WASHINGTON TRUST BANCORP INC
Form 10-Q
May 06, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended MARCH 31, 2008 or

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ______ to ______.

Commission file number: 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)
(401) 348-1200 (Registrant's telephone number, including area code)	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
xYes o No

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o

(Do not check if a smaller reporting company)

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

The number of shares of common stock of the registrant outstanding as of May 2, 2008 was 13,387,108.

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WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
For the Quarter Ended March 31, 2008

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES

(Dollars in thousands)

CONSOLIDATED BALANCE SHEETS

	Unaudited March 31, 2008	December 31, 2007
Assets:		
Cash and noninterest-bearing balances due from banks	$ 32,420	$ 30,817
Interest-bearing balances due from banks	1,080	1,973
Federal funds sold and securities purchased under resale agreements	8,808	7,600
Other short-term investments	1,211	722
Mortgage loans held for sale	1,854	1,981
Securities available for sale, at fair value;		
amortized cost $742,875 in 2008 and $750,583 in 2007	747,053	751,778
Federal Home Loan Bank stock, at cost	35,273	31,725
Loans:		
Commercial and other	726,315	680,266
Residential real estate	577,892	599,671
Consumer	294,375	293,715
Total loans	1,598,582	1,573,652
Less allowance for loan losses	20,724	20,277
Net loans	1,577,858	1,553,375
Premises and equipment, net	24,989	25,420
Accrued interest receivable	10,976	11,427
Investment in bank-owned life insurance	41,809	41,363
Goodwill	50,479	50,479
Identifiable intangible assets, net	11,107	11,433
Other assets	19,470	19,847
Total assets	$ 2,564,387	$ 2,539,940
Liabilities:		
Deposits:		
Demand deposits	$ 165,822	$ 175,542
NOW accounts	174,146	164,944
Money market accounts	327,562	321,600
Savings accounts	177,110	176,278
Time deposits	790,385	807,841
Total deposits	1,635,025	1,646,205
Dividends payable	2,678	2,677
Federal Home Loan Bank advances	658,048	616,417
Junior subordinated debentures	22,681	22,681
Other borrowings	23,057	32,560
Accrued expenses and other liabilities	31,679	32,887
Total liabilities	2,373,168	2,353,427
Commitments and contingencies		
Shareholders' Equity:		
Common stock of $.0625 par value; authorized 30,000,000 shares;		
issued 13,492,110 in 2008 and 2007	843	843
Paid-in capital	34,779	34,874

Retained earnings	157,065	154,647
Accumulated other comprehensive income (loss)	1,784	(239)
Treasury stock, at cost; 124,092 shares in 2008 and 137,652 shares in 2007	(3,252)	(3,612)
Total shareholders' equity	191,219	186,513
Total liabilities and shareholders' equity	$ 2,564,387	$ 2,539,940

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

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

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

	Unaudited	
Three months ended March 31,	2008	2007
Interest income:		
Interest and fees on loans	$ 24,970	$ 23,934
Interest on securities:		
Taxable	8,416	7,792
Nontaxable	780	668
Dividends on corporate stock and Federal Home Loan Bank stock	620	718
Other interest income	140	191
Total interest income	34,926	33,303
Interest expense:		
Deposits	11,899	12,977
Federal Home Loan Bank advances	7,299	4,968
Junior subordinated debentures	338	338
Other interest expense	314	150
Total interest expense	19,850	18,433
Net interest income	15,076	14,870
Provision for loan losses	450	300
Net interest income after provision for loan losses	14,626	14,570
Noninterest income:		
Wealth management services:		
Trust and investment advisory fees	5,342	5,038
Mutual fund fees	1,341	1,262
Financial planning, commissions and other service fees	575	570
Wealth management services	7,258	6,870
Service charges on deposit accounts	1,160	1,125
Merchant processing fees	1,272	1,204
Income from bank-owned life insurance	447	391
Net gains on loan sales and commissions on loans originated for others	491	264
Net (losses) gains on securities	(45)	1,036
Other income	461	358
Total noninterest income	11,044	11,248
Noninterest expense:		
Salaries and employee benefits	10,343	9,812
Net occupancy	1,138	1,017
Equipment	944	832
Merchant processing costs	1,068	1,019
Outsourced services	636	519
Advertising and promotion	386	429
Legal, audit and professional fees	543	450
Amortization of intangibles	326	368
Debt prepayment penalties	–	1,067
Other expenses	1,758	1,596
Total noninterest expense	17,142	17,109
Income before income taxes	8,528	8,709
Income tax expense	2,712	2,734

Net income		$	5,816	$	5,975
Weighted average shares outstanding - basic			13,358.1		13,412.1
Weighted average shares outstanding - diluted			13,560.6		13,723.0
Per share information:	Basic earnings per share	$	0.44	$	0.45
	Diluted earnings per share	$	0.43	$	0.44
	Cash dividends declared per share	$	0.20	$	0.20

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

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WASHINGTON TRUST BANCORP, INC.
AND SUBSIDIARIES (Dollars in thousands)
CONSOLIDATED STATEMENTS OF CASH FLOWS

