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

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

FORM 10-Q

(Mark One)

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended MARCH 31, 2011 or

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

Commission file number: 001-32991

WASHINGTON TRUST BANCORP, INC.

(Exact name of registrant as specified in its charter)

RHODE ISLAND (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 oNo

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
oYes oNo

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

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

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

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

Table of Contents

FORM 10-Q
WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
For the Quarter Ended March 31, 2011

TABLE OF CONTENTS

-2-

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (unaudited)

(Dollars in thousands, except par value)

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

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

Table of Contents

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

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

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

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

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

Table of Contents

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

(Dollars in thousands)

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

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

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

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

Table of Contents

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

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

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

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

In the opinion of management, the accompanying consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) and disclosures necessary to present fairly the Corporation's financial position as of March 31, 2011 and December 31, 2010, respectively, and the results of operations and cash flows for the interim periods presented. Interim results are not necessarily reflective of the results of the entire year. The unaudited consolidated financial statements of the Corporation presented herein have been prepared pursuant to the rules of the Securities and Exchange Commission ("SEC") for quarterly reports on Form 10-Q and do not include all of the information and note disclosures required by GAAP. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2010.

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

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

Table of Contents

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

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

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

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

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

(Dollars in thousands)

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

(Dollars in thousands)

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

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

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

Table of Contents

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

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

(Dollars in thousands)

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

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

Table of Contents

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

The following table summarizes temporarily impaired securities as of March 31, 2011, segregated by length of time the securities have been in a continuous unrealized loss position:

(Dollars in thousands)	Less than 12 Months			12 Months or Longer			Total		
March 31, 2011	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	7	$ 101,688	$ 753	–	$ –	$ –	7	$ 101,688	$ 753
States and political subdivisions	6	5,706	122	2	1,225	105	8	6,931	227
Trust preferred securities:									
Individual name issuers	–	–	–	11	25,077	5,533	11	25,077	5,533
Collateralized debt obligations	–	–	–	2	752	3,676	2	752	3,676
Corporate bonds	1	604	3	–	–	–	1	604	3
Total temporarily impaired securities	14	$ 107,998	$ 878	15	$ 27,054	$ 9,314	29	$ 135,052	$ 10,192

The following table summarizes temporarily impaired securities as of December 31, 2010, segregated by length of time the securities have been in a continuous unrealized loss position:

(Dollars in thousands)	Less than 12 Months			12 Months or Longer			Total		
December 31, 2010	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	6	$ 76,382	$ 369	3	$ 5,208	$ 15	9	$ 81,590	$ 384
States and political subdivisions	15	14,209	273	2	1,228	102	17	15,437	375
Trust preferred securities:									
Individual name issuers	–	–	–	11	23,275	7,326	11	23,275	7,326
Collateralized debt obligations	–	–	–	2	806	3,660	2	806	3,660
Total temporarily impaired securities	21	$ 90,591	$ 642	18	$ 30,517	$ 11,103	39	$ 121,108	$ 11,745

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

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

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

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

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

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

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

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

As of March 31, 2011, one of the pooled trust preferred securities had an amortized cost of $3.2 million. This amortized cost was net of $1.7 million of credit-related impairment losses previously recognized in earnings reflective of payment deferrals and credit deterioration of the underlying collateral. This security was placed on nonaccrual status in March 2009. The tranche instrument held by Washington Trust has been deferring a portion of interest payments since April 2010. As of March 31, 2011, this security has unrealized losses of $2.5 million and a below investment grade rating of "Ca" by Moody's Investors Service Inc. ("Moody's"). Through the filing date of this report, there have been no further rating changes on this security. This credit rating status has been considered by management in its assessment of the impairment status of this security. During the first quarter of 2011, a modest adverse change occurred in the expected cash flows for this security and additional credit-related impairment losses of $13 thousand were recognized in earnings.

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

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

Table of Contents

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

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

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

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

Table of Contents

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

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

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

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

Table of Contents

Nonaccrual Loans

Loans, with the exception of certain well-secured residential mortgage loans that are in the process of collection, are placed on nonaccrual status and interest recognition is suspended when such loans are 90 days or more overdue with respect to principal and/or interest or sooner if considered appropriate by management. Well-secured residential mortgage loans are permitted to remain on accrual status provided that full collection of principal and interest is assured and the loan is in the process of collection. Loans are also placed on nonaccrual status when, in the opinion of management, full collection of principal and interest is doubtful. Interest previously accrued but not collected on such loans is reversed against current period income. Subsequent cash receipts on nonaccrual loans are applied to the outstanding principal balance of the loan or recognized as interest income depending on management's assessment of the ultimate collectability of the loan. Loans are removed from nonaccrual status when they have been current as to principal and interest for a period of time, the borrower has demonstrated an ability to comply with repayment terms, and when, in management's opinion, the loans are considered to be fully collectible.

The following is a summary of nonaccrual loans, segregated by class of loans, as of the dates indicated:

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

Table of Contents

Past Due Loans

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

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

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

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

Impaired Loans

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

(Dollars in thousands)	Recorded Investment (1)		Unpaid Principal		Related Allowance	
	Mar. 31, 2011	Dec. 31, 2010	Mar. 31, 2011	Dec. 31, 2010	Mar. 31, 2011	Dec. 31, 2010
No Related Allowance Recorded:						
Commercial:						
Mortgages	$ 1,772	$ 3,113	$ 1,768	$ 3,128	$ –	$ –
Construction and development	–	–	–	–	–	–
Other	2,453	3,237	2,579	3,834	–	–
Residential real estate:						
Mortgages	2,149	928	2,230	937	–	–
Homeowner construction	–	–	–	–	–	–
Consumer:						
Home equity lines	–	–	–	–	–	–
Home equity loans	159	163	159	159	–	–
Other	–	–	–			