WASHINGTON TRUST BANCORP INC
Form 10-Q
November 07, 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 SEPTEMBER 30, 2011 or

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

Commission file number: 001-32991

WASHINGTON TRUST BANCORP, INC.

(Exact name of registrant as specified in its charter)

RHODE ISLAND	05-0404671
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
23 BROAD STREET	
WESTERLY, RHODE ISLAND	02891
(Address of principal executive offices)	(Zip Code)

(401) 348-1200
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
xYes oNo

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
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 (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 November 2, 2011 was 16,289,125.

Table of Contents

FORM 10-Q
WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
For the Quarter Ended September 30, 2011

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (unaudited)

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

	September 30, 2011	December 31, 2010
Assets:		
Cash and due from banks	$64,312	$85,971
Other short-term investments	3,474	6,765
Mortgage loans held for sale; amortized cost $21,842 in 2011	22,670	13,894
Securities:		
Available for sale, at fair value; amortized cost $549,352 in 2011 and $578,897 in 2010	569,703	594,100
Held to maturity, at cost; fair value $11,843 in 2011	11,840	—
Total Securities	581,543	594,100
Federal Home Loan Bank stock, at cost	42,008	42,008
Loans:		
Commercial and other	1,070,525	1,027,065
Residential real estate	691,468	645,020
Consumer	325,766	323,553
Total loans	2,087,759	1,995,638
Less allowance for loan losses	29,641	28,583
Net loans	2,058,118	1,967,055
Premises and equipment, net	25,478	26,069
Investment in bank-owned life insurance	53,291	51,844
Goodwill	58,114	58,114
Identifiable intangible assets, net	7,147	7,852
Other assets	53,458	55,853
Total assets	$2,969,613	$2,909,525
Liabilities:		
Deposits:		
Demand deposits	$319,203	$228,437
NOW accounts	242,372	241,974
Money market accounts	374,324	396,455
Savings accounts	239,356	220,888
Time deposits	910,895	948,576
Total deposits	2,086,150	2,036,330
Federal Home Loan Bank advances	494,098	498,722
Junior subordinated debentures	32,991	32,991
Other borrowings	20,958	23,359
Other liabilities	49,922	49,259
Total liabilities	2,684,119	2,640,661
Shareholders' Equity:		
Common stock of $.0625 par value; authorized 30,000,000 shares; issued 16,279,453 shares in 2011 and 16,171,618 shares in 2010	1,017	1,011
Paid-in capital	87,467	84,889

Retained earnings	190,042	178,939
Accumulated other comprehensive income	6,968	4,025
Total shareholders’ equity	285,494	268,864
Total liabilities and shareholders’ equity	$2,969,613	$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		Nine Months	
Periods ended September 30,	2011	2010	2011	2010
Interest income:				
Interest and fees on loans	$25,069	$25,076	$74,035	$73,224
Interest on securities:				
Taxable	4,640	5,227	14,282	17,115
Nontaxable	746	769	2,273	2,308
Dividends on corporate stock and Federal Home Loan Bank stock	64	55	197	164
Other interest income	15	25	52	59
Total interest income	30,534	31,152	90,839	92,870
Interest expense:				
Deposits	3,808	4,747	12,040	15,847
Federal Home Loan Bank advances	4,539	5,574	13,956	17,793
Junior subordinated debentures	393	484	1,175	1,561
Other interest expense	245	246	728	731
Total interest expense	8,985	11,051	27,899	35,932
Net interest income	21,549	20,101	62,940	56,938
Provision for loan losses	1,000	1,500	3,700	4,500
Net interest income after provision for loan losses	20,549	18,601	59,240	52,438
Noninterest income:				
Wealth management services:				
Trust and investment advisory fees	5,547	5,052	17,045	15,222
Mutual fund fees	1,035	1,084	3,293	3,299
Financial planning, commissions and other service fees	209	349	1,043	1,033
Wealth management services	6,791	6,485	21,381	19,554
Service charges on deposit accounts	821	904	2,662	2,666
Merchant processing fees	3,223	3,050	7,849	7,062
Card interchange fees	597	507	1,665	1,383
Income from bank-owned life insurance	488	486	1,446	1,399
Net gains on loan sales and commissions on loans originated for others	1,077	1,011	2,139	1,889
Net realized gains on securities	—	737	197	737
Net losses on interest rate swap contracts	(47)	(60)	(6)	(113)
Equity in losses of unconsolidated subsidiaries	(144)	(95)	(433)	(197)
Other income	308	414	1,229	1,102
Noninterest income, excluding other-than-temporary impairment losses	13,114	13,439	38,129	35,482
Total other-than-temporary impairment losses on securities	—	—	(54)	(245)
Portion of loss recognized in other comprehensive income (before taxes)	(158)	—	(137)	(172)
Net impairment losses recognized in earnings	(158)	—	(191)	(417)
Total noninterest income	12,956	13,439	37,938	35,065
Noninterest expense:				
Salaries and employee benefits	12,912	12,067	37,138	35,294
Net occupancy	1,362	1,202	3,919	3,663
Equipment	1,092	1,037	3,211	3,048
Merchant processing costs	2,781	2,606	6,795	6,020
Outsourced services	863	769	2,610	2,464
FDIC deposit insurance costs	427	861	1,614	2,439