		Unaudited	
Three months ended March 31,		2008	2007
Cash flows from operating activities:			
Net income		$ 5,816	$ 5,975
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses		450	300
Depreciation of premises and equipment		749	728
Net amortization of premium and discount		187	204
Amortization of intangibles		326	368
Share-based compensation		83	171
Earnings from bank-owned life insurance		(447)	(391)
Net gains on loan sales		(491)	(264)
Net losses (gains) on securities		45	(1,036)
Proceeds from sales of loans		16,176	11,364
Loans originated for sale		(15,696)	(11,201)
Increase (decrease) in accrued interest receivable, excluding purchased interest		467	(295)
(Decrease) increase in other assets		(692)	266
Decrease in accrued expenses and other liabilities		(1,820)	(1,018)
Other, net		(4)	–
Net cash provided by operating activities		5,149	5,171
Cash flows from investing activities:			
Purchases of:	Mortgage-backed securities available for sale	(73,111)	(17,065)
	Other investment securities available for sale	(1,025)	(15,873)
	Other investment securities held to maturity	–	(10,302)
Proceeds from sale of:	Other investment securities available for sale	53,289	2,001
Maturities and principal payments of:	Mortgage-backed securities available for sale	21,354	14,177
	Other investment securities available for sale	7,007	2,982
	Mortgage-backed securities held to maturity	–	2,980
	Other investment securities held to maturity	–	20,265
Purchase of Federal Home Loan Bank stock		(3,548)	–
Net increase in loans		(38,840)	(8,339)
Proceeds from sale of loans		18,047	–
Purchases of loans, including purchased interest		(4,064)	(1,630)
Purchases of premises and equipment		(318)	(1,024)
Payment of deferred acquisition obligation		(8,065)	(6,720)
Net cash used in investing activities		(29,274)	(18,548)
Cash flows from financing activities:			

Net (decrease) increase in deposits		(11,180)		5,595
Net (decrease) increase in other borrowings		(1,438)		17,828
Proceeds from Federal Home Loan Bank advances		289,870		170,400
Repayment of Federal Home Loan Bank advances		(248,231)		(187,805)
Purchases of treasury stock, including deferred compensation plan activity		43		(1,930)
Net proceeds from the exercise of stock options and issuance of other equity instruments		94		113
Tax benefit from stock option exercises and issuance of other equity instruments		51		189
Cash dividends paid		(2,677)		(2,556)
Net cash provided by financing activities		26,532		1,834
Net increase (decrease) in cash and cash equivalents		2,407		(11,543)
Cash and cash equivalents at beginning of period		41,112		71,909
Cash and cash equivalents at end of period	$	43,519	$	60,366
Noncash Investing and Financing Activities:				
Loans charged off	$	106	$	25
Supplemental Disclosures:				
Interest payments		19,248		18,393
Income tax payments		332		125

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

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

General
Washington Trust Bancorp, Inc. (the “Bancorp”) is a publicly-owned registered bank holding company and financial holding company. The Bancorp owns all of the outstanding common stock of The Washington Trust Company (the “Bank”), a Rhode Island chartered commercial bank founded in 1800. Through its subsidiaries, the Bancorp offers a complete product line of financial services to individuals and businesses including commercial, residential and consumer lending, retail and commercial deposit products, and wealth management services through its branch offices in Rhode Island, Massachusetts and southeastern Connecticut, ATMs, and its Internet web site (www.washtrust.com).

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

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

In the opinion of management, the accompanying consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) and disclosures necessary to present fairly the Corporation’s financial position as of March 31, 2008 and December 31, 2007, respectively, and the results of operations and cash flows for the interim periods presented. Interim results are not necessarily reflective of the results of the entire year. The unaudited consolidated financial statements of the Corporation presented herein have been prepared pursuant to the rules of the Securities and Exchange Commission (“SEC”) for quarterly reports on Form 10-Q and do not include all of the information and note disclosures required by GAAP. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in Washington Trust Bancorp, Inc.’s Annual Report on Form 10-K for the year ended December 31, 2007.

(2) New Accounting Pronouncements
In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (“SFAS No. 157”), which defines fair value, establishes a framework for measuring fair value and expands disclosures of fair value measurements. SFAS No. 157 applies to the accounting principles that currently use fair value measurement and does not require any new fair value measurements. The expanded disclosures focus on the inputs used to measure fair value as well as the effect of the fair value measurements on earnings. SFAS No. 157 is effective as of the beginning of the first fiscal year beginning after November 15, 2007 and interim periods within that fiscal year. The adoption of SFAS No. 157 for financial assets and liabilities did not have a material impact on the Corporation’s financial position or results of operations. The required disclosures about fair value measurements for financial assets and liabilities have been included in Note 10. In accordance with FASB Staff Position No. 157-2, “Effective Date of FASB Statement No. 157,” the effective date of SFAS No. 157 as it applies to nonfinancial assets, such as goodwill, and nonfinancial liabilities has been delayed to January 1, 2009. The Corporation is currently evaluating the impact that the adoption of SFAS No. 157 for nonfinancial assets and liabilities will have on the Corporation’s financial position and results of operations.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans (an amendment of FASB Statements No. 87, 88, 106 and 132R)" ("SFAS No. 158"). The requirement to measure the plan's assets and obligations as of the employers fiscal year end was adopted effective January 1, 2008. The adoption of the measurement date provision of SFAS No. 158 did not have a material impact on the Corporation's financial position or results of operations. See further discussion in Note 11.

