and mix of loans and deposits, reductions in the market value of wealth management assets under administration, changes in the value of securities and other assets, reductions in loan demand, changes in loan collectibility, default and charge-off rates, changes in the size and nature of the Corporation’s competition, changes in legislation or regulation and accounting principles, policies and guidelines, and changes in the assumptions used in making such forward-looking statements. In addition, the factors described under “Risk Factors” in Item 1A of this Annual Report on Form 10-K may result in these differences. You should carefully review all of these factors, and you should be aware that there may be other factors that could cause these differences. These forward-looking statements were based on information, plans and estimates at the date of this report, and we assume no obligation to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events or other changes.

Application of Critical Accounting Policies and Estimates

Accounting policies involving significant judgments and assumptions by management, which have, or could have, a material impact on income and the carrying value of certain assets, are considered critical accounting policies. The Corporation considers the following to be its critical accounting policies: allowance for loan losses, accounting for acquisitions and review of goodwill and intangible assets for impairment, and other-than-temporary impairment of investments. There have been no significant changes in the methods or assumptions used in the accounting policies that require material estimates and assumptions.

Allowance for Loan Losses

Determining an appropriate level of allowance for loan losses necessarily involves a high degree of judgment. The Corporation uses a methodology to systematically measure the amount of estimated loan loss exposure inherent in the loan portfolio for purposes of establishing a sufficient allowance for loan losses. The methodology includes three elements: (1) identification of loss allocations for certain specific loans, (2) loss allocation factors for certain loan types based on credit grade and loss experience, and (3) general loss allocations for other environmental factors. The methodology includes an analysis of individual loans deemed to be impaired in accordance with GAAP (Statement of Financial Accounting Standards (“SFAS”) No. 114, “Accounting by Creditors for Impairment of a Loan - an amendment

of FASB Statements No. 5 and 15”). Other individual commercial loans and commercial mortgage loans are evaluated using an internal rating system 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. We periodically reassess and revise the loss allocation factors used in the assignment of loss exposure to appropriately reflect our analysis of migrational loss experience. 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, the

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Corporation's historical loss experience and comparison to industry standards of loss allocation factors for each type of credit product. Finally, an additional unallocated allowance is maintained based on a judgmental process whereby management considers qualitative and quantitative assessments of other environmental factors. For example, a significant portion of our loan portfolio is concentrated among borrowers in southern New England and a substantial portion of the portfolio is collateralized by real estate in this area. A portion of the commercial loans and commercial mortgage loans are to borrowers in the hospitality, tourism and recreation industries. Further, economic conditions which may affect the ability of borrowers to meet debt service requirements are considered, including interest rates and energy costs. Results of regulatory examinations, historical loss ranges, portfolio composition, including a trend toward somewhat larger credit relationships, and other changes in the portfolio are also considered.

Since the methodology is based upon historical experience and trends 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. While management's evaluation of the allowance for loan losses as of December 31, 2008, considers the allowance to be adequate, under adversely different conditions or assumptions, the Corporation would need to increase the allowance.

The Corporation's Audit Committee of the Board of Directors is responsible for oversight of the loan review process. This process includes review of the Bank's procedures for determining the adequacy of the allowance for loan losses, administration of its internal credit rating systems and the reporting and monitoring of credit granting standards.

Accounting for Acquisitions and Review of Goodwill and Identifiable Intangible Assets for Impairment

Goodwill is recorded as part of the Corporation's acquisitions of businesses where the purchase price exceeds the fair market value of the net tangible and identifiable intangible assets. Goodwill is not amortized, but rather is subject to ongoing periodic impairment tests at least annually or more frequently upon the occurrence of significant adverse events in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." Goodwill was reviewed in 2008 by reviewing estimates of selected market information for the respective segments of the Corporation.

For acquisitions accounted for using the purchase method of accounting, assets acquired and liabilities assumed are required to be recorded at their fair value. Intangible assets acquired are primarily comprised of wealth management advisory contracts and core deposit intangibles. The values of these intangible assets were estimated using valuation techniques, based on discounted cash flow analysis. These intangible assets are being amortized over the period the assets are expected to contribute to the cash flows of the Corporation, which reflect the expected pattern of benefit. These intangible assets are amortized based upon the projected cash flows the Corporation will receive from the customer relationships during the estimated useful lives. These intangible assets are subject to impairment tests in accordance with SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". The carrying value of the wealth management advisory contracts and other identifiable intangibles are reviewed for impairment on an annual basis, or sooner, whenever events or changes in circumstances indicate that their carrying amount may not be fully recoverable. Wealth management assets under administration are analyzed to determine if there has been a reduction since acquisition that could indicate possible impairment of the advisory contracts. Impairment would be recognized if the carrying value exceeded the sum of the undiscounted expected future cash flows from the intangible assets. Impairment would result in a write-down to the estimated fair value based on the anticipated discounted future cash flows. The remaining useful life of an intangible asset that is being amortized is also evaluated each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization.

The Corporation makes certain estimates and assumptions that affect the determination of the expected future cash flows from the advisory contracts and other identifiable intangibles. These estimates and assumptions include account attrition, market appreciation for wealth management assets under administration and anticipated fee rates, projected

costs and other factors. Significant changes in these estimates and assumptions could cause a different valuation for the intangible assets. Changes in the original assumptions could change the amount of the intangible recognized and the resulting amortization. Subsequent changes in assumptions could result in recognition of impairment of the intangible assets.

These assumptions used in the impairment tests of goodwill and intangible assets are susceptible to change based on changes in economic conditions and other factors. Any change in the estimates which the Corporation uses to determine the carrying value of the Corporation's goodwill and identifiable intangible assets, or which otherwise

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adversely affects their value or estimated lives could adversely affect the Corporation's results of operations. See Note 8 to the Consolidated Financial Statements for additional information.

Other-Than-Temporary Impairment of Investments

The Corporation records an investment impairment charge at the point it believes an investment security has experienced a decline in value that is other-than-temporary. In determining whether an other-than-temporary impairment has occurred, the Corporation considers whether it has the ability and intent to hold the investment until a market price recovery and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for impairment, the severity and duration of the impairment, changes in the value subsequent to the reporting date, forecasted performance of the issuer, changes in the dividend or interest payment practices of the issuer, changes in the credit rating of the issuer or the specific security, and the general market condition in the geographic area or industry the issuer operates in. With respect to holdings of collateralized debt obligations representing pooled trust preferred debt securities, estimates of cash flows are evaluated upon consideration of information including, but not limited to, past events, current conditions, and reasonable and supporting forecasts for the respective holding. Such information generally includes the remaining payment terms of the security, prepayments speeds, the financial condition of the issuer(s), expected defaults, and the value of any underlying collateral.

If necessary, the investment is written down to its current fair value through a charge to earnings at the time the impairment is deemed to have occurred. Future adverse changes in market conditions, continued poor operating results of the issuer or other factors could result in further losses that may not be reflected in an investment's current carrying value, possibly requiring an additional impairment charge in the future.

Overview

Washington Trust offers a comprehensive product line of financial services to individuals and businesses including commercial, residential and consumer lending, retail and commercial deposit products, and wealth management services through its offices in Rhode Island, Massachusetts and southeastern Connecticut, ATMs, and its Internet website (www.washtrust.com).

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

Our financial results are affected by interest rate volatility, changes in economic and market conditions, competitive conditions within our market area and changes in legislation, regulation and/or accounting principles. During the latter part of 2008, market and economic conditions were severely impacted when credit conditions rapidly deteriorated and financial markets experienced widespread illiquidity and elevated levels of volatility. Concerns about future economic growth, lower consumer confidence, rapid contraction of credit availability and lower corporate earnings continued to challenge the economy. The rate of unemployment continued to increase, reaching its highest level in several years. Corporate and related counterparty credit spreads widened and heightened concerns about numerous financial services companies adversely impacted the financial markets. As a result of these unparalleled market conditions, federal government agencies including the U.S. Treasury Department and the FRB initiated several intervention actions in the U.S. financial services industry.

The deteriorating economy somewhat negatively impacted the credit quality of our loans, particularly in our commercial portfolio. During 2008, we increased the allowance for loan losses in response to this condition as well as

growth in the portfolio. The condition of the financial markets described above also contributed to declines in the values of holdings in our investment securities portfolio. During 2008 we recognized impairment charges on securities amounting to \$5.9 million.

Composition of Earnings

Net income for the year ended December 31, 2008 amounted to \$22.2 million, or \$1.57 per diluted share, compared to \$23.8 million, or \$1.75 per diluted share, for 2007. The rates of return on average equity and average assets for

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2008 were 11.12% and 0.82%, respectively. Comparable amounts for 2007 were 13.48% and 0.99%, respectively. The \$1.6 million, or 6.8%, decrease in net income in 2008 was attributable to several factors as described below.

Net interest income increased by \$5.6 million, or 9.3%, in 2008, reflecting higher interest-earning asset levels and lower deposit costs. The net interest margin (fully taxable equivalent net interest income as a percentage of average interest-earning assets) declined 12 basis points in 2008 primarily due to compression of asset yields and funding costs resulting from the 450 basis point aggregate impact of Federal Reserve rate cutting actions from October 2007 through December 2008.