Legal, audit and professional fees		430	438	1,389	1,364
Advertising and promotion		561	467	1,341	1,250
Amortization of intangibles		230	273	705	854
Foreclosed property costs		45	203	549	326
Debt prepayment penalties		—	752	221	752
Other expenses		1,892	2,180	6,107	6,041
Total noninterest expense		22,595	22,855	65,599	63,515
Income before income taxes		10,910	9,185	31,579	23,988
Income tax expense		3,328	2,815	9,632	7,148
Net income		$7,582	$6,370	$21,947	$16,840
Weighted average common shares outstanding - basic		16,278	16,131	16,242	16,098
Weighted average common shares outstanding - diluted		16,294	16,136	16,269	16,104
Per share information:	Basic earnings per common share	$0.46	$0.39	$1.35	$1.04
	Diluted earnings per common share	$0.46	0.39	$1.34	$1.04
	Cash dividends declared per share	$0.22	$0.21	$0.66	$0.63

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

Table of Contents

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

Nine months ended September 30,		2011	2010
Cash Flows from Operating Activities:			
Net income		$21,947	$16,840
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses		3,700	4,500
Depreciation of premises and equipment		2,325	2,316
Foreclosed and repossessed property valuation adjustments		392	221
Net gain on sale of premises		(208)	—
Net amortization of premium and discount		1,149	384
Net amortization of intangibles		705	854
Share-based compensation		1,037	666
Income from bank-owned life insurance		(1,446)	(1,399)
Net gains on loan sales and commissions on loans originated for others		(2,139)	(1,889)
Net realized gains on securities		(197)	(737)
Net impairment losses recognized in earnings		191	417
Net losses on interest rate swap contracts		6	113
Equity in losses of unconsolidated subsidiaries		433	197
Proceeds from sales of loans		94,803	114,423
Loans originated for sale		(101,795)	(123,680)
Decrease in other assets		877	777
Decrease in other liabilities		(3,328)	(1,148)
Net cash provided by operating activities		18,452	12,855
Cash Flows from Investing Activities:			
Purchases of:	Mortgage-backed securities available for sale	(94,352)	(65,423)
	Other investment securities available for sale	(5,000)	(15,609)
	Mortgage-backed securities held to maturity	(11,954)	—
Proceeds from sale of:	Mortgage-backed securities available for sale	42,783	64,052
	Other investment securities available for sale	2,940	9,851
Maturities and principal payments of:	Mortgage-backed securities available for sale	81,613	116,017
	Other investment securities available for sale	355	12,000
	Mortgage-backed securities held to maturity	106	—
Net increase in loans		(88,373)	(93,626)
Purchases of loans, including purchased interest		(5,985)	(1,429)
Proceeds from the sale of property acquired through foreclosure or repossession		2,133	598
Purchases of premises and equipment		(2,237)	(1,421)
Purchases of bank-owned life insurance		—	(5,000)
Net proceeds from the sale of premises		1,279	—
Equity investments in real estate limited partnerships		(449)	(881)
Net cash (used in) provided by investing activities		(77,141)	19,129
Cash Flows from Financing Activities:			
Net increase in deposits		49,820	133,744
Net (decrease) increase in other borrowings		(2,401)	423
Proceeds from Federal Home Loan Bank advances		333,975	184,540
Repayment of Federal Home Loan Bank advances		(338,599)	(311,507)
Issuance of treasury stock, including deferred compensation plan activity		—	44
Net proceeds from the issuance of common stock under dividend reinvestment plan		754	762

Net proceeds from the exercise of stock options and issuance of other compensation-related equity instruments		725	531
Tax benefit from stock option exercises and issuance of other compensation-related equity instruments		68	41
Cash dividends paid		(10,603)	(10,162)
Net cash provided by (used in) financing activities		33,739	(1,584)
Net (decrease) increase in cash and cash equivalents		(24,950)	30,400
Cash and cash equivalents at beginning of period		92,736	57,260
Cash and cash equivalents at end of period		$67,786	$87,660
Noncash Investing and Financing Activities:	Loans charged off	$2,914	$4,006
	Net transfers from loans to property acquired through foreclosure or repossession	1,251	1,555
Supplemental Disclosures:	Interest payments	26,941	34,229
	Income tax payments	9,799	8,143

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

5

Table of Contents

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

(1) General and Basis of Presentation

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.

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 September 30, 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 Financial Accounting Standards Board ("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 beginning after June 15, 2011. The provisions of ASU 2010-20 and ASU 2011-01 encouraged, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. 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. Effective September 30, 2011, we adopted the remaining provisions of ASU 2010-20 and ASU 2011-01 pertaining to troubled debt restructurings. The adoption of ASU 2010-20 and ASU 2011-01 did not have a material impact on the Corporation's consolidated financial position, results of operations or cash flows.

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 is effective for interim and annual reporting periods beginning after June 15, 2011 and was applied retrospectively to the beginning of the 2011 annual period. The adoption of ASU 2011-02 did not 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
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fair Value Measurement – Topic 820
Accounting Standards Update No. 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards ("ASU 2011-04"), was issued in May 2011. The amendments in ASU 2011-04 change the wording used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the FASB did not intend for ASU 2011-04 to result in a change in the application of the requirements in GAAP. The amendments required by ASU 2011-04 are to be applied prospectively and are effective for fiscal years and interim periods within those years, beginning after December 15, 2011. The adoption of ASU 2011-04 is not expected to have a material impact on the Corporation's consolidated financial position, results of operations or cash flows.