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

In February 2007, the FASB issued SFAS No. 159, "The Fair Value option for Financial Assets and Liabilities" ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. The fair value option (1) may be applied instrument-by-instrument with certain exceptions, (2) is irrevocable (unless a new election date occurs) and (3) is applied only to entire instruments and not to portions of instruments. SFAS No. 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. Early adoption was permitted, however, the Corporation did not elect early adoption and, therefore, adopted SFAS No. 159 on January 1, 2008. Upon adoption, the Corporation did not elect the fair value option for eligible items.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), "Business Combinations" ("SFAS No. 141R") and SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 ("SFAS No. 160"). SFAS No. 141R and SFAS No. 160 require significant changes in the accounting and reporting for business acquisitions and the reporting of a noncontrolling interest in a subsidiary. Among many changes under SFAS No. 141R, an acquirer will record 100% of all assets and liabilities at fair value for partial acquisitions, contingent consideration will be recognized at fair value at the acquisition date with changes possibly recognized in earnings, and acquisition related costs will be expensed rather than capitalized. SFAS No. 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary. Key changes under the standard are that noncontrolling interests in a subsidiary will be reported as part of equity, losses allocated to a noncontrolling interest can result in a deficit balance, and changes in ownership interests that do not result in a change of control are accounted for as equity transactions and upon a loss of control, gain or loss is recognized and the remaining interest is remeasured at fair value on the date control is lost. SFAS No. 141R and SFAS No. 160 apply prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 (that is January 1, 2009 for entities with a calendar year end). Early adoption is not permitted. The adoption of SFAS No. 141R and SFAS No. 160 may have a significant impact on any future business combination closings on or after January 1, 2009. The Corporation is continuing to evaluate the impact that the adoption of SFAS No. 141R and SFAS No. 160 will have on the Corporation's financial position and results of operations.

The SEC released Staff Accounting Bulletin ("SAB") No. 109 in November 2007. SAB No. 109 provides guidance on written loan commitments that are accounted for at fair value through earnings. SAB No. 109 supersedes SAB No. 105, which provided guidance on derivative loan commitments pursuant to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Transactions". SAB No. 105 stated that in measuring the fair value of a derivative loan commitment it would be inappropriate to incorporate the expected net future cash flows related to the associated loan. SAB No. 109, consistent with the guidance in SFAS No. 156 and SFAS No. 159, requires that expected net future cash flows related to the associated servicing of the loan be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. The guidance in SAB 109 is applied on a prospective basis to derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. The adoption of SAB No. 109 did not have a material impact on the Corporation's financial position or results of operations.

The SEC released SAB No. 110 in December 2007. SAB No. 110 provides guidance on the use of a "simplified" method, as discussed in SAB No. 107, in developing an estimate of expected term of "plain vanilla" share options in accordance with SFAS No. 123 (revised 2004), "Share-Based Payment". SAB No. 107 did not expect a company to use the simplified method for share option grants after December 31, 2007. At the time SAB No. 107 was issued, the staff

believed that more detailed external information about employee exercise behavior (e.g., employee exercise patterns by industry and/or other categories of companies) would, over time, become readily available to companies. The staff understands that such detailed information about employee exercise behavior may not be widely available by December 31, 2007. Accordingly, the staff will continue to accept, under certain circumstances, the use of the simplified method beyond December 31, 2007. The adoption of SAB No. 110 did not have a material impact on the Corporation's financial position or results of operations.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS No. 161"). SFAS No. 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (1) how and why an entity uses derivative

instruments, (2) how derivative instruments and related hedge items are accounted for under SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" and its related interpretations, and (3) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early adoption encouraged. SFAS No. 161 encourages but does not require comparative disclosures for earlier periods at initial adoption. The Corporation will provide the additional disclosures necessary upon the adoption of SFAS No. 161.

(3) Securities

Securities are summarized as follows:

(Dollars in thousands) March 31, 2008	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities Available for Sale:				
U.S. Treasury obligations and obligations of U.S. government-sponsored agencies	$ 89,992	$ 4,454	$ –	$ 94,446
Mortgage-backed securities issued by U.S. government and government-sponsored agencies	520,767	6,042	(1,551)	525,258
States and political subdivisions	81,652	1,152	(237)	82,567
Trust preferred securities	37,982	–	(5,770)	32,212
Corporate bonds	1,744	8	–	1,752
Corporate stocks	10,738	1,526	(1,446)	10,818
Total securities available for sale	$ 742,875	$ 13,182	$ (9,004)	$ 747,053

(Dollars in thousands) December 31, 2007	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities Available for Sale:				
U.S. Treasury obligations and obligations of U.S. government-sponsored agencies	$ 136,721	$ 2,888	$ (10)	$ 139,599
Mortgage-backed securities issued by U.S. government and government-sponsored agencies	469,197	2,899	(2,708)	469,388
States and political subdivisions	80,634	499	(239)	80,894
Trust preferred securities	37,995	–	(3,541)	34,454
Corporate bonds	13,940	161	–	14,101
Corporate stocks	12,096	2,974	(1,728)	13,342
Total securities available for sale	$ 750,583	$ 9,421	$ (8,226)	$ 751,778

Securities available for sale with a fair value of $615.3 million and $592.7 million were pledged in compliance with state regulations concerning trust powers and to secure Treasury Tax and Loan deposits, borrowings, and certain public deposits at March 31, 2008 and December 31, 2007, respectively. In addition, securities available for sale with a fair value of $8.5 million and $8.4 million were collateralized for the discount window at the Federal Reserve Bank at March 31, 2008 and December 31, 2007, respectively. There were no borrowings with the Federal Reserve Bank at either date. Securities available for sale with a fair value of $1.6 million and $1.9 million were designated in a rabbi trust for a nonqualified retirement plan at March 31, 2008 and December 31, 2007, respectively. As of March 31, 2008 and December 31, 2007, securities available for sale with a fair value of $546 thousand and $532 thousand, respectively, were pledged as collateral to secure certain interest rate swap agreements.

At March 31, 2008 and December 31, 2007, the securities portfolio included $4.2 million and $1.2 million of net pretax unrealized gains, respectively. Included in these net amounts were gross unrealized losses amounting to $9.0 million and $8.2 million at March 31, 2008 and December 31, 2007, respectively.