The loan loss provision charged to earnings in 2008 was \$4.8 million, an increase of \$2.9 million from 2007. The higher loan loss provision was largely due to growth in the loan portfolio as well as our ongoing evaluation of credit quality and general economic conditions. Asset quality remained manageable during the year with net charge-offs of only 0.08% of average total loans in 2008, compared to a ratio of 0.03% in 2007. The ratio of the allowance for loan losses to total loans amounted to 1.29% at December 31, 2008 and 2007.

Noninterest income amounted to \$40.5 million in 2008, down \$5.0 million, or 11.0%, from 2007. This decline in noninterest income was largely due to the recognition of losses on write-downs of investments securities to fair value of \$5.9 million (\$3.8 million after tax, or 27 cents per diluted share). Wealth management revenues, the largest source of noninterest income, declined by \$743 thousand, or 2.6%, in 2008. Wealth management revenues are largely dependent on the value of the assets under administration and are closely tied to the performance of the financial markets. Assets under administration were down \$866.7 million, or 21.6%, from December 31, 2007. Wealth management assets under administration and related revenues were adversely affected by declining values in the financial markets.

Noninterest expenses totaled \$71.7 million for 2008, up by \$2.8 million, or 4.1%, from 2007. Noninterest expenses for 2007 included \$1.1 million in debt prepayment charges recorded as a result of prepayments of higher cost Federal Home Loan Bank of Boston ("FHLB") advances in the first quarter of 2007. There were no debt prepayment penalty charges recognized in 2008. Excluding the 2007 debt prepayment charge, noninterest expenses rose by \$3.9 million, or 5.8%. Approximately 40% of the 2008 increase, on this basis, represents costs attributable to our wealth management business, an increase in FDIC deposit insurance costs and operating expenses related to a de novo branch opened in June 2007.

Income tax expense amounted to \$7.3 million in 2008, a decrease of \$3.5 million from 2007. Income tax benefits of \$1.4 million, or 10 cents per diluted share were recognized in 2008 resulting from a change in state corporate income tax legislation and the resolution of certain state tax positions. Excluding these income tax benefits, the Corporation's effective income tax rate for 2008 was 29.3%, as compared to 31.3% in 2007.

Sources and Uses of Funds

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

In April 2008, the Bancorp sponsored the creation of Washington Preferred Capital Trust ("Washington Preferred"). Washington Preferred is a Delaware statutory trust created for the sole purpose of issuing trust preferred securities and investing the proceeds in junior subordinated debentures of the Bancorp. The Bancorp issued \$10.3 million in junior subordinated deferrable interest notes, which bear a rate equal to the three-month LIBOR rate plus 3.50%, to Washington Preferred. See Note 11 to the Consolidated Financial Statements for additional

information on junior subordinated debentures.

In October 2008, Washington Trust issued \$50.0 million of its Common Stock in a private placement with select institutional investors. Net proceeds were \$46.9 million after deducting offering-related fees and expenses. On October 20, 2008, the Corporation filed a registration statement with the SEC to register these shares for resale. Washington Trust will use the net proceeds for general corporate purposes and to support strategic growth initiatives in its commercial and wealth management business.

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Total assets amounted to \$3.0 billion at December 31, 2008, up by \$425.5 million, or 16.8%, from the end of 2007. Led by growth in commercial loans, total loans increased \$265.5 million, or 16.9%, in 2008 and amounted to \$1.8 billion, or 62% of total assets, at December 31, 2008. Commercial loans increased by \$200.0 million, or 29.4%, over the prior year and amounted to \$880.3 million, or 48% of total loans, at the end of 2008.

The securities available for sale portfolio is managed to generate interest income, to implement interest rate risk management strategies and to provide a readily available source of liquidity for balance sheet management. The fair value of securities available for sale totaled \$866.2 million at December 31, 2008, or 29% of total assets. The carrying value of the securities portfolio increased by 15.2% in 2008, largely due to purchases of mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises.

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

Deposit gathering continues to be very competitive and the current environment has impacted the Corporation's ability to generate growth in lower costing deposits. Total deposits, which included brokered certificates of deposit, amounted to \$1.8 billion at December 31, 2008, up by \$144.7 million, or 8.8%, from the balance at December 31, 2007. Deposit growth in 2008 was concentrated in time deposits. At December 31, 2008, Washington Trust had \$188.0 million in out-of-market brokered certificates of deposit and \$829.6 million in FHLB advances compared to \$129.8 million and \$616.4 million, respectively, at December 31, 2007.

Opportunities and Risks

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

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

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

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

Wealth management service revenues, which represented approximately 27% of total revenues in 2008, are substantially dependent on the market value of wealth management assets under administration. These values may be negatively affected by changes in economic conditions and volatility in the financial markets.

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

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

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Results of Operations

Comparison of 2008 with 2007

Segment Reporting

Washington Trust manages its operations through two business segments, Commercial Banking and Wealth Management Services. The Commercial Banking segment includes commercial, commercial real estate, residential and consumer lending activities; mortgage banking, secondary market and loan servicing activities; deposit generation; merchant credit card services; cash management activities; and direct banking activities, which include the operation of ATMs, telephone and internet banking services and customer support and sales. Wealth Management Services includes asset management services provided for individuals and institutions; personal trust services, including services as executor, trustee, administrator, custodian and guardian; corporate trust services, including services as trustee for pension and profit sharing plans; and other financial planning and advisory services. All other activity, such as the investment securities portfolio, wholesale funding activities and administrative units, are not related to the segments and are considered Corporate. See Note 17 to the Consolidated Financial Statements for additional disclosure related to business segments.

The Commercial Banking segment reported net income of \$19.2 million in 2008, up by \$2.1 million, or 12.2%, from 2007, primarily due to higher net interest income. Net interest income was up by \$8.7 million, or 16.2%, driven by growth in average loan balances and lower deposit costs. This increase in net interest income was partially offset by a \$2.9 million increase in the loan loss provision and \$2.9 million increase in Commercial Banking noninterest expenses in 2008. Higher noninterest expenses reflected increases in FDIC deposit insurance costs and operating expenses related to a de novo branch opened in June 2007.

The Wealth Management Services segment reported net income of \$4.9 million in 2008, a decrease of \$796 thousand, or 13.9%, from net income in 2007. Noninterest income derived from the Wealth Management Services segment was \$28.3 million in 2008, down by \$743 thousand, or 2.6%, from 2007. Lower noninterest income resulted from declines in wealth management assets under administration due to lower valuations in the financial markets. In 2008, noninterest expenses for the Wealth Management Services segment amounted to \$20.1 million, up by \$451 thousand, or 2.3%, from 2007. This increase was attributable to higher outsourced services expenses for wealth management platform and product support costs.

Net Interest Income

Net interest income is the difference between interest earned on loans and securities and interest paid on deposits and other borrowings, and continues to be the primary source of Washington Trust's operating income. Included in interest income are loan prepayment fees and certain other fees, such as late charges. Net interest income is affected by the level of interest rates, changes in interest rates and by changes in the amount and composition of interest-earning assets and interest-bearing liabilities.

Net interest income for 2008 totaled \$65.5 million, up \$5.6 million, or 9.3%, from the amount reported for 2007. The increase in net interest income reflected growth in interest-earning assets and lower deposit costs.

The following discussion presents net interest income on a fully taxable equivalent ("FTE") basis by adjusting income and yields on tax-exempt loans and securities to be comparable to taxable loans and securities.

FTE net interest income for 2008 amounted to \$67.4 million, up \$5.6 million, or 9.0%, from 2007. The net interest margin for 2008 amounted to 2.64%, compared to 2.76% for 2007. The 12 basis point decline in the net interest margin was primarily attributable to lower yields on variable rate commercial and consumer loans resulting from Federal Reserve actions to reduce short-term interest rates, with less commensurate reduction in deposit and other funding rates.

Average interest-earning assets increased by \$307.5 million, or 13.7%, in 2008, including the reinvestment of the \$46.7 million in net proceeds received from the issuance of Common Stock in October 2008. The increase in average interest-earning assets was largely due to growth in the loan portfolio. Average loan balances grew \$198.0 million, or 13.2%, primarily due to growth in the commercial loan category. The yield on total loans decreased 63 basis points in 2008, reflecting declines in short-term interest rates. The contribution of loan prepayment and other fees to the yield on total loans was 3 basis points and 4 basis points in 2008 and 2007, respectively. Total average securities increased by \$109.5 million, or 14.7%, in 2008, largely due to purchases of mortgage-backed securities issued by U.S. government agencies and government-sponsored enterprises during a

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period of substantial spread widening for these and many other classes of investment securities. The FTE rate of return on securities decreased 45 basis points in 2008, largely due to a decline in dividend yield earned on the Corporation's investment in FHLB stock.