Comprehensive Income – Topic 220
Accounting Standards Update No. 2011-05, "Presentation of Comprehensive Income" ("ASU 2011-05"), was issued in June 2011. The FASB issued ASU 2011-05 to improve the comparability, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. ASU 2011-05 requires that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The provisions of ASU 2011-05 are to be applied retrospectively and are effective for fiscal years and interim periods within those years, beginning after December 15, 2011. The adoption of ASU 2011-05 is not expected to have a material impact on the Corporation's consolidated financial position, results of operations or cash flows.

Intangibles-Goodwill and Other – Topic 350
Accounting Standards Update No. 2011-08, "Testing for Goodwill Impairment" ("ASU 2011-08"), was issued in September 2011. The objective of ASU 2011-08 is to simplify the testing of goodwill for impairment by allowing entities to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative test. There will no longer be a requirement to calculate the fair value of a reporting unit unless it is determined, based on a qualitative assessment, that it is more-likely-than-not that its fair value is less than its carrying amount. The more-likely-than-not threshold was defined as having a likelihood of more than 50 percent. The provisions of ASU 2011-08 are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of ASU 2011-08 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. Such reserve balances amounted to $4.0 million at September 30, 2011 and December 31, 2010 and are included in cash and due from banks in the Consolidated Statements of Condition.

As of September 30, 2011 and December 31, 2010, cash and due from banks included interest-bearing deposits in other banks of $13.7 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 September 30, 2011 and December 31, 2010 were as follows:

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

(Dollars in thousands)

September 30, 2011	Amortized Cost (1)	Unrealized Gains	Unrealized Losses	Fair Value
Securities Available for Sale:				
Obligations of U.S. government-sponsored enterprises	$29,422	$3,785	$—	$33,207
Mortgage-backed securities issued by U.S. government				
agencies and U.S. government-sponsored enterprises	387,519	21,138	(1)	408,656
States and political subdivisions	76,145	4,664	—	80,809
Trust preferred securities:				
Individual name issuers	30,629	—	(6,983)	23,646
Collateralized debt obligations	4,256	—	(3,460)	796
Corporate bonds	18,868	960	(62)	19,766
Common stocks	659	298	—	957
Perpetual preferred stocks (2)	1,854	12	—	1,866
Total securities available for sale	$549,352	$30,857	$(10,506)	$569,703
Held to Maturity:				
Mortgage-backed securities issued by U.S. government				
agencies and U.S. government-sponsored enterprises	11,840	3	—	11,843
Total securities held to maturity	$11,840	$3	$—	$11,843
Total securities	$561,192	$30,860	$(10,506)	$581,546

(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.

Securities available for sale with a fair value of $511 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 September 30, 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 million were pledged for potential use at the Federal Reserve Bank discount window at September 30, 2011 and December 31, 2010. There were no borrowings with the Federal Reserve Bank at either date. As of September 30, 2011 and December 31, 2010, securities available for sale with a fair value of $8.0 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		Nine Months	
Periods ended September 30,	2011	2010	2011	2010
Balance at beginning of period	$2,946	$2,913	$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	158	—	191	417
Balance at end of period	$3,104	$2,913	$3,104	$2,913

During the third quarter of 2011, $158 thousand of credit-related impairment losses were recognized in earnings on a pooled trust preferred debt security. There were no credit-related impairment losses recognized in the same quarter of 2010. For the nine months ended September 30, 2011 and 2010, credit-related impairment losses recognized in earnings on pooled trust preferred debt securities totaled $191 thousand and $417 thousand, respectively. The anticipated cash flows expected to be collected from these debt securities were discounted at the rate equal to the yield used to accrete the current and prospective beneficial interest for each security. Significant inputs included estimated cash flows and prospective deferrals, defaults and recoveries. Estimated cash flows are generated based on the underlying seniority status and subordination structure of the pooled trust preferred debt tranche at the time of measurement. Prospective deferral, default and recovery estimates affecting projected cash flows were based on analysis of the underlying financial condition of individual issuers, and took into account capital adequacy, credit quality, lending concentrations, and other factors.

All cash flow estimates were based on the underlying security's tranche structure and contractual rate and maturity terms. The present value of the expected cash flows was compared to the current outstanding balance of the tranche to determine the ratio of the estimated present value of expected cash flows to the total current balance for the tranche. This ratio was then multiplied by the principal balance of Washington Trust's holding to determine the credit-related impairment loss. The estimates used in the determination of the present value of the expected cash flows are susceptible to changes in future periods, which could result in additional credit-related impairment losses.

The following table summarizes temporarily impaired securities as of September 30, 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		
September 30, 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.	1	$115	$1	—	$—	$—	1	$115	$1

government-sponsored enterprises									
Trust preferred securities:									
Individual name issuers	—	—	—	11	23,646	6,983	11	23,646	6,983
Collateralized debt obligations	—	—	—	2	796	3,460	2	796	3,460
Corporate bonds	3	5,544	62	—	—	—	3	5,544	62
Total temporarily impaired securities	4	$5,659	$63	13	$24,442	$10,443	17	$30,101	$10,506

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 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.