During the first quarter of 2008, an impairment charge of $858 thousand was recognized on an equity security holding deemed to be other-than-temporarily impaired based on an analysis of the financial condition and operating outlook of the issuer. This charge was included in net losses on securities in the Consolidated Statements of Income for the three

months ended March 31, 2008. Also included in net losses on securities in the first quarter of 2008 were realized gains of $232 thousand on the sale of commercial debt securities and realized gains of $581 thousand on the sale of other equity securities.

The following tables summarize, for all securities in an unrealized loss position at March 31, 2008 and December 31, 2007, respectively, the aggregate fair value and gross unrealized loss by length of time those securities have been continuously in an unrealized loss position.

(Dollars in thousands)	Less than 12 Months			12 Months or Longer			Total		
At March 31, 2008	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
Mortgage-backed securities issued by U.S. government and government-sponsored agencies	35	$ 100,299	$ 769	19	$ 35,591	$ 782	54	$ 135,890	$ 1,551
States and political subdivisions	16	13,816	196	3	3,610	41	19	17,426	237
Trust preferred securities	8	21,734	4,186	5	10,478	1,584	13	32,212	5,770
Subtotal, debt securities	59	135,849	5,151	27	49,679	2,407	86	185,528	7,558
Corporate stocks	3	2,377	594	7	4,215	852	10	6,592	1,446
Total temporarily impaired securities	62	$ 138,226	$ 5,745	34	$ 53,894	$ 3,259	96	$ 192,120	$ 9,004

(Dollars in thousands)	Less than 12 Months			12 Months or Longer			Total		
At December 31, 2007	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
U.S. Treasury obligations and obligations of U.S. government-sponsored agencies	1	$ 6,996	$ 1	1	$ 3,990	$ 9	2	$ 10,986	$ 10
Mortgage-backed securities issued by U.S. government and government-sponsored agencies	22	108,630	1,028	46	110,348	1,680	68	218,978	2,708
States and political subdivisions	13	12,402	128	10	7,681	111	23	20,083	239
Trust preferred securities	8	23,167	2,769	5	11,287	772	13	34,454	3,541
Subtotal, debt securities	44	151,195	3,926	62	133,306	2,572	106	284,501	6,498
Corporate stocks	5	5,258	1,495	4	1,304	233	9	6,562	1,728
Total temporarily impaired securities	49	$ 156,453	$ 5,421	66	$ 134,610	$ 2,805	115	$ 291,063	$ 8,226

The majority of the loss for debt securities reported in an unrealized loss position at March 31, 2008 was concentrated in variable rate trust preferred securities issued by financial services companies, and in U.S. agency or government-sponsored agency mortgage-backed securities. The unrealized losses on trust preferred securities primarily reflects increased investor concerns about recent losses in the financial services industry related to sub-prime lending and sub-prime securities exposure. Credit spreads for issuers in this sector widened substantially during recent months, causing prices for these securities holdings to decline. The majority of the loss for other securities reported in an unrealized loss position at March 31, 2008 was concentrated in mortgage-backed securities purchased during 2003 and 2004, during which time interest rates were at or near historical lows. The market value for these and other security holdings included in this analysis have declined due to the relative increase in short and medium term interest rates since the time of purchase. The Corporation believes that the nature and duration of impairment on its debt security holdings are a function of changes in investment spreads and interest rate movements, and does not consider

full repayment of principal on the reported debt obligations to be at risk. The Corporation has the ability and intent to hold these investments to full recovery of the cost basis. The debt securities in an unrealized loss position at March 31, 2008 consisted of 86 debt security holdings. The largest unrealized loss of any single holding was $240 thousand, or 24.05% of its amortized cost, at March 31, 2008.

Causes of conditions whereby the fair value of corporate stock equity securities is less than cost include the timing of purchases and changes in valuation specific to individual industries or issuers. The relationship between the level of market interest rates and the dividend rates paid on individual equity securities may also be a contributing factor. The Corporation believes that a portion of the current impairment on its equity securities holdings is a function of investor concerns about recent losses in the financial services industry related to sub-prime lending and sub-prime securities exposure, which have resulted in greater volatility in market prices for both common and preferred stocks in this market sector. The equity securities in an unrealized loss position at March 31, 2008 consisted of 10 holdings of financial and commercial entities with unrealized losses of $1.4 million, or 82% of their aggregate cost, at March 31, 2008, after the recognition of the $858 thousand impairment charge described above. The unrealized loss position of these same securities was $1.7 million, or 79% of their aggregate cost, at December 31, 2007. None of these 10 equity securities have had fair values less than 80% of their cost for a period of six months or more. As noted in the table above, 7 of the 10 equity securities have been in an unrealized loss position for 12 months or longer. The unrealized loss position of these 7 equity securities was $143 thousand, or 2% of their aggregate cost, at March 31, 2007. The Corporation has the ability and intent to hold these investments to full recovery of the cost basis. While the impairment of these corporate stock equity securities has been determined to be temporary at March 31, 2008, should current market conditions continue and should these unrealized losses on these corporate stock equity securities continue, they may, in the future, be deemed to be other than temporarily impaired.

(4) Loan Portfolio

The following is a summary of loans:

(Dollars in thousands)	March 31, 2008		December 31, 2007	
	Amount	%	Amount	%
Commercial:				
Mortgages (1)	$ 309,684	19%	$ 278,821	18%
Construction and development (2)	62,489	4%	60,361	4%
Other (3)	354,142	22%	341,084	21%
Total commercial	726,315	45%	680,266	43%
Residential real estate:				
Mortgages (4)	565,031	35%	588,628	37%
Homeowner construction	12,861	1%	11,043	1%
Total residential real estate	577,892	36%	599,671	38%
Consumer:				
Home equity lines	146,471	9%	144,429	9%
Home equity loans	96,883	6%	99,827	6%
Other	51,021	4%	49,459	4%
Total consumer	294,375	19%	293,715	19%
Total loans (5)	$ 1,598,582	100%	$ 1,573,652	100%

(1) Amortizing mortgages, primarily secured by income producing property.