In 2008, average interest-bearing liabilities increased by \$284.4 million, or 14.1%, while cost of funds decreased 52 basis points. The increase in average interest-bearing liabilities was largely due to increases in FHLB advances. The balance of average FHLB advances increased \$248.6 million in 2008, while the average rate paid on FHLB advances decreased 23 basis points. In addition, the increase in average interest-bearing liabilities included a \$39.9 million increase in time deposits. Time deposits include out-of-market brokered certificates of deposit, which are utilized by the Corporation as part of its overall funding program along with FHLB advances and other sources. Average out-of-market brokered certificates of deposit increased \$10.0 million, or 6.7%, in 2008. See additional discussion on brokered certificates of deposit in the "Financial Condition" section under the caption "Deposits". See Note 11 to the Consolidated Financial Statements for additional discussion on junior subordinated debentures issued in the second quarter of 2008.

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

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

Years ended December 31,	2008			2007			2006		
	Average		Yield/	Average		Yield/	Average		Yield/
(Dollars in thousands)	Balance	Interest	Rate	Balance	Interest	Rate	Balance	Interest	Rate
Assets:									
Residential real estate loans	\$ 613,367	\$ 33,954	5.54	\$ 589,619	\$ 31,540	5.35	\$ 590,245	\$ 30,237	5.12
Commercial and other loans	782,825	50,589	6.46	626,309	47,713	7.62	564,310	43,409	7.69
Consumer loans	301,653	16,584	5.50	283,873	19,634	6.92	274,764	18,748	6.82
Total loans	1,697,845	101,127	5.96	1,499,801	98,887	6.59	1,429,319	92,394	6.46
Cash, federal funds sold and other short-term investments	21,515	334	1.55	16,759	831	4.96	14,548	721	4.96
Taxable debt securities	700,546	34,382	4.91	605,443	31,163	5.15	712,870	33,763	4.74
Nontaxable debt securities	81,046	4,583	5.65	77,601	4,368	5.63	42,977	2,486	5.79
Corporate stocks and FHLB stock	48,708	2,085	4.28	42,544	3,047	7.16	48,643	3,205	6.59
Total securities	851,815	41,384	4.86	742,347	39,409	5.31	819,038	40,175	4.91
Total interest-earning assets	2,549,660	142,511	5.59	2,242,148	138,296	6.17	2,248,357	132,569	5.90

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Noninterest-earning assets	163,730			165,561			159,115		
Total assets	\$ 2,713,390			\$ 2,407,709			\$ 2,407,472		
Liabilities and shareholders' equity:									
NOW accounts	\$ 165,479	\$ 306	0.18	\$ 166,580	\$ 285	0.17	\$ 173,137	\$ 302	0.17
Money market accounts	310,445	6,730	2.17	303,138	11,846	3.91	262,613	9,063	3.45
Savings accounts	173,840	1,059	0.61	194,342	2,619	1.35	198,040	1,464	0.74
Time deposits	861,814	33,100	3.84	821,951	37,672	4.58	856,979	36,153	4.22
FHLB advances	737,830	30,894	4.19	489,229	21,641	4.42	509,611	20,916	4.10
Junior subordinated debentures	30,259	1,879	6.21	22,681	1,352	5.96	22,681	1,352	5.96
Other	26,678	1,181	4.43	23,990	1,075	4.48	8,627	410	4.76
Total interest-bearing liabilities	2,306,345	75,149	3.26	2,021,911	76,490	3.78	2,031,688	69,660	3.43
Demand deposits	177,032			177,342			185,322		
Other liabilities	30,618			31,886			23,517		
Shareholders' equity	199,395			176,570			166,945		
Total liabilities and shareholders' equity	\$ 2,713,390			\$ 2,407,709			\$ 2,407,472		
Net interest income		\$ 67,362			\$ 61,806			\$ 62,909	
Interest rate spread			2.33			2.39			2.47
Net interest margin			2.64			2.76			2.80

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

(Dollars in thousands)

Years ended December 31,	2008	2007	2006
Commercial and other loans	\$ 188	\$ 167	\$ 204
Nontaxable debt securities	1,458	1,385	868
Corporate stocks and FHLB stock	203	310	363
Total	\$ 1,849	\$ 1,862	\$ 1,435

Volume/Rate Analysis - Interest Income and Expense (Fully Taxable Equivalent Basis)

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

(Dollars in thousands)	2008/2007			2007/2006		
	Volume	Rate	Net Change	Volume	Rate	Net Change
Interest on interest-earning assets:						
Residential real estate loans	\$ 1,284	\$ 1,130	\$ 2,414	\$ (33)	\$ 1,336	\$ 1,303
Commercial and other loans	10,817	(7,941)	2,876	4,704	(400)	4,304
Consumer loans	1,172	(4,222)	(3,050)	615	271	886
Cash, federal funds sold and other short-term investments	189	(686)	(497)	109	1	110
Taxable debt securities	4,724	(1,505)	3,219	(5,366)	2,766	(2,600)
Nontaxable debt securities	198	17	215	1,953	(71)	1,882
Corporate stocks and FHLB stock	393	(1,355)	(962)	(421)	263	(158)
Total interest income	18,777	(14,562)	4,215	1,561	4,166	5,727
Interest on interest-bearing liabilities:						
NOW accounts	(1)	22	21	(17)	–	(17)
Money market accounts	279	(5,395)	(5,116)	1,493	1,290	2,783
Savings accounts	(252)	(1,308)	(1,560)	(27)	1,182	1,155
Time deposits	1,753	(6,325)	(4,572)	(1,507)	3,026	1,519
FHLB advances	10,435	(1,182)	9,253	(859)	1,584	725
Junior subordinated debentures	468	59	527	–	–	–
Other	119	(13)	106	689	(24)	665
Total interest expense	12,801	(14,142)	(1,341)	(228)	7,058	6,830
Net interest income	\$ 5,976	\$ (420)	\$ 5,556	\$ 1,789	\$ (2,892)	\$ (1,103)

Provision and 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 for loan losses was \$23.7 million, or 1.29% of total loans, at December 31, 2008, compared to \$20.3 million, or 1.29% of total loans, at December 31, 2007. For the year 2008, the Corporation's provision for loan losses charged to earnings amounted to \$4.8 million, compared to \$1.9 million for 2007. The increase in the provision was based on management's assessment of various factors affecting the loan portfolio, including, among others, growth in the loan portfolio, our ongoing evaluation of credit quality, with particular emphasis on the commercial portfolio, and general economic conditions. Net charge-offs amounted to \$1.4 million in 2008, compared to \$517 thousand in 2007. Commercial loan net charge-offs amounted to \$1.1 million and \$329 thousand in 2008 and 2007, respectively. See additional discussion under the caption "Asset Quality" for further information on the Allowance for Loan Losses.

Noninterest Income

Noninterest income is an important source of revenue for Washington Trust. Washington Trust's primary sources of noninterest income are revenues from wealth management services, service charges on deposit accounts, merchant

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credit card processing fees, and net gains on loan sales and commissions on loans originated for others. Also included in noninterest income are earnings generated from bank-owned life insurance (“BOLI”). Noninterest income amounted to \$40.5 million, down \$5.0 million, or 11.0%, from 2007. This decline in noninterest income was largely due to the recognition of \$5.9 million in write-downs on certain investment securities deemed to be other-than-temporarily impaired in 2008. See additional disclosure on impairment charges recognized in 2008 under the caption “Securities.” Also included in noninterest income were net realized gains on securities of \$2.2 million and \$455 thousand in 2008 and 2007, respectively.

The following table presents a noninterest income comparison for the years ended December 31, 2008 and 2007:

(Dollars in thousands)	2008	2007	\$ Change	% Change
Noninterest income:				
Wealth management services:				
Trust and investment advisory fees	\$ 20,316	\$ 21,124	\$ (808)	(3.8)%
Mutual fund fees	5,205	5,430	(225)	(4.1)
Financial planning, commissions and other service fees	2,752	2,462	290	11.8
Wealth management services	28,273	29,016	(743)	(2.6)
Service charges on deposit accounts	4,781	4,713	68	1.4
Merchant processing fees	6,900	6,710	190	2.8
Income from BOLI	1,800	1,593	207	13.0
Net gains on loan sales and commissions on loans originated for others	1,396	1,493	(97)	(6.5)
Net unrealized gains (losses) on interest rate swap contracts	(542)	27	(569)	(2107.4)
Other income	1,625	1,502	123	8.2
Subtotal	44,233	45,054	(821)	(1.8)
Net realized gains on securities	2,224	455	1,769	388.8
Losses on write-downs of investments to fair value	(5,937)	–	(5,937)	–
Total noninterest income	\$ 40,520	\$ 45,509	\$ (4,989)	(11.0)%

Revenue from wealth management services decreased \$743 thousand, or 2.6%, in 2008. Wealth management revenues are largely dependent on the value of wealth management assets under administration and are closely tied to the performance of the financial markets. Assets under administration totaled \$3.1 billion at December 31, 2008, down \$866.7 million, or 21.6%, from December 31, 2007. The decline in assets under administration was primarily due to lower valuations in the financial markets. The following table presents the changes in wealth management assets under administration for the year ended December 31, 2008:

(Dollars in thousands)	2008	2007
Wealth Management Assets Under Administration:		
Balance at the beginning of period	\$ 4,014,352	\$ 3,609,180
Net investment (depreciation) appreciation and income	(980,909)	272,398
Net customer cash flows	114,206	132,774
Balance at the end of period	\$ 3,147,649	\$ 4,014,352

Service charges on deposit accounts totaled \$4.8 million and \$4.7 million, in 2008 and 2007, respectively. This revenue source reflects a very competitive retail-banking environment.