Trust Preferred Debt Securities of Individual Name Issuers

Included in debt securities in an unrealized loss position at September 30, 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 $7.0 million at September 30, 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 September 30, 2011, trust preferred debt securities with a carrying value of $8.6 million and unrealized losses of $3.3 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 September 30, 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 $4.3 million and aggregate unrealized losses of $3.5 million at September 30, 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 September 30, 2011, one of the pooled trust preferred securities had an amortized cost of $3.0 million. This amortized cost was net of $1.9 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 September 30, 2011, this security has unrealized losses of $2.4 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 third quarter of 2011, an adverse change occurred in the expected cash flows for this security and additional credit-related impairment losses of $158 thousand were recognized in earnings.

As of September 30, 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 September 30, 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 material rating changes on this security. This credit rating status has been considered by management in its assessment of the impairment status of this security. The analysis of the expected cash flows for this security as of September 30, 2011 did not negatively affect the amount of credit-related impairment losses previously recognized on this security.

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.

As of September 30, 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 September 30, 2011 were debt securities with an amortized cost balance of $98 million and a fair value of $91 million that are callable at the discretion of the issuers. Final maturities of the callable securities range from four 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	$—		$29,422		$—		$—		$29,422	
Weighted average yield	—	%	5.41	%	—	%	—	%	5.41	%
Mortgage-backed securities issued by U.S. government agencies & U.S. government-sponsored enterprises:										
Amortized cost	129,428		194,993		50,540		12,558		387,519	
Weighted average yield	4.29	%	3.86	%	2.34	%	2.42	%	3.76	%
State and political subdivisions:										
Amortized cost	7,427		52,808		15,910		—		76,145	
Weighted average yield	3.89	%	3.87	%	3.94	%	—	%	3.89	%
Trust preferred securities:										
Amortized cost (1)	—		—		—		34,885		34,885	
Weighted average yield	—	%	—	%	—	%	1.66	%	1.66	%
Corporate bonds:										
Amortized cost	4,989		13,879		—		—		18,868	
Weighted average yield	6.50	%	5.06	%	—	%	—	%	5.44	%
Total debt securities available for sale:										
Amortized cost	141,844		291,102		66,450		47,443		546,839	
Weighted average yield	4.34	%	4.08	%	2.72	%	1.86	%	3.79	%
Fair value	$146,836		$301,735		$70,181		$48,128		$566,880	
Held to Maturity:										
Mortgage-backed securities issued by U.S. government agencies & U.S. government-sponsored enterprises:										
Amortized cost	2,861		6,168		2,314		497		11,840	
Weighted average yield	2.18	%	2.05	%	1.86	%	0.19	%	1.97	%
Fair value	$2,864		$6,168		$2,314		$497		$11,843	

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

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

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

(Dollars in thousands)	September 30, 2011			December 31, 2010		
	Amount	%		Amount	%	
Commercial:						
Mortgages (1)	$573,355	27	%	$518,623	26	%
Construction and development (2)	18,518	1		47,335	2	
Other (3)	478,652	23		461,107	23	
Total commercial	1,070,525	51		1,027,065	51	
Residential real estate:						
Mortgages (4)	674,242	32		634,739	31	
Homeowner construction	17,226	1		10,281	1	
Total residential real estate	691,468	33		645,020	32	
Consumer:						
Home equity lines (5)	222,886	11		218,288	11	
Home equity loans (5)	45,354	2		50,624	3	
Other (6)	57,526	3		54,641	3	
Total consumer	325,766	16		323,553	17	
Total loans (7)	$2,087,759	100	%	$1,995,638	100	%

(1) Amortizing mortgages and lines of credit, primarily secured by income producing property. As of September 30, 2011 and December 31, 2010, $109 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 September 30, 2011, $28 million and $44 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) As of September 30, 2011 and December 31, 2010, $609 million and $570 million, respectively, of these loans were pledged as collateral for FHLBB borrowings (see Note 7).
(5) As of September 30, 2011 and December 31, 2010, $179 million and $203 million, respectively, of these loans were 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 $80 thousand and $271 thousand at September 30, 2011 and December 31, 2010, respectively. Also includes $46 thousand and $39 thousand of net premiums on purchased loans at September 30, 2011 and December 31, 2010, respectively.

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.

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

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

(Dollars in thousands)	September 30, 2011	December 31, 2010
Commercial:		
Mortgages	$6,367	$6,624
Construction and development	—	—
Other	2,745	5,259
Residential real estate:		
Mortgages	11,352	6,414
Homeowner construction	—	—
Consumer:		
Home equity lines	647	152
Home equity loans	316	53
Other	163	8
Total nonaccrual loans	$21,590	$18,510
Accruing loans 90 days or more past due	$—	$—

Past Due Loans
Past due status is based on the contractual payment terms of the loan. 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					
September 30, 2011	30-59	60-89	Over 90	Total Past Due	Current	Total Loans
Commercial:						
Mortgages	$874	$328	$5,510	$6,712	$566,643	$573,355
Construction and development	—	—	—	—	18,518	18,518
Other	1,629	103	1,209	2,941	475,711	478,652
Residential real estate:						
Mortgages	2,145	206	7,826	10,177	664,065	674,242
Homeowner construction	—	—	—	—	17,226	17,226
Consumer:						
Home equity lines	728	354	312	1,394	221,492	222,886
Home equity loans	342	66	180	588	44,766	45,354
Other	30	—	157	187	57,339	57,526
Total loans	$5,748	$1,057	$15,194	$21,999	$2,065,760	$2,087,759

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

(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 September 30, 2011 and December 31, 2010, were nonaccrual loans of $16.6 million and $14.9 million, respectively.