(2) Loans for construction of residential and commercial properties and for land development.

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

(4) A substantial portion of these loans is used as qualified collateral for FHLB borrowings (See Note 7 for additional discussion of FHLB borrowings).

(5) Net of unamortized loan origination fees, net of costs, totaling $66 thousand and $100 thousand at March 31, 2008 and December 31, 2007, respectively. Also includes $260 thousand and $297 thousand of premium, net of discount, on purchased loans at March 31, 2008 and December 31, 2007, respectively.

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Nonaccrual Loans

The balance of loans on nonaccrual status as of March 31, 2008 was $5.7 million, compared to $4.3 million at December 31, 2007. The $1.4 million increase was largely due to certain commercial loan relationships moving into the non-accruing loan classification.

(5) Allowance for Loan Losses

The following is an analysis of the allowance for loan losses:

(Dollars in thousands)

Three months ended March 31,		2008		2007
Balance at beginning of period	$	20,277	$	18,894
Provision charged to expense		450		300
Recoveries of loans previously charged off		103		191
Loans charged off		(106)		(25)
Balance at end of period	$	20,724	$	19,360

(6) Goodwill and Other Intangibles

The changes in the carrying value of goodwill and other intangible assets for the three months ended March 31, 2008 are as follows:

Goodwill

(Dollars in thousands)		Commercial Banking Segment		Wealth Management Service Segment		Total
Balance at December 31, 2007	$	22,591	$	27,888	$	50,479
Additions to goodwill during the period		–		–		–
Impairment recognized		–		–		–
Balance at March 31, 2008	$	22,591	$	27,888	$	50,479

Other Intangible Assets

(Dollars in thousands)		Core Deposit Intangible		Advisory Contracts		Non-compete Agreements		Total
Balance at December 31, 2007	$	510	$	10,743	$	180	$	11,433
Amortization		30		284		12		326
Balance at March 31, 2008	$	480	$	10,459	$	168	$	11,107

Amortization of intangible assets for the three months ended March 31, 2008 totaled $326 thousand. Estimated annual amortization expense of current intangible assets with finite useful lives, absent any impairment or change in estimated useful lives, is summarized below.

(Dollars in thousands)	Core	Advisory	Non-compete

Estimated amortization expense:	Deposits	Contracts	Agreements	Total
2008 (full year)	$ 120	$ 1,111	$ 49	$ 1,280
2009	120	1,040	49	1,209
2010	120	922	49	1,091
2011	120	768	33	921
2012	30	727	–	757

The components of intangible assets at March 31, 2008 are as follows:

(Dollars in thousands)	Core Deposits	Advisory Contracts	Non-compete Agreements	Total
Gross carrying amount	$ 2,997	$ 13,657	$ 1,147	$ 17,801
Accumulated amortization	2,517	3,198	979	6,694
Net amount	$ 480	$ 10,459	$ 168	$ 11,107

(7) Borrowings

Federal Home Loan Bank Advances

Advances payable to the Federal Home Loan Bank ("FHLB") are summarized as follows:

(Dollars in thousands)	March 31, 2008	December 31, 2007
FHLB advances	$ 658,048	$ 616,417

In addition to outstanding advances, the Corporation also has access to an unused line of credit amounting to $8.0 million at March 31, 2008. Under an agreement with the FHLB, the Corporation is required to maintain qualified collateral, free and clear of liens, pledges, or encumbrances that, based on certain percentages of book and market values, has a value equal to the aggregate amount of the line of credit and outstanding advances ("FHLB borrowings"). The FHLB maintains a security interest in various assets of the Corporation including, but not limited to, residential mortgages loans, U.S. government or agency securities, U.S. government-sponsored agency securities, and amounts maintained on deposit at the FHLB. The Corporation maintained qualified collateral in excess of the amount required to collateralize the line of credit and outstanding advances at March 31, 2008. Included in the collateral were securities available for sale with a fair value of $491.9 million and $395.4 million that were specifically pledged to secure FHLB borrowings at March 31, 2008 and December 31, 2007, respectively. Unless there is an event of default under the agreement with the FHLB, the Corporation may use, encumber or dispose of any portion of the collateral in excess of the amount required to secure FHLB borrowings, except for that collateral that has been specifically pledged.

Other Borrowings

The following is a summary of other borrowings:

(Dollars in thousands)	March 31, 2008	December 31, 2007
Treasury, Tax and Loan demand note balance	$ 1,256	$ 2,793
Deferred acquisition obligations	1,926	9,884
Securities sold under repurchase agreements	19,500	19,500
Other	375	383
Other borrowings	$ 23,057	$ 32,560

The Stock Purchase Agreement for the August 2005 acquisition of Weston Financial Group, Inc. ("Weston Financial") provides for the payment of contingent purchase price amounts based on operating results in each of the years in the three-year earn-out period ending December 31, 2008. Contingent payments are added to goodwill and recorded as deferred acquisition liabilities at the time the payments are determinable beyond a reasonable doubt. Deferred

acquisition obligations amounted to $1.9 million and $9.9 million at March 31, 2008 and December 31, 2007, respectively. In the first quarter of 2008 the Corporation paid approximately $8.1 million pursuant to the Stock Purchase Agreement, which represented the 2007 earn-out payment.