Merchant processing fees amounted to \$6.9 million and \$6.7 million in 2008 and 2007, respectively. Merchant processing fees represents charges to merchants for credit card transactions processed. This revenue source was

impacted by strong competition from bank and non-bank market participants. See discussion on the corresponding increase in merchant processing costs under the caption "Noninterest Expense."

Income from BOLI amounted to \$1.8 million and \$1.6 million for 2008 and 2007, respectively. BOLI represents life insurance on the lives of certain employees who have consented to allowing the Bank to be the beneficiary of such policies. The Corporation expects to benefit from the BOLI contracts as a result of the tax-free growth in cash surrender value and death benefits that are expected to be generated over time. The BOLI investment provides a

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means to mitigate increasing employee benefit costs. See additional discussion under the caption “Financial Condition” for further information on the investment in BOLI.

We originate residential mortgage loans for sale in the secondary market and also originate loans for various investors in a broker capacity, including conventional mortgages and reverse mortgages. This revenue source is subject to market volatility and dependent on mortgage origination volume, which is sensitive to rates and the condition of housing markets. In the first quarter of 2008, Washington Trust sold \$17.9 million in residential portfolio loans for interest rate risk and balance sheet management purposes, which resulted in a gain on sale of \$80 thousand. We do not have a practice of selling loans from portfolio and except for this we have not sold any packages of loans from our portfolio in many years. In addition, from time to time we sell the guaranteed portion of Small Business Administration (“SBA”) loans to investors. Net gains on loan sales and commissions on loans originated for others amounted to \$1.4 million in 2008, down by 6.5% from 2007, primarily due to declines in sales of SBA loans.

Included in noninterest income in 2008 were net unrealized losses on interest rate swap contracts of \$542 thousand. This amount includes \$638 thousand of unrealized losses attributable to an interest rate swap contract executed in April 2008 with Lehman Brothers Special Financing, Inc. to hedge the interest rate risk associated with variable rate junior subordinated debentures. Under the terms of this swap, Washington Trust agreed to pay a fixed rate and receive a variable rate based on LIBOR. At inception, this hedging transaction was deemed to be highly effective and, therefore, changes in the value of this interest rate swap contract were recognized in the accumulated other comprehensive income component of shareholders’ equity. In September 2008, Lehman Brothers Holdings Inc., the parent guarantor of the swap counterparty, filed for bankruptcy protection, followed in October 2008 by the swap counterparty itself. Due to the change in the creditworthiness of the swap counterparty, the hedging relationship was deemed to be not highly effective, with the result that subsequent changes in the valuation are recognized in earnings. The valuation decline was attributable to a decline in the swap yield curve during the fourth quarter of 2008, which reduced market fixed rates for terms similar to this swap contract. The bankruptcy filings by the Lehman entities constituted events of default under the interest rate swap contract, entitling Washington Trust to immediately suspend performance and to terminate the transaction. Washington Trust continues to monitor its rights and obligations under the interest rate swap transaction in the context of the Lehman bankruptcy proceedings and may seek to terminate or replace the transaction, or have it assigned to a third-party creditworthy counterparty. Unrealized gains on other interest rate swap transactions not affected by this matter amounted to \$96 thousand in 2008 and \$27 thousand in 2007. See additional discussion in Note 13 to the Consolidated Financial Statements.

Other income consists of mortgage servicing fees, non-customers ATM fees, safe deposit rents, wire transfer fees, fees on letters of credit and other fees. Other income increased \$123 thousand, or 8.2%, in 2008 primarily due to nonrecurring income of \$114 thousand.

In 2008 and 2007, net realized gains on securities totaled \$2.2 million and \$455 thousand, respectively. These amounts included \$315 thousand and \$397 thousand of gains recognized in 2008 and 2007, respectively, resulting from the annual charitable contribution of appreciated equity securities to our charitable foundation. In 2008, Washington Trust recognized net realized gains of \$1.7 million on the sale of equity securities and \$232 thousand on the sale of commercial debt securities. In 2007, net realized gains of \$314 thousand were recognized from certain debt and equity securities that were called prior to their maturity by the issuers and net realized losses of \$256 thousand resulted from sales of debt and equity securities.

In 2008, losses on write-downs of investment securities to fair value of \$5.9 million (\$3.8 million after tax, or 27 cents per diluted share) were charged to earnings for securities deemed to be other-than-temporarily impaired. See additional discussion in the “Financial Condition” section under the caption “Securities.”

Noninterest Expense

Noninterest expense totaled \$71.7 million, up \$2.8 million, or 4.1%, from 2007. Noninterest expenses for 2007 included \$1.1 million in debt prepayment charges recorded as a result of prepayments of higher cost FHLB advances in the first quarter of 2007. There were no debt prepayment penalty charges recognized in 2008. Excluding the 2007 debt prepayment charge, noninterest expenses rose by \$3.9 million, or 5.8%, in 2008. Additional discussion and further changes in the components of noninterest expenses are disclosed below.

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The following table presents a noninterest expense comparison for the years ended December 31, 2008 and 2007:

(Dollars in thousands)	2008	2007	\$ Change	% Change
Noninterest expense:				
Salaries and employee benefits	\$ 41,037	\$ 39,986	\$ 1,051	2.6%
Net occupancy	4,536	4,150	386	9.3
Equipment	3,838	3,473	365	10.5
Merchant processing costs	5,769	5,686	83	1.5
Outsourced services	2,859	2,180	679	31.1
Advertising and promotion	1,729	2,024	(295)	(14.6)
Legal, audit and professional fees	2,325	1,761	564	32.0
Amortization of intangibles	1,281	1,383	(102)	(7.4)
Debt prepayment penalties	–	1,067	(1,067)	(100.0)
Other	8,368	7,196	1,172	16.3
Total noninterest expense	\$ 71,742	\$ 68,906	\$ 2,836	4.1%

Salaries and employee benefits expense, the largest component of total noninterest expense, increased by \$1.1 million, or 2.6%, in 2008. This increase was largely due to increases in salaries and wages.

Net occupancy expense increased by \$386 thousand, or 9.3%, in 2008. The increase reflects higher utility costs, higher rental expense for premises leased by the Bank, and includes occupancy costs associated with the de novo branch opened in June 2007. Equipment expense increased by \$365 thousand, or 10.5%, in 2008, primarily due to additional investments in technology and other equipment.

Merchant processing costs totaled \$5.8 million and \$5.7 million in 2008 and 2007, respectively. Merchant processing costs represent third-party costs incurred that are directly attributable to handling merchant credit card transactions. See discussion on the corresponding increase in merchant processing fees under the caption “Noninterest Income.”

Outsourced services increased by \$679 thousand, or 31.1%, in 2008 due largely to higher third party vendor costs. Approximately 68% of this increase was attributable to higher outsourced services expenses for our wealth management business and included wealth management platform and product support costs.

Advertising and promotion expense decreased by \$295 thousand, or 14.6%, in 2008 reflecting management’s discretion over this category.

Legal, audit and professional fees increased by \$564 thousand, or 32.0%, from 2007, which included higher recruitment costs of \$209 thousand primarily associated with executive management positions, \$45 thousand in legal fees associated with the second quarter 2008 issuance of junior subordinated debentures (see Note 11), legal costs associated with product development and maintenance and various consulting matters.

Amortization of intangibles amounted to \$1.3 million in 2008 and \$1.4 million in 2007. See Note 8 to the Consolidated Financial Statements for additional information on intangible assets.

Debt prepayment penalties expense, resulting from the first quarter 2007 prepayment of \$26.5 million in higher cost FHLB advances, amounted to \$1.1 million in 2007. There were no prepayment penalty charges recognized in 2008.

Other noninterest expense increased by \$1.2 million, or 16.3%, in 2008. This was largely due to increases of \$831 thousand in FDIC deposit insurance costs and \$108 thousand in credit and collection costs.

Income Taxes

On July 3, 2008, the Commonwealth of Massachusetts enacted a law that included reducing the tax rate on net income applicable to financial institutions and requiring combined income tax reporting. The rate will be reduced from the current rate of 10.5% to 10.0% for 2010, 9.5% for 2011 and 9.0% for 2012 and thereafter. Previously, certain Washington Trust subsidiaries were subject to Massachusetts income tax on a separate return basis. Under the new legislation, effective January 1, 2009, Washington Trust, as a consolidated tax group, will be subject to income tax in the Commonwealth of Massachusetts. Washington Trust has analyzed the impact of this law and, as a

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result of revaluing its net deferred tax asset, recognized an income tax benefit of \$841 thousand in the third quarter of 2008. In addition, the Corporation recognized an income tax benefit of \$556 thousand in the fourth quarter of 2008 resulting primarily from the resolution of certain state tax positions (see Note 9).