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

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 homogeneous 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	
	Sept. 30, 2011	Dec 31, 2010	Sept. 30, 2011	Dec 31, 2010	Sept. 30, 2011	Dec 31, 2010
No Related Allowance Recorded:						
Commercial:						
Mortgages	$6,535	$3,113	$6,523	$3,128	$—	$—
Construction and development	—	—	—	—	—	—
Other	2,299	3,237	2,431	3,834	—	—
Residential real estate:						
Mortgages	1,391	928	1,463	937	—	—
Homeowner construction	—	—	—	—	—	—
Consumer:						
Home equity lines	—	—	—	—	—	—
Home equity loans	—	163	—	159	—	—
Other	—	—	—	—	—	—
Subtotal	$10,225	$7,441	$10,417	$8,058	$—	$—
With Related Allowance Recorded:						
Commercial:						
Mortgages	$5,706	$15,287	$7,150	$15,930	$229	$629
Construction and development	—	—	—	—	—	—
Other	4,518	6,632	5,595	9,311	407	1,245
Residential real estate:						
Mortgages	4,432	3,773	4,933	3,971	554	258
Homeowner construction	—	—	—	—	—	—
Consumer:						
Home equity lines	172	105	280	172	34	1
Home equity loans	148	307	172	330	1	4
Other	273	145	247	143	149	—
Subtotal	$15,249	$26,249	$18,377	$29,857	$1,374	$2,137
Total impaired loans	$25,474	$33,690	$28,794	$37,915	$1,374	$2,137
Total:						
Commercial	$19,058	$28,269	$21,699	$32,203	$636	$1,874
Residential real estate	5,823	4,701	6,396	4,908	554	258
Consumer	593	720	699	804	184	5
Total impaired loans	$25,474	$33,690	$28,794	$37,915	$1,374	$2,137

(1) The recorded investment in impaired loans consists of unpaid principal balance, net of charge-offs, interest payments received applied to principal and unamortized deferred loan origination fees and costs. For impaired accruing loans (those troubled debt restructurings for which management has concluded that the collectibility of

the loan is not in doubt), the recorded investment also includes accrued interest. As of September 30, 2011 and December 31, 2010, recorded investment in impaired loans included accrued interest of $32 thousand and $62 thousand, respectively.

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

The following tables present the average recorded investment and interest income recognized on impaired loans segregated by loan class for the periods indicated:

(Dollars in thousands)

	Average Recorded Investment		Interest Income Recognized	
Three months ended September 30,	2011	2010	2011	2010
Commercial:				
Mortgages	$14,150	$13,745	$111	$162
Construction and development	—	—	—	—
Other	7,330	10,553	80	125
Residential real estate:				
Mortgages	5,822	4,848	38	63
Homeowner construction	—	—	—	—
Consumer:				
Home equity lines	116	158	1	1
Home equity loans	167	718	3	12
Other	245	223	4	2
Totals	$27,830	$30,245	$237	$365

(Dollars in thousands)

	Average Recorded Investment		Interest Income Recognized	
Nine months ended September 30,	2011	2010	2011	2010
Commercial:				
Mortgages	$15,829	$14,854	$433	$576
Construction and development	—	—	—	—
Other	9,109	10,388	291	294
Residential real estate:				
Mortgages	5,658	4,687	127	156
Homeowner construction	—	—	—	—
Consumer:				
Home equity lines	106	265	4	7
Home equity loans	340	754	14	39
Other	236	203	12	10
Totals	$31,278	$31,151	$881	$1,082

At September 30, 2011, there were no significant commitments to lend additional funds to borrowers whose loans were on nonaccrual status or had been restructured.

Troubled Debt Restructurings

Loans are considered restructured when the Corporation has granted concessions to a borrower due to the borrower's financial condition that it otherwise would not have considered. These concessions include modifications of the terms of the debt such as deferral of payments, extension of maturity, reduction of principal balance, reduction of the stated interest rate other than normal market rate adjustments, or a combination of these concessions. Debt may be bifurcated with separate terms for each tranche of the restructured debt. The decision to restructure a loan, versus aggressively enforcing the collection of the loan, may benefit the Corporation by increasing the ultimate probability of collection.

Restructured loans are classified as accruing or non-accruing based on management's assessment of the collectibility of the loan. Loans which are already on nonaccrual status at the time of the restructuring generally remain on nonaccrual status for approximately

Table of Contents

six months before management considers such loans for return to accruing status. Accruing restructured loans are placed into nonaccrual status if and when the borrower fails to comply with the restructured terms and management deems it unlikely that the borrower will return to a status of compliance in the near term.

Troubled debt restructurings are reported as such for at least one year from the date of the restructuring. In years after the restructuring, troubled debt restructured loans are removed from this classification if the restructuring did not involve a below market rate concession and the loan is not deemed to be impaired based on the terms specified in the restructuring agreement.