(8) Shareholders' Equity

Stock Repurchase Plan:

The Corporation's 2006 Stock Repurchase Plan authorizes the repurchase of up to 400,000 shares of the Corporation's common stock in open market transactions. There were no shares repurchased under the Corporation's 2006 Stock Repurchase Plan during the three months ended March 31, 2008. As of March 31, 2008, a cumulative total of 185,400 shares have been repurchased at a total cost of $4.8 million.

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During the first quarter of 2008, 3,423 shares were acquired pursuant to the Amended and Restated Nonqualified Deferred Compensation Plan ("Deferred Compensation Plan").

Regulatory Capital Requirements:

The following table presents the Corporation's and the Bank's actual capital amounts and ratios at March 31, 2008 and December 31, 2007, as well as the corresponding minimum and well capitalized regulatory amounts and ratios:

(Dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of March 31, 2008:						
Total Capital (to Risk-Weighted Assets):						
Corporation	$ 169,671	10.49%	$ 129,436	8.00%	$ 161,795	10.00%
Bank	$ 170,450	10.54%	$ 129,358	8.00%	$ 161,698	10.00%
Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	$ 149,401	9.23%	$ 64,718	4.00%	$ 97,077	6.00%
Bank	$ 150,192	9.29%	$ 64,679	4.00%	$ 97,019	6.00%
Tier 1 Capital (to Average Assets): (1)						
Corporation	$ 149,401	5.93%	$ 100,832	4.00%	$ 126,040	5.00%
Bank	$ 150,192	5.96%	$ 100,781	4.00%	$ 125,977	5.00%
As of December 31, 2007:						
Total Capital (to						
Risk-Weighted Assets):	$ 167,061	10.39%	$ 128,648	8.00%	$ 160,810	10.00%
Corporation	$ 174,750	10.87%	$ 128,574	8.00%	$ 160,717	10.00%
Bank						
Tier 1 Capital (to						
Risk-Weighted Assets):	$ 146,393	9.10%	$ 64,324	4.00%	$ 96,486	6.00%
Corporation	$ 154,093	9.59%	$ 64,287	4.00%	$ 96,430	6.00%
Bank						
Tier 1 Capital (to Average						
Assets): (1)	$ 146,393	6.09%	$ 96,088	4.00%	$ 120,110	5.00%
Corporation	$ 154,093	6.42%	$ 96,042	4.00%	$ 120,053	5.00%
Bank						

(1) Leverage ratio

In connection with the Weston Financial acquisition, trust preferred securities totaling $22 million were issued in 2005 by WT Capital Trust I ("Trust I") and WT Capital Trust II ("Trust II"), statutory trusts created by the Bancorp. In accordance with FASB Interpretation 46-R, "Consolidation of Variable Interest Entities – Revised" ("FIN 46-R"), Trust I and Trust II are not consolidated into the Corporation's financial statements; however, the Corporation reflects the

amounts of junior subordinated debentures payable to the preferred shareholders of Trust I and Trust II as debt in its financial statements. As disclosed in Note 16, additional trust preferred securities of $10 million were issued in April 2008 by Washington Preferred Capital Trust ("Washington Preferred"), a newly formed statutory trust. The trust preferred securities qualify as Tier 1 capital.

The Corporation's capital ratios at March 31, 2008 place the Corporation in the "well-capitalized" category according to regulatory standards. On March 1, 2005, the Federal Reserve Board issued a final rule that would retain trust preferred securities in Tier 1 capital of bank holding companies, but with stricter quantitative limits and clearer standards. Under the proposal, after a five-year transition period that would end on March 31, 2009, the aggregate amount of trust preferred securities would be limited to 25% of Tier 1 capital elements, net of goodwill. The Corporation has evaluated the potential impact of such a change on its Tier 1 capital ratio and has concluded that the regulatory capital treatment of the trust preferred securities in the Corporation's total capital ratio would be unchanged.

(9) Financial Instruments with Off-Balance Sheet Risk and Derivative Financial Instruments
The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to manage the Corporation's exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby letters of credit, financial guarantees, interest rate

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swap agreements and commitments to originate and commitments to sell fixed rate mortgage loans. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the Corporation's Consolidated Balance Sheets. The contract or notional amounts of these instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The contractual and notional amounts of financial instruments with off-balance sheet risk are as follows:

(Dollars in thousands)	March 31, 2008	December 31, 2007
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit:		
Commercial loans	$ 144,902	$ 149,465
Home equity lines	181,235	176,284
Other loans	18,226	20,770
Standby letters of credit	8,112	8,048
Financial instruments whose notional amounts exceed the amount of credit risk:		
Forward loan commitments:		
Commitments to originate fixed rate mortgage loans to be sold	5,758	3,495
Commitments to sell fixed rate mortgage loans	7,611	5,472
Interest rate swap contracts:		
Swaps with customers	10,850	3,850
Mirror swaps with counterparties	10,850	3,850

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

Standby Letters of Credit
Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Under the standby letters of credit, the Corporation is required to make payments to the beneficiary of the letters of credit upon request by the beneficiary contingent upon the customer's failure to perform under the terms of the underlying contract with the beneficiary. Standby letters of credit extend up to five years. At March 31, 2008 and December 31, 2007, the maximum potential amount of undiscounted future payments, not reduced by amounts that may be recovered, totaled $8.1 million and $8.0 million, respectively. At March 31, 2008 and December 31, 2007, there was no liability to beneficiaries resulting from standby letters of credit. Fee income on standby letters of credit for the three months ended March 31, 2008 and 2007 was insignificant.

At March 31, 2008, a substantial portion of the standby letters of credit were supported by pledged collateral. The collateral obtained is determined based on management's credit evaluation of the customer. Should the Corporation be required to make payments to the beneficiary, repayment from the customer to the Corporation is required.