Income tax expense amounted to \$7.3 million and \$10.8 million in 2008 and 2007, respectively. The Corporation's effective tax rate was 24.8% in 2008, compared to a rate of 31.3% in 2007. Excluding the income tax benefits described in the preceding paragraph, the Corporation's effective tax rate was 29.3% in 2008. This rate differed from the federal rate of 35.0% due to the benefits of tax-exempt income, the dividends received deduction and income from BOLI.

The Corporation's net deferred tax asset amounted to \$18.8 million at December 31, 2008, compared to \$7.7 million at December 31, 2007. The Corporation has determined that a valuation allowance is not required for any of the deferred tax assets since it is more likely than not that these assets will be realized primarily through future reversals of existing taxable temporary differences or carryback to taxable income in prior years. See Note 9 to the Consolidated Financial Statements for additional information regarding income taxes.

Comparison of 2007 with 2006

Net income for the year ended December 31, 2007 amounted to \$23.8 million, or \$1.75 per diluted share, compared to \$25.0 million, or \$1.82 per diluted share, for 2006. The rates of return on average equity and average assets for 2007 were 13.48% and 0.99%, respectively. Comparable amounts for 2006 were 14.99% and 1.04%, respectively.

The \$1.2 million, or 4.9%, decrease in net income was attributable to several factors that affected the results of operations for 2007. Net interest income declined by \$1.5 million, or 2.5%, largely due to a 4 basis point decline in the fully taxable equivalent net interest margin. The provision for loan losses was increased from \$1.2 million in 2006 to \$1.9 million in 2007. Revenues from wealth management services rose by \$2.6 million, or 10.0%, primarily attributable to an increase in wealth management assets under administration. A \$1.1 million debt prepayment charge was recorded in noninterest expense as a result of prepayments of higher cost FHLB advances. There were no debt prepayment penalty charges in 2006. All other noninterest expenses, excluding the debt prepayment charge, rose by \$2.5 million, or 3.8%. The effective income tax rate declined from 32.6% in 2006 to 31.3% in 2007, primarily due to a higher proportion of income from tax-exempt securities.

Net interest income for 2007 totaled \$59.9 million, down by \$1.5 million, or 2.5%, from the amount reported for 2006. The decline in net interest income was due to the fact that rates paid on deposits and borrowings have risen faster than earning asset yields and a higher rate of growth was experienced in higher cost deposit categories. In addition, the average balance of total interest-earning assets have declined somewhat in 2007 compared to 2006.

FTE net interest income for 2007 amounted to \$61.8 million, down by \$1.1 million, or 1.8%, from the \$62.9 million reported for 2006. The net interest margin for 2007 amounted to 2.76%, compared to 2.80% for 2006. The decline in net interest margin was attributable to more rapid increases in rates paid on deposits and FHLB advances than asset yields; and to a shift in the mix of deposits away from lower cost transactional and savings accounts and into higher cost premium money market accounts and in-market certificates of deposit.

Average interest-earning assets decreased by \$6.2 million, or 0.3%, in 2007. This was mainly due to a decline in average securities, offset in part by growth in the loan portfolio. Average loan balances grew by \$70.5 million, or 4.9%, mainly due to internal growth in the commercial loan portfolio. The yield on total loans increased 13 basis points in 2007. The contribution of loan prepayment and other fees to the yield on total loans was 4 basis points and 5 basis points in 2007 and 2006, respectively. The increase in the yield on total loans was primarily due to higher marginal yields on loans as compared to the prior year and higher yields on new loan originations. Total average securities declined by \$76.7 million, or 9.4%, in 2007. During the majority of 2007, the relatively flat yield curve

made reinvestment of maturing balances unattractive relative to funding costs. The 40 basis point increase in the total yield on securities in 2007 resulted primarily from the sale or runoff of lower yielding securities.

In 2007, average interest-bearing liabilities decreased by \$9.8 million, or 0.5%, while cost of funds increased 35 basis points. The Corporation experienced a shift in deposit mix with increases in higher cost premium money market accounts and in-market certificates of deposit and decreases in demand deposits and lower cost NOW and savings accounts. The balance of average FHLB advances decreased by \$20.4 million in 2007, while the average rate paid on FHLB advances increased by 32 basis points. In addition, the decline in average interest-bearing

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liabilities included the effect of a managed reduction in brokered certificates of deposit, which are utilized by the Corporation as part of its overall funding program along with FHLB advances and other sources. Average brokered certificates of deposit decreased by \$54.3 million, or 26.6%, in 2007.

For the year 2007, the Corporation's provision for loan losses charged to earnings amounted to \$1.9 million, compared to \$1.2 million for 2006. The increase in the provision was based on management's assessment of various factors affecting the loan portfolio, including, among others, growth in the loan portfolio, ongoing evaluation of credit quality, with particular emphasis on the commercial portfolio, and general economic conditions. The allowance for loan losses was \$20.3 million, or 1.29% of total loans, at December 31, 2007, compared to \$18.9 million, or 1.29% of total loans, at December 31, 2006.

Noninterest income was 43% of total revenues (net interest income plus noninterest income) in 2007. Noninterest income amounted to \$45.5 million for 2007, up by \$3.3 million, or 7.9%, from 2006. This increase was largely attributable to higher revenues from wealth management services.

The following table presents a noninterest income comparison for the years ended December 31, 2007 and 2006:

(Dollars in thousands)	2007	2006	\$ Change	% Change
Noninterest income:				
Wealth management services:				
Trust and investment advisory fees	\$ 21,124	\$ 19,099	\$ 2,025	10.6%
Mutual fund fees	5,430	4,665	765	16.4
Financial planning, commissions and other service fees	2,462	2,616	(154)	(5.9)
Wealth management services	29,016	26,380	2,636	10.0
Service charges on deposit accounts	4,713	4,915	(202)	(4.1)
Merchant processing fees	6,710	6,208	502	8.1
Income from BOLI	1,593	1,410	183	13.0
Net gains on loan sales and commissions on loans originated for others	1,493	1,423	70	4.9
Net unrealized gains on interest rate swap contracts	27	-	27	-
Other income	1,502	1,404	98	7.0
Subtotal	45,054	41,740	3,314	7.9
Net realized gains on securities	455	443	12	2.7
Total noninterest income	\$ 45,509	\$ 42,183	\$ 3,326	7.9%

Revenue from wealth management services increased by \$2.6 million, or 10.0%, in 2007. Revenue from wealth management services is largely dependent on the value of wealth management assets under administration and is closely tied to the performance of the financial markets. Assets under administration totaled \$4.0 billion at December 31, 2007, up \$405 million, or 11.2%, from December 31, 2006. This increase was due to successful business development efforts and customer cash flows.

Service charges on deposit accounts decreased by \$202 thousand, or 4.1%, in 2007. The decrease was attributable to changes in customer behavior and to a gradual shift of balances to products with lower fee terms.

Merchant processing fees increased by \$502 thousand, or 8.1%, in 2007 primarily due to increases in the volume of transactions processed for existing and new customers.

Income from BOLI amounted to \$1.6 million and \$1.4 million for 2007 and 2006, respectively. BOLI represents life insurance on the lives of certain employees who have consented to allowing the Bank to be the beneficiary of such

policies. The BOLI investment provides a means to mitigate increasing employee benefit costs. During the second quarter of 2006, Washington Trust purchased an additional \$8 million in BOLI.

Net gains on loan sales and commissions on loans originated for others amounted to \$1.5 million in 2007, up by 4.9% from 2006. Increases in residential mortgage origination and sales activity were offset in part by declines in sales of SBA loans.

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Other income consists of mortgage servicing fees, non-customers ATM fees, safe deposit rents, wire transfer fees, fees on letters of credit and other fees. Other income increased by \$98 thousand, or 7.0%, in 2007.

In 2007 and 2006, net realized gains on sales of securities totaled \$455 thousand and \$443 thousand, respectively. These amounts included \$397 thousand and \$381 thousand of gains recognized in 2007 and 2006, respectively, resulting from the annual charitable contribution of appreciated equity securities to our charitable foundation. Net realized gains of \$314 thousand were recognized in 2007 from certain debt and equity securities that were called prior to their maturity by the issuers. In addition, sales of debt and equity securities in 2007 resulted in net realized losses of \$256 thousand. In the second half of 2006, balance repositioning transactions were conducted in response to the flat to inverted yield curve shape in effect during most of that period. These transactions included sales of mortgage-backed securities and other debt securities resulting in realized losses of \$3.5 million. In addition, during 2006 equity securities were sold with a realized gain of \$3.5 million.

For the year ended December 31, 2007, noninterest expenses totaled \$68.9 million, up by \$3.6 million, or 5.5%, from 2006. Included in this increase was \$1.1 million in debt prepayment penalties that were incurred in the first quarter of 2007 as a result of the prepayment of higher cost FHLB advances. Excluding the debt prepayment penalty expense, noninterest expenses for 2007 increased by \$2.5 million, or 3.8%, over 2006. Additional discussion and further changes in the components of noninterest expenses are disclosed below.