Troubled debt restructurings are classified as impaired loans. The Corporation identifies loss allocations for impaired loans on an individual loan basis. The carrying value of troubled debt restructurings was approximately $15.6 million and $22.4 million at September 30, 2011 and December 31, 2010, respectively. The allowance for loan losses included specific reserves for these troubled debt restructurings of $460 thousand and $859 thousand at September 30, 2011 and December 31, 2010, respectively. The recorded investment in troubled debt restructurings was $15.6 million and $22.5 million at September 30, 2011 and December 31, 2010, respectively.

The following table presents loans modified as a troubled debt restructuring during the three and nine months ended September 30, 2011.

(Dollars in thousands)	Number of Loans		Pre-Modifications Outstanding Recorded Investment (1)			Post-Modifications Outstanding Recorded Investment		
Periods ended September 30, 2011	Three Months	Nine Months	Three Months	Nine Months		Three Months		Nine Months
Commercial:								
Mortgages	—	2	$—	$215		$—		$215
Construction and development	—	—	—	—	—	—	—	—
Other	—	7	—	1,293	9,109	—	10,388	1,293
Residential real estate:								
Mortgages	1	6	139	1,449	5,658	139	4,687	1,449
Homeowner construction	—	—	—	—	—	—	—	—
Consumer:								
Home equity lines	—	—	—	—	106	—	265	—
Home equity loans	1	1	28	28	340	28	754	28
Other	—	1	—	117	236	—	203	117
Totals	2	17	$167	$3,102		$167		$3,102

(1) The recorded investment in troubled debt restructurings consists of unpaid principal balance, net of charge-offs and unamortized deferred loan origination fees and costs, at the time of the restructuring. For accruing troubled debt restructurings the recorded investment also includes accrued interest.

Table of Contents

The following table provides information on how loans were modified as a troubled debt restructuring during the three and nine months ended September 30, 2011.
(Dollars in thousands)

Periods ended September 30, 2011	Three Months	Nine Months
Payment deferral	$139	$2,184
Maturity / amortization concession	28	694
Interest only payments	—	15
Below market interest rate concession	—	—
Combination (1)	—	209
Total	$167	$3,102

(1) Loans included in this classification had a combination of any two of the concessions included in this table.

The following table presents loans modified in a troubled debt restructuring within the previous twelve months for which there was a payment default during the three and nine months ended September 30, 2011.
(Dollars in thousands)

	Number of Loans		Recorded Investment (1)	
Periods ended September 30,	Three Months	Nine Months	Three Months	Nine Months
Commercial:				
Mortgages	—	2	$—	$215
Construction and development	—	—	—	—
Other	9	10	894	929
Residential real estate:				
Mortgages	2	2	383	383
Homeowner construction	—	—	—	—
Consumer:				
Home equity lines	—	—	—	—
Home equity loans	—	—	—	—
Other	—	—	—	—
Totals	11	14	$1,277	$1,527

(1) The recorded investment in troubled debt restructurings consists of unpaid principal balance, net of charge-offs and unamortized deferred loan origination fees and costs. For accruing troubled debt restructurings the recorded investment also includes accrued interest.

Credit Quality Indicators

Commercial

The Corporation utilizes an internal rating system to assign a risk to each of its commercial loans. Loans are rated on a scale of 1 to 10. This scale can be assigned to three broad categories including “pass” for ratings 1 through 6, “special mention” for 7-rated loans, and “classified” for loans rated 8, 9 or 10. The loan rating system takes into consideration parameters including the borrower's financial condition, the borrower's performance with respect to loan terms, and the adequacy of collateral. As of September 30, 2011 and December 31, 2010, the weighted average risk rating of the Corporation's commercial loan portfolio was 4.94 and 5.01, respectively.

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

A description of the commercial loan categories are as follows:

Pass - Loans with acceptable credit quality, defined as ranging from superior or very strong to a status of lesser stature. Superior or very strong credit quality is characterized by a high degree of cash collateralization or strong balance sheet liquidity. Lesser stature loans have an acceptable level of credit quality but exhibit some weakness in various credit metrics such as collateral adequacy, cash flow, or performance inconsistency or may be in an industry or of a loan type known to have a higher degree of risk.

Special Mention - Loans with potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Bank's position as creditor at some future date. Special Mention assets are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification. Examples of these conditions include but are not limited to outdated or poor quality financial data, strains on liquidity and leverage, losses or negative trends in operating results, marginal cash flow, weaknesses in occupancy rates or trends in the case of commercial real estate and frequent delinquencies.

Classified - Loans identified as “substandard”, “doubtful” or “loss” based on criteria consistent with guidelines provided by banking regulators. A "substandard" loan has defined weaknesses which make payment default or principal exposure likely, but not yet certain. Such loans are apt to be dependent upon collateral liquidation, a secondary source of repayment or an event outside of the normal course of business. The loans are closely watched and are either already on nonaccrual status or may be placed in nonaccrual status when management determines there is uncertainty of collectibility. A “doubtful” loan is placed on non-accrual status and may be dependent upon collateral having a value that is difficult to determine or upon some near-term event which lacks certainty. A loan in the “loss” category is considered generally uncollectible or the timing or amount of payments cannot be determined. "Loss" is not intended to imply that the loan has no recovery value but rather it is not practical or desirable to continue to carry the asset.