Interest Rate Risk Management Agreements

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

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The Corporation has entered into interest rate swap contracts to help commercial loan borrowers manage their interest rate risk. The interest rate swap contracts with commercial loan borrowers allow them to convert floating rate loan payments to fixed rate loan payments. When we enter into an interest rate swap contract with a commercial loan borrower, we simultaneously enter into a "mirror" swap contract with a third party. The third party exchanges the client's fixed rate loan payments for floating rate loan payments. We retain the risk that is associated with the potential failure of counterparties and inherent in making loans.

At March 31, 2008 and December 31, 2007, Washington Trust had interest rate swap contracts with commercial loan borrowers with notional amounts of $10.85 million and $3.85 million, respectively, and equal amounts of "mirror" swap contracts with third-party financial institutions. The interest rate swap contracts are carried at fair value with changes recorded as a component of other noninterest income. The fair values of the interest rate swap contracts with commercial loan borrowers amounted to $438 thousand as of March 31, 2008 and $60 thousand as of December 31, 2007. The fair values of the "mirror" swap contracts with third-party financial institutions totaled $429 thousand as of March 31, 2008 and $60 thousand as of December 31, 2007. For the three months ended March 31, 2008, net gains on these interest rate swap contracts amounted to $119 thousand. Washington Trust did not have interest rate swap contracts in the first quarter of 2007.

Forward Loan Commitments
Interest rate lock commitments are extended to borrowers that relate to the origination of readily marketable mortgage loans held for sale. To mitigate the interest rate risk inherent in these rate locks, as well as closed mortgage loans held for sale, best efforts forward commitments are established to sell individual mortgage loans. Commitments to originate and commitments to sell fixed rate mortgage loans are derivative financial instruments. Accordingly, the fair value of these commitments is recognized in other assets on the balance sheet and the changes in fair value of such commitments are recorded in current earnings in the income statement. The carrying value of such commitments as of March 31, 2008 and December 31, 2007 and the respective changes in fair values for the three months ended March 31, 2008 and 2007 were insignificant.

(10) Fair Value
Effective January 1, 2008, the Corporation adopted SFAS No. 157 for financial assets and liabilities. The effective date of SFAS No. 157, as it applies to nonfinancial assets and liabilities, has been delayed to January 1, 2009. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosure requirements about fair value measurements. SFAS No. 157, among other things, emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and states that a fair value measurement should be determined based on the assumptions the market participants would use in pricing the asset or liability. In addition, SFAS No. 157 specifies a hierarchy of valuation techniques based on whether the types of valuation information ("inputs") are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Corporation's market assumptions. These two types of inputs have created the following fair value hierarchy:

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

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

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Determination of Fair Value
Under SFAS No. 157, fair values are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When available, the Corporation generally uses quoted market prices to determine fair value and classifies such items as Level 1. In some cases where a market price is available, the Corporation will make use of acceptable practical expedients (such as matrix pricing) to calculate fair value, in which case the items are classified as Level 2. If quoted prices are not available, fair value is based upon valuation techniques that use, where possible, current market-based or independently sourced market parameters, such as interest rates. In these instances, the items will be classified based upon the lowest level of input that is significant to the valuation. Thus, an item may be classified as Level 3 even though there may be some significant inputs that may be readily observable.

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

Securities Available for Sale
Securities available for sale are recorded at fair value on a recurring basis. When available, the Corporation uses quoted market prices to determine the fair value of securities; such items are classified as Level 1. This category includes exchange-traded equity securities and U.S. Treasury obligations.

Level 2 securities include debt securities with quoted prices, which are traded less frequently than exchange-traded instruments, whose value is determined using matrix pricing with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes obligations of U.S. government-sponsored agencies, mortgage-backed securities issued by U.S. government and government-sponsored agencies, municipal bonds, trust preferred securities, corporate bonds and preferred equity securities.

In certain cases where there is limited activity or less transparency around inputs to the valuation, securities may be classified as Level 3. As of March 31, 2008, no securities were classified as Level 3.

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

Derivatives
Substantially all of our derivatives are traded in over-the-counter markets where quoted market prices are not readily available. Fair value measurements are determined using independent pricing models that utilize primarily market observable inputs, such as swap rates of different maturities and LIBOR rates, and, accordingly, are classified as Level 2. Examples include interest rate swap contracts. Any derivative for which we measure fair value using significant assumptions that are unobservable are classified as Level 3. Level 3 derivatives include interest rate lock commitments written for our residential mortgage loans that we intend to sell.

Collateral Dependent Impaired Loans
Collateral dependent loans that have deemed to be impaired in accordance with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," are valued based upon the fair value of the underlying collateral. The inputs used

in the appraisals of the collateral are observable, and, therefore, the loans are categorized as Level 2.

Mortgage Servicing Rights

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

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

(Dollars in thousands)	Fair Value Measurements Using			Assets/ Liabilities at
March 31, 2008	Level 1	Level 2	Level 3	Fair Value
Assets:				
Securities available for sale	$ 4,875	$ 742,178	$ –	$ 747,053
Derivative assets (1)	–	438	–	438
Total assets at fair value on a recurring basis	$ 4,875	$ 742,616	$ –	$ 747,491
Liabilities:				
Derivative liabilities (1)	$ –	$ 429	$ 13	$ 442
Total liabilities at fair value on a recurring basis	$ –	$ 429	$ 13	$ 442

(1) Derivatives assets are included in other assets and derivative liabilities are reported in accrued expenses and other liabilities in the Consolidated Balance Sheets.