The following table presents a noninterest expense comparison for the years ended December 31, 2007 and 2006:

(Dollars in thousands)	2007	2006	\$ Change	% Change
Noninterest expense:				
Salaries and employee benefits	\$ 39,986	\$ 38,698	\$ 1,288	3.3%
Net occupancy	4,150	3,888	262	6.7
Equipment	3,473	3,370	103	3.1
Merchant processing costs	5,686	5,257	429	8.2
Outsourced services	2,180	2,009	171	8.5
Advertising and promotion	2,024	1,894	130	6.9
Legal, audit and professional fees	1,761	1,637	124	7.6
Amortization of intangibles	1,383	1,593	(210)	(13.2)
Debt prepayment penalties	1,067	—	1,067	100.0
Other	7,196	6,989	207	3.0
Total noninterest expense	\$ 68,906	\$ 65,335	\$ 3,571	5.5%

Salaries and employee benefits expense, the largest component of total noninterest expense, increased by \$1.3 million, or 3.3%, in 2007. This increase was largely due to increases in salaries and wages.

Net occupancy expense in 2007 increased by \$262 thousand, or 6.7%. The increase reflected higher rental expense for premises leased by the Bank. Equipment expense increased by 3.1% in 2007, primarily due to additional investments in technology and other equipment.

Merchant processing costs increased by \$429 thousand, or 8.2%, in 2007 due largely to increased volume of transactions processed for existing and new customers.

Outsourced services increased by \$171 thousand, or 8.5%, in 2007 due to higher third party vendor costs. As a result of stronger marketing and promotion efforts, advertising and promotion expense increased \$130 thousand, or 6.9%, in 2007. Legal, audit and professional fees increased 7.6% from 2006, primarily due to increased consulting costs.

Amortization of intangibles amounted to \$1.4 million in 2007 and \$1.6 million in 2006.

Debt prepayment penalties expense, resulting from the first quarter 2007 prepayment of \$26.5 million in higher cost FHLB advances, amounted to \$1.1 million in 2007.

Other noninterest expense increased by \$207 thousand, or 3.0%, in 2007. This includes an increase of \$109 thousand in credit and collection costs.

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Income tax expense amounted to \$10.8 million and \$12.1 million in 2007 and 2006, respectively. The Corporation's effective tax rate was 31.3% in 2007, compared to a rate of 32.6% in 2006. These rates differed from the federal rate of 35.0% due to the benefits of tax-exempt income, the dividends received deduction and income from BOLI. In 2007, the decrease in the effective tax rate was primarily due to higher average balances in nontaxable state and municipal debt obligations.

Financial Condition

Summary

Total assets were \$3.0 billion at December 31, 2008, up by \$425.5 million from December 31, 2007. Total loans increased by \$265.5 million, or 16.9%, in 2008, led by growth in commercial loans. The securities portfolio increased by \$114.4 million, or 15.2%, in 2008, largely due to an increase in mortgage-backed securities. Total liabilities increased \$376.9 million in 2008, with an increase of \$114.7 million in total deposits and an increase of \$213.2 million in FHLB advances. The Corporation issued \$10.3 million in junior subordinated debenture in 2008, which supplemented the total risk-based capital position. Shareholders' equity totaled \$235.1 million at December 31, 2008, compared to \$186.5 million at the end of 2007. In October 2008, the Corporation issued \$50.0 million of its Common Stock. Net proceeds were \$46.9 million after deducting offering-related fees and expenses.

Effective January 1, 2008, the Corporation adopted SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157") and, as a result, has classified certain financial assets and liabilities as Level 1, 2 or 3 within the fair value hierarchy set forth in SFAS No. 157. Effective September 30, 2008, Washington Trust adopted FASB Staff Position No. 157-3, which was issued on October 10, 2008 to clarify the application of SFAS No. 157 in a market that is not active. Fair values determined by Level 1 inputs utilize quoted prices for identical assets or liabilities in active markets. Fair values determined by Level 2 inputs utilize quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, and model-derived valuations in which all significant input assumptions are observable in active markets. Fair values determined by Level 3 inputs utilize valuation techniques in which one or more significant input assumptions are unobservable in the markets and which reflect the Corporation's market assumptions.

As noted in Note 14 to the Consolidated Financial Statements, a majority of our fair value measurements utilize Level 2 inputs. Our Level 2 financial instruments consist primarily of available for sale debt securities. These debt securities were initially valued at their transaction price and subsequently valued based on matrix pricing with market data inputs such as reportable trades, benchmark yields, broker/dealer quotes, bids, offers, issuers spreads, credit ratings and other industry and economic events. Such inputs are observable in the market or can be derived principally from or corroborated by observable market data. When necessary, we validate our valuation techniques by reviewing the underlying basis for the models used by pricing sources and obtaining market values from other pricing sources. As of December 31, 2008, our Level 3 financial instruments consist primarily of two available for sale pooled trust preferred securities, which were not actively traded. To determine their fair values, Washington Trust utilized valuations received from third parties whose results were based on discounted cash flow methodologies. The valuations and related methodologies were reviewed by management for reasonableness. Our fair values assumed liquidation in an orderly market and not under distressed circumstances. If Washington Trust was required to sell these securities in an unordered fashion, actual proceeds received could potentially be significantly less than their fair values.

Securities

Washington Trust's securities portfolio is managed to generate interest income, to implement interest rate risk management strategies, and to provide a readily available source of liquidity for balance sheet management. Securities are designated as either available for sale or held to maturity at the time of purchase. Securities available for sale may be sold in response to changes in market conditions, prepayment risk, rate fluctuations, liquidity, or capital requirements. Securities available for sale are reported at fair value, with any unrealized gains and losses excluded

from earnings and reported as a separate component of shareholders' equity, net of tax, until realized. Securities designated as held to maturity are classified as such because the Corporation has the intent and ability to hold them until maturity. Securities held to maturity are reported at amortized cost. At December 31, 2008, the Corporation's portfolio consisted largely of mortgage-backed securities. All of the Corporation's mortgage-backed securities are issued by U.S. government agencies or U.S. government-sponsored enterprises. See Note 4 to the Consolidated Financial Statements for additional information.

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

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

In 2007, the Corporation intended to elect early adoption of SFAS No. 159, "The Fair Value Option for Financial Assets and Liabilities" ("SFAS No. 159") and sold twelve held to maturity securities with an amortized cost of \$61.9 million on April 13, 2007. The Corporation intended to account for these transactions under the transition provisions of SFAS No. 159. Subsequent to the Corporation's original decision to early adopt SFAS No. 159, clarifications of the interpretation of the application of SFAS No. 159 by applicable regulatory and industry bodies, including the AICPA's Center for Audit Quality, led us to conclude that the application of SFAS No. 159 to these transactions might be inconsistent with the intent and spirit of the statement. Consequently, the Corporation subsequently decided not to early-adopt SFAS No. 159 and realized securities losses of \$1.7 million were recognized in the second quarter of 2007. In addition, the remaining held to maturity portfolio was reclassified to the available for sale category as of the April 13, 2007 sale date of the securities. The Corporation will not be able to classify securities in the held to maturity category for a period of two years from the April 13, 2007 sales date as a result of this action.

Purchases of investment securities during 2008 totaled \$310.2 million and were comprised of \$296.2 million of mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises, \$13.0 million in corporate bonds, and \$1.0 million in municipal securities.

The carrying amounts of securities as of the dates indicated are presented in the following tables:

(Dollars in thousands)

December 31,	2008		2007		2006	
	Amount	%	Amount	%	Amount	%
Securities Available for Sale:						
U.S. Treasury obligations and obligations of U.S. government-sponsored enterprises	\$ 64,377	7%	\$ 139,599	18%	\$ 157,285	30%
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	683,619	80%	469,388	62%	293,787	56%
States and political subdivisions	81,213	9%	80,894	11%	—	—%
Trust preferred securities:						
Individual name issuers	16,793	2%	27,695	4%	30,574	6%

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Collateralized debt obligations	1,940	–%	6,759	1%	–	–%
Corporate bonds	13,576	2%	14,101	2%	25,034	5%
Common stocks	992	–%	6,781	1%	9,513	1%
Perpetual preferred stocks	3,709	–%	6,561	1%	10,203	2%
Total securities available for sale	\$ 866,219	100%	\$ 751,778	100%	\$ 526,396	100%

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(Dollars in thousands)

December 31,	2008		2007		2006	
	Amount	%	Amount	%	Amount	%
Securities Held to Maturity:						
U.S. Treasury obligations and obligations of U.S. government-sponsored enterprises	\$ -	-%	\$ -	-%	42,000	24%
Mortgage-backed securities issued by U.S. government-sponsored enterprises	-	-%	-	-%	69,340	39%
States and political subdivisions	-	-%	-	-%	66,115	37%
Total securities held to maturity	\$ -	-%	\$ -	-%	177,455	100%

At December 31, 2008 and 2007, the securities portfolio included \$3.2 million of net pretax unrealized losses and \$1.2 million of net pretax unrealized gains, respectively. At December 31, 2008, the net unrealized losses on the investment securities portfolio included gross unrealized losses of \$23.1 million. Approximately 75% of the gross unrealized losses on the investment securities portfolio were concentrated in variable rate trust preferred securities issued by financial services companies. These trust preferred securities holdings consist of seven individual name issuers in the financial industry, including, where applicable, the impact of mergers and acquisitions of issuers subsequent to original purchase, and two pooled trust preferred securities in the form of collateralized debt obligations. All of these trust preferred securities holdings have investment grade credit ratings at December 31, 2008. Subsequent to December 31, 2008, one credit rating agency has downgraded to below investment grade four of our trust preferred security holdings, with total unrealized losses of \$4.0 million at December 31, 2008. The ratings of these four securities by other credit rating agencies remain at investment grade as of the filing date of this report. Management has considered this information in its assessment of other-than-temporary impairment as of December 31, 2008. The pooled trust preferred holdings consist of trust preferred obligations of banking industry companies and, to a lesser extent, insurance industry companies. For both of its pooled trust preferred holdings, Washington Trust's investment is senior to one or more subordinated tranches that have first loss exposure. One of the pooled trust preferred securities held by the Corporation continues to accrue and make payments as expected. The other pooled trust preferred security began deferring interest payments until future periods and based on the financial condition and operating outlook of the issuers, was deemed to be other-than-temporarily impaired at December 31, 2008, with a resulting charge to earnings of \$1.9 million.