The following table presents the commercial loan portfolio, segregated by category of credit quality indicator:

(Dollars in thousands)	Pass		Special Mention		Classified	
	Sept. 30, 2011	Dec 31, 2010	Sept. 30, 2011	Dec 31, 2010	Sept. 30, 2011	Dec 31, 2010
Mortgages	$535,723	$485,668	$24,534	$16,367	$13,098	$16,588
Construction and development	18,518	43,119	—	4,216	—	—
Other	432,319	425,522	38,612	28,131	7,721	7,454
Total commercial loans	$986,560	$954,309	$63,146	$48,714	$20,819	$24,042

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

Residential and Consumer

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

Table of Contents

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

(Dollars in thousands)	Under 90 Days Past Due		Over 90 Days Past Due	
	Sept. 30, 2011	Dec 31, 2010	Sept. 30, 2011	Dec 31, 2010
Residential Real Estate:				
Accruing mortgages	$662,890	$628,325	$—	$—
Nonaccrual mortgages	3,526	2,373	7,826	4,041
Homeowner construction	17,226	10,281	—	—
Total residential real estate loans	$683,642	$640,979	$7,826	$4,041
Consumer:				
Home equity lines	$222,574	$218,288	$312	$—
Home equity loans	45,173	50,613	181	11
Other	57,370	54,641	156	—
Total consumer loans	$325,117	$323,542	$649	$11

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

Various other techniques are utilized to monitor indicators of credit deterioration in the portfolios of residential real estate mortgages and home equity lines and loans. Among these techniques is the periodic tracking of loans with an updated FICO score and an estimated loan to value ("LTV") ratio. LTV is determined via statistical modeling analyses. The indicated LTV levels are estimated based on such factors as the location, the original LTV, and the date of origination of the loan and do not reflect actual appraisal amounts. The results of these analyses are taken into consideration in the determination of loss allocation factors for residential mortgage and home equity consumer credits. See Note 6 for additional information.

(6) Allowance for Loan Losses

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

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

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

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

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

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

The following is an analysis of activity in the allowance for loan losses for the three months ended September 30, 2011:

(Dollars in thousands)	Commercial							
	Mortgages	Construction	Other	Total Commercial	Residential	Consumer	Un-allocated	Total
Beginning Balance	$7,374	$217	$6,993	$14,584	$4,471	$2,152	$8,146	$29,353
Charge-offs	(250)	—	(378)	(628)	(103)	(87)	—	(818)
Recoveries	1	—	92	93	3	10	—	106
Provision	478	(34)	(171)	273	484	315	(72)	1,000
Ending Balance	$7,603	$183	$6,536	$14,322	$4,855	$2,390	$8,074	$29,641

The following is an analysis of activity in the allowance for loan losses for the nine months ended September 30, 2011:

(Dollars in thousands)	Commercial							
	Mortgages	Construction	Other	Total Commercial	Residential	Consumer	Un-allocated	Total
Beginning Balance	$7,330	$723	$6,495	$14,548	$4,129	$1,903	$8,003	$28,583
Charge-offs	(709)	—	(1,573)	(2,282)	(368)	(264)	—	(2,914)
Recoveries	5	—	238	243	4	25	—	272
Provision	977	(540)	1,376	1,813	1,090	726	71	3,700

Ending Balance	$7,603	$ 183	$6,536	$14,322	$4,855	$2,390	$ 8,074	$29,641

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

22

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

(Dollars in thousands)

Periods ended September 30, 2010		Three Months	Nine Months
Balance at beginning of period		$27,985	$27,400
Charge-offs:			
Commercial:	Mortgages	(25)	(1,051)
	Construction and development	—	—
	Other	(1,049)	(2,145)
Residential real estate:	Mortgages	(301)	(588)
	Homeowner construction	—	—
Consumer		(93)	(222)
Total charge-offs		(1,468)	(4,006)
Recoveries:			
Commercial:	Mortgages	121	125
	Construction and development	—	—
	Other	22	52
Residential real estate:	Mortgages	—	76
	Homeowner construction	—	—
Consumer		5	18
Total recoveries		148	271
Net charge-offs		(1,320)	(3,735)
Provision charged to expense		1,500	4,500
Balance at end of period		$28,165	$28,165

The following table presents the Corporation's loan portfolio and associated allowance for loan loss at September 30, 2011 and December 31, 2010 by portfolio segment and disaggregated on the basis of the Corporation's impairment methodology.

(Dollars in thousands)	September 30, 2011		December 31, 2010	
	Loans	Related Allowance	Loans	Related Allowance
Loans Individually Evaluated for Impairment:				
Commercial:				
Mortgages	$12,228	$229	$18,360	$629
Construction & development	—	—	—	—
Other	6,801	407	9,854	1,245
Residential real estate mortgages	5,821	554	4,699	258
Consumer	592	184	715	5
Subtotal	$25,442	$1,374	$33,628	$2,137
Loans Collectively Evaluated for Impairment:				
Commercial:				
Mortgages	$561,127	$7,374	$500,263	$6,701
Construction & development	18,518	183	47,335	723
Other	471,851	6,129	451,253	5,250
Residential real estate mortgages	685,647	4,301	640,321	3,871
Consumer	325,174	2,206	322,838	1,898