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis in the three month period ended March 31, 2008 were immaterial.

Items Recorded at Fair Value on a Nonrecurring Basis
Certain assets are measured at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from the application of lower of cost or market accounting or write-downs of individual assets. The valuation methodologies used to measure these fair value adjustments are described above. The following table presents the carrying value of certain assets measured at fair value on a nonrecurring basis during the three months ended March 31, 2008.

(Dollars in thousands)	Carrying Value at March 31, 2008			
	Level 1	Level 2	Level 3	Total
Assets:				
Collateral dependent impaired loans	$ –	$ 977	$ –	$ 977
Total assets at fair value on a nonrecurring basis	$ –	$ 977	$ –	$ 977

The total nonrecurring fair value adjustments included in the Consolidated Statement of Income for the three months ended March 31, 2008 were immaterial.

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(11) Defined Benefit Pension Plans

Effective January 1, 2008, the Corporation adopted the measurement date provisions of SFAS No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)." As a result, the Corporation recognized the following adjustments in individual line items of its Consolidated Balance Sheet as of January 1, 2008:

(Dollars in thousands)	Prior to Adoption of Measurement Date Provisions of SFAS No. 158	Effect of Adopting Measurement Date Provisions of SFAS No. 158	As of January 1, 2008
Net deferred tax asset	$ 7,705	$ (23)	$ 7,682
Defined benefit pension liabilities	11,801	654	12,455
Retained earnings	154,647	(719)	153,928
Accumulated other comprehensive (loss) income	(239)	42	(197)

The adoption of the measurement date provisions of SFAS No. 158 had no effect on the Corporation's Consolidated Statements of Income or Cash Flows for the three months ended March 31, 2008.

The following table sets forth the plans' benefit obligations, fair value of plan assets and funded status as of March 31, 2008 and 2007.

Components of Net Periodic Benefit Costs:

(Dollars in thousands)	Qualified Pension Plan		Non-Qualified Retirement Plans	
Three months ended March 31,	2008	2007	2008	2007
Components of Net Periodic Benefit Costs:				
Service cost	$ 511	$ 503	$ 62	$ 86
Interest cost	507	462	143	130
Expected return on plan assets	(569)	(496)	-	-
Amortization of transition asset	–	(1)	-	-
Amortization of prior service cost	(8)	(9)	16	16
Recognized net actuarial loss	3	47	54	54
Net periodic benefit cost	$ 444	$ 506	$ 275	$ 286

Employer Contributions:

The Corporation previously disclosed in its financial statements for the year ended December 31, 2007 that it expected to contribute $2.0 million to its qualified pension plan and $421 thousand in benefit payments to its non-qualified retirement plans in 2008. During the quarter ended March 31, 2008, $2.0 million of contributions have been made to the qualified pension plan and $84 thousand in benefit payments have been made to the non-qualified retirement plans. The Corporation presently anticipates contributing an additional $251 thousand in benefit payments to the non-qualified retirement plans in 2008.

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(12) Business Segments

Washington Trust segregates financial information in assessing its results among two operating segments: Commercial Banking and Wealth Management Services. The amounts in the Corporate column include activity not related to the segments, such as the investment securities portfolio, wholesale funding activities and administrative units. The Corporate column is not considered to be an operating segment. The methodologies and organizational hierarchies that define the business segments are periodically reviewed and revised. Results may be restated, when necessary, to reflect changes in organizational structure or allocation methodology. The following tables present the statement of operations and total assets for Washington Trust's reportable segments.

(Dollars in thousands)	Commercial Banking		Wealth Management Services		Corporate		Consolidated Total	
Three months ended March 31,	2008	2007	2008	2007	2008	2007	2008	2007
Net interest income (expense)	$ 14,486	$ 13,375	$ (9)	$ (8)	$ 599	$ 1,503	$ 15,076	$ 14,870
Noninterest income	3,344	2,889	7,258	6,870	442	1,489	11,044	11,248
Total income	17,830	16,264	7,249	6,862	1,041	2,992	26,120	26,118
Provision for loan losses	450	300	–	–	–	–	450	300
Depreciation and amortization expense	620	616	411	436	44	44	1,075	1,096
Other noninterest expenses	9,397	8,643	4,677	4,298	1,993	3,072	16,067	16,013
Total noninterest expenses	10,467	9,559	5,088	4,734	2,037	3,116	17,592	17,409
Income before income taxes	7,363	6,705	2,161	2,128	(996)	(124)	8,528	8,709
Income tax expense (benefit)	2,589	2,361	841	826	(718)	(453)	2,712	2,734
Net income	$ 4,774	$ 4,344	$ 1,320	$ 1,302	$ (278)	$ 329	$ 5,816	$ 5,975
Total assets at period end	1,673,074	1,540,794	45,121	36,726	846,192	822,442	2,564,387	2,399,962
Expenditures for long-lived assets	254	886	41	69	23	90	318	1,045

Management uses certain methodologies to allocate income and expenses to the business lines. A funds transfer pricing methodology is used to assign interest income and interest expense to each interest-earning asset and interest-bearing liability on a matched maturity funding basis. Certain indirect expenses are allocated to

segments. These include support unit expenses such as technology and processing operations and other support functions. Taxes are allocated to each segment based on the effective rate for the period shown.

Commercial Banking

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

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.

Corporate

Corporate includes the Treasury Unit, which is responsible for managing the wholesale investment portfolio and wholesale funding needs. It also includes income from bank-owned life insurance as well as administrative and executive expenses not allocated to the business lines and the residual impact of methodology allocations such as funds transfer pricing offsets.

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(13) Comprehensive Income

(Dollars in thousands)

Three months ended March 31,