Further deterioration in credit quality of the companies backing the securities, further deterioration in the condition of the financial services industry, a continuation of the current imbalances in liquidity that exist in the marketplace, a continuation or worsening of the current economic recession, or additional declines in real estate values 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.

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The following tables provide supplemental information on the trust preferred securities as well as other information concerning the securities portfolio:

(Dollars in thousands)	Number of Issuers	Credit Rating (1)	Amortized Cost (2)	Unrealized Gains	Unrealized Losses	Fair Value
At December 31, 2008						
Trust preferred securities						
Individual name issuers (3):	2	Aa	\$ 15,421	\$ –	\$ (7,484)	\$ 7,937
	4	A	13,195	–	(4,880)	8,315
	1	Baa	1,909	–	(1,368)	541
Total individual name issuers	7		30,525	–	(13,732)	16,793
Collateralized debt obligations (CDO):						
Pool issue 1 (4)		Baa	5,000	–	(3,693)	1,307
Pool issue 2 (5)		Baa	633	–	–	633
Total collateralized debt obligations			5,633	–	(3,693)	1,940
Total trust preferred securities			\$ 36,158	\$ –	\$ (17,425)	\$ 18,733
Corporate bonds:						
	1	Aaa	\$ 2,784	\$ 167	\$ –	\$ 2,951
	2	A	10,189	436	–	10,625
Total corporate bonds	3		\$ 12,973	\$ 603	\$ –	\$ 13,576

(1) Source: Moody's, as of December 31, 2008. Moody's ratings remain at investment grade as of the filing date of this report.

(2) Net of other-than-temporary impairment write-downs recognized in earnings.

(3) Consists of various series of trust preferred securities issued by seven corporate financial institutions.

(4) As of December 31, 2008, 3 of the 38 pooled institutions have invoked their original contractual right to defer interest payments. The tranche held by Washington Trust continues to accrue and make payments as expected.

(5) As of December 31, 2008, 5 of the 73 pooled institutions have invoked their original contractual right to defer interest payments. The tranche held by Washington Trust began deferring interest payments until future periods and, based on the financial condition and operating outlook of the pooled institutions, was deemed to be other-than-temporarily impaired at December 31, 2008 resulting in the recognition of \$1.859 million of impairment charges. This investment security was also placed on nonaccrual status as of December 31, 2008.

(Dollars in thousands)

At December 31, 2008	Amortized Cost (1)	Unrealized Gains	Unrealized Losses	Fair Value
Common and perpetual preferred stocks				
Common stocks	\$ 942	\$ 50	\$ –	\$ 992
Perpetual preferred stocks:				
Federal National Mortgage Association ("Fannie Mae")	24	–	–	24
Federal Home Loan Mortgage Corporation ("Freddie Mac")	6	–	–	6
Other - financials	3,469	–	(662)	2,807
Other - utilities	1,000	2	(130)	872
Total perpetual preferred stocks	4,499	2	(792)	3,709
Total common and perpetual preferred stocks	\$ 5,441	\$ 52	\$ (792)	\$ 4,701

(1) Net of other-than-temporary impairment write-downs recognized in earnings.

In October 2008, the SEC's Office of the Chief Accountant, after consultation and concurrence with the FASB, concluded that the assessment of other-than-temporary impairment of perpetual preferred securities for filings made after October 14, 2008 can be made using an impairment model (including an anticipated recovery period) similar to a debt security provided there has been no evidence of a deterioration in credit of the issuer, as evidenced by, among other factors, a downgrade to a below "investment grade" credit rating. Washington Trust complied with this guidance in its evaluation of other-than-temporary impairment of perpetual preferred stocks.

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Losses on write-downs of investments to fair value were charged to earnings for securities deemed to be other-than-temporarily impaired in the amounts shown in the following table:

(Dollars in thousands)

Years ended December 31,	2008	2007	2006
Trust preferred securities			
Collateralized debt obligations	\$ 1,859	\$ -	\$ -
Common and perpetual preferred stocks			
Fannie Mae and Freddie Mac perpetual preferred stocks	\$ 1,470	-	-
Other perpetual preferred stocks	2,173	-	-
Other common stocks	435	-	-
Losses on write-downs of investments to fair value	\$ 5,937	\$ -	\$ -

See Note 4 to the Consolidated Financial Statements for additional discussion on securities.

Federal Home Loan Bank Stock

The Corporation is required to maintain a level of investment in FHLB stock based on the level of its FHLB advances. As of December 31, 2008 and 2007, the Corporation's investment in FHLB stock totaled \$42.0 million and \$31.7 million, respectively. No market exists for shares of the FHLB. FHLB stock may be redeemed at par value five years following termination of FHLB membership, subject to limitations which may be imposed by the FHLB or its regulator, the Federal Housing Finance Board, to maintain capital adequacy of the FHLB. While the Corporation currently has no intentions to terminate its FHLB membership, the ability to redeem its investment in FHLB stock would be subject to the conditions imposed by the FHLB.

The FHLB has advised its members that it is focusing on preserving capital in response to ongoing market volatility and, accordingly, it will not pay a quarterly dividend in the first quarter of 2009 and the payment of any dividend in 2009 is unlikely; further, a moratorium has been placed on excess stock repurchases. The FHLB also announced that the estimated fair value of private-label mortgage-backed securities it owned at September 30, 2008 was approximately \$1.3 billion less than the \$4.6 billion carrying value of the securities. If this unrealized loss were deemed to be an other-than-temporary loss in the future, it could exceed the FHLB's current level of retained earnings and possibly put into question whether the fair value of FHLB stock owned by the Corporation was less than par value. The FHLB has stated that it expects and intends to hold its private-label mortgage-backed securities to maturity. The Corporation will continue to monitor its investment in FHLB stock.

Loans

Washington Trust's loan portfolio amounted to \$1.8 billion at December 31, 2008, up \$265.5 million, or 16.9%, in 2008, primarily due to growth in the commercial loan portfolio. Commercial loans rose by \$200.0 million, or 29.4%, in 2008.

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The following table sets forth the composition of the Corporation's loan portfolio for each of the past five years:

(Dollars in thousands)

December 31,	2008		2007		2006		2005		2004	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Commercial:										
Mortgages	\$ 407,904	22%	\$ 278,821	18%	\$ 282,019	19%	\$ 291,292	21%	\$ 266,670	21%
Construction & development	49,599	3%	60,361	4%	32,233	2%	37,190	3%	29,263	2%
Other (1)	422,810	23%	341,084	21%	273,145	19%	226,252	16%	211,778	18%
Total commercial	880,313	48%	680,266	43%	587,397	40%	554,734	40%	507,711	41%
Residential real estate:										
Mortgages	626,663	34%	588,628	37%	577,522	40%	565,680	40%	494,720	40%
Homeowner construction	15,389	1%	11,043	1%	11,149	—%	17,028	2%	18,975	1%
Total residential real estate	642,052	35%	599,671	38%	588,671	40%	582,708	42%	513,695	41%
Consumer:										
Home equity lines	170,662	9%	144,429	9%	145,676	10%	161,100	11%	155,001	12%
Home equity loans	89,297	5%	99,827	6%	93,947	6%	72,288	5%	54,297	4%
Other (2)	56,830	3%	49,459	4%	44,295	4%	31,078	2%	18,972	2%
Total consumer loans	316,789	17%	293,715	19%	283,918	20%	264,466	18%	228,270	18%
Total loans	\$ 1,839,154	100%	\$ 1,573,652	100%	\$ 1,459,986	100%	\$ 1,401,908	100%	\$ 1,249,676	100%

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

(2) Other consumer loans include personal installment loans and loans to individuals secured by general aviation aircraft and automobiles.