Subtotal	$2,062,317	$20,193	$1,962,010	$18,443
Unallocated	—	8,074	—	8,003
Total	$2,087,759	$29,641	$1,995,638	$28,583

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

(7) Borrowings

Federal Home Loan Bank of Boston Advances

Advances payable to the FHLBB amounted to $494 million at September 30, 2011 and $499 million at December 31, 2010. In connection with the Corporation's ongoing interest rate risk management efforts, in May 2011, the Corporation modified the terms to extend the maturity dates of $10 million of its FHLBB advances with original maturity dates in 2012. During the second quarter of 2011, the Corporation also prepaid $5 million in advances payable to the FHLBB resulting in a debt prepayment penalty charge, recorded in noninterest expense, of $221 thousand. During the third quarter of 2011, the Corporation modified the terms to extend the maturity dates of an additional $128 million of its FHLBB advances with original maturity dates in 2012, 2013 and 2014. The following table presents maturities and weighted average interest rates paid on FHLBB advances outstanding at September 30, 2011:

(Dollars in thousands)	Scheduled Maturity	Redeemed at Call Date (1)	Weighted Average Rate (2)
October 1, 2011 through December 31, 2011:	$52,148	$57,148	0.80%
2012	38,011	38,011	3.54%
2013	61,160	56,160	3.24%
2014	115,533	115,533	3.53%
2015	138,333	138,333	3.47%
2016	45,100	45,100	4.33%
2017 and after	43,813	43,813	4.95%
Total	$494,098	$494,098	

(1) Callable FHLBB advances are shown in the respective periods assuming that the callable debt is redeemed at the call date while all other advances are shown in the periods corresponding to their scheduled maturity date.
(2) Weighted average rate based on scheduled maturity dates.

In addition to the outstanding advances, the Bank also has access to an unused line of credit with the FHLBB amounting to $8.0 million at September 30, 2011. Under agreement with the FHLBB, the Bank is required to maintain qualified collateral, free and clear of liens, pledges, or encumbrances that, based on certain percentages of book and fair values, has a value equal to the aggregate amount of the line of credit and outstanding advances. The FHLBB maintains a security interest in various assets of the Corporation including, but not limited to, residential mortgage loans, commercial mortgages and other commercial loans, U.S. government agency securities, U.S. government-sponsored enterprise securities, and amounts maintained on deposit at the FHLBB. The Corporation maintained qualified collateral in excess of the amount required to collateralize the line of credit and outstanding advances at September 30, 2011. Included in the collateral were securities available for sale with a fair value of $282 million and $274 million, respectively, which were specifically pledged to secure FHLBB borrowings at September 30, 2011 and December 31, 2010. See Note 5 for discussion on loans pledged as collateral for FHLBB borrowings. Unless there is an event of default under the agreement, the Corporation may use, encumber or dispose any portion of the collateral in excess of the amount required to secure FHLBB borrowings, except for that collateral which has been specifically pledged.

(8) Shareholders' Equity

Regulatory Capital Requirements

The following table presents the Corporation's and the Bank's actual capital amounts and ratios at September 30, 2011 and December 31, 2010, as well as the corresponding minimum and well capitalized regulatory amounts and ratios:

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

(Dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
September 30, 2011:						
Total Capital (to Risk-Weighted Assets):						
Corporation	$274,293	12.99 %	$168,932	8.00 %	$211,165	10.00 %
Bank	$269,952	12.80 %	$168,702	8.00 %	$210,878	10.00 %
Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	$247,715	11.73 %	$84,466	4.00 %	$126,699	6.00 %
Bank	$243,409	11.54 %	$84,351	4.00 %	$126,527	6.00 %
Tier 1 Capital (to Average Assets): (1)						
Corporation	$247,715	8.69 %	$114,023	4.00 %	$142,528	5.00 %
Bank	$243,409	8.55 %	$113,836	4.00 %	$142,296	5.00 %
December 31, 2010:						
Total Capital (to Risk-Weighted Assets):						
Corporation	$259,122	12.79 %	$162,083	8.00 %	$202,603	10.00 %
Bank	$255,078	12.61 %	$161,878	8.00 %	$202,347	10.00 %
Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	$233,540	11.53 %	$81,041	4.00 %	$121,562	6.00 %
Bank	$229,528	11.34 %	$80,939	4.00 %	$121,408	6.00 %
Tier 1 Capital (to Average Assets): (1)						
Corporation	$233,540	8.25 %	$113,188	4.00 %	$141,485	5.00 %
Bank	$229,528	8.12 %	$113,001	4.00 %	$141,252	5.00 %

(1) Leverage ratio

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

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to manage the Corporation’s exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby letters of credit, equity commitments to affordable housing partnerships, interest rate swap agreements and commitments to originate and commitments to sell fixed rate mortgage loans. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the Corporation’s Consolidated Balance Sheets. The contract or notional amounts of these instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments. The Corporation’s credit policies with respect to interest rate swap agreements with commercial borrowers, commitments to extend credit, and financial guarantees are similar to those used for loans. The interest rate swaps with other counterparties are generally subject to bilateral collateralization terms. The contractual and notional amounts of financial instruments with off-balance sheet risk are as follows:

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

(Dollars in thousands)	Sept. 30, 2011	Dec 31, 2010
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit:		
Commercial loans	$227,309	$176,436
Home equity lines	182,147	182,260
Other loans	27,821	23,971