An analysis of the maturity and interest rate sensitivity of Real Estate Construction and Other Commercial loans as of December 31, 2008 follows:

(Dollars in thousands)

Matures in:	1 Year or Less	1 to 5 Years	After 5 Years	Totals
Construction and development (1)	\$ 15,209	\$ 21,489	\$ 28,290	\$ 64,988
Commercial - other	162,124	158,055	102,631	422,810
	\$ 177,333	\$ 179,544	\$ 130,921	\$ 487,798

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

Sensitivity to changes in interest rates for Real Estate Construction and Other Commercial loans due after one year is as follows:

(Dollars in thousands)

	Predetermined Rates	Floating or Adjustable Rates	Totals
Principal due after one year	\$ 221,847	\$ 88,618	\$ 310,465

Commercial Loans

During 2008, total commercial loans increased by 29.4%. Commercial loans fall into two major categories, commercial real estate and other commercial loans (commercial and industrial). Commercial real estate loans consist of commercial mortgages and construction and development loans. Commercial mortgages are loans secured by income producing property.

Commercial Real Estate Loans

Commercial real estate loans amounted to \$457.5 million at December 31, 2008, up by \$118.3 million, or 34.9%, in 2008. The growth in this category was achieved through self-originated loans and, to a lesser extent, participations with other financial institutions.

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

(Dollars in thousands)	December 31, 2008	
	Amount	% of Total
Rhode Island, Connecticut, Massachusetts	\$ 405,040	88.5%
New York, New Jersey, Pennsylvania	37,448	8.2%
New Hampshire, Maine	13,384	2.9%
Other	1,631	0.4%
Total	\$ 457,503	100.0%

Other Commercial Loans

Other commercial loans amounted to \$422.8 million at December 31, 2008, up by \$81.7 million, or 24.0%, from the balance at the end of 2007. Other commercial loans are largely collateralized and in many cases the collateral consists of real estate occupied by the business as well as other business assets. Growth in this category was primarily attributable to originations in our general market area of southern New England. In 2008, much of this business was generated from former customers of larger financial institutions.

Residential Real Estate Loans

In 2008, residential real estate loans increased by \$42.4 million, or 7.1%, which included loans purchased from other financial institutions of \$39.3 million. In addition, in the first quarter of 2008 Washington Trust sold \$17.9 million in residential portfolio loans for interest rate risk and balance sheet management purposes, which resulted in a gain on sale of \$80 thousand. We do not have a practice of selling loans from portfolio and except for this we have not sold any packages of loans from our portfolio in many years. We originate residential mortgage loans within our general market area of southern New England for portfolio and for sale in the secondary market. The majority of loans sold are sold with servicing released. From time to time we purchase one to four family residential mortgages originated in other states as well as southern New England from other financial institutions. All residential mortgage loans purchased from other financial institutions have been individually underwritten using standards similar to those employed for our self-originated loans.

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

(Dollars in thousands)	December 31, 2008	
	Amount	% of Total
Rhode Island, Connecticut, Massachusetts	\$ 566,857	88.3%
New York, Virginia, New Jersey, Maryland, Pennsylvania, District of Columbia	28,252	4.4%
Ohio, Michigan	19,940	3.1%
California, Washington, Oregon	12,678	2.0%
Colorado, Texas, New Mexico, Utah	8,623	1.3%
Georgia	2,539	0.4%
New Hampshire, Vermont	2,055	0.3%
Other	1,108	0.2%
Total	\$ 642,052	100.0%

Consumer Loans

Consumer loans increased by 7.9% in 2008, primarily due to increases in home equity lines. Our consumer portfolio is predominantly home equity lines and home equity loans. All home equity lines and home equity loans were originated by Washington Trust in its general market area. Consumer loans also include personal installment loans and loans to individuals secured by general aviation aircraft and automobiles.

Asset Quality

The Board of Directors of the Bank monitors credit risk management through two committees, the Finance Committee and the Audit Committee. The Finance Committee reviews and approves large exposure credit requests, monitors asset quality on a regular basis and has approval authority for credit granting policies. The Audit Committee oversees management's system and procedures to monitor the credit quality of the loan portfolio, conduct a loan review program, maintain the integrity of the loan rating system and determine the adequacy of the allowance for loan losses. The Bank's practice is to identify problem credits early and take charge-offs as promptly as

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practicable. In addition, management continuously reassesses its underwriting standards in response to changes in credit risk posed by changes in economic conditions.

The level of nonperforming assets and loan delinquencies increased during 2008. In addition, net loan charge-offs increased from \$517 thousand in 2007 to \$1.4 million in 2008, comprised largely of commercial loans. Despite this increase, the level of net charge-offs as a percentage of average loans for 2008 was relatively low at 0.08%. Management believes this declining credit quality trend is primarily related to a general weakening in national and regional economic conditions and this trend is likely to continue in 2009.

Nonperforming Assets

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

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

(Dollars in thousands)

December 31,	2008	2007	2006	2005	2004
Nonaccrual loans:					
Commercial mortgages	\$ 1,942	\$ 1,094	\$ 981	\$ 394	\$ 2,357
Commercial construction and development	–	–	–	–	390
Other commercial	3,845	1,781	831	624	730
Residential real estate	1,754	1,158	721	1,147	1,027
Consumer	236	271	190	249	227
Total nonaccrual loans	7,777	4,304	2,723	2,414	4,731
Nonaccrual investment securities	633	–	–	–	–
Property acquired through foreclosure or repossession, net					
	392	–	–	–	4
Total nonperforming assets	\$ 8,802	\$ 4,304	\$ 2,723	\$ 2,414	\$ 4,735
Nonperforming assets to total assets	0.30%	0.17%	0.11%	0.10%	0.21%
Nonperforming loans to total loans	0.42%	0.27%	0.19%	0.17%	0.38%
Total past due loans to total loans	0.96%	0.45%	0.49%	0.27%	0.43%
Accruing troubled debt restructured loans	\$ 870	\$ 1,717	\$ –	\$ –	\$ –
Accruing loans 90 days or more past due	\$ –	\$ –	\$ –	\$ –	\$ –

Impaired loans consist of all nonaccrual commercial loans and loans restructured in a troubled debt restructuring. At December 31, 2008, impaired loans amounted to \$6.7 million, compared to \$4.6 million at December 31, 2007. See Note 5 to the Consolidated Financial Statements for additional disclosure on impaired loans.

Included in nonaccrual investment securities at December 31, 2008 was one pooled trust preferred security. Based on the financial condition and operating outlook of the issuers, this security was deemed to be other-than-temporarily impaired and placed on nonaccrual status in the fourth quarter of 2008. See additional information herein under the caption “Securities.”

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 past due 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 uncollected, is reversed against current period income. Subsequent cash receipts on nonaccrual loans are recognized as interest income, or recorded as a reduction of principal if full collection of the loan is doubtful or if impairment of the collateral is identified. Loans are removed from nonaccrual status when they have been current as to principal and

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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.

Interest income that would have been recognized if loans on nonaccrual status had been current in accordance with their original terms was approximately \$583 thousand, \$341 thousand and \$218 thousand in 2008, 2007 and 2006, respectively. Interest income attributable to these loans included in the Consolidated Statements of Income amounted to approximately \$469 thousand, \$318 thousand and \$192 thousand in 2008, 2007 and 2006, respectively.

There were no significant commitments to lend additional funds to borrowers whose loans were on nonaccrual status at December 31, 2008.

The following table presents additional detail on nonaccrual loans as of the dates indicated:

(Dollars in thousands)

December 31,	2008	2007
Nonaccrual loans 90 days or more past due	\$ 6,284	\$ 2,490
Nonaccrual loans less than 90 days past due	1,493	1,814
Total nonaccrual loans	\$ 7,777	\$ 4,304

\$2.9 million of the \$3.5 million increase in nonaccrual loans in 2008 occurred in the other commercial loan category. These are primarily loans to small business and generally secured by real estate as well as other business assets.

Restructured Loans

Loans are considered restructured when the Corporation has granted concessions to a borrower due to the borrower's financial condition that it otherwise would not have considered. These concessions include modifications of the terms of the debt such as reduction of the stated interest rate other than normal market rate adjustments, extension of maturity dates, or reduction of principal balance or accrued interest. The decision to restructure a loan, versus aggressively enforcing the collection of the loan, may benefit the Corporation by increasing the ultimate probability of collection. At December 31, 2008, there were no significant commitments to lend additional funds to borrowers whose loans had been restructured.

The following table sets forth information on troubled debt restructured loans as of the dates indicated:

(Dollars in thousands)

December 31,	2008	2007	2006	2005	2004
Accruing troubled debt restructured loans:					
Commercial mortgages	\$ —	\$ 1,717	\$ —	\$ —	—
Commercial construction and development	—	—	—	—	—
Other commercial	—	—	—	—	—
Residential real estate	263	—	—	—	—
Consumer	607	—	—	—	—
Accruing troubled debt restructured loans	870	1,717	—	—	—
Nonaccrual troubled debt restructured loans	—	—	—	—	—
Total troubled debt restructured loans	\$ 870	\$ 1,717	\$ —	\$ —	—

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Past Due Loans

The following tables present past due loans by category as of the dates indicated:

(Dollars in thousands)

December 31,	2008		2007	
	Amount	% (1)	Amount	% (1)
Loans 30 – 59 days past due:				
Commercial categories	\$ 5,490		\$ 1,450	
Residential real estate	3,113		1,620	
Consumer loans	76		73	
Loans 30 – 59 days past due	\$ 8,679		\$ 3,143	
Loans 60 – 89 days past due